

**ADAIR COUNTY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2014**

**with**

**INDEPENDENT AUDITOR'S REPORT**

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**M A T H E R  
& COMPANY**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Adair County School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Adair County School District as of June 30, 2014, 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 4 through 8, and 37 through 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Mather & Co. CPAs, LLC*

Mather & Co. CPAs, LLC  
Louisville, Kentucky  
November 3, 2014

## **ADAIR COUNTY SCHOOL DISTRICT**

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

**Year ended June 30, 2014**

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The Adair County Board of Education (District) offers the following narrative of the financial statements for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit reports.

#### **FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$2,768,558 which includes General Fund balance of \$2,395,875, Facility Support (FSPK) of \$606, Capital Outlay of \$75,419, and Construction of \$296,658.
- The General Fund had \$19,810,827 in revenue, which primarily consisted of the State program (SEEK), property, utilities, and motor vehicle taxes.
- The District has finished the new Adair County Primary Center which will house grades Kindergarten through Second grade. The school opened on August 13, 2014.
- The District has demolished two old school buildings on the Campus. The schools were consolidated into 4 schools instead of 5.
- The District received a Race to the Top Grant to help our students achieve success and change the way instruction is delivered through flipped classrooms, incorporation of Covey's seven principals of highly effective teams, and five years of career coaching and data analysis teams.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

<b>Total Assets</b>	\$ 37,236,025
<b>Deferred Outflows of Resources</b>	734,908
<b>Total Liabilities</b>	\$ 28,686,142
<b>Total Net Position</b>	\$ 9,284,791

### Comments on Budget Comparisons

- The District's 2014 revenues were \$25,480,263.
- The District's 2014 expenditures were \$27,597,772.
- The District's Financing from other sources were \$393,804.
- The fund balance at the end of the 2014 fiscal year for the General Fund was \$2,431,686. This is approximately a 12% contingency.

The following table is a summary/breakdown of the District's General Fund revenue and expenditures for the year ended June 30, 2014.

<b>Revenues</b>	
Local revenue	\$ 4,402,184
State and Federal revenue	<u>15,408,643</u>
<b>Total revenues</b>	19,810,827

**Expenditures**

Instruction	\$ 11,658,183
Student support services	608,654
Instructional staff support services	532,804
District administration	782,988
School administration	922,230
Business support services	384,971
Plant and operations and maintenance	2,012,709
Student transportation	1,693,190
Debt service	<u>578,716</u>

**Total expenditures**19,174,445**Excess of revenues over expenditures**\$ 636,382**Total Governmental Funds**

Total Revenue	\$ 25,480,263
Total Expenditures	27,597,772
Total Other Financing Sources	<u>393,804</u>

**Deficit of expenditures under revenue and other financing sources**\$ (1,723,705)**Grant (Fund II) Information**

The following is a list of major Grants and the amounts that were received during the 2014 fiscal year.

**State Grants**

KECSAC	\$ 245,576
Extended School Services	25,698
Family Resource Centers	215,780
Gifted and Talented	39,290
Kera-Preschool	380,559
Professional Development	6,514
Textbooks	20,000
School Safety	15,742
KY ASAP	13,500
KETS	88,320

**Federal Grants**

Title I	\$ 1,213,036
Migrant	120,066

**Federal Grants (continued)**

Title I-Part D	\$ 15,840
Title I – Part D Subpart 2	59,293
Idea B Basic	510,310
Idea B Preschool	24,178
Vocational Education	37,527
Rural and Low Income	46,180
Title II – Quality Teacher	177,958
21 <sup>st</sup> Century	292,500

**Local Grants**

WHAS Grant	\$ 25,842
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The Title I grant was allocated to our elementary schools, our intermediate school, and our middle school. These supplemental funds are used for salaries, supplies, parent involvement activities, travel, and professional development. These funds are used school wide. The primary focus of the Title I program is based on the academic need of each individual school.

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

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

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

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

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

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

## School Food Services Fund

### Food Service Operating Revenue:

Lunch Sales	\$ 356,449
Federal Grants	1,045,082
State Grants	187,172
Interest	1,610
Donated Commodities	44,562
Loss of Assets	<u>(15,033)</u>

Total \$ 1,619,842

### Total Expenses:

Salaries, wages and benefits	\$ 766,179
Supplies	841,904
Contract services	14,122
Depreciation	48,712
Other	<u>4,434</u>

Total \$ 1,675,351

Net assets as of June 30, 2014 \$ 531,663

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

# ADAIR COUNTY SCHOOL DISTRICT

## STATEMENT OF NET POSITION

June 30, 2014

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 2,768,558	\$ 245,908	\$ 3,014,466
Receivables:			
Taxes	114,800	-	114,800
Intergovernmental – State	79,892	-	79,892
Intergovernmental – Federal	274,624	-	274,624
Other	169	-	169
Net capital assets	<u>33,466,319</u>	<u>285,755</u>	<u>33,752,074</u>
<b>Total assets</b>	36,704,362	531,663	37,236,025
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on bond refundings	734,908	-	734,908
<b>LIABILITIES</b>			
Accounts payable	132,119	-	132,119
Unearned revenue	119,557	-	119,557
Current maturities of bond obligations	1,650,562	-	1,650,562
Current portion of accumulated sick leave	181,998	-	181,998
Interest payable	404,169	-	404,169
Noncurrent maturities of bond obligations	25,630,735	-	25,630,735
Noncurrent portion of accumulated sick leave	465,011	-	465,011
Noncurrent portion of accrued insurance claims liability	<u>101,991</u>	<u>-</u>	<u>101,991</u>
<b>Total liabilities</b>	<u>28,686,142</u>	<u>-</u>	<u>28,686,142</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	5,780,853	285,755	6,066,608
Restricted for:			
Capital expenditures/debt service	372,683	-	372,683
Unrestricted	<u>2,599,592</u>	<u>245,908</u>	<u>2,845,500</u>
<b>Total net position</b>	<u>\$ 8,753,128</u>	<u>\$ 531,663</u>	<u>\$ 9,284,791</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	
<b>FUNCTIONS/PROGRAMS</b>							
<b>Governmental activities</b>							
Instruction	\$ 14,677,510	\$ -	\$ 5,744,834	\$ -	\$ (8,932,676)	\$ -	\$ (8,932,676)
Student support services	619,915	-	120,738	-	(499,177)	-	(499,177)
Instructional staff support services	756,353	-	368,792	-	(387,561)	-	(387,561)
District administration	795,807	-	127,438	-	(668,369)	-	(668,369)
School administration	928,534	-	158,279	-	(770,255)	-	(770,255)
Business support services	425,019	-	106,809	-	(318,210)	-	(318,210)
Plant operations and maintenance	2,564,062	-	390,468	-	(2,173,594)	-	(2,173,594)
Student transportation	1,669,193	-	338,190	-	(1,331,003)	-	(1,331,003)
Community services	229,660	-	281,475	-	51,815	-	51,815
Interest	1,168,997	-	-	1,168,997	-	-	-
Total governmental activities	23,835,050	-	7,637,023	1,168,997	(15,029,030)	-	(15,029,030)
<b>Business-type activities</b>							
Food service	1,675,351	356,449	1,276,816	-	-	(42,086)	(42,086)
Total business-type activities	1,675,351	356,449	1,276,816	-	-	(42,086)	(42,086)
<b>Total primary government</b>	<b>\$ 25,510,401</b>	<b>\$ 356,449</b>	<b>\$ 8,913,839</b>	<b>\$ 1,168,997</b>	<b>(15,029,030)</b>	<b>(42,086)</b>	<b>(15,071,116)</b>
<b>General revenues</b>							
Taxes:							
Property					3,187,932	-	3,187,932
Motor vehicle					472,883	-	472,883
Utilities					1,005,703	-	1,005,703
Earnings on investments					33,596	1,610	35,206
State grants					11,863,436	-	11,863,436
Federal grants					31,585	-	31,585
Other local amounts					79,108	-	79,108
Gain (loss) on disposals of capital assets					21,817	(15,033)	6,784
Total general revenues					16,696,060	(13,423)	16,682,637
Transfers in (out)					(201,182)	201,182	-
<b>Change in net position</b>					1,465,848	145,673	1,611,521
Net position as of July 1, 2013					7,287,280	385,990	7,673,270
<b>Net position as of June 30, 2014</b>					<b>\$ 8,753,128</b>	<b>\$ 531,663</b>	<b>\$ 9,284,791</b>

See accompanying notes.

**ADAIR COUNTY SCHOOL DISTRICT**

**BALANCE SHEET – GOVERNMENTAL FUNDS**

**June 30, 2014**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>SEEK Capital Outlay Fund</u>	<u>Facility Support Program (FSPK) Fund</u>	<u>School Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>							
Cash	\$ 2,395,875	\$ -	\$ 75,419	\$ 606	\$ 296,658	\$ -	\$ 2,768,558
Receivables:							
Taxes	114,800	-	-	-	-	-	114,800
Intergovernmental							
– State	-	79,892	-	-	-	-	79,892
– Federal	-	274,624	-	-	-	-	274,624
Other	-	169	-	-	-	-	169
Due from Special Revenue Funds	<u>235,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235,128</u>
<b>Total assets</b>	<u>\$ 2,745,803</u>	<u>\$ 354,685</u>	<u>\$ 75,419</u>	<u>\$ 606</u>	<u>\$ 296,658</u>	<u>\$ -</u>	<u>\$ 3,473,171</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable	\$ 132,119	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,119
Due to General Fund	-	235,128	-	-	-	-	235,128
Unearned revenue	-	119,557	-	-	-	-	119,557
Current portion of accumulated sick leave	<u>181,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>181,998</u>
Total liabilities	314,117	354,685	-	-	-	-	668,802
<b>Fund balances</b>							
Restricted for:							
Capital expenditures	-	-	-	-	296,658	-	296,658
Capital expenditures/ debt service	-	-	75,419	606	-	-	76,025
Unassigned	<u>2,431,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,431,686</u>
Total fund balances	<u>2,431,686</u>	<u>-</u>	<u>75,419</u>	<u>606</u>	<u>296,658</u>	<u>-</u>	<u>2,804,369</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,745,803</u>	<u>\$ 354,685</u>	<u>\$ 75,419</u>	<u>\$ 606</u>	<u>\$ 296,658</u>	<u>\$ -</u>	<u>\$ 3,473,171</u>

See accompanying notes.

## ADAIR COUNTY SCHOOL DISTRICT

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

June 30, 2014

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Total fund balances – governmental funds	\$ 2,804,369
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$48,441,719, and the accumulated depreciation is \$14,975,400.	33,466,319
Deferred loss on bond refundings are not current financial resources and therefore are not reported as deferred outflows of resources in governmental funds.	734,908
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(27,281,297)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(465,011)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(404,169)
Noncurrent portion of accrued insurance claims liability is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(101,991)</u>
Total net position – governmental activities	<u>\$ 8,753,128</u>

See accompanying notes.

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# ADAIR COUNTY SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS Year ended June 30, 2014

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>							
From local sources:							
Taxes:							
Property	\$ 2,822,929	\$ -	\$ -	\$ 365,003	\$ -	\$ -	\$ 3,187,932
Motor vehicle	472,883	-	-	-	-	-	472,883
Utilities	1,005,703	-	-	-	-	-	1,005,703
Earnings on investments	22,464	1,140	546	546	8,900	-	33,596
Other local	78,205	55,239	-	-	-	-	133,444
Intergovernmental – State	15,377,058	1,136,627	239,709	503,942	-	1,003,614	18,260,950
Intergovernmental – Federal	31,585	2,354,170	-	-	-	-	2,385,755
<b>Total revenues</b>	<b>19,810,827</b>	<b>3,547,176</b>	<b>240,255</b>	<b>869,491</b>	<b>8,900</b>	<b>1,003,614</b>	<b>25,480,263</b>
<b>Expenditures</b>							
Current:							
Instruction	11,658,183	3,088,990	-	-	-	-	14,747,173
Student support services	608,654	11,261	-	-	-	-	619,915
Instructional staff support services	532,804	223,001	-	-	-	-	755,805
District administration	782,988	-	-	-	-	-	782,988
School administration	922,230	-	-	-	-	-	922,230
Business support services	384,971	38,000	-	-	-	-	422,971
Plant operations and maintenance	2,012,709	-	-	-	-	-	2,012,709
Student transportation	1,693,190	-	-	-	-	-	1,693,190
Community services	-	229,278	-	-	-	-	229,278
Facilities acquisition and construction	-	-	-	-	2,721,571	-	2,721,571
Debt service	578,716	-	-	-	-	2,111,226	2,689,942
<b>Total expenditures</b>	<b>19,174,445</b>	<b>3,590,530</b>	<b>-</b>	<b>-</b>	<b>2,721,571</b>	<b>2,111,226</b>	<b>27,597,772</b>
(Deficit) excess of revenues (under) over expenditures	636,382	(43,354)	240,255	869,491	(2,712,671)	(1,107,612)	(2,117,509)
<b>Other financing sources (uses)</b>							
Proceeds from bond issuances	370,842	-	-	-	-	-	370,842
Operating transfers in	144,808	56,730	-	-	-	1,107,612	1,309,150
Operating transfers out	(261,211)	(13,376)	(165,101)	(869,462)	-	-	(1,309,150)
Other	22,962	-	-	-	-	-	22,962
<b>Total other financing sources (uses)</b>	<b>277,401</b>	<b>43,354</b>	<b>(165,101)</b>	<b>(869,462)</b>	<b>-</b>	<b>1,107,612</b>	<b>393,804</b>
<b>Net change in fund balance</b>	<b>913,783</b>	<b>-</b>	<b>75,154</b>	<b>29</b>	<b>(2,712,671)</b>	<b>-</b>	<b>(1,723,705)</b>
Fund balance as of July 1, 2013	1,517,903	-	265	577	3,009,329	-	4,528,074
<b>Fund balance as of June 30, 2014</b>	<b>\$ 2,431,686</b>	<b>\$ -</b>	<b>\$ 75,419</b>	<b>\$ 606</b>	<b>\$ 296,658</b>	<b>\$ -</b>	<b>\$ 2,804,369</b>

See accompanying notes.

## ADAIR COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2014

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Net change in total fund balances – governmental funds \$ (1,723,705)

Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which capital outlays (\$2,912,780) exceed depreciation expense (\$1,097,778), book value of disposed capital assets (\$1,145), and a transfer of assets to the proprietary fund (\$201,182) for the year. 1,612,675

Deferred loss on bond refundings are not reported as expenditures in the governmental fund financial statements, but are capitalized and amortized over the life of the related bonds on the statement of activities. (89,950)

Bond proceeds are other financing sources in the governmental fund financial statements, but are not included in the statement of activities. (370,842)

Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively. 1,610,895

Insurance claims expense related to noncurrent portion of accrued insurance claims liability is recognized in the statement of activities, but not in the governmental fund financial statements because it will not be paid with existing financial resources. 163,809

Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources. 262,966

Change in net position – governmental activities \$ 1,465,848

See accompanying notes.

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF NET POSITION – PROPRIETARY FUND**

**June 30, 2014**

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	School Food Service <u>Fund</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash	\$ <u>245,908</u>
Total current assets	245,908
<b>Noncurrent assets</b>	
Capital assets	699,602
Less accumulated depreciation	<u>413,847</u>
Total noncurrent assets	<u>285,755</u>
<b>Total assets</b>	531,663
<b>NET POSITION</b>	
Invested in capital assets	285,755
Unrestricted	<u>245,908</u>
<b>Total net position</b>	<u>\$ 531,663</u>

See accompanying notes.

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**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –  
PROPRIETARY FUND  
Year ended June 30, 2014**

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	School Food Service Fund
<b>Operating revenues</b>	
Lunchroom sales	\$ 356,449
<b>Operating expenses</b>	
Salaries, wages, and benefits	766,179
Contract services	14,122
Materials and supplies	841,904
Depreciation	48,712
Other	<u>4,434</u>
Total operating expenses	<u>1,675,351</u>
Operating loss	(1,318,902)
<b>Nonoperating revenues and expenses</b>	
Federal grants	1,045,082
Donated commodities	44,562
State grants	187,172
Interest income	1,610
Loss on disposals of capital assets	<u>(15,033)</u>
Total nonoperating revenues and expenses	1,263,393
Transfer in	<u>201,182</u>
<b>Change in net position</b>	145,673
Net position as of July 1, 2013	<u>385,990</u>
<b>Net position as of June 30, 2014</b>	<u>\$ 531,663</u>

See accompanying notes.

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**  
**Year ended June 30, 2014**

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	School Food Service Fund
<b>Cash flows from operating activities</b>	
Cash received from:	
Lunchroom sales	\$ 356,449
Cash paid to/for:	
Employees and contract services	(780,301)
Materials and supplies	(797,342)
Other	<u>(4,434)</u>
Net cash used in operating activities	(1,225,628)
<b>Cash flows from noncapital financing activities</b>	
Government grants	<u>1,232,254</u>
Net cash provided by noncapital financing activities	1,232,254
<b>Cash flows from capital and related financing activities</b>	
Capital asset purchases	<u>(4,102)</u>
Net cash used in capital and related financing activities	(4,102)
<b>Cash flows from investing activities</b>	
Receipt of interest income	<u>1,610</u>
Net cash provided by investing activities	<u>1,610</u>
<b>Net increase in cash</b>	4,134
Cash as of July 1, 2013	<u>241,774</u>
<b>Cash as of June 30, 2014</b>	<u>\$ 245,908</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (1,318,902)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	48,712
Donated commodities	<u>44,562</u>
<b>Net cash used in operating activities</b>	<u>\$ (1,225,628)</u>
<b>Schedule of non-cash transactions</b>	
Donated commodities	\$ 44,562

See accompanying notes.

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF NET POSITION – FIDUCIARY FUND**

**June 30, 2014**

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	<u>Student Activity Funds</u>
<b>ASSETS</b>	
Cash	\$ <u>159,773</u>
<b>Total assets</b>	159,773
<b>LIABILITIES</b>	
Accounts payable	5,921
Due to student groups	<u>153,852</u>
<b>Total liabilities</b>	<u>159,773</u>
<b>NET POSITION</b>	<u>\$ -</u>

See accompanying notes.

## ADAIR COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2014

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#### 1. Basis of presentation and summary of significant accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The District has the following funds:

*a. Governmental fund types*

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

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

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

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

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

*b. Proprietary fund type*

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

*c. Fiduciary fund type*

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

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

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

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

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

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

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

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

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

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

**Prepaid expenses** – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items on the accompanying statement of net position using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed. No prepaid expenses were recorded as of June 30, 2014.

**Bond issue costs** – Bond issue costs are expensed as incurred.

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

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

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

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Effective July 1, 2013, the District maintains a capitalization threshold of \$1,000. Prior to July 1, 2013, the District maintained a capitalization threshold of \$1,000 with the exception of computers and related equipment for which there was no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

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

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

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

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

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

*Nonspendable* – This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2014.

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

*Committed* – This category includes funds that have been designated for future use by the Board. Only the Board may commit funds and modify or rescind the commitment. The District does not have any committed funds as of June 30, 2014.

*Assigned* – This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management. The District does not have any assigned funds as of June 30, 2014.

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

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

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

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

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

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

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

**Subsequent events** – The District’s management has evaluated subsequent events through November 3, 2014, the date which the financial statements were available for issue. No subsequent events were of such nature to require disclosure.

**New accounting pronouncements** – In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and in November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 replace previous requirements related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of GASB Statements No. 68 and No. 71 are to improve accounting and financial reporting for pensions provided to the employees of state and local governments, and information about financial support for pensions that is provided by other entities. These Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB Statements No. 68 and No. 71 also provide related note disclosure and supplementary information requirements. GASB Statements No. 68 and No. 71 are effective for years beginning after June 15, 2014. The District has not determined the potential impact these pronouncements will have on its future financial statements.

## **2. Deposits with financial institutions**

As of June 30, 2014, the carrying amount of the District's deposits with financial institutions was \$3,174,239, and its bank balances totaled \$4,517,636. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

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

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

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

### 3. Taxes

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

The property tax rates assessed for the year ended June 30, 2014 were \$.501 per \$100 valuation for real property, \$.501 per \$100 valuation for business personal property, and \$.563 per \$100 valuation for motor vehicles.

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

### 4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2014 is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2014</u>
Land	\$ 821,256	\$ -	\$ -	\$ -	\$ 821,256
Buildings and improvements	28,037,704	10,099	61,830	13,426,064	41,412,037
Technology equipment	1,529,082	-	208,582	15,495	1,335,995
Vehicles	3,958,811	181,110	139,340	-	4,000,581
General equipment	903,249	-	31,399	-	871,850
Construction in progress	<u>10,921,170</u>	<u>2,721,571</u>	<u>-</u>	<u>(13,642,741)</u>	<u>-</u>
Total cost	46,171,272	2,912,780	441,151	(201,182)	48,441,719
Less accumulated depreciation:					
Buildings and improvements	8,983,509	810,601	61,830	-	9,732,280
Technology equipment	1,175,194	121,648	207,469	-	1,089,373
Vehicles	3,293,900	159,395	139,340	-	3,313,955
General equipment	<u>865,025</u>	<u>6,134</u>	<u>31,367</u>	<u>-</u>	<u>839,792</u>
Total accumulated depreciation	<u>14,317,628</u>	<u>1,097,778</u>	<u>440,006</u>	<u>-</u>	<u>14,975,400</u>
Governmental activities net capital assets	<u>\$ 31,853,644</u>	<u>\$ 1,815,002</u>	<u>\$ 1,145</u>	<u>\$ (201,182)</u>	<u>\$ 33,466,319</u>

<u>Business-Type Activities</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2014</u>
Food service equipment	\$ 703,380	\$ 4,102	\$ 209,062	\$ 201,182	\$ 699,602
Less accumulated depreciation:					
Food service equipment	<u>559,164</u>	<u>48,712</u>	<u>194,029</u>	<u>-</u>	<u>413,847</u>
Business-type activities net capital assets	<u>\$ 144,216</u>	<u>\$ (44,610)</u>	<u>\$ 15,033</u>	<u>\$ 201,182</u>	<u>\$ 285,755</u>

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

Instruction	\$ 367,211
Instructional staff support services	548
District administration	12,819
School administration	6,304
Business support services	2,048
Plant operations and maintenance	551,353
Student transportation	157,113
Community services	<u>382</u>
Total depreciation expense	<u>\$ 1,097,778</u>

## 5. Bonded debt and lease obligations

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

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

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2004	\$ 820,000	1.20 – 3.70%
2004 KISTA	185,310	1.00 – 3.50%
2005 KISTA	220,529	3.00 – 3.625%
2005 Energy	2,275,000	2.25 – 4.40%
2005	11,240,000	2.55 – 4.25%
2006 KISTA	256,465	3.30 – 4.00%
2006 KISTA	337,705	3.50 – 3.875%
2006 Energy	500,000	4.00 – 4.50%
2008 KISTA	239,118	3.00 – 3.75%
2009	2,530,000	2.00 – 3.25%
2010 KISTA	197,949	2.00 – 3.60%

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2011 KISTA	\$ 172,266	1.00 – 4.00%
2013	12,885,000	2.00 – 3.125%
2013 KISTA	1,076,302	2.00 – 2.25%
2013	9,010,000	1.00 – 2.25%
2014 KISTA	184,953	2.00%
2014 KISTA	185,889	2.00 – 3.00%

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

During fiscal year 2013, the District issued revenue refunding bonds totaling \$9,010,000 to partially defease the 2005 Energy Bond issue totaling \$1,535,000 and the 2005 issue totaling \$6,770,000. This transaction will result in future cash flow savings of approximately \$795,000, and an economic gain (difference between present value of the new debt service payments and the old debt service payments) of approximately \$700,000. As of June 30, 2014, the defeased portion of the 2005 bonds is outstanding.

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

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2014 for debt service (principal and interest) are as follows:

<u>Fiscal Year Ending</u>	<u>Adair County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 907,931	\$ 428,543	\$ 742,631	\$ 252,851	\$ 2,331,956
2016	883,930	404,353	736,377	224,674	2,249,334
2017	880,139	380,774	758,379	210,131	2,229,423

Fiscal Year Ending	Adair County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2018	\$ 876,726	\$ 358,669	\$ 777,359	\$ 191,149	\$ 2,203,903
2019	873,890	338,972	792,318	176,191	2,181,371
2020	900,866	318,812	809,371	159,138	2,188,187
2021	905,449	296,184	790,143	140,758	2,132,534
2022	914,045	274,444	704,870	124,152	2,017,511
2023	939,353	253,287	720,177	108,846	2,021,663
2024	955,523	231,464	735,820	93,204	2,016,011
2025	724,750	211,252	752,250	76,771	1,765,023
2026	746,938	192,505	628,062	60,659	1,628,164
2027	831,710	170,804	237,290	49,752	1,289,556
2028	810,723	146,693	244,277	42,766	1,244,459
2029	833,283	122,033	251,717	35,326	1,242,359
2030	860,616	96,624	259,384	27,659	1,244,283
2031	882,716	70,474	267,284	19,759	1,240,233
2032	914,436	43,060	275,564	11,479	1,244,539
2033	<u>924,353</u>	<u>14,443</u>	<u>230,647</u>	<u>3,604</u>	<u>1,173,047</u>
	<u>\$ 16,567,377</u>	<u>\$ 4,353,390</u>	<u>\$ 10,713,920</u>	<u>\$ 2,008,869</u>	<u>\$ 33,643,556</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2014 is as follows:

<u>Issue</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>
School Building				
Revenue Bonds:				
2004	\$ 170,000	\$ -	\$ 85,000	\$ 85,000
2005	2,110,000	-	495,000	1,615,000
2009	2,095,000	-	235,000	1,860,000
2013	12,885,000	-	200,000	12,685,000
2013	9,010,000	-	135,000	8,875,000
Energy Bonds:				
2005	215,000	-	105,000	110,000
2006	430,000	-	17,000	413,000

<u>Issue</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>
KISTA Bonds:				
2004	\$ 17,316	\$ -	\$ 17,316	\$ -
2005	41,507	-	20,405	21,102
2006	76,670	-	27,929	48,741
2006	140,557	-	36,263	104,294
2008	120,661	-	24,155	96,506
2010	137,003	-	18,973	118,030
2011	134,645	-	16,243	118,402
2013	926,702	-	146,050	780,652
2014	-	184,953	20,272	164,681
2014	-	<u>185,889</u>	-	<u>185,889</u>
Totals	<u>\$ 28,510,061</u>	<u>\$ 370,842</u>	<u>\$ 1,599,606</u>	<u>\$ 27,281,297</u>

## 6. Accumulated unpaid sick leave benefits

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

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

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2014 is as follows:

Balance as of July 1, 2013	\$ 909,975
Additions	163,002
Less payments/forfeitures	<u>425,968</u>
Balance as of June 30, 2014	647,009
Less current portion	<u>181,998</u>
Noncurrent portion	<u>\$ 465,011</u>

## **7. Accrued insurance claims liability**

The District has previously purchased workers compensation and general liability insurance through the Kentucky School Boards Insurance Trust (KSBIT). KSBIT filed for bankruptcy. Accordingly, the participant districts are subject to KSBIT's unpaid outstanding claims. In 2013, the KSBIT Board provided the District with an estimate of the District's potential share of the loss (approximately \$337,000 highest estimate), and an estimate of the District's most likely loss (approximately \$265,800). The District accrued \$265,800 as of June 30, 2013. During fiscal 2014, the KSBIT invoiced the District for its actual share of the outstanding claims. The District has included \$33,997 in accounts payable and the remaining outstanding liability of \$101,991 is included as a noncurrent liability on the accompanying statement of net position as it will be paid in future years.

Per the District's legal counsel, related pending litigation could result in additional liability to the District. The potential additional liability, if any, is not determinable at this time.

## **8. Commitments and contingencies**

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2014 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

## **9. Retirement plans**

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

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

Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members who participated in a state retirement system before July 1, 2008, and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing, multiple employer defined benefit plan. Changes 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.

In order to fund the post-employment healthcare benefit, active member contributions are matched by the State at 0.75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees, as described in the plan description, and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the District pays 1.5% of members' salaries for the 2013-2014 fiscal year.

The District's total payroll was \$13,712,913, \$14,336,686, and \$14,804,840 for the years ended June 30, 2014, 2013, and 2012, respectively. The payroll for employees covered under KTRS was \$10,826,973, \$11,360,992, and \$11,353,437 for the years ended June 30, 2014, 2013, and 2012, respectively. The Commonwealth contributed \$1,301,429, \$1,394,719, and \$1,187,491 to KTRS for the years ended June 30, 2014, 2013, and 2012, respectively, for the benefit of the participating employees. The District's contributions to KTRS were \$348,504, \$296,869, and \$313,719 for the years ended June 30, 2014, 2013, and 2012, respectively, which represents those employees covered by federal programs.

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

Plan members are required to contribute 5% of their annual covered compensation if hired before September 1, 2008, or 6% of their annual covered compensation if hired after September 1, 2008, and the District is required to contribute at an actuarially determined rate. The current rate is 18.89% of the employee's total covered compensation. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended June 30, 2014, 2013, and 2012 were \$539,201, \$580,110, and \$592,930, respectively, and are equal to the required contribution for the related year.

The District also offers employees the option to participate in voluntary tax-deferred compensation retirement plans as provided by the Adair County Board of Education 403(b) Plan and by the Kentucky Public Employees' Deferred Compensation Program which administers 401(k) plans sponsored by the Commonwealth of Kentucky. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable under Sections 403(b), 401(k), and 457 of the Internal Revenue Code. Members contributed approximately \$263,000 during the year ended June 30, 2014. The District does not contribute to these plans.

**10. On-behalf payments for fringe benefits**

The District receives on-behalf payments for fringe benefits from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances:

Retirement contributions to KTRS	\$ 1,301,429
Health and life insurance	<u>2,789,558</u>
Total	<u>\$ 4,090,987</u>

**11. Insurance, risk management, and related activities**

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

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

Settled claims resulting from these risks have exceeded commercial insurance coverage in the past three fiscal years as explained in Note 7.

## 12. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the School Construction Fund and the School Food Service Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

## 13. COBRA

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

## 14. Transfer of funds

The following transfers were made during the year ended June 30, 2014:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching	\$ 56,730
Operating	General	Debt Service	Debt Payments	204,481
Operating	Special Revenue	General	Administrative	13,376
Operating	Capital Outlay	General	Administrative	131,432
Operating	Capital Outlay	Debt Service	Debt Payments	33,669
Operating	FSPK	Debt Service	Debt Payments	869,462

**15. Interfund receivables and payables**

Interfund balances as of June 30, 2014 consist of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Cash Flow	\$ 235,128

## **SUPPLEMENTARY INFORMATION**

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
Year ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources:				
Taxes:				
Property	\$ 2,585,000	\$ 2,740,000	\$ 2,822,929	\$ 82,929
Motor vehicle	441,185	441,185	472,883	31,698
Utilities	850,000	850,000	1,005,703	155,703
Earnings on investments	15,000	10,000	22,464	12,464
Other local	12,000	12,000	78,205	66,205
Intergovernmental – State	15,059,188	14,856,368	15,377,058	520,690
Intergovernmental – Federal	20,000	20,000	31,585	11,585
Total revenues	18,982,373	18,929,553	19,810,827	881,274
<b>Expenditures</b>				
Current:				
Instruction	11,274,674	11,178,267	11,658,183	(479,916)
Student support services	819,809	743,460	608,654	134,806
Instructional staff support services	605,574	640,661	532,804	107,857
District administration	731,624	788,170	782,988	5,182
School administration	945,928	891,915	922,230	(30,315)
Business support services	269,125	280,865	384,971	(104,106)
Plant operations and maintenance	1,780,497	1,930,668	2,012,709	(82,041)
Student transportation	2,090,910	2,056,844	1,693,190	363,654
Community services	130,759	130,759	-	130,759
Contingency	1,487,955	1,487,955	-	1,487,955
Debt service	207,875	207,936	578,716	(370,780)
Total expenditures	20,344,730	20,337,500	19,174,445	1,163,055
Excess (deficit) of revenues over (under) expenditures	(1,362,357)	(1,407,947)	636,382	2,044,329
<b>Other financing sources (uses)</b>				
Proceeds from bond issuances	-	-	370,842	370,842
Operating transfers in	66,829	66,829	144,808	77,979
Operating transfers out	(244,472)	(238,882)	(261,211)	(22,329)
Other	-	-	22,962	22,962
Total other financing sources (uses)	(177,643)	(172,053)	277,401	449,454
<b>Net change in fund balance</b>	(1,540,000)	(1,580,000)	913,783	2,493,783
Fund balance as of July 1, 2013	1,517,903	1,517,903	1,517,903	-
<b>Fund balance as of June 30, 2014</b>	\$ (22,097)	\$ (62,097)	\$ 2,431,686	\$ 2,493,783

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS  
Year ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 1,140	\$ 1,140
Other local	800	26,642	55,239	28,597
Intergovernmental – State	869,380	857,566	1,136,627	279,061
Intergovernmental – Federal	<u>2,332,557</u>	<u>2,370,051</u>	<u>2,354,170</u>	<u>(15,881)</u>
Total revenues	3,202,737	3,254,259	3,547,176	292,917
<b>Expenditures</b>				
Current:				
Instruction	2,836,964	2,880,361	3,088,990	(208,629)
Student support services	10,920	10,350	11,261	(911)
Instructional staff support services	166,623	182,965	223,001	(40,036)
Business support services	-	-	38,000	(38,000)
Community services	<u>222,631</u>	<u>214,984</u>	<u>229,278</u>	<u>(14,294)</u>
Total expenditures	<u>3,237,138</u>	<u>3,288,660</u>	<u>3,590,530</u>	<u>(301,870)</u>
(Deficit) excess of revenues (under) over expenditures	(34,401)	(34,401)	(43,354)	(8,953)
<b>Other financing sources (uses)</b>				
Operating transfers in	34,401	34,401	56,730	22,329
Operating transfers out	<u>-</u>	<u>-</u>	<u>(13,376)</u>	<u>(13,376)</u>
Total other financing sources (uses)	<u>34,401</u>	<u>34,401</u>	<u>43,354</u>	<u>8,953</u>
<b>Net change in fund balance</b>	-	-	-	-
Fund balance as of July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance as of June 30, 2014</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –  
ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS  
Year ended June 30, 2014**

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<u>School</u>	<u>Cash July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Due to Student Groups June 30, 2014</u>
Adair County Primary Center	\$ -	\$ 97,153	\$ 73,959	\$ 23,194	\$ -	\$ 2,114	\$ 21,080
Adair County Elementary School	25,569	67,799	60,832	32,536	-	-	32,536
Adair County Middle School	25,538	82,811	71,591	36,758	-	-	36,758
Colonel Wm Casey Elementary School	20,679	-	20,679	-	-	-	-
John Adair Intermediate School	<u>19,056</u>	<u>-</u>	<u>19,056</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 90,842</u>	<u>\$ 247,763</u>	<u>\$ 246,117</u>	<u>\$ 92,488</u>	<u>\$ -</u>	<u>\$ 2,114</u>	<u>\$ 90,374</u>

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –  
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS  
 Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2014</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2014</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2014</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2014</u>
ACHS Classroom	\$ 401	\$ 995	\$ 1,087	\$ 309	\$ -	\$ -	\$ 309
Art	79	69	16	132	-	-	132
Athletics	10,949	60,877	60,260	11,566	-	2,958	8,608
Beta Club	807	2,086	2,877	16	-	-	16
Boys' basketball	181	20	201	-	-	-	-
Business co-op	506	-	-	506	-	-	506
Champions and SADD	617	-	-	617	-	-	617
Cheerleaders	235	892	425	702	-	-	702
Chemistry	106	-	-	106	-	-	106
Class 2014	358	19,688	19,947	99	-	-	99
Class 2015	491	12,829	10,137	3,183	-	-	3,183
Class 2016	3,291	3,235	832	5,694	-	-	5,694
Class 2017	1,912	-	-	1,912	-	-	1,912
Counselors office	241	425	440	226	-	-	226
Criminal records check	-	520	490	30	-	-	30
Drama	1,617	2,678	2,224	2,071	-	-	2,071
Earth Science	73	-	-	73	-	-	73

(continued)

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –  
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED  
 Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2014</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2014</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2014</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2014</u>
Randolph's Excep Ed	\$ 255	\$ -	\$ 225	\$ 30	\$ -	\$ -	\$ 30
English activities	393	-	-	393	-	-	393
FBLA	2,850	8,352	8,079	3,123	-	-	3,123
FCA	6	431	433	4	-	-	4
FCCLA	1,428	973	1,336	1,065	-	200	865
FFA	-	33,399	30,870	2,529	-	110	2,419
FFA Banquet	-	1,706	1,649	57	-	-	57
FFA Shop	43	4,626	4,221	448	-	-	448
FSL Club	200	52	75	177	-	-	177
Fund for the Arts	36	814	845	5	-	-	5
Future Educators of America	-	25	25	-	-	-	-
Garden Friends – S. Willis	24	-	24	-	-	-	-
General	312	2,841	2,715	438	-	400	38
Girls' softball	67	-	-	67	-	-	67
Godsey's Physics	617	-	475	142	-	-	142

(continued)

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –  
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED  
 Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2014</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2014</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2014</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2014</u>
Horticulture	\$ 8,110	\$ 10,102	\$ 7,968	\$ 10,244	\$ -	\$ -	\$ 10,244
Indian Academy	4,776	-	44	4,732	-	-	4,732
Journalism and newspaper	-	23,962	19,846	4,116	-	39	4,077
Language	232	-	77	155	-	-	155
Library	538	2,963	2,303	1,198	-	-	1,198
Lost and damaged books	13	30	-	43	-	-	43
Math	600	2,820	2,700	720	-	-	720
NAHS – Fine Arts	1,559	2,687	2,598	1,648	-	-	1,648
National Honor Society	755	986	757	984	-	-	984
Office workers	1,987	5,576	4,527	3,036	-	-	3,036
Peck Social Studies	11	-	-	11	-	-	11
Pep	63	1,150	870	343	-	-	343
Reliford's "A" Team	1,772	2,405	3,882	295	-	-	295
Science Club	254	-	-	254	-	-	254
STLP	140	130	-	270	-	-	270

(continued)

**ADAIR COUNTY SCHOOL DISTRICT**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –  
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED  
 Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Due to Student Groups June 30, 2014</u>
Student Coke	\$ 1,045	\$ 8,374	\$ 8,864	\$ 555	\$ -	\$ 100	\$ 455
Student parking	1,164	660	1,199	625	-	-	625
Teachers' lounge							
Coke	2,658	1,059	3,486	231	-	-	231
Tennis	1,350	1,090	1,531	909	-	-	909
Testing	566	1,022	1,518	70	-	-	70
Track	525	2,626	3,032	119	-	-	119
Volleyball	65	7,420	6,666	819	-	-	819
Word History/AP Euro	-	645	457	188	-	-	188
Totals	56,278	233,240	222,233	67,285	-	3,807	63,478
Interfund transfers	-	4,512	4,512	-	-	-	-
Totals	<u>\$ 56,278</u>	<u>\$ 228,728</u>	<u>\$ 217,721</u>	<u>\$ 67,285</u>	<u>\$ -</u>	<u>\$ 3,807</u>	<u>\$ 63,478</u>

**ADAIR COUNTY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year ended June 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b>Cash expenditures</b>			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100102-13	\$ 58,025
		3100102-12	3,908
		3100202-11	3,481
		3100002-13	1,057,503
		3100002-12	<u>160,967</u>
Subtotal			1,283,884
Neglected and Delinquent Children	84.013	3134T	2,360
		3134	<u>13,480</u>
Subtotal			15,840
Migrant Education	84.011	3110002-13	94,955
		3110002-12	42,979
		3110002-11	<u>800</u>
Subtotal			138,734
Special Education	84.027	3810002-13	195,739
		3810002-12	<u>282,996</u>
Subtotal			478,735
Vocational Education Basic	84.048	4621332-13	35,794
		4621332-12	<u>429</u>
Subtotal			36,223
Special Education Preschool	84.173	3800002-12	12,553
		3800002-11	<u>1,653</u>
Subtotal			14,206
Rural Education	84.358	3140002-13	45,541
		3140002-12	<u>799</u>
Subtotal			46,340

(continued)

**ADAIR COUNTY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED**  
**Year ended June 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
21 <sup>st</sup> Century Community Learning Centers	84.287	3400002-12 3400002-11	\$ 163,656 <u>7,549</u>
Subtotal			<u>171,205</u>
Race to the Top	84.416	3960002-11 4364	18,023 <u>143,038</u>
Subtotal			<u>161,061</u>
Impact Aid	84.041	5691	<u>859</u>
<b>Total U.S. Department of Education</b>			<u>2,347,087</u>
<u>Appalachian Regional Commission</u>			
Appalachian Research Technical Assistance, and Demonstration Projects	23.011	6884	<u>4,785</u>
<b>Total Appalachian Regional Commission</b>			<u>4,785</u>
<u>Department of Health and Human Services</u>			
Block Grants for Community Mental Health Services	93.958	6904	<u>798</u>
<b>Total Department of Health and Human Services</b>			<u>798</u>
<u>U.S. Department of Commerce</u>			
Pride – Environmental Education	11.420	2704	<u>1,500</u>
<b>Total U.S. Department of Commerce</b>			<u>1,500</u>

(continued)

**ADAIR COUNTY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED**  
**Year ended June 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education:			
National School Lunch Program	10.555	7750002-14 7750002-13	\$ 631,744 144,675
Subtotal			<u>776,419</u>
National School Breakfast Program	10.553	7760005-14 7760005-13	213,899 54,764
Subtotal			<u>268,663</u>
<b>Total U.S. Department of Agriculture</b>			<u>1,045,082</u>
<b>Total cash expenditures</b>			3,399,252
<b>Non-cash expenditures</b>			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture:			
Food Donation	10.555	Not provided	<u>44,562</u>
<b>Total federal expenditures</b>			<u>\$ 3,443,814</u>

See accompanying notes.

**ADAIR COUNTY SCHOOL DISTRICT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2014**

---

**1. Basis of presentation**

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

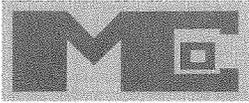
**2. Food donation**

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

**3. Program clusters**

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

<u>Cluster Name</u>	<u>CFDA</u>	<u>Total Grant</u>
Special Education	84.027/84.173	\$ 492,941
Child Nutrition	10.555/10.553	1,089,644



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*SOLUTION-DRIVEN CPAs and Business Advisors*

Mather & Co. CPAs, LLC  
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Louisville, KY 40222

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, and each major fund of the Adair County School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 3, 2014.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

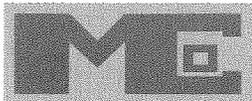
We noted certain other matters that we reported to the District's management in a separate letter dated November 3, 2014.

### **Purpose of this Report**

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

*Mather & Co. CPAs, LLC*

Mather & Co. CPAs, LLC  
Louisville, Kentucky  
November 3, 2014



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& C O M P A N Y**

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

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

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

We have audited the Adair County School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

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

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

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

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

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

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

*Mather & Co. CPAs, LLC*

Mather & Co. CPAs, LLC  
Louisville, Kentucky  
November 3, 2014

**ADAIR COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year ended June 30, 2014**

---

**Section I – Summary of Auditor’s Results**

**Financial Statements**

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

**Federal Awards**

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B program      \$    300,000

Auditee qualified as low risk      ✓    Yes      \_\_\_\_\_    No

(continued)

**ADAIR COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED**  
**Year ended June 30, 2014**

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**Section II – Financial Statement Findings**

No matters to report.

**Section III – Federal Award Findings**

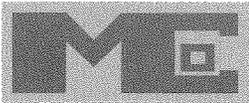
No matters to report.

**ADAIR COUNTY SCHOOL DISTRICT**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**Year ended June 30, 2014**

---

There were no prior year audit findings.



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Louisville, KY 40222

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

In planning and performing our audit of the financial statements of the Adair County School District (District) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report*, we considered the District's internal control over financial reporting and compliance to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting. In addition, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 3, 2014 on the District's financial statements.

Respectfully,

*Mather & Co. CPAs, LLC*

Mather & Co. CPAs, LLC  
Louisville, Kentucky  
November 3, 2014

**ADAIR COUNTY SCHOOL DISTRICT**

**MANAGEMENT LETTER COMMENTS  
JUNE 30, 2014**

## CONTENTS

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## ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

### Follow-up on Prior Year Findings

#### COLONEL WILLIAM CASEY ELEMENTARY SCHOOL

**Prior year comment:** During prior year disbursements testing, we noted an employee was paid with activity fund amounts which is not in accordance with Redbook guidelines.

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

### Current Year Findings

#### ADAIR COUNTY HIGH SCHOOL

**Statement of deficiency:** During receipts testing, we noted two instances where a teacher remitted funds without completing the required multiple receipt form.

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

**Cause of the deficiency:** Redbook guidelines were not followed.

**Effect of the deficiency:** Proper records do not exist documenting the receipts.

**Recommendation for correction:** We recommend the District follow Redbook policy and require completion of a multiple receipt form with dual signatures for all applicable cash receipts.

**Board response:** The Adair County High School bookkeeper will not receipt any funds until the proper paper work is completed by all staff/teachers/etc.

#### ADAIR COUNTY MIDDLE SCHOOL

**Statement of deficiency:** During receipts testing, we noted one instance where only one signature was included on the multiple receipt form for all applicable cash receipts.

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

**Cause of the deficiency:** Redbook guidelines were not followed.

**Effect of the deficiency:** Proper records do not exist documenting the receipt.

**Recommendation for correction:** We recommend the District follow Redbook policy and require completion of a multiple receipt form with dual signatures for all applicable cash receipts.

**Board response:** The Adair County Middle School will set up procedures to ensure all proper signatures are on all cash receipts as required by the Redbook.

## **OTHER ISSUES RELATING TO INTERNAL CONTROL AND GENERAL ACCOUNTING PROCEDURES**

### Follow-up on Prior Year Finding

**Prior Year Finding:** During the prior audit, we noted one employee who was not paid according to the approved salary schedule.

### **Current year follow-up:**

**Statement of deficiency:** During payroll testing, we noted one employee's years of experience were not correctly updated. This is a repeat finding from the previous year.

**Criteria for the deficiency:** This is not in compliance with KRS 157.320(12), and KRS 157.350(3); and 702 KAR 3:070.

**Cause of the deficiency:** This is a clerical error.

**Effect of the deficiency:** The employee was paid excess salary totaling \$3,143.

**Recommendation for correction:** We recommend the District develop procedures to ensure employees are paid in accordance with the approved salary schedule.

**Board response:** Every employee is now tied to a salary table which will automatically update the employee's years of experience by the MUNIS System.