

**CARLISLE COUNTY BOARD OF EDUCATION**



FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014

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## Independent Auditor's Report

Kentucky State Committee for School  
District Audits  
Members of the Board  
Carlisle County School District  
Bardwell, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carlisle County School 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – Audit Extension Request and Appendix II to the Independent Auditor's Contract – 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 of material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Carlisle 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 conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 35 and 36 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 Carlisle County School District's basic financial statements. The additional information shown on pages 37 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

## Other Reporting Required by Government Auditing Standards

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

*Williams, Williams + Lentz, LLP*

Paducah, Kentucky  
November 3, 2014

**REQUIRED SUPPLEMENTARY INFORMATION**

**CARLISLE COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2014**

As management of the Carlisle County Board of Education, we offer readers of the District's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- On July 1, 2013, the beginning cash balance, including investments for all District funds, was \$1,694,095. This total does not include agency or activity funds held at the school level.
- On June 30, 2014, the ending cash balance, including investments for all District funds, was \$1,971,217, an increase of \$277,122. This increase is due to insurance proceeds received in 2013-2014 as well as cost-saving measures implemented.
- Total revenues for the District General Fund were \$6,295,674. The primary source of these revenues was the state SEEK program and local taxes.
- Total expenditures for the District General Fund were \$6,126,297. Of these expenses, 39.53% were instructional salary costs.
- The ending balance for the District General Fund was \$977,498, an increase from the prior year of \$169,377.
- Ending carryover balance for the District General Fund was \$947,121. This includes contingency in the amount of \$300,000 and Unassigned Funds of \$647,121.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements and notes to those statements. The District's basic financial statements are comprised of three components:

1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information.

**Government-wide financial statements:** The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of a private-sector business.

The *statement of net position* provides information concerning the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with net position being the remaining balance. A long-term trend of increasing or decreasing net position may be an indicator of District financial stability. However, one must take into consideration that the primary purpose of a school district is to provide quality educational services to all students, not to generate profits. Many factors over which the District has no control have a significant influence on the financial position of the District. Some of these include: property tax wealth, state and federal tax laws, restricted educational program funding, and others.

The *statement of activities* provides a more detailed explanation of the change in net position over the fiscal year. Revenues and Expenses are recorded when incurred, not when received or paid. Governmental activities are those supported by property taxes and intergovernmental revenues. These activities include: instruction, support services, plant operations and maintenance, transportation, community services, facility acquisition and construction, and interest on long-term debt.

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

**Fund financial statements:** A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS accounting software. All of the District's funds can be divided into 3 types: governmental, proprietary, and fiduciary. Food Service is our only proprietary fund. Fiduciary funds are held as trust funds established by benefactors to aide in student education. All other activities and resources are included in the governmental funds.

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

**Notes to the financial statements:** The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 19 through 34 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As previously discussed, net position may be a long-term indicator of a District's financial position. For the fiscal year ended June 30, 2014, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by 2.45 million. The largest portion (1.79 million) of these assets are capital assets less related debt and funds restricted for capital projects, allocations to Site-Based Council funds required by statute, debt service, and sick leave payable.

### Net Position for the Years Ended June 30

	<u>2014</u>	<u>2013</u>
Current assets	\$ 2,193,644	\$ 2,065,513
Non-current assets	<u>10,087,409</u>	<u>10,511,157</u>
Total assets	<u>12,281,053</u>	<u>12,576,670</u>
Deferred outflows of resources	<u>93,729</u>	<u>105,255</u>
Current liabilities	661,006	698,728
Non-current liabilities	<u>9,267,761</u>	<u>9,731,998</u>
Total liabilities	<u>9,928,767</u>	<u>10,430,726</u>
Net investment in capital assets	821,386	890,211
Restricted	972,912	809,194
Unrestricted	<u>651,717</u>	<u>551,794</u>
TOTAL NET POSITION	<u>\$ 2,446,015</u>	<u>\$ 2,251,199</u>

As a comparison for the year ended June 30, 2014, total net position has increased by \$194,816.

The following is a summary of revenues and expenses for the year ended June 30, 2014, for selected funds.

<b>Revenues:</b>	<u>2014</u>	<u>2013</u>
Operating grants and contributions	\$1,370,570	\$1,413,732
Capital grants and contributions	519,358	543,889
Charges for services	140,362	139,242
Taxes	1,515,160	1,656,127
State aid	4,839,061	5,031,189
Investment earnings	29,951	22,292
Other	178,270	11,555
Gain on sale of equipment	<u>-</u>	<u>22,310</u>
Total revenues	<u>\$8,592,732</u>	<u>\$8,840,336</u>

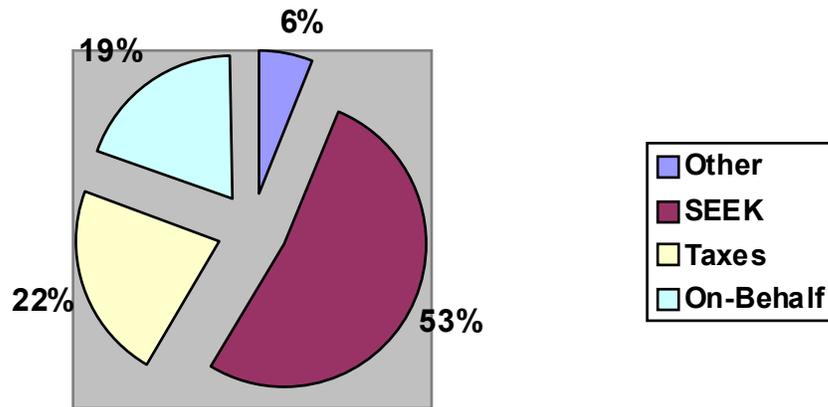
**Expenses:**

	<u>2014</u>	<u>2013</u>
Instruction	\$ 4,639,474	\$4,722,991
Student support services	289,821	320,600
Instructional staff support	168,705	310,857
District administration	472,797	509,526
School administration	378,468	382,590
Business	255,417	273,285
Plant operations and maintenance	721,348	831,288
Student transportation	582,230	595,047
Community service	77,149	74,314
Facility acquisition and construction	-	54,796
Interest on long-term debt	378,106	389,083
Food services	<u>434,401</u>	<u>473,749</u>
 Total expenses	 <u>8,397,916</u>	 <u>8,938,126</u>
 CHANGE IN NET POSITION	 <u>\$ 194,816</u>	 <u>\$ (97,790)</u>

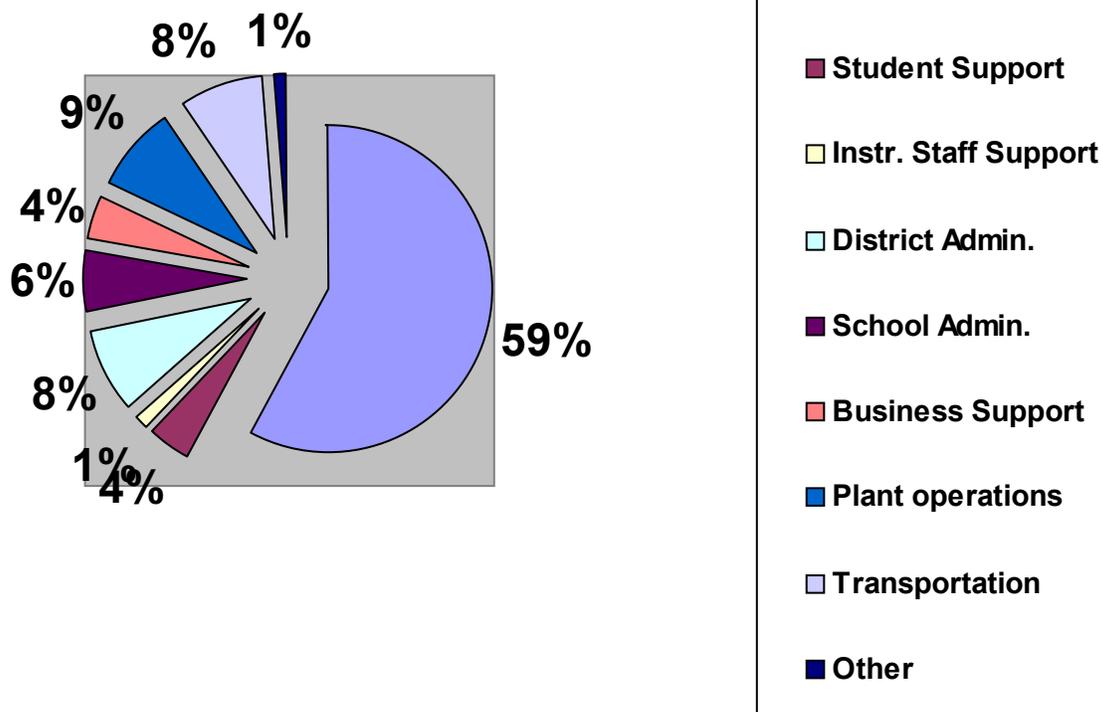
**Overview of Fund Activities and Budgets**

**General Fund**

By statute, the District’s general fund budget is a three-stage process. The draft budget is prepared in January for the next fiscal year. It is further revised in May as a tentative budget and finalized in September as the working budget. The budget consists of management’s best efforts to predict revenues and expenditures for the year. The District’s two major sources of revenue come from the state’s SEEK program and local tax dollars. The SEEK amounts are set by the Kentucky Legislature based on a per pupil amount. Tax rates are set by the Board of Education in September. Below is an illustration of actual revenues for the period ending June 30, 2014. Total general fund revenues for 2013-2014 are \$6,295,674.



The primary expenditure category for the District is instruction. This is made up of teachers’ salaries and benefits, as well as monies allocated to the site-based councils for instructional supplies. All other general fund expenditures fall into the support services category. These include Student support, instructional staff support, District administration, school administration, business support, plant operations and maintenance, and transportation. Total general fund expenditures for 2013-2014 are \$6,126,297. Below is an illustration of the distribution of general fund expenditures.



**Comments on Budget Comparison**

Excluding on-behalf payments of \$1,225,952, and including beginning balances, the general fund budget compared to actual revenue varied slightly with the ending balance being 5.2% or \$290,159 more than budgeted. This is largely due to an increase of \$65,754 in taxes collected over the budgeted amount, as well as a capital funds transfer of \$181,724 for the purpose of paying insurances/lease payments. A conservative estimate of all revenues is used to offset any decrease in funding from the state during the school year.

General fund expenditures, net of on-behalf payments of \$1,225,952, compared to budgeted expenditures, net of contingency allotments of \$384,275 were \$296,774 less than budgeted. Salary costs were \$135,000 less than budgeted, due to unpaid medical leaves and the hiring of a part-time Supervisor of Instruction for the 2013-2014 school year.

**RESTRICTED FUNDS**

The Special Revenue Fund is made up of state and federal grants. These grants are for specific purposes, such as the various Title programs, Extended School Services, Family Resource and Youth Services Center, Safe Schools, Gifted and Talented, and others. The ending balance in this fund will always be zero.

The District Activity Fund accounts for proceeds of specific revenue sources, such as donations, grants, and non-student fundraisers that are restricted by the individual schools.

The Capital Outlay Fund is a state appropriation given for the purpose of new construction and site improvements, as well as debt service payments, and may not be used for the general operating expenses of the District. Due to increased flexibility granted by the General Assembly, districts were given the authorization to use capital outlay funds to offset various General Fund expenditures following approval from the Department of Education, utilizing a capital funds request transfer. During the 2013-2014 year, \$70,995 of capital outlay funds was transferred to the General Fund.

The FSPK, or Building Fund, is funded through a percentage of local property taxes as well as monies appropriated by the state. The primary expense of this fund is to pay bond principal and interest on long-term debt. FSPK Funds may also be used for new construction and site improvements. During the 2013-2014 school year, \$403,981 was paid out for debt retirement. The remaining \$110,729 in the Building Fund was transferred to the General Fund by means of a capital funds request transfer.

The Fiscal Agent Fund is treated as a “pass-through” account. The Board was designated as fiscal agent for the KY-ASAP grant in the amount of \$233,363 to date, plus reimbursements from another school district for their shared use of the coordinator.

The Food Service fund is a proprietary fund that is self-sufficient. Its revenues consist of state reimbursements and receipts from the sale of breakfast and lunch.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

As of June 30, 2014, the District’s net investment in capital assets totaled \$821,386. The decrease of \$68,825 is largely due to depreciation and the retirement of debt.

Principal and interest debt payments for 2013-2014 totaled \$486,353, excluding payments made by SFCC. There are currently seven outstanding bond issues, one of which is totally funded by SFCC payments and four capital leases as of June 30, 2014. The total principal to be paid by the School District, exclusive of payments made by the SFCC and earnings on prefunded escrows for the Qualified Zone Academy Bonds is as follows:

<u>Project</u>	<u>Amount</u>	<u>Maturity</u>
2008 - Improvements/HVAC High/Middle School	\$1,526,580	2028
2009 - High School Roof/Grinder/Paving	167,536	2029
2009Ref - Refinancing of 1994 and 1996 Issues	16,868	2017
KISTA - Bus Lease	127,663	2019
2010Ref - Refinancing of 2001 Issue	1,150,000	2021
Musco Lighting Lease	108,835	2021
2011 - Qualified Zone Academy Bond	1,690,702	2029
2012 KISTA - Bus Lease	72,003	2022
2014 KISTA - Bus Lease	75,505	2023

See Notes 5 and 6 on pages 27 through 31 for additional detail.

**FUTURE BUDGETARY IMPLICATIONS**

The fiscal year for all public schools in Kentucky is July 1 - June 30. Many of the grant programs operate on a different calendar, but are reflected in the District’s overall budget.

As state funding to public schools has decreased, the District’s general fund budget, as well as many grant programs, have become much tighter. When coupled with increasing salary costs, as well as the rising costs of utilities and fuel and increased maintenance costs due to the aging of our facilities, the District has been forced to make difficult decisions concerning the most efficient ways of doing business. The District has made HVAC and electrical improvements in two of our schools. Renovations have been made to the interiors of both the middle and high schools. A grinder has been installed in our sewage treatment facility, the high school has received a new roof, and all parking lots have been paved. A new District-wide cafeteria was completed in August 2014. A renovation to the middle school gymnasium and conversion of the old cafeteria to new classroom space is scheduled to be complete in January of 2015. A new elementary school is planned in the near future with the help of additional funding granted by the General Assembly. All of these projects should help to extend the useful life of our current campus.

By law, districts must maintain at least a 2% contingency in the general fund. For fiscal year 2014-2015, the Board has approved a 9.8% contingency in the working budget. A 1% salary increase was given to all employees for the 2014-2015 school year.

We continue to strive to find the most cost-effective ways to spend our resources, while still offering the highest quality of education possible to the students of this District.

Any questions concerning this report can be directed to Superintendent Jay Simmons (270-628-3800) or Finance Officer Rachel Bowles (270-628-3800 ext. 7006).

## **BASIC FINANCIAL STATEMENTS**

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$ 1,170,961	\$ 73,783	\$ 1,244,744
Accounts receivable:			
Taxes	36,378	-	36,378
Accounts	51,641	-	51,641
Intergovernmental - state	3,364	-	3,364
Intergovernmental - federal	114,807	-	114,807
Investments - prefunded escrow	726,473	-	726,473
Inventories	-	16,237	16,237
Nondepreciated capital assets:			
Land	10,500	-	10,500
Construction-in-progress	82,975	-	82,975
Depreciated capital assets:			
Land improvements	167,791	-	167,791
Buildings	12,786,029	-	12,786,029
Furniture and equipment	3,323,911	208,633	3,532,544
Less: accumulated depreciation	<u>(6,337,579)</u>	<u>(154,851)</u>	<u>(6,492,430)</u>
 Total assets	 <u>12,137,251</u>	 <u>143,802</u>	 <u>12,281,053</u>
 <b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred bond discounts	<u>93,729</u>	<u>-</u>	<u>93,729</u>
 <b><u>LIABILITIES</u></b>			
Accounts payable	17,481	-	17,481
Overdraft	63,943	-	63,943
Advanced revenues	78,080	-	78,080
Long-term obligations:			
Due within one year:			
Bond and lease obligations	343,510	-	343,510
Interest payable	76,755	-	76,755
KSBIT assessment	81,237	-	81,237
Due beyond one year:			
Bond and lease obligations	9,041,177	-	9,041,177
Accrued sick leave payable	16,875	-	16,875
KSBIT assessment	<u>209,709</u>	<u>-</u>	<u>209,709</u>
 Total liabilities	 <u>9,928,767</u>	 <u>-</u>	 <u>9,928,767</u>
 <b><u>NET POSITION</u></b>			
Net investment in capital assets	767,604	53,782	821,386
Restricted for:			
Sick leave	6,290	-	6,290
Debt service	726,648	-	726,648
Future construction contracts	190,599	-	190,599
School activities	49,375	-	49,375
Unrestricted	<u>561,697</u>	<u>90,020</u>	<u>651,717</u>
 TOTAL NET POSITION	 <u><u>\$ 2,302,213</u></u>	 <u><u>\$143,802</u></u>	 <u><u>\$ 2,446,015</u></u>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

<u><b>FUNCTIONS/PROGRAMS</b></u>	<b>Program Revenues</b>			
<b>Governmental Activities:</b>	<u><b>Expenses</b></u>	<u><b>Charges for Services</b></u>	<u><b>Operating Grants and Contributions</b></u>	<u><b>Capital Grants and Contributions</b></u>
Instruction	\$4,639,474	\$ 27,656	\$ 876,447	\$ -
Support services:				
Student	289,821	-	29,776	-
Instructional staff	168,705	-	81,117	-
District administration	472,797	-	-	-
School administration	378,468	-	-	-
Business	255,417	-	-	-
Plant operations and maintenance	721,348	-	-	-
Student transportation	582,230	-	-	-
Community service	77,149	-	76,375	-
Facility acquisition and construction	-	-	-	349,563
Interest on long-term debt	378,106	-	-	169,795
Total governmental activities	7,963,515	27,656	1,063,715	519,358
<b>Business-type Activities:</b>				
Food services	434,401	112,706	306,855	-
<b>TOTAL SCHOOL DISTRICT</b>	<b>\$8,397,916</b>	<b>\$140,362</b>	<b>\$1,370,570</b>	<b>\$519,358</b>

General revenue and receipts:

Taxes:

- Property
- Motor vehicle
- Utility
- In lieu
- Telecommunication
- Other
- State aid
- State aid - on-behalf
- Investment earnings
- Other

Special items:

- Transfers

Total general revenue and special items

Change in net position

Net position, July 1, 2013

NET POSITION, JUNE 30, 2014

See notes to financial statements.

**Net (Expense) Revenue and  
Changes in Net Position**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$(3,735,371)	\$ -	\$(3,735,371)
(260,045)	-	(260,045)
(87,588)	-	(87,588)
(472,797)	-	(472,797)
(378,468)	-	(378,468)
(255,417)	-	(255,417)
(721,348)	-	(721,348)
(582,230)	-	(582,230)
(774)	-	(774)
349,563	-	349,563
(208,311)	-	(208,311)
<u>(6,352,786)</u>	<u>-</u>	<u>(6,352,786)</u>
-	(14,840)	(14,840)
<u>(6,352,786)</u>	<u>(14,840)</u>	<u>(6,367,626)</u>
889,312	-	889,312
262,932	-	262,932
282,252	-	282,252
67,333	-	67,333
13,178	-	13,178
153	-	153
3,298,149	-	3,298,149
1,498,137	42,775	1,540,912
29,624	327	29,951
178,270	-	178,270
<u>27,442</u>	<u>(27,442)</u>	<u>-</u>
<u>6,546,782</u>	<u>15,660</u>	<u>6,562,442</u>
193,996	820	194,816
<u>2,108,217</u>	<u>142,982</u>	<u>2,251,199</u>
<u>\$ 2,302,213</u>	<u>\$143,802</u>	<u>\$ 2,446,015</u>

**CARLISLE COUNTY SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2014**

<u><b>ASSETS</b></u>	<u><b>General Fund</b></u>	<u><b>Special Revenue (Grant) Fund</b></u>	<u><b>Construction Fund</b></u>	<u><b>Debt Service Fund</b></u>	<u><b>Nonmajor Funds</b></u>	<u><b>Total Governmental Funds</b></u>
Cash and cash equivalents	\$ 925,684	\$ -	\$ 190,599	\$ 5,303	\$ 49,375	\$ 1,170,961
Accounts receivable:						
Taxes	36,378	-	-	-	-	36,378
Accounts	27,789	23,852	-	-	-	51,641
Intergovernmental - state	-	3,364	-	-	-	3,364
Intergovernmental - federal	-	114,807	-	-	-	114,807
<b>TOTAL ASSETS</b>	<u><u>\$ 989,851</u></u>	<u><u>\$ 142,023</u></u>	<u><u>\$ 190,599</u></u>	<u><u>\$ 5,303</u></u>	<u><u>\$ 49,375</u></u>	<u><u>\$ 1,377,151</u></u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>						
<b>Liabilities:</b>						
Accounts payable	\$ 12,353	\$ -	\$ -	\$ 5,127	\$ -	\$ 17,480
Overdraft	-	63,943	-	-	-	63,943
Accrued payroll and related expenses	-	-	-	-	-	-
Advanced revenues	-	78,080	-	-	-	78,080
<b>Total liabilities</b>	<u>12,353</u>	<u>142,023</u>	<u>-</u>	<u>5,127</u>	<u>-</u>	<u>159,503</u>
<b>Fund Balances:</b>						
Restricted for:						
Sick leave	6,290	-	-	-	-	6,290
Debt service	-	-	-	176	-	176
Future construction contracts	-	-	190,599	-	-	190,599
School activities	-	-	-	-	49,375	49,375
Committed for:						
Contingency	300,000	-	-	-	-	300,000
Assigned for:						
Debt service	-	-	-	-	-	-
Site based carry forward SBDM	24,087	-	-	-	-	24,087
Unassigned	647,121	-	-	-	-	647,121
<b>Total fund balances</b>	<u>977,498</u>	<u>-</u>	<u>190,599</u>	<u>176</u>	<u>49,375</u>	<u>1,217,648</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 989,851</u></u>	<u><u>\$ 142,023</u></u>	<u><u>\$ 190,599</u></u>	<u><u>\$ 5,303</u></u>	<u><u>\$ 49,375</u></u>	<u><u>\$ 1,377,151</u></u>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

Total fund balances per fund financial statement \$ 1,217,648

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost	\$16,371,206	
Accumulated depreciation	<u>(6,337,579)</u>	10,033,627

Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.

Investments - prefunded escrow		726,473
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Deferred charges including debt discounts are amortized in the governmental activities, but were recognized in full in the governmental funds.		93,729
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Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

Interest payable	<u>(76,755)</u>	(76,755)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund statements. Long-term liabilities at year end consist of:

Bond and lease obligations	(9,384,687)	
Accrued sick leave payable	<u>(16,875)</u>	(9,401,562)

The Kentucky Schools Boards Insurance Trust liability related to the deficit in the worker's compensation and liability pools is not due and payable in the current period and, therefore, not reported as liabilities in the fund statements.		<u>(290,947)</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,302,213</u></u>
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Note: Nonmajor funds consist of the Capital Outlay and FSPK funds.

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<b>General Fund</b>	<b>Special Revenue (Grant) Fund</b>	<b>Construction Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>						
Taxes	\$1,399,754	\$ -	\$ -	\$ -	\$ 236,142	\$ 1,635,896
Earnings on investments	6,150	-	-	-	-	6,150
Intergovernmental - state	3,311,327	453,146	-	-	349,563	4,114,036
Intergovernmental - on-behalf	1,225,952	-	-	272,185	-	1,498,137
Intergovernmental - federal	-	511,091	-	169,796	-	680,887
Other	141,902	114,128	-	1	49,375	305,406
<b>Total revenues</b>	<b>6,085,085</b>	<b>1,078,365</b>	<b>-</b>	<b>441,982</b>	<b>635,080</b>	<b>8,240,512</b>
<b>Expenditures:</b>						
Current:						
Instruction	3,537,522	901,032	-	-	-	4,438,554
Support services:						
Student	257,006	29,776	-	-	-	286,782
Instructional staff	87,227	81,117	-	-	-	168,344
District administration	504,081	-	-	-	-	504,081
School administration	374,852	-	-	-	-	374,852
Business	253,724	-	-	-	-	253,724
Plant operations and maintenance	512,062	-	-	-	-	512,062
Student transportation	514,410	-	-	-	-	514,410
Community service	-	76,375	-	-	-	76,375
Facility acquisition and construction	-	-	82,975	-	-	82,975
Debt service:						
Prefunded escrow	-	-	-	178,154	-	178,154
Principal	58,446	-	-	315,000	-	373,446
Interest and other charges	15,609	-	-	352,808	-	368,417
<b>Total expenditures</b>	<b>6,114,939</b>	<b>1,088,300</b>	<b>82,975</b>	<b>845,962</b>	<b>-</b>	<b>8,132,176</b>
Excess (deficit) of revenues over expenditures	(29,854)	(9,935)	(82,975)	(403,980)	635,080	108,336
<b>Other Financing Sources (Uses):</b>						
Operating transfers in	210,589	11,358	144,308	403,981	-	770,236
Operating transfers out	(11,358)	(1,423)	-	-	(730,013)	(742,794)
<b>Total other financing sources (uses)</b>	<b>199,231</b>	<b>9,935</b>	<b>144,308</b>	<b>403,981</b>	<b>(730,013)</b>	<b>27,442</b>
Net change in fund balances	169,377	-	61,333	1	(94,933)	135,778
Fund balances, July 1, 2013	808,121	-	129,266	175	144,308	1,081,870
<b>FUND BALANCES, JUNE 30, 2014</b>	<b>\$ 977,498</b>	<b>\$ -</b>	<b>\$190,599</b>	<b>\$ 176</b>	<b>\$ 49,375</b>	<b>\$ 1,217,648</b>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

Net change in fund balances		\$135,778
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay for the year.</p>		
Depreciation expense	\$ (548,176)	
Capital outlays	<u>136,751</u>	(411,425)
<p>Capital lease proceeds are reported as financing sources in governmental funds and as an increase to liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position. Similarly, sinking fund payments are an expenditure in the governmental funds, but are recorded as an escrow asset account in the statement of net position.</p>		
Capital lease proceeds	(6,999)	
Prefund escrow payment	178,155	
Capital lease paid	58,446	
Principal paid	<u>315,000</u>	544,602
<p>Governmental funds report the effect of discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.</p>		
Amortization of bond discounts		(11,526)
<p>Generally, revenue is recognized in this fund financial statement when it becomes both measurable and available to finance expenditures of the current period.</p>		
Delinquent taxes	(133,914)	
Interest earned on prefunded escrow	<u>23,473</u>	(110,441)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred. These net differences are as follows:</p>		
Accrued sick leave	9,425	
Accrued interest expense	1,836	
KSBIT assessment	<u>35,747</u>	<u>47,008</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u><u>\$193,996</u></u></b>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2014**

<u><b>ASSETS</b></u>	<u><b>Enterprise Fund Food Services</b></u>
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 73,783
Inventories	16,237
Total current assets	90,020
<b>Noncurrent Assets:</b>	
Furniture and equipment	208,633
Less accumulated depreciation	(154,851)
Total noncurrent assets	53,782
<b>TOTAL ASSETS</b>	<b>143,802</b>
 <u><b>NET POSITION</b></u>	
Invested in capital assets	53,782
Unrestricted	90,020
<b>TOTAL NET POSITION</b>	<b>\$143,802</b>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u><b>Enterprise Fund Food Services</b></u>
<b>Operating Revenues:</b>	
Lunchroom sales	<u>\$112,706</u>
<b>Operating Expenses:</b>	
Salaries and wages	216,212
In-kind commodities	28,389
Materials and supplies	172,393
Depreciation	12,323
Other operating expenses	<u>5,084</u>
Total operating expenses	<u>434,401</u>
Operating income (loss)	<u>(321,695)</u>
<b>Nonoperating Revenues:</b>	
Federal grants	274,533
Federal grants - in-kind commodities	28,389
State grants	3,933
State grants - on-behalf	42,775
Interest income	<u>327</u>
Total nonoperating revenues	<u>349,957</u>
<b>Operating Transfers:</b>	
Transfer out	<u>(27,442)</u>
Change in net position	820
Net position, July 1, 2013	<u>142,982</u>
NET POSITION, JUNE 30, 2014	<u><u>\$143,802</u></u>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u><b>Enterprise Fund Food Services</b></u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from:	
Lunchroom sales	\$ 112,706
Cash paid to/for:	
Employees	(216,212)
Supplies	(180,857)
Other activities	(5,084)
	<u>(289,447)</u>
Net cash used by operating activities	<u>(289,447)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Transfer to general fund	(27,442)
Government grants	344,596
	<u>317,154</u>
Net cash provided by noncapital financing activities	<u>317,154</u>
<b>Cash Flows from Investing Activities:</b>	
Receipt of interest income	350
	<u>350</u>
Net cash provided by investing activities	<u>350</u>
Net increase in cash and cash equivalents	28,057
Cash and cash equivalents, July 1, 2013	<u>45,726</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2014</b>	<u><u>\$ 73,783</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (321,695)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	12,323
Commodities used	28,389
Change in assets and liabilities:	
Inventory	(498)
Accounts payable	(7,966)
	<u>(7,966)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><u>\$ (289,447)</u></u>
<b>Schedule of Noncash Transactions:</b>	
Donated commodities received from federal government	<u><u>\$ 28,389</u></u>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2014**

	<b>Agency Funds</b>
<b>Assets:</b>	
Cash and cash equivalents	\$137,952
<b>Liabilities:</b>	
Accounts payable	28,977
Due to student groups	42,131
Due to students in general	64,455
Due to teachers	2,389
Total liabilities	137,952
<b>NET POSITION</b>	<b>\$ -</b>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2014

**Note 1 - Reporting Entity:**

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations nor has any influence over the operation of the organizations.

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

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

**Carlisle County School Board Finance Corporation** - In 1988, the Carlisle County, Kentucky School District resolved to authorize the establishment of the Carlisle County School Board Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Carlisle County School District also comprise the Corporation's Board of Directors.

**Note 2 - Summary of Significant Accounting Policies:**

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

**Basis of Presentation**

*Government-Wide Financial Statements*

The statement of net position and the statement of activities display information about the District as a whole. These statements include all financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2014

**Note 2 - Summary of Significant Accounting Policies:**

**Basis of Presentation**

*Government-Wide Financial Statements*

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

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

*Fund Financial Statements*

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and fund balances, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenue and other financing resources) and uses (i.e., expenditures and other uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resource measurement focus.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2014

**Note 2 - Summary of Significant Accounting Policies:**

**Fund Accounting**

The District has the following funds:

a. Governmental Fund Types

The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.

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

The District Activity Fund accounts for proceeds of specific revenue sources, such as donations, grants, non-student fundraisers, etc., that are restricted by the individual schools. Project accounting is employed to maintain integrity for the various sources of funds.

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

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

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

b. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$28,389 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2014

**Note 2 - Summary of Significant Accounting Policies:**

**Fund Accounting**

c. Fiduciary Fund Types

Agency Funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The Agency Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

**Basis of Accounting**

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

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

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

Advanced Revenue - Advanced revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as advanced revenue.

Deferred Outflows and Deferred Inflows - Deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 2 - Summary of Significant Accounting Policies:**

**Property Taxes**

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending thirty days after the tax bill mailing. For the government-wide financial statements, property taxes collected are recorded as revenues in the fund for which they are levied.

The property tax rates assessed for the year ended June 30, 2014, to finance operations were \$.529 per \$100 valuation for real property, \$.529 per \$100 valuation for business personal property, and \$.478 per \$100 valuation for motor vehicles.

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

**Budgetary Process**

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

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

**Cash and Cash Equivalents**

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

**Inventories**

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the proprietary fund. Inventory consists of purchased food held for consumption and is expensed when used. The purchased food is valued at cost.

**Debt Discounts**

Unamortized debt discounts of \$93,729 are included in the government-wide statements as deferred outflows of resources. Debt discounts are amortized over the lives of the related debt issues using the effective interest method.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 2 - Summary of Significant Accounting Policies:**

**Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Technology assets acquired through E-rate are capitalized at full cost with the portion paid by E-rate being treated as donated assets.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both governmental and business-type capital assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	10 years
Rolling stock	15 years
Other	10 years

**Accumulated Unpaid Sick Leave Benefits**

For those employees who qualify, the District has adopted a policy of providing at retirement a percentage of their accumulated unused sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire estimated compensated absence liability is reported on the government-wide financial statements.

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

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2014

**Note 2 - Summary of Significant Accounting Policies:**

**Accrued Liabilities and Long-Term Obligations**

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

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

**Fund Balance Classifications**

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

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

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

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2014

**Note 2 - Summary of Significant Accounting Policies:**

**Fund Balance Classifications**

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. The Board committed funds to ensure fund balance remains above this level. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

**Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net position reports \$972,912 of restricted net position, of which \$6,290 is restricted by enabling legislation.

**Operating Revenues and Expenses**

Operating revenues and expenses consist of those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

**Use of Restricted Sources**

When an expense is incurred for which there are both restricted and unrestricted net position available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Interfund Activity**

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

**Subsequent Events**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 3, 2014, the date the financial statements were available to be issued.

**Note 3 - Estimates:**

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

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 3 - Estimates:**

During the fiscal year ended June 30, 2013, the District received notification from Kentucky School Boards Insurance Trust (KSBIT) of underfunded risk pools and KSBIT proposed a plan to the Kentucky Department of Insurance for assessment of current and former member participants. Under the plan, the District's portion of the assessment was estimated at \$326,693 and recorded as a liability in the government-wide statements as of June 30, 2013 for the estimated liability. During the current fiscal year, the final assessments were provided to the District in the amount of \$290,946 which is \$35,747 less than the original estimate. The liability reported in the government-wide statements has been adjusted to reflect the final assessment with the difference reducing current year expenses.

**Note 4 - Cash and Cash Equivalents:**

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trusts with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

At year end, the carrying amount of the District's cash and cash equivalents was \$1,382,696 and the bank balance was \$1,667,032. Deposits were held in two financial institutions located within Carlisle County. Of the bank balance, \$307,683 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. This remaining balance of \$1,359,349 was uninsured and collateralized with securities held by the pledging bank's agent, not in the District's name.

**Note 5 - Capital Assets:**

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

<b>Governmental Activities:</b>	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2014</b>
Land	\$ 10,500	\$ -	\$ -	\$ 10,500
Construction in progress	-	82,975	-	82,975
Land improvements	162,619	5,172	-	167,791
Buildings and improvements	12,756,990	29,039	-	12,786,029
Technology equipment	585,787	6,998	6,687	586,098
General equipment	1,612,963	12,567	18,300	1,607,230
Vehicles	<u>1,130,583</u>	<u>-</u>	<u>-</u>	<u>1,130,583</u>
Totals at historical cost	<u>16,259,442</u>	<u>136,751</u>	<u>24,987</u>	<u>16,371,206</u>

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 5 - Capital Assets:**

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Governmental Activities:</b>				
Less accumulated depreciation:				
Land improvements	\$ 141,833	\$ 5,247	\$ -	\$ 147,080
Buildings and improvements	3,552,393	309,092	-	3,861,485
Technology equipment	564,632	14,641	6,687	572,586
General equipment	810,482	146,740	18,300	938,922
Vehicles	<u>745,050</u>	<u>72,456</u>	<u>-</u>	<u>817,506</u>
Total accumulated depreciation	<u>5,814,390</u>	<u>548,176</u>	<u>24,987</u>	<u>6,337,579</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>CAPITAL ASSETS - NET</b>	<u>\$10,445,052</u>	<u>\$ (411,425)</u>	<u>\$ -</u>	<u>\$10,033,627</u>
<b>Business-type Activities:</b>				
Food service equipment	179,810	-	-	179,810
Technology equipment	<u>28,823</u>	<u>-</u>	<u>-</u>	<u>28,823</u>
Totals at historical cost	<u>208,633</u>	<u>-</u>	<u>-</u>	<u>208,633</u>
Less accumulated depreciation:				
Food service equipment	114,610	12,323	-	126,933
Technology equipment	<u>27,918</u>	<u>-</u>	<u>-</u>	<u>27,918</u>
Total accumulated depreciation	<u>142,528</u>	<u>12,323</u>	<u>-</u>	<u>154,851</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>CAPITAL ASSETS - NET</b>	<u>\$ 66,105</u>	<u>\$ (12,323)</u>	<u>\$ -</u>	<u>\$ 53,782</u>
Depreciation was charged to governmental functions as follows:				
Instruction				\$200,919
Support services:				
Student				3,040
Instructional staff				360
District administration				13,888
School administration				3,616
Business				1,694
Plant operations and management				256,065
Student transportation				67,820
Community services				<u>774</u>
<b>TOTAL DEPRECIATION EXPENSE</b>				<u>\$548,176</u>

**Note 6 - Bond and Lease Obligations:**

The amount shown in the accompanying government-wide financial statements as bond and lease obligations represents the District's future obligations to make payments relating to the bonds and leases issued by the Fiscal Court of Carlisle County and the Carlisle County School Board Finance Corporation. These amounts are not reflected on the fund financial statements.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 6 - Bond and Lease Obligations:**

The District, through the General Fund, the SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund, is obligated to make bond and lease payments. The agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court and the Carlisle County School Board Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security for the holders of the bonds.

**Bonds**

The original amount of each issue, the issue date, outstanding balance, and interest rates are summarized below.

<u>Issue Date</u>	<u>Proceeds</u>	<u>Remaining Balances</u>	<u>Rates</u>
August 1, 2007	\$ 565,000	\$ 435,000	3.70% - 4.125%
September 6, 2007 (QZAB)	500,000	500,000	5.860%
May 1, 2008	2,560,000	2,225,000	2.30% - 4.000%
June 1, 2009	735,000	610,000	4.150%
July 1, 2009 (Refinancing)	325,000	65,000	1.00% - 3.000%
October 1, 2010 (Refinancing)	1,610,000	1,150,000	.800% - 3.000%
October 1, 2011 (QZAB)	4,010,000	4,010,000	4.60%

The October 2011 bond issue is a \$4,010,000 Qualified Zone Academy Revenue Bond which is a tax credit bond. The District received \$4,010,000, less the issuance cost of \$64,700, to deposit into its construction fund. The District and the Kentucky School Facility Construction Commission are required to make equal annual sinking fund payments to The Bank of New York Mellon Trust Company, an escrow agent, in the amount of \$105,669 and \$72,485, respectively, commencing October 1, 2012 and such amounts shall be held and invested by the escrow agent for payment of principal of \$4,010,000 at the bonds maturity on October 1, 2029. Sinking fund payments of \$178,154 were made in fiscal year ending June 30, 2014. One hundred percent of the interest subsidy is eligible to be paid by the United States Treasury directly to the issuer, or its designee paying agent, and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Beginning July 1, 2013, the federal government will only pay 92.8% of the eligible interest subsidy due to budget cuts.

In October 2010, the District issued bonds to redeem its outstanding November 1, 2001 revenue bonds. The liability for the defeased bond is not included in the District's financial statements. On June 30, 2012, \$1,525,000 of bonds outstanding is considered defeased. In the statement of net position, the net discounts associated with the early debt retirement of the issue are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$17,775. The amortization for the year was \$2,134 and is included as a component of interest expense.

In July 2009, the District issued bonds to redeem its outstanding June 1, 1994, September 1, 1996, and November 1, 1996 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2012, \$305,000 of bonds outstanding is considered defeased. In the statement of net position, the net discounts associated with the early debt retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$1,865. The amortization for the year was \$178 and is included as a component of interest expense.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2014

**Note 6 - Bond and Lease Obligations:**

The September 2007 bond issue is a \$500,000 Qualified Zone Academy Revenue Bond which is a tax credit bond. The District received \$500,000, less the issuance costs of \$15,435, to deposit into its construction fund. The District was required to make a one-time payment of \$272,000 into an escrow account to be held by the purchaser of the bonds. The purchaser of the bonds receives a tax credit for purchasing them and guarantees the \$272,000 in escrow plus the compounded interest earned on it over the life of the bonds will equal exactly \$500,000 at September 5, 2022, which is the maturity date. At maturity, the escrow will be transferred back to the District's bond accounts to pay the bonds in full.

In 2007, 2008, and 2009, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amounts remains with the District, and as such, the total principal outstanding has been recorded in the financial statements.

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

<b>Fiscal Year</b>	<b>Carlisle County School District</b>		<b>US Treasury Interest Subsidy</b>	<b>Kentucky School Facilities Construction Commission</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2014-2015	\$ 182,627	\$ 281,581	\$ (171,179)	\$ 102,373	\$ 63,188	\$ 458,590
2015-2016	193,912	277,017	(171,179)	106,088	59,480	465,317
2016-2017	195,485	272,240	(171,179)	104,515	55,721	456,782
2017-2018	199,936	267,475	(171,179)	95,064	52,001	443,297
2018-2019	206,149	261,688	(171,179)	98,851	48,215	443,725
2019-2024	1,498,862	1,207,502	(855,894)	556,138	179,193	2,585,801
2025-2029	884,013	1,014,619	(855,894)	560,987	58,704	1,662,429
2029-2030	<u>4,010,000</u>	<u>92,230</u>	<u>(85,589)</u>	<u>-</u>	<u>-</u>	<u>4,016,641</u>
<b>TOTALS</b>	<b><u>\$7,370,984</u></b>	<b><u>\$3,674,352</u></b>	<b><u>\$(2,653,272)</u></b>	<b><u>\$1,624,016</u></b>	<b><u>\$516,502</u></b>	<b><u>\$10,532,582</u></b>

**Capital Leases**

The KISTA school bus acquisition bonds provide for the title of the equipment (buses) to vest in the District subject to a first lien, and if nonrenewal or default occurs, the title will revert to KISTA. The District leases and rents the equipment from KISTA on an annual basis and has an exclusive option to renew this lease from year to year for the period of time of the pooled bond issue (approximately 10 years). The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to keep the equipment in good repair and provide insurance coverage.

The MUSCO Master Equipment Lease Purchase Agreement provides for the title of equipment (lighting project) and all additions, repairs, replacements or modifications shall vest in the District. If nonrenewal or default occurs, the title will revert to MUSCO. The Master Equipment Lease Purchase Agreement is for a term of 10 years with the option to renew at the end of the original term or any renewal term for an additional renewal term. Principal and interest payments are to be paid annually beginning June 1, 2012.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 6 - Bond and Lease Obligations:**

Capital Leases

The District has a lease agreement for a copier as well. The buses and equipment have a historical cost and accumulated amortization of \$578,357 and \$201,204, respectively, under the capital lease agreements. Amortization is included in depreciation expense. Future minimum lease payments at June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-2015	\$ 58,510	\$13,759	\$ 72,269
2015-2016	58,833	11,819	70,652
2016-2017	60,826	9,785	70,611
2017-2018	58,057	7,616	65,673
2018-2019	58,708	5,507	64,215
2019-2023	<u>94,753</u>	<u>5,896</u>	<u>100,649</u>
TOTALS	<u>\$389,687</u>	<u>\$54,382</u>	<u>\$444,069</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Balance July 1, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable	\$ 9,310,000	\$ -	\$(315,000)	\$8,995,000	\$285,000
Capital leases	<u>441,134</u>	<u>6,999</u>	<u>(58,446)</u>	<u>389,687</u>	<u>58,510</u>
Bond and lease obligations	9,751,134	6,999	(373,446)	9,384,687	343,510
Accumulated sick leave	26,300	-	(9,425)	16,875	-
KSBIT assessment	<u>326,693</u>	<u>-</u>	<u>(35,747)</u>	<u>290,946</u>	<u>81,237</u>
GOVERNMENTAL ACTIVITY LONG-TERM LIABILITIES	<u>\$10,104,127</u>	<u>\$6,999</u>	<u>\$(418,618)</u>	<u>\$9,692,508</u>	<u>\$424,747</u>

**Note 7 - Operating Leases:**

On August 12, 1993, the District signed an agreement with the Murray Board of Education to lease physical facilities of the District to conduct Head Start programs. This agreement is renewable for twenty-nine one-year periods.

On March 15, 2012, the District signed a three year lease with an interest rate of 6.91% for sixty iPads from Apple, Inc. The District's capitalization threshold is \$5,000. If the iPads had been purchased and not leased, these would be expensed in the year of purchase. For this reason, this lease is treated as an operating lease. Total and final payment on the lease was \$9,798 for the fiscal year ended June 30, 2014.

**Note 8 - Retirement Plans:**

**Plan Descriptions**

The Carlisle County School District participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing multiple-employer defined benefit pension plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system and other public educational agencies in Kentucky.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 8 - Retirement Plans:**

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan administrator.

**Plan Descriptions**

Kentucky Teachers' Retirement System 479 Versailles Road Frankfort, Kentucky 40601-3800 (502) 573-3266	Kentucky Retirement Systems Perimeter Park West 1260 Louisville Road Frankfort, Kentucky 40601-6124 (502) 564-4646
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**Funding Policies**

Contribution rates are established by the Kentucky Revised Statutes. Plan members of KTRS are required to contribute 11.355% of their annual covered salary for fiscal year 2014. Plan members were required to contribute 10.855% for fiscal year 2013, and 10.355% for fiscal year 2012 if employed before July 1, 2008 and 10.855% if employed after July 1, 2008. The State provides a contribution of 14.605%, except for federal programs for fiscal year 2014. The 14.605% and matching contributions for covered salaries of federal programs are paid by those programs. The State contribution for fiscal year 2013 was 14.105%. The State contribution for fiscal year 2012 was 13.605% if employed before July 1, 2008 and 14.605% if employed after July 1, 2008. For fiscal years ended June 30, 2014, 2013, and 2012, the District contributed an additional 1.50%, 1.00%, and .50%, respectively for employee medical insurance. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education. Plan members of CERS are required to contribute 5.000% of their annual covered salary, and the Carlisle County School District provides a contribution of 18.89% of that salary. The required District contribution rates for fiscal years ending June 30, 2013 and 2012 were 19.55% and 18.96, respectively. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed by employees to a health insurance account. The District's total payrolls for the years ending June 30, 2014, 2013, and 2012 were \$4,612,034, \$4,746,716, and \$4,695,577, respectively. For the years ended June 30, 2014, 2013, and 2012, the payroll for employees covered under KTRS was \$3,596,652, \$3,738,778, and \$3,105,597, respectively. For the years ended June 30, 2014, 2013, and 2012, the Commonwealth contributed \$441,815, \$450,261, and \$424,536, respectively, to KTRS for the benefit of participating employees. The District's contribution to KTRS for the years ended June 30, 2014, 2013, and 2012 were \$38,868, \$50,592, and \$68,013, respectively, which relates to those employees covered by federal programs. The District's contribution to Retiree Medical Insurance fund for the years ended June 30, 2014, 2013, and 2012 were \$49,959, \$33,791, and \$15,972, respectively. The District's contribution requirements and the amounts contributed to CERS were \$168,417, \$181,435, and \$169,665, respectively, for the years ended June 30, 2014, 2013, and 2012.

**Note 9 - Benefits Funded by Kentucky State Department of Education:**

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contributions to Kentucky Teachers' Retirement System	\$ 441,815
Technology	38,635
Debt Service	272,185
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	788,277
TOTAL	<u>\$1,540,912</u>

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 9 - Benefits Funded by Kentucky State Department of Education:**

These payments are recorded in the General, Debt Service, and School Food Service Funds as revenue and expenditures. The District is not legally responsible for these contributions. These payments are not budgeted by the District.

On-behalf contributions were charged to governmental functions as follows:

Instruction	\$ 908,189
Support services:	
Student	20,182
District administration	60,546
School administration	90,819
Business	68,908
Plant operations and management	10,091
Student transportation	67,217
Food services	42,775
Debt service	<u>272,185</u>
 TOTAL ON-BEHALF CONTRIBUTIONS	 <u>\$1,540,912</u>

**Note 10 - Contingencies:**

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

**Note 11 - Commitments for Gym Renovation:**

The District has approved agreement for renovation of the middle school gym. The estimated cost of this project is \$1,378,573 to begin in July 2014. As of the balance sheet date, \$82,975 has been expended for architect fees and is included in the statement of net position as construction in progress. The cost of construction will be funded by the issuance of School Building Revenue Bonds.

**Note 12 - Insurance and Related Activities:**

The Carlisle County School District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which include workers' compensation insurance.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2014

**Note 12 - Insurance and Related Activities:**

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District carries commercial insurance for all other risks of loss, including the coverage listed on page 45 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 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).

**Note 14 - Excess of Expenditures Over Appropriations:**

The District has no fund with a deficit fund balance. The general and special revenue funds had excess current year expenditures over current year appropriations totaling \$544,904 and \$220,545, respectively. If on-behalf expenditures had been budgeted, current year expenditures would not have exceeded appropriations for the general fund.

**Note 15 - Transfer of Funds:**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	001	002	Match	\$ 11,358
Operating	002	001	Indirect cost	1,423
Operating	510	001	Indirect cost	27,442
Operating	320	400	Debt service	403,981
Operating	310	001	Capital funds request	70,995
Operating	320	001	Capital funds request	110,729
Operating	310	360	Construction	15,676
Operating	320	360	Construction	128,632

**Note 16 - Change in Accounting Standards:**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The new standard addresses several issues regarding public pension plans, including the liabilities reported pertaining to unfunded portions and the disclosure requirements of those plans. GASB Statement No. 68 will be effective for the District for the fiscal year beginning July 1, 2014. The effects of the new standard on the District have yet to be determined.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
From local sources:				
Taxes	\$1,282,000	\$1,334,000	\$1,399,754	\$ 65,754
Other	14,500	14,500	148,052	133,552
Intergovernmental - state	3,494,493	3,416,373	3,311,327	(105,046)
Intergovernmental - on-behalf	-	-	1,225,952	1,225,952
Other sources	18,600	19,000	210,589	191,589
<b>Total revenues</b>	<b>4,809,593</b>	<b>4,783,873</b>	<b>6,295,674</b>	<b>1,511,801</b>
<b>Expenditures:</b>				
Instruction	2,677,118	2,736,094	3,537,522	(801,428)
Support services:				
Student	241,028	242,867	257,006	(14,139)
Instructional staff	143,582	141,610	87,227	54,383
District administration	501,599	470,191	504,081	(33,890)
School administration	291,535	288,921	374,852	(85,931)
Business	183,425	183,926	253,724	(69,798)
Plant operations and maintenance	588,062	583,542	512,062	71,480
Student transportation	538,546	484,604	514,410	(29,806)
Other	414,698	449,638	85,413	364,225
<b>Total expenditures</b>	<b>5,579,593</b>	<b>5,581,393</b>	<b>6,126,297</b>	<b>(544,904)</b>
Net change in fund balances	(770,000)	(797,520)	169,377	966,897
Fund balances, July 1, 2013	770,000	797,520	808,121	10,601
<b>FUND BALANCES, JUNE 30, 2014</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 977,498</b>	<b>\$ 977,498</b>

**Note 1 - Benefits Funded by Kentucky State Department of Education:**

The budget presented above does not include on-behalf payments provided by the Kentucky State Department of Education. If on-behalf payments had been included, budgetary total revenues would equal \$6,009,825 and budgetary total expenditures would equal \$6,807,345.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
From local sources	\$ 79,107	\$ 65,104	\$ 114,128	\$ 49,024
Intergovernmental - state	382,838	370,209	453,146	82,937
Intergovernmental - federal	433,472	421,865	511,091	89,226
Other sources	12,000	12,000	11,358	(642)
Total revenues	<u>907,417</u>	<u>869,178</u>	<u>1,089,723</u>	<u>220,545</u>
<b>Expenditures:</b>				
Instruction	705,832	679,829	901,032	(221,203)
Support services:				
Student	36,308	44,482	29,776	14,706
Instructional staff	85,484	72,314	81,117	(8,803)
Plant operations and maintenance	-	-	-	-
Community service	79,793	72,553	76,375	(3,822)
Other	-	-	1,423	(1,423)
Total expenditures	<u>907,417</u>	<u>869,178</u>	<u>1,089,723</u>	<u>(220,545)</u>
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2014	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION**

**CARLISLE COUNTY SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2014**

<u>ASSETS</u>	<u>SEEK Capital Outlay Fund</u>	<u>FSPK Fund</u>	<u>District Activity Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Cash and cash equivalents	\$ -	\$ -	\$49,375	\$49,375
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$49,375</u>	<u>\$49,375</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
<b>Fund Balances:</b>				
Restricted for:				
School activities	-	-	49,375	49,375
Total fund balances	-	-	49,375	49,375
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$49,375</u>	<u>\$49,375</u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<b>SEEK Capital Outlay Fund</b>	<b>FSPK Fund</b>	<b>District Activity Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues:</b>				
Taxes	\$ -	\$236,142	\$ -	\$ 236,142
Intergovernmental - state	70,995	278,568	-	349,563
Other	-	-	49,375	49,375
	<u>70,995</u>	<u>514,710</u>	<u>49,375</u>	<u>635,080</u>
<b>Expenditures:</b>				
Facilities acquisition and construction	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) of revenues over expenditures	<u>70,995</u>	<u>514,710</u>	<u>49,375</u>	<u>635,080</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers in (out)	<u>(86,671)</u>	<u>(643,342)</u>	<u>-</u>	<u>(730,013)</u>
Net change in fund balances	(15,676)	(128,632)	49,375	(94,933)
Fund balances, July 1, 2013	<u>15,676</u>	<u>128,632</u>	<u>-</u>	<u>144,308</u>
FUND BALANCES, JUNE 30, 2014	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$49,375</u></u>	<u><u>\$ 49,375</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO**  
**STUDENT GROUPS AND OTHERS**  
**AGENCY FUNDS**  
**CARLISLE COUNTY HIGH SCHOOL ACTIVITY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Due to Student Groups and Others July 1, 2013</b>	<b>Revenues Actual (1)</b>	<b>Expenditures Actual (1)</b>	<b>Due to Student Groups and Others June 30, 2014</b>
General Fund	\$ 901	\$ 12,097	\$ 8,853	\$ 4,145
Arts Guild Fund	52	1,584	1,434	202
Athletic Fund	10,620	41,911	46,849	5,682
Baseball	-	1,734	1,606	128
Basketball -Boys	-	8,413	6,787	1,626
Basketball - Girls	-	3,745	874	2,871
Beta Club Fund	1,646	636	1,109	1,173
Business Media Fund	31	-	31	-
Cheerleaders' Fund	221	18,335	17,290	1,266
Cross Country	-	500	-	500
Drama Club Fund	120	150	270	-
FBLA Fund	1,055	12,282	11,409	1,928
FCC Fund	140	-	-	140
FFA Alumni Fund	1,023	2,500	3,523	-
FFA Fund	3,970	29,260	29,782	3,448
FFA Regional Fund	9,423	8,090	17,513	-
FCCLA Fund	930	477	1,407	-
Flower Fund	-	260	110	150
Golf	-	500	-	500
Greenhouse	8,444	3,029	11,473	-
Home Economics Fund	377	1,741	2,118	-
Junior and Senior Prom Fund	3,945	3,089	4,896	2,138
Military Club Fund	10	160	70	100
Moon Buggy	1,121	-	1,121	-
Pep Club Fund	705	160	-	865
Recycling Fund	353	-	353	-
Shop Fund	134	1,771	1,905	-
Softball	-	1,250	987	263
Stars Fund	88	160	153	95
Student Council Fund	90	87	-	177
Teachers' Lounge Fund	26	630	420	236
Project Graduation Fund	997	18	-	1,015
Yearbook Fund	9,199	10,467	5,903	13,763
Vending	3	1,002	814	191
Volleyball	-	6,416	3,416	3,000
<b>TOTALS</b>	<b>\$55,624</b>	<b>\$172,454</b>	<b>\$182,476</b>	<b>\$ 45,602</b>

(1) Included in revenues and expenditures are interfund transfers totaling \$20,584.

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO**  
**STUDENT GROUPS AND OTHERS**  
**AGENCY FUNDS**  
**CARLISLE MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Middle School</b>	<b>Elementary School</b>	<b>Totals</b>
Due to student groups and others, July 1, 2013	\$26,177	\$97,552	\$123,729
<b>Revenues:</b>			
Student activities (1)	53,819	89,559	143,378
<b>Expenditures:</b>			
Student activities (1)	49,154	154,580	203,734
<b>DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2014</b>	<b>\$30,842</b>	<b>\$32,531</b>	<b>\$ 63,373</b>

(1) Included in revenues and expenditures for the Middle and Elementary Schools are interfund transfers totaling \$1,863 and \$14, respectively.

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**DUE TO OTHERS**  
**AGENCY FUND**  
**FISCAL AGENT FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Fiscal Agent Fund</b>
Due to others, July 1, 2013	<u>\$ -</u>
<b>Revenues:</b>	
Student activities	<u>16,525</u>
<b>Expenditures:</b>	
Student activities	<u>16,525</u>
DUE TO OTHERS, JUNE 30, 2014	<u><u>\$ -</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT DIFFERENCES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the District has state on-behalf amounts included in total revenue from state sources in the District's AFR as specified by the Kentucky Department of Education. These funds are reported as intergovernmental revenues - on-behalf or state grants - on-behalf in the financial statements. The District also has child nutrition donated commodities included in the total revenue from federal sources in the District's AFR. These funds are recorded as federal grants - in-kind commodities in the financial statements. The following is a reconciliation of the receipts reported in the District's AFR with that shown in the financial statements.

**General Fund**

Revenue from state sources reported to the Department of Education	\$ 4,537,279
On-behalf/state sources	<u>(1,225,952)</u>
Amount per financial statements	<u><u>\$ 3,311,327</u></u>

**Debt Service**

Revenue from state sources reported to the Department of Education	\$ 272,185
On-behalf/state sources	<u>(272,185)</u>
Amount per financial statements	<u><u>\$ -</u></u>

**Food Service**

Revenue from state sources reported to the Department of Education	\$ 46,708
On-behalf/state sources	<u>(42,775)</u>
Amount per financial statements	<u><u>\$ 3,933</u></u>
Revenue from federal sources reported to the Department of Education	\$ 302,922
In-kind donated commodities	<u>(28,389)</u>
Amount per financial statements	<u><u>\$ 274,533</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF ACCOUNTS RECEIVABLE**  
JUNE 30, 2014

**General Fund:**

Accounts receivable reported in District's annual financial report to the State Department of Education, Division of Finance	\$15,135
Additional accounts receivable recorded subsequent to the annual financial report:	
Kentucky Department of Revenue - Utility Tax	21,243
Liberty Mutual - Insurance Proceeds for damages	<u>27,789</u>
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<u><u>\$64,167</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF ACCOUNTS PAYABLE**  
**JUNE 30, 2014**

**General Fund:**

Accounts payable reported in District's annual financial report to the State Department of Education, Division of Finance	\$11,420
Additional accounts payable recorded subsequent to the annual financial report: Carlisle County Sheriff Department - Commissions	<u>933</u>
<b>TOTAL ACCOUNTS PAYABLE</b>	<u><u>\$12,353</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF INSURANCE COVERAGE**  
**JUNE 30, 2014**

	<u>Expires</u>	<u>Building</u>	<u>Contents</u>
<b>Fire and Extended Coverage - 90% Co-Insurance:</b>			
Carlisle County Middle School	July 1, 2014	\$ 6,766,539	\$1,120,537
Carlisle County Elementary School	July 1, 2014	5,656,419	797,117
Carlisle County High School	July 1, 2014	7,391,809	972,217
New kitchen/cafeteria building	July 1, 2014	3,366,780	400,000
Agriculture and Industrial building	July 1, 2014	1,648,004	241,818
Custodian's house	July 1, 2014	168,383	-
Portable building #2	July 1, 2014	325,728	-
Board office	July 1, 2014	393,922	76,885
Bus garage	July 1, 2014	460,062	-
Central storage building	July 1, 2014	431,438	35,921
Guard shack	July 1, 2014	5,753	-
Metal storage building	July 1, 2014	28,763	-
Property in the open	July 1, 2014	452,317	-
<b>TOTALS</b>		<u><u>\$27,095,917</u></u>	<u><u>\$3,644,495</u></u>

		<u>Amount of Coverage</u> <u>Per Occurance</u>
<b>Collision, Comprehensive, and Property Damage:</b>		
School buses and other vehicles:		
Property damage	July 1, 2014	\$2,000,000
Comprehensive		ACV
Uninsured motorists		500,000
Underinsured motorists		500,000
<b>General Liability:</b>		
Carlisle County School District, Superintendent and employees	July 1, 2014	1,000,000
Educators' legal liability (errors and omissions)	July 1, 2014	1,000,000
Employee benefits liability	July 1, 2014	1,000,000
Sexual misconduct and molestation liability	July 1, 2014	1,000,000
Workmen's compensation		Statutory
Performance bond	July 1, 2014	150,000
Crime Policy	July 1, 2014	100,000
Commercial umbrella liability	July 1, 2014	5,000,000
<b>Depository Bond:</b>		
Citizens Deposit Bank of Arlington	June 30, 2014	103% of Current Daily Balances

See auditor's report on pages 1-3.

**MEMBERS OF THE CARLISLE COUNTY BOARD OF EDUCATION  
AS OF JUNE 30, 2014**

<u>Name</u>	<u>Address</u>	<u>Date Elected</u>	<u>Term Expires</u>
Brian Grogan, Chairman	284 CR 1202 Arlington, Kentucky	November 2012	January 2017
Kevin O'Neill, Vice-Chairman	P.O. Box 95 Bardwell, Kentucky	November 2012	January 2017
Steven Draper	489 CR 1127 Arlington, Kentucky	November 2010	January 2015
Tiffany Wildharber	P.O. Box 606 Bardwell, Kentucky	November 2012	January 2017
John Matt Fourshee	P.O. Box 562 Cunningham, Kentucky	November 2010	January 2015

**Other Officials:**

Jay Simmons, Superintendent

Rachel Bowles, Treasurer and Secretary of the Board

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Totals</u>
<b>U.S. Department of Education:</b>				
Passed-through Kentucky Department of Education:				
Special Education - Grants to States (IDEA, Part B)	84.027	3810002 12 3810002 13	\$ 1,452 <u>129,844</u>	\$ 131,296
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002 12 3800002 13	1,230 <u>15,052</u>	<u>16,282</u>
Special Education Cluster Sub-Total				147,578
Title I Grants to Local Educational Agencies (LEAs)	84.010	3100002 12 3100002 13	44,822 <u>143,299</u>	188,121
Improving Teacher Quality State Grants	84.367	3230002 12 3230002 13	8,394 <u>41,454</u>	49,848
Twenty-First Century Community Learning Centers	84.287	3400002 09 3400002 12 3400002 13	653 47,524 <u>62,020</u>	110,197
Rural Education	84.358	3140002 12 3140002 13	6,793 <u>5,860</u>	12,653
Passed-through West Kentucky Educational Cooperative:				
Career and Technical Education - Basic Grants to States	84.048	4621332 13 4621332 14	843 <u>1,851</u>	<u>2,694</u>
<b>Total U.S. Department of Education</b>				<u>511,091</u>
<b>U.S. Department of Agriculture:</b>				
Passed-through Kentucky Department of Agriculture:				
School Breakfast Program	10.553	7760005 13 7760005 14	17,839 <u>65,301</u>	83,140
National School Lunch Program	10.555	7750002 13 7750002 14	43,124 148,269	
National School Lunch Program - Non-monetary Food Distribution (1)	10.555	2014	<u>28,389</u>	<u>219,782</u>
Child Nutrition Cluster Sub-Total				302,922
<b>Total U.S. Department of Agriculture</b>				<u>302,922</u>
<b>TOTAL FEDERAL AWARDS</b>				<u><u>\$ 814,013</u></u>

See notes to the schedule of expenditures of federal awards on page 48.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

- (1) Expense recognized is the total dollar value of commodities used during the year. Amounts are based on dollar values reported by the Kentucky Department of Agriculture. This amount is included in the combined statement of revenues, expenditures, and changes in net position.

**Note 1 - Basis of Presentation:**

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

**Note 2 - Federal Awards Reconciliation:**

In October 2012, the Carlisle County School District issued Qualified Zone Academy Revenue Bonds. The United States Treasury will pay the semi-annual interest on these bonds directly to the issuer or its designee paying agent and be applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Interest subsidy payments are reported as intergovernmental federal revenues and interest expense on the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, they are not required to be reported on the Schedule of Expenditures of Federal Awards.

Federal revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds	\$ 680,887
Federal grants as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	274,533
Federal grants – in-kind commodities as reported on the Statement of Revenues, Expenses, and Changes in fund Net Position Proprietary Fund	<u>28,389</u>
Total federal expenditures	983,809
Less federal interest subsidy	<u>(169,796)</u>
<b>TOTAL FEDERAL AWARDS</b>	<b><u>\$ 814,013</u></b>

See auditor's report on pages 1-3.

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**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Carlisle County School District  
Bardwell, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – Audit Extension Request and Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carlisle County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Carlisle County School 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 Carlisle County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Carlisle County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Carlisle County School District's internal control.

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

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

## Compliance and Other Matters

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

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

*Williams, Williams + Lentz, LLP*

Paducah, Kentucky  
November 3, 2014

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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  
Audits of School Districts  
Members of the Board of Education  
Carlisle County School District  
Bardwell, Kentucky

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Carlisle County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix II to the Independent Auditor's Contract – 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 Carlisle County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

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

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

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

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

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

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

*Williams, Williams + Lentz, LLP*

Paducah, Kentucky  
November 3, 2014

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2014**

**Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the financial statements of the Carlisle County School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Carlisle County School District which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report On Compliance for Each Major Program and On Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal awards programs for the Carlisle County School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA</u>
National School Lunch Program	10.555
National School Lunch Program – Non-monetary Food Distribution	10.555
School Breakfast Program	10.553

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Carlisle County School District was determined to be a low-risk auditee.

**Findings - Financial Statements Audit**

None

**Findings and Questioned Costs - Major Federal Awards Programs Audit**

None

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2014**

There are no prior year audit findings relative to federal awards to report.

## Statement of Certification

State Committee for School District Audits  
Frankfort, KY

The Carlisle County School District certifies that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report.

SUBMITTED, October 31, 2014

[Signature] Superintendent

Rachel Bowles Finance Officer

**One** scanned or hard copy statement is due to KDE on or before November 15, 2014. **Please send hard copy to:**

**Division of District Support  
Kentucky Department of Education  
500 Mero Street, CPT 15<sup>th</sup> Floor  
Frankfort, KY 40601**

**Please send scanned copy to:**

**Finance.Reports@education.ky.gov**  
**with the "DISTRICT NAME - SOC"**  
**in the subject line (SUBJECT: DISTRICT NAME - SOC)**

**CARLISLE COUNTY SCHOOL DISTRICT**



MANAGEMENT LETTER  
YEAR ENDED JUNE 30, 2014

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Carlisle County Board of Education  
Bardwell, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carlisle County School District as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Carlisle County School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. This letter does not affect our report dated November 3, 2014 on the financial statements of Carlisle County School District.

### SEGREGATION OF DUTIES

*Finding:* As stated in prior years, the proper segregation of duties does not exist.

*Criteria:* This District is small and it is not feasible to hire additional staff necessary to provide the proper segregation of duties.

*Cause:* The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

*Effect:* Weaknesses in internal controls can create the possibility for the misappropriation of asset and/or fraudulent financial reporting.

*Recommendation:* Lack of proper segregation of duties dictates that the board continues to be involved in the financial affairs of the District to provide oversight and independent review functions. The Superintendent needs to continue to review journal entries in addition to the year-to-date budget reports received each month.

*Management's Response:* The Superintendent will continue to review journal entries as well as other reports.

### DISBURSEMENTS

*Finding:* No authorization for payment with the superintendent's initials on invoices.

*Criteria:* Superintendent reviews invoices and initials for approval to pay.

*Cause:* A breakdown in internal controls over disbursements.

*Effect:* There was no authorization to pay the invoice. Lack of authorization could allow payments for unallowed or fraudulent purchases or allow the invoice to be resubmitted for payment multiple times.

*Recommendation:* All invoices should be reviewed and approved for payment. All supporting documentation and required approvals should be checked prior to payment.

*Management's Response:*

- Check # 134971 was a final-payment for flooring in the preschool. The Purchase Order/check were signed and approved by the Superintendent; however, the invoice was not. We will make a stronger effort to double check that all invoices are signed by the Superintendent. This statement applies to all the audit findings as well.
- Check # 135379 was a Food Service invoice that was signed and approved by the Food Service Director. It was an emailed statement to the Food Service Director. The Superintendent has been advised that he must also initial those invoices and not just sign and approve the checks for payment. I was under the impression that if the Food Service Director approved it then we were OK.
- Check # 134990 was signed by the Superintendent; however it was on the tear off for the mailer of the invoice. An email has been sent to the entire staff regarding this issue. The Superintendent has been advised to be aware of this issue too.

*Finding:* No student signature on CSI Student Aide timesheet.

*Criteria:* Student timesheets should be signed by the individual student upon submission of the timesheet for payment.

*Cause:* A breakdown in internal controls over disbursements.

*Effect:* Lack of proper authorized signatures could allow for fraudulent reporting and over/under payment to the student aide.

*Recommendation:* All supporting documentation and required approval/signatures should be checked prior to submission for payment.

*Management's Response:* We have discussed the importance of student signatures with all bus drivers. We have also had a change in management of the Transportation Department and have made him aware of all policies regarding signatures on time sheets.

*Finding:* Only one authorized signature on check.

*Criteria:* All disbursements require two authorized signatures.

*Cause:* A breakdown in internal controls over disbursements.

*Effect:* Lack of proper signatures could allow for fraudulent and/or unallowed purchases.

*Recommendation:* All checks should be reviewed prior to mailing to ensure proper authorized signatures are included.

*Management's Response:* We have recognized the error and will make all efforts to confirm that 2 approving signatures are on all checks.

All other prior year recommendations appear to have been properly addressed.

## ACTIVITY FUNDS

### Carlisle County Elementary School

*Finding:* Student fundraiser was approved to raise money for the purchase of iPads for classrooms.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), student fundraising activities are to benefit the students, so student fundraisers to cover equipment or operational costs are not permitted.

*Cause:* Fundraisers for these types of activities should be organized through the PTO or Booster Club. The elementary school no longer has a PTO.

*Effect:* Funds were allowed to be raised by students for equipment and/or operational costs.

*Recommendation:* Teachers, sponsors, central fund treasurers, principal, and superintendent should be familiar with the Redbook and the types of fundraisers that are allowed to be student fundraisers. Fundraisers for these types of activities should be organized through the PTO. If the school wants to have fundraisers of this type, the schools and parents need to reorganize the PTO.

*Management's Response:* Student fundraiser money will no longer be used to purchase equipment such as Ipad. We are also trying to reorganize the PTO.

*Finding:* Purchased iPads with activity fund monies. Purchases of equipment or operational items are expressly prohibited by the Red Book. This is a repeat comment from prior years.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), purchases of equipment, supplies, and materials with activity fund monies must be used within a student organization.

*Cause:* Breakdown in internal controls over disbursements.

*Effect:* Activity funds which are meant for the direct benefit of the students are being used for other purposes. Even though these funds were raised through a fundraiser specifically approved for the purchase of iPads, the purchase of iPads was not for the use of a specific student group but for the students as a whole for the classroom setting.

*Recommendation:* Teachers, sponsors, central fund treasurers, and the principal authorizing purchases should be familiar with the Redbook and the costs that are allowed under these rules.

*Management's Response:* School Activity funds will no longer be used to purchase equipment such as iPads.

All other prior year recommendations appear to have been properly addressed.

### **Carlisle County Middle School**

*Finding:* Ticket seller and ticket taker should not be the same person.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), two people (ticket taker and ticket seller) are required to work the gate. The ticket seller gives the entire ticket to the customer and collects an entrance fee. The customer gives the ticket to the ticket taker. The ticket taker tears the ticket in half, gives half back to the customer, and retains half until the after the ticket sales report has been completed.

*Cause:* Breakdown in internal controls over ticket sales.

*Effect:* When two individuals are not present for ticket sales, there is no control in place to discourage theft of cash or allowing patrons to enter without payment.

*Recommendation:* There should be two persons working the gate for every event.

*Management's Response:* The principal and I will meet with faculty and staff regarding ticket sales and form F-SA-1. To make sure they understand the procedure, I will also meet with the gate workers on the day of the game when I give them the tickets and the form.

*Finding:* Ticket sales reports are not properly filled out and completed with proper signatures.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), the requisition and report of ticket sales is to be used to report and reconcile the number of tickets sold and the funds collected. The person in charge of sales requests the ticket rolls. The first ticket from each roll is attached to the ticket sales report. The person in charge of sales records the beginning ticket numbers and notes the amount of "start-up" money, and signs the ticket requisition section. The number of tickets collected is reconciled with the number of tickets sold on the ticket sales report. The total amount of cash on hand is compared to the calculated sales based on the number of tickets sold. Any cash overage/shortage is identified before turning the form and money into the central fund treasurer. The person in charge of sales, the ticket taker, and central fund treasurer sign the ticket sales report. The person in charge of sales and the central fund treasurer shall verify the beginning and ending ticket numbers and account for the money collected. Discrepancies must be resolved immediately. The central fund treasurer prepares a receipt and attaches a copy to the ticket sales report and the original signed receipt is given to the person in charge of sales.

*Cause:* The proper procedures over ticket reports were not followed by the individuals in charge of them.

*Effect:* The risk of altering the ticket reports in an attempt to misappropriate funds increases when proper procedures are not followed.

*Recommendation:* The proper procedures for completing ticket reports should be communicated to those working gates at all athletic events. The completeness and accuracy of ticket reports should be verified by the central fund treasurer when the reports are turned in.

*Management's Response:* The principal and I will meet with faculty and staff on ticket sales and form F-SA-1.

*Finding:* Gate “start-up” funds and gate receipts were not timely deposited.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” (the Redbook), money collected shall be deposited on a daily basis except for money collected after school business hours for evening events. These funds shall be placed in a night depository or night drop at the bank or in the locked school safe and processed for deposit the following business day by the central fund treasurer.

*Cause:* Breakdown in internal controls over receipts and deposits. Neither the principal or CFT could give an explanation for why the money was not timely deposited.

*Effect:* If the reports are completed accurately, the total cash counted should equal the total sales plus start-up funds. If there are discrepancies, they should be addressed immediately. These reports serve as protection for individuals collecting money at athletic events if there were ever to be a question of funds being misappropriated. The longer the delay in depositing funds increases the risk of theft.

*Recommendation:* All money collected should be deposited on the day it is collected. If it is collected after school business hours, it should be deposited the following school day.

*Management’s Response:* At the time of the meeting with the auditor, we did not have a soccer schedule available. The actual game scheduled for March 27<sup>th</sup> against Paducah Middle was cancelled. Instead of filling out a new form, I used that ticket form that was already filled out for the next home game against Ballard Middle. I changed the name of the school, but not the date of the game. The Ballard game was played on April 17<sup>th</sup>, not March 27<sup>th</sup>. I did not work on the 18<sup>th</sup>. The money was locked in the safe in the principal’s office and deposited on April 22<sup>nd</sup>.

*Finding:* The principal should not be selling tickets for athletic events.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” (the Redbook), the principal and/or central fund treasurer, who shall not be the person in charge of ticket sales, is to have safekeeping of the pre-numbered tickets.

*Cause:* This particular event, the parent/teacher ticket seller/taker did not show up for his/her duties. There was no one else to perform this function and, therefore, the principal stepped in so that sales would be accounted for.

*Effect:* Since the principal and/or treasurer are the “ticket controllers” their participation in the actual ticket sales would be a breakdown in internal controls within the segregation of duties. The persons selling tickets should not also be the person in charge of safeguarding the assets.

*Recommendation:* Even though this may have been a one-time situation, we recommend that there be a backup plan or possibly an on-call parent/teacher to fill in when instances like this occur.

*Management’s Response:* If we are in this situation again, no admission will be charged and tickets will not be sold.

*Finding:* Multiple receipt forms not completely filled out, including dates and signatures.

*Criteria:* All sections of the multiple receipt form should be filled out and signed by the person collecting and remitting the funds to the central fund treasurer and signed by the central fund treasurer.

*Cause:* Lack of understanding and purpose of procedures, as well as a breakdown in controls over secondary receipts.

*Effect:* Lack of complete information filled out on the secondary receipt, such as the date the money was collected from students, does not provide the information to assess if proper procedures were followed as to the timeliness of collections, remittance, and deposit of funds. Signatures provide an audit trail of every individual handling the funds.

*Recommendation:* To provide proper documentation, all forms should be filled out properly with all information included on the form itself. It is also recommended that the central fund treasurer check these requirements before accepting and receipting remittance and signing the form.

*Management’s Response:* This issue was covered in a teacher/staff meeting with Rachel Bowles, District Finance Officer and Amy Guhy, Accounts Payable person. I also have reviewed proper procedure with each teacher/sponsor and anyone else who might have reason to collect money in my school. I will also review each multiple receipt form and have them make corrections before filing.

*Finding:* Multiple receipt forms are being filled out by teachers for students 3<sup>rd</sup> grade and above.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), students 3<sup>rd</sup> grade and above must sign the multiple receipt form.

*Cause:* A breakdown in internal controls over secondary and primary receipts.

*Effect:* Students 3<sup>rd</sup> grade and above should sign their own name on the multiple receipt forms to show that they actually turned in funds to the teacher/sponsor. The student signature is proof that the student actually turned in funds. If there were a discrepancy in who had or had not turned in funds, the teacher's filled out multiple receipt form would not provide sufficient proof without the signatures of the students.

*Recommendation:* The teacher/sponsor should allow the student to fill out the multiple receipt form with the student signature with the amount remitted. The teacher should double check the amount and the signature to verify accuracy.

*Management's Response:* Students will sign the multiple receipt form when turning in money.

*Finding:* Primary receipts are not being given to teacher/sponsor remitting funds.

*Criteria:* Three part receipts are used to provide one copy to the individual remitting funds, one attached to the deposit documentation, and one to attach to the multiple receipt form.

*Cause:* It appeared that all 3 copies were attached to the multiple receipt form.

*Effect:* This control protects the teacher in the event a shortage of funds occurs. The receipt is proof the teacher turned the money into the treasurer.

*Recommendation:* Receipts should be made out and given to each individual teacher/sponsor turning in money collected.

*Management's Response:* Receipts will be given to teachers and sponsors.

*Finding:* A fundraiser was approved to raise money for the purchase of educational materials and classroom supplies. This was accounted for in the school activity funds as a student fundraiser when it was not actually the students doing the fundraising.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), student fundraising activities are to benefit the students, so student fundraisers to cover equipment or operational costs are not permitted for school activity funds. The faculty and staff can raise funds for equipment and operational costs. These funds would be considered district activity funds not school activity funds and should not be deposited at the school level and spent from the school activity funds.

*Cause:* There is some confusion as to the definition of a student fundraiser.

*Effect:* A non-student fundraiser was treated as a student fundraiser and run through school activity funds which resulted in use of school activity funds for unallowed expenditures. Funds raised should have been deposited at the district level and the purchases made from district activity funds.

*Recommendation:* Teachers, sponsors, central fund treasurers, principal, and the superintendent should be familiar with the Redbook and the types of fundraisers that are allowed as student fundraisers. They must ensure the funds are treated correctly as either school or district activity funds based on who is doing the selling and the purpose of the fundraiser.

*Management's Response:* We will be more diligent in making sure approval is given only if appropriate items are being purchased.

*Finding:* Invoice was not properly cancelled for payment.

*Criteria:* The policy for cancelling invoices appears to be the use of a paid stamp noting the date, check number, and initials for approval for payment.

*Cause:* A standard invoice was prepared when an original vendor invoice was available. The standard invoice was approved for payment and properly cancelled but the original invoice was not.

*Effect:* The original invoice could be resubmitted for payment multiple times without proper cancellation.

*Recommendation:* The standard invoice should only be used when there is no original vendor invoice available. The original vendor invoice takes precedence over any other invoice form. The original vendor invoice should be what is approved for payment and properly cancelled.

*Management's Response:* I always send a standard invoice on field trips because the invoice the teacher is presented with does not always have all the necessary information. However, in the future, the stamp to cancel invoices will be used on original invoices.

*Finding:* Standard invoice was not signed by person receiving goods or principal.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), the standard invoice, used when there is not an original vendor invoice, must have a confirmation signature of the person receiving the goods or services, if applicable, before the payment process can continue.

*Cause:* Breakdown in internal controls over disbursements.

*Effect:* Signatures of persons receiving the goods or services are to provide that what was ordered was actually received. Without proper signatures, there is no proof that the items ordered were the items received and the goods/services have been received in full.

*Recommendation:* To provide proper documentation, all forms should be filled out properly with all information included on the form itself. It is also recommended that the central fund treasurer check these requirements before processing payment.

*Management's Response:* Standard invoices will be signed by the person receiving the item.

*Finding:* AR account had no activity during fiscal year 2014, but carrying a fund balance at June 30, 2014.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), an activity account will be considered inactive if there has been no activity during the preceding 12 months. If the student organization did not designate in writing how the unobligated remaining funds shall be disposed, then the funds shall be transferred to the school activity general account and used for the general benefit of all students.

*Cause:* There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

*Effect:* Funds meant to directly benefit the students are being used for other purposes or not being used at all.

*Recommendation:* An inactive student organization, club, or activity account may be closed at any time. The principal should be notified of the termination by the student organization's sponsor. The central fund treasurer and the principal should also review the activity of all student organization and transfer appropriate funds to the general account at the end of each period when an activity is recognized as being inactive.

*Management's Response:* This account has been closed.

*Finding:* No Principal's Combining Budget was located for fiscal year 2013-2014. Only Individual Activity Account Budget Worksheets were available for review.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), each club, organization and activity account shall prepare a tentative budget for the next school year on the Individual Activity Account Budget Worksheet (Form F-SA-4A). Individual Activity Account Budget Worksheets are due to the principal by April 15. The sponsor shall work with the officers of the club in this process to assure continuity of programs. The principal or designee shall prepare budgets for activity accounts without sponsors for SBDM approval.

The principal shall prepare the Principal's Combining Budget (Form F-SA-3). The Combining Budget will list the summary budget information for each activity account in the school activity fund. The Combining Budget and the Individual Activity Account Budget Worksheets are due to the district finance officer by May 15. The district finance officer will work with the superintendent to submit all school budgets to the local board for approval by the end of May.

*Cause:* There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

*Effect:* The budget information in its current format is not effective for reviewing activity as a whole. Also, there is no evidence that a formal budget was submitted and approved by the governing board.

*Recommendation:* All school administration should be aware of the budget requirements included in the Redbook, making sure each student organization sponsor, teacher, and the principal are informed about their responsibilities regarding budget information and deadlines. We also recommend that beginning balances be adjusted from the original budget to agree to the prior year ending balance on the AFR to provide more accurate account balances. The budget should consist of separate columns for beginning balance, receipts, expenditures, and ending balance. Each column should be totaled.

*Management's Response:* Knowing the previous secretary, for whom I took over in January, there is a Principal's Combined Budget around here somewhere. Most likely several copies. We were unfortunately unable to locate the form.

All other prior year recommendations appear to have been properly addressed.

## **Carlisle County High School**

*Finding:* No Combining Budget was located for fiscal year 2013-2014. Only Individual Activity Account Budget Worksheets for 3 accounts were available for review. This is repeat comment.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), each club, organization and activity account shall prepare a tentative budget for the next school year on the Individual Activity Account Budget Worksheet (Form F-SA-4A). Individual Activity Account Budget Worksheets are due to the principal by April 15. The sponsor shall work with the officers of the club in this process to assure continuity of programs. The principal or designee shall prepare budgets for activity accounts without sponsors for SBDM approval.

The principal shall prepare the Principal's Combining Budget (Form F-SA-3). The Combining Budget will list the summary budget information for each activity account in the school activity fund. The Combining Budget and the Individual Activity Account Budget Worksheets are due to the district finance officer by May 15. The district finance officer will work with the superintendent to submit all school budgets to the local board for approval by the end of May.

*Cause:* There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

*Effect:* The budget information in its current format is not effective for reviewing activity as a whole. Also, there is no evidence that a formal budget was submitted and approved by the governing board.

*Recommendation:* All school administration should be aware of the budget requirements included in the Redbook, making sure each student organization sponsor, teacher, and the principal are informed about their responsibilities regarding budget information and deadlines. We also recommend that beginning balances be adjusted from the original budget to agree to the prior year ending balance on the AFR to provide more accurate account balances. The budget should consist of separate columns for beginning balance, receipts, expenditures, and ending balance. Each column should be totaled.

*Management's Response:* An Activity Account Budget Worksheet (Form F-SA-4A) will be completed for each club, organization and activity account. The Principal's Combining Budget (Form F-SA-3) will be completed and each column totaled accordingly. A formal budget will be submitted for approval by the governing board.

*Finding:* Open purchase order for game officials does not indicate declining balance.

*Criteria:* An open purchase order for game officials is an approved policy by the district. The open purchase order should have an estimated amount for game officials for a particular season or athletic club and be resubmitted with a declining balance for each official paid until the balance is zero; then, a new open purchase order should be properly approved.

*Cause:* This is a break down in internal controls over activity fund disbursements.

*Effect:* Purchase orders serve as an approval mechanism for management. Incomplete purchase orders are not serving their purpose. The purpose is to help determine available funds as well as deter the misappropriation of funds.

*Recommendation:* The teacher/sponsor should complete the purchase order for an approximate amount of their purchase. The appropriate level of management should sign it for approval prior to the purchase. For officials, either a generic purchase order or a blanket purchase order with an approximate total for the season can be used if it is reduced each time an official is paid and a copy attached with the supporting documentation.

*Management's Response:* A blanket purchase order is being created at the beginning of each season (volleyball, basketball, etc.). The declining balance is being documented on the purchase order accordingly.

*Finding:* Purchase orders not prepared and approved prior to purchase of goods.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” (the Redbook), the purchase order shall be prepared and approved by the sponsor and principal before payment is obligated.

*Cause:* A breakdown in internal controls over purchasing.

*Effect:* Purchase orders act as an estimate of cost expected to be incurred and an approval mechanism for management to ensure funds are available and purchases are for allowable costs.

*Recommendation:* The individual in charge of purchases should always make sure an approved purchase order is available prior to making purchase. The individual requesting the order should be signing either the purchase request or the purchase order. An email from the individual requesting the purchase and attached to the supporting documentation will also be sufficient.

*Management’s Response:* ALL employees have been informed about proper ordering procedures. We will continue to remind them at monthly meetings that they must get purchase approval in writing before placing any orders.

*Finding:* The shop activity fund purchased a plasma cutter with activity fund monies. Since shop is a class and not a club, such purchases are considered operational or instructional costs and are not allowable costs for student activity funds. This is a repeat comment from prior years.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” (Redbook), school activity fund money generated by students shall not be used to pay for basic routine operating expenses, renovations, or maintenance of school facilities or buildings. Instructional supplies may be purchased if for the use of a student organization, not the classroom.

*Cause:* There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

*Effect:* Funds meant to directly benefit the students are being used for other purposes.

*Recommendation:* Be very careful when spending activity fund money making sure the expenditure is for the direct benefit of the students. Any expenditure not for the direct benefit of the students should be paid from the district or from site-based money. Teachers, sponsors, central fund treasurers, and the principal authorizing purchases should be familiar with the Redbook and the costs that are allowed under these rules.

*Management’s Response:* Purchases requests are being double checked to make sure they are for the direct benefit of the students. We will continue to be cautious to make sure funds are used properly.

*Finding:* Ticket sales reports are not properly completed and reconciled to actual cash noting reason for discrepancies.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” (the Redbook), the requisition and report of ticket sales is to be used to report and reconcile the number of tickets sold and the funds collected. The person in charge of sales requests the ticket rolls. The first ticket from each roll is attached to the ticket sales report. The person in charge of sales records the beginning ticket numbers and notes the amount of “start-up” money, and signs the ticket requisition section. The number of tickets collected is reconciled with the number of tickets sold on the ticket sales report. The total amount of cash on hand is compared to the calculated sales based on the number of tickets sold. Any cash overage/shortage is identified before turning the form and money into the central fund treasurer. The person in charge of sales, the ticket taker, and central fund treasurer sign the ticket sales report. The person in charge of sales and the central fund treasurer shall verify the beginning and ending ticket numbers and account for the money collected. Discrepancies must be resolved immediately. The central fund treasurer prepares a receipt and attaches a copy to the ticket sales report and the original signed receipt is given to the person in charge of sales.

*Cause:* A breakdown in internal controls over ticket reporting. The proper procedures over ticket reports were not followed by the individuals in charge of them.

*Effect:* The risk of altering the ticket reports in an attempt to misappropriate funds increases when proper procedures are not followed.

*Recommendation:* The proper procedures for completing ticket reports should be communicated to those working gates at all athletic events. The completeness and accuracy of ticket reports should be verified by the central fund treasurer when the reports are turned in and any discrepancies resolved immediately.

*Management’s Response:* The proper procedure for filling out ticket sale forms has been explained and we have stressed the fact that they must be complete and accurate. Any discrepancy MUST be noted and resolved or explained.

*Finding:* Invoice was not properly cancelled for payment.

*Criteria:* The policy for cancelling invoices appears to be the use of a paid stamp noting the date, check number, and initials for approval for payment.

*Cause:* A breakdown in internal controls over disbursements. The purchase order was cancelled, not the invoice.

*Effect:* The original invoice could be resubmitted for payment multiple times without proper cancelation.

*Recommendation:* The original vendor invoice should be what is approved for payment and properly cancelled.

*Management's Response:* Original vendor invoice is being initialed for payment approval. Once the invoice is paid, it is stamped with the paid stamp and attached to the purchase order that contains all of the payment information along with a check stub from the check that was issued for payment.

*Finding:* Improper reporting by the Booster Club to the district.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), each external support/booster organization must submit an annual External Support/Booster Organization Budget worksheet (Form F-SA-4B) to the principal within the first thirty days of the school year or within thirty days of the first transaction of the group. The budget shall contain, at a minimum, estimated revenues and expenditures by category.

Each external support/booster organization must submit an annual financial report for the fiscal year ending June 30 to the principal by July 15. The annual financial report shall contain, at a minimum, cash beginning balance, cash ending balance, and revenues and expenditures by category.

*Cause:* There may be a lack of adequate training and knowledge with regard to the guidance governing external support/booster organizations for schools.

*Effect:* The school may disassociate with any external support/booster organization that does not comply with the External Support/Booster Organization section of the Redbook.

*Recommendation:* Proper guidance should be given to external support/booster organizations about the Redbook requirements.

*Management's Response:* The district finance officer met with the Booster Club officers on 10/23/14 and reviewed all reporting requirements.

*Finding:* We noted several old outstanding checks that had not cleared the bank as of June 30, 2014.

*Criteria:* Old outstanding checks over 90 days should be investigated to ensure proper payment was received by vendors and checks appropriately voided and/or reissued.

*Cause:* The checks have not been cashed, possibly due to being misplaced or lost in the mail, and have not been followed up to ensure proper payment was received by vendors and checks appropriately voided and/or reissued.

*Effect:* These checks could represent errors in the bank reconciliation or methods of covering up fraudulent activity.

*Recommendation:* Outstanding checks greater than 90 days should be investigated to ensure proper payment was received by vendors and if checks should be voided and/or reissued.

*Management's Response:* Once a check is outstanding for more than 90 days, we will contact the vendor and void and/or reissue payment.

All other prior year recommendations appear to have been properly addressed.

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We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. This communication is intended solely for the information and use of the Board, management, and others within the organization as deemed appropriate, and is not intended to be, and should not be, used by anyone other than these specified parties.

November 3, 2014