

CAVERNA INDEPENDENT SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS
For the Year Ended June 30, 2014**

CAVERNA INDEPENDENT SCHOOL DISTRICT

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2014

	<u>Pages</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 9
Basic Financial Statements:	
District-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet - Governmental Funds	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position - Proprietary Funds	16
Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds	18
Statement of Fiduciary Net Position - Fiduciary Funds	19
Notes to Basic Financial Statements	20 - 37

CAVERNA INDEPENDENT SCHOOL DISTRICT

TABLE OF CONTENTS - CONCLUDED

YEAR ENDED JUNE 30, 2014

Required Supplementary Information:

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	38
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue	39

Supplementary Information:

Combining Statements - Nonmajor Funds:

Combining Balance Sheet - Nonmajor Governmental Funds	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	41
Statement of Receipts, Disbursements and Fund Balances - Caverna Independent High School Activity Funds	42
Statement of Receipts, Disbursements and Fund Balances - Caverna Middle School and Caverna Elementary School Activity Funds	43
Statement of Receipts, Disbursements and Fund Balance - Family Resource Center	44

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards	45
--	----

Notes to the Schedule of Expenditures of Federal Awards	46
---	----

Schedule of Findings and Questioned Costs	47 - 48
---	---------

Schedule of Prior Year Audit Findings	49
---------------------------------------	----

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 <i>Government Auditing Standards</i>	50 - 51
---	---------

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	52 - 53
--	---------



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Sammie D. Parsley, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA ▪ Adam Duvall

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Caverna Independent School District
Horse Cave - Cave City, Kentucky 42127

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 Caverna Independent 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Caverna Independent School District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–9 and 38–39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements 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 October 24, 2014, on our consideration of the Caverna Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Caverna Independent School District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

Glasgow, Kentucky

October 24, 2014

**CAVERNA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

While state funding increased this year, the state also mandated a 1% raise for 2014-2015 and a 2% for 2015-2016. The cost of the raise is more than the increase in SEEK funding resulting in no increase in financial position for the district. Federal grants have also decreased and the School Improvement Grant at the high school is finished on August 31, 2014. The ending cash balance for the general fund increased by \$287,700 partly because the board approved a Waiver and we used \$198,172 of Building and Capital Outlay funds to pay general expenses. This option is available for 2014-2015 but the amount will be \$178,822. I anticipate a drop in cash this year due to increased expenses mostly in salaries. ADA remained steady at 635 for 2013-2014 and 637 for 2012-2013. ADA at the High School increased 4 points to 91% while the Elementary decreased 1% to 95% and the Middle School remained at 94%. This year we will see another drop in enrollment at the middle school due to small class sizes and a slight increase at the high school. The elementary will remain steady at 350 for K-5. Even though the Commissioner of Education has repeatedly stated only 30% of Kentucky students are ready to enter kindergarten at age five, Kentucky still only funds half-day Kindergarten. We continue to use some Title I funds to provide all day Kindergarten. If the state funded all-day kindergarten, we would be able to reduce class sizes at the elementary.

Caverna Board of Education has failed in keeping our staffing in line with the state mandated figures. This will create financial problems in the future. The elementary is within state guidelines. The middle school eliminated one teacher for 2014-2015, they were over by 1.1 during 2013-2014. The high school is over 4.1 teachers with shared teachers. The increase at the high school is due to the board refusing to eliminate the positions paid from grants over the past few years. The high school and middle school share an Assistant Principal which was originally hired with AARA funds. These funds ran out in 2011 but the board has not eliminated the position. Even though the state recommends an assistant for schools with over 400 students and we already have two principals in the building with less than 400 students. The Math Interventionist was hired with SIG grant funds which ran out this year, the board refused to eliminate this position for fear our math scores would drop. Both Superintendent Dr. Dick and CFO Penny Boeckmann recommended these positions be eliminated at the June 30, 2014 board meeting. All small schools face staffing challenges in order to offer the necessary courses and some electives, but these position cannot be maintained without cutting something else.

It has been suggested on our last two state audits that we need a district position focused on Curriculum. We also must address the lack of support staff at the elementary.

We continue to offer all day preschool and have 3 preschool classrooms for 2014-2015 with a current enrollment of 58 students. While this program is only funded for half days by the state, our aim is early intervention. It is expected that early intervention for at risk students will help cut costs in the long run and give our children a better opportunity to succeed. Preschool funding has been increased this year allowing us to hire a special education aide for the program to help with the increasing number of students with autism.

The KSBIT assessment was announced in August 2014. Caverna's Property & Liability portion was \$37,956. 40% or \$15,182 was paid with the remainder being paid over the next two years with payments of \$11,387 each September. Worker's Compensation was \$53,383 with a 25% payment made and 6 annual payments being each August of \$6,682. No interest is being charged on these payments.

Caverna High School has continued improving with College Career Readiness numbers increasing to 81.4 %. We had purchased iPads for all high school students to use last year. They were allowed to take them home and use them for all four years they are at Caverna High School.

However, the teachers did not think this was effective and asked the board to approve a policy allowing them to stay in the classroom and only be checked out under special circumstances which was approved.

HVAC was installed in the high/middle school building during the summer. A QZAB was issued in January for \$2,117,750 to cover the cost along with building funds of \$72,827.59 and \$97,118.41 from the capital outlay fund. Our current bonding capacity is \$2,325,000. Our current Capital Outlay funding is \$64,580 and Building Fund Local portion is \$165,132 with state funding at \$69,695, totaling \$299,770. Our bond payments for 2014-2015 are \$88,251 and interest is \$32,697, leaving \$178,822 to apply for a waiver to use for Fund 1 expenses. The state figures are based on ADA while the local is a nickel of each tax dollar.

A new boiler and chiller are being installed at the elementary this fall. The current boiler is no longer working and the chiller is on its last legs. Green Mechanical had the low bid for this project which is being managed by CMTA.

Interfund transfers were made from the general fund to the technology fund for \$10,194. This amount is required to get the state matching portion of technology funds. Indirect costs were also transferred from Food Service to the General Fund for \$15,378. Indirect costs are the food services portion of utilities, building maintenance and other overhead.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 10-11 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing MUNIS administrative software. The district uses fund accounting to ensure compliance with finance-related legal requirements.

All of the funds of the District can be divided into three categories: Governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The only proprietary fund is the food service operations. All other activities of the district are included in the governmental funds.

The governmental fund financial statements can be found on pages 12-19 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. Caverna's assets exceeded liabilities by \$3,782,367 as of June 30, 2014 compared to \$3,532,820 in 2012-2013.

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

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

Net Position for the period ending June 30, 2014 and June 30, 2013

Net position increased by \$249,547 over last year. This is due to an increase in cash due to the construction project and an increase fixed assets. We also had increase in liabilities due to a bond issue for the HVAC project at the high/middle school. Unreserved Fund Balance and Committed Funds decreased by \$240,398 this trend will continue unless the staffing issues discussed earlier are addressed. It was recommended by the Superintendent and the CFO that two open positions at the high/middle school be eliminated this year however the board chose to keep the positions. The KSBIT assessment was finally announced in August. We have restricted funds to cover the KSBIT assessment, sick leave and the remainder of the HVAC project.

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Current Assets	\$ 3,215,234	\$ 1,676,258
Noncurrent Assets	<u>4,825,657</u>	<u>3,806,744</u>
Total Assets	8,040,891	5,483,002
Deferred Outflows of Resources	<u>\$ 40,593</u>	<u>\$ 12,191</u>
Current Liabilities	\$ 597,851	\$ 280,038
Noncurrent Liabilities	<u>3,609,632</u>	<u>1,605,229</u>
Total Liabilities	4,207,483	1,885,267
Deferred Inflows of Resources	<u>\$ 91,634</u>	<u>\$ 77,106</u>
Net Position		
Investment in capital assets (net of debt)	\$ 1,368,840	\$ 1,413,229
Restricted	1,585,210	459,909
Unreserved Fund Balance	<u>828,317</u>	<u>1,659,682</u>
Total Net Position	<u>\$ 3,782,367</u>	<u>\$ 3,532,820</u>

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2014 and June 30, 2013.

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Revenues:		
Local revenue sources	\$ 2,421,206	\$ 2,242,877
State revenue sources	4,406,159	4,366,741
Federal revenues	1,592,696	1,951,333
Investments	12,590	9,755
Other sources	<u>92,443</u>	<u>94,256</u>
	<u>8,525,094</u>	<u>8,664,962</u>
Expenses:		
Instruction	5,111,514	5,298,218
Student support services	233,097	235,585
Instructional support	444,011	554,588
District support	497,384	497,615
School administration	590,906	651,030
Business support	76,037	98,420
Plant operations	479,520	525,596
Student transportation	352,636	492,872
Community support	81,066	82,607
Other	<u>409,376</u>	<u>401,105</u>
Total expenses	<u>8,275,547</u>	<u>8,837,636</u>
Excess (Deficit) of Revenues over Expenses	<u>\$ 249,547</u>	<u>\$ (172,674)</u>

COMPARISON OF PRIOR YEAR

While 2014 showed an increase in net position by \$249,547. The most obvious sign that we must decrease expenses shows in the fund financial statements with expenses exceeding revenues by \$809,405 before bond proceeds in 2014 while expenses exceeded revenue by \$159,378 in 2013. This clearly shows that we are using our "Contingency" to cover expenses. We must get to a point where revenues equal expenses each year leaving the "Contingency" for one time emergencies only. Such as the boiler/chiller replacement at the elementary this year.

A capital outlay waiver allowed us to use \$198,172 Capital Outlay and Building funds to pay general fund expenses. We can do this in 2014-2015 but the amount will be \$178,822 due to the new QZAB bond payments starting this year. The waiver must also be approved by the state. While the state increased SEEK they also mandated a 1% raise this year and 2% next year. In actuality decreasing our purchasing power.

Expenses such as utilities and benefits continue to go up forcing schools to make cuts to staff to maintain other expenses. Preschool funding did go up in 2014-2015 allowing us to hire an aide to help with the special needs students in preschool. This position has not been filled yet. We have seen an increase in the number of students with autism and severe needs.

The board chose not to take the 4% increase in taxes this year, taking a 1% increase instead. This will result in decreased staffing at the school level next year, unless savings are found in other areas. Expenses were \$809,405 more than revenue (before bond proceeds), a trend that cannot continue. With 85% of our expenses being for staff and benefits, it is very hard to stretch the other 15% to cover transportation, building maintenance, utilities, supplies and all other areas. We have made cuts to central office staff even while the state requires more reports and establishes new initiatives. Our last two state audits have recommended a Curriculum Director to cover the district.

This is a position which would benefit everyone, but we cannot afford it without cutting something at the school level. Our administrators are being asked to do more and more with less creating an environment of frustration and uncertainty. The state has moved from local control of schools as required under KERA to a uniform model all across the state regardless of school size and dynamics.

The 21st Century Grant for our afterschool program was approved for the next two years, however it drops to \$112,500 for this year and \$75,000 for 2015-2016. Tuition has been paid for the past three years amounting to \$10,306. This will be used in 2015-2016 to help cover some of the decreased funding. Ms. Adwell is applying for expansion grant to allow preschoolers to stay for the afterschool program.

State required posting of On Behalf expenses results in \$1,165,880 being added to our expenses which do not require any cash outlay making the financial statements misleading to the average person. We post on behalf expenses for Kentucky Teachers' Retirement, Health insurance, Technology and School Facilities Bond payments made on our behalf by the state.

Instructional costs decreased by \$237,596 largely due to the end of the SIG grant. Instructional support decreased due to the elimination of the SIG grant coordinator position at the central office. School Administration decreased due to eliminating the Accounts payable position. Student Transportation decreased due to eliminating the bus monitors on some routes and cutting one bus route for the high school. Plant operations was down to having a custodian out sick at the high/middle school with no substitutes available. A new custodian was hired in April.

BUDGET COMPARISONS

The total revenues for fiscal year 2013-2014 were \$7,912,672 down \$171,892 from last year. Local revenues were up \$178,329 and State revenues increased \$8,931. Our board chose to take a 1% tax increase rather than the 4%. SEEK for 2014-2015 is forecasted at \$2,736,934 an increase of \$88,477, however this will be used to pay the 1% increase in salaries mandated by the state. The continued dependence on local revenues can cause a cash flow problem as most of the taxes are received in December and January.

The majority of General Fund Revenue was derived from state revenue (SEEK) 37%, the same as last year. Local funding makes up 30% of revenue as last year. On Behalf for this year accounts for 16%. Instruction accounts for 81% of expenditures; Central Office and Administration makes up 7%; Maintenance is 6% and Transportation is 6%.

LONG TERM DEBT

Principal payments for the Middle School improvements bond 2004/Refinanced 2012 were \$76,061 for 2013-2014. Interest on this bond was \$20,403.70. The QZAB was issued in January for HVAC at the High/Middle School for \$2,150,000 at 1.11%. The payments are August 1 and February 1 for this bond. The first payment was August 1, 2104 for \$7,497.96 interest. The principal on this bond is very low until 2025.

NET POSITION

Current governmental capital assets for 2013-2014 were \$4,818,635 and \$3,797,567 for 2012-2013. This increase is due to the work in progress on the HVAC system.

Current business capital assets, which is food service, totaled \$ 7,022 for 2013-2014 and were \$9,237 for 2012-2013. All these assets are equipment and technology.

BUDGET IMPLICATIONS

As discussed previously, Caverna Schools are depending more and more on local funds. State funding has decreased and federal sequestration will result in lost grant revenues. This could cause cash flow problems during the fall, as almost all tax revenues are collected in December. To remain viable, some hard choices need to be made. The cuts in federal grants will hurt the elementary resulting in fewer teachers at a time when the state is requiring more and more. The initiatives the state is requiring could not be at a worse time. The unfunded mandates take funds from the classroom where the actual learning takes place. We will be looking at all programs and expenses to continue to serve all students.

Over staffing at the high/middle school must be addressed. With our ending balance down by \$240,398 this year from last, we cannot continue to allow our expenses to be more than our revenues. The high and middle school need to analyze their schedules and staffing to make adjustments to staff. The elementary is at an appropriate staffing level. This will need to be addressed by our board.

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business Type Activities	Total
Assets:			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 3,047,994	\$ 44,672	\$ 3,092,666
Inventory	-	19,220	19,220
Accounts receivable	56,885	-	56,885
Intergovernmental - state	46,463	-	46,463
Total current assets	<u>3,151,342</u>	<u>63,892</u>	<u>3,215,234</u>
<u>Noncurrent Assets:</u>			
Capital assets	10,515,156	81,888	10,597,044
Less: accumulated depreciation	<u>(5,696,521)</u>	<u>(74,866)</u>	<u>(5,771,387)</u>
Total noncurrent assets	<u>4,818,635</u>	<u>7,022</u>	<u>4,825,657</u>
Total assets	<u>7,969,977</u>	<u>70,914</u>	<u>8,040,891</u>
<u>Deferred Outflows of resources:</u>			
Unamortized discount on bonds	<u>40,593</u>	-	<u>40,593</u>
Total deferred outflows of resources	<u>40,593</u>	-	<u>40,593</u>
Liabilities:			
<u>Current Liabilities:</u>			
Accounts payable	\$ 397,837	\$ 1,370	\$ 399,207
Current portion of bond obligations	145,000	-	145,000
Current portion of capital lease obligations	42,328	-	42,328
Interest payable	<u>11,316</u>	-	<u>11,316</u>
Total current liabilities	<u>596,481</u>	<u>1,370</u>	<u>597,851</u>
<u>Noncurrent Liabilities:</u>			
Noncurrent portion of bond obligations	3,135,000	-	3,135,000
Noncurrent portion of capital lease obligations	163,766	-	163,766
Other noncurrent liabilities	62,811	-	62,811
Noncurrent portion of accrued sick leave	<u>248,055</u>	-	<u>248,055</u>
Total noncurrent liabilities	<u>3,609,632</u>	<u>-</u>	<u>3,609,632</u>
Total liabilities	<u>4,206,113</u>	<u>1,370</u>	<u>4,207,483</u>
<u>Deferred Inflows of resources:</u>			
Deferred revenue	<u>91,634</u>	-	<u>91,634</u>
Total deferred inflows of resources	<u>91,634</u>	-	<u>91,634</u>
<u>Net Position:</u>			
Invested in capital assets, net of related debt	1,361,818	7,022	1,368,840
Restricted for:			
Accrued Sick Leave	85,764	-	85,764
Capital projects	1,149,446	-	1,149,446
Committed:			
Other Contingency	350,000	-	350,000
Unassigned	<u>765,795</u>	<u>62,522</u>	<u>828,317</u>
Total net position	<u>\$ 3,712,823</u>	<u>\$ 69,544</u>	<u>\$ 3,782,367</u>

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2014**

	General Fund	Special Revenue	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets and resources:					
Cash and cash equivalents	\$ 1,493,054	\$ 45,171	\$ 1,509,769	\$ -	\$ 3,047,994
Accounts receivable:					
Accounts receivable	56,885	-	-	-	56,885
Intergovernmental-state	-	46,463	-	-	46,463
Total assets and resources	\$ 1,549,939	\$ 91,634	\$ 1,509,769	\$ -	\$ 3,151,342
Liabilities and fund balance:					
Liabilities:					
Accounts payable	\$ 37,514	\$ -	\$ 360,323	\$ -	\$ 397,837
Deferred revenues	-	91,634	-	-	91,634
Total liabilities	37,514	91,634	360,323	-	489,471
Fund balances:					
Nonspendable:					
Restricted:					
Accrued Sick Leave	85,764	-	-	-	85,764
Capital Projects	-	-	1,149,446	-	1,149,446
Committed:					
Other Contingency	350,000	-	-	-	350,000
Assigned:	-	-	-	-	-
Unassigned:	1,076,661	-	-	-	1,076,661
Total fund balances	1,512,425	-	1,149,446	-	2,661,871
Total liabilities and fund balances	\$ 1,549,939	\$ 91,634	\$ 1,509,769	\$ -	\$ 3,151,342

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
June 30, 2014**

Total fund balance per fund financial statements	\$ 2,661,871
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	4,818,635
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	<u>(3,767,683)</u>
Net position for governmental activities	<u>\$ 3,712,823</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General Fund	Special Revenue	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 1,909,743	\$ -	\$ -	\$ 161,238	\$ 2,070,981
Motor vehicle	133,836	-	-	-	133,836
Other	216,389	-	-	-	216,389
Earnings on investments	9,124	-	3,306	-	12,430
Other local revenues	4,126	26,897	-	-	31,023
Intergovernmental-state	3,831,727	296,570	-	163,657	4,291,954
Intergovernmental-indirect federal	-	1,127,754	-	-	1,127,754
Intergovernmental-direct federal	28,305	-	-	-	28,305
Total revenues	<u>6,133,250</u>	<u>1,451,221</u>	<u>3,306</u>	<u>324,895</u>	<u>7,912,672</u>
Expenditures:					
Instruction	3,465,809	1,108,533	-	-	4,574,342
Support services:					
Student	158,657	74,440	-	-	233,097
Instructional staff	245,339	198,672	-	-	444,011
District administration	497,384	-	-	-	497,384
School administration	590,906	-	-	-	590,906
Business	76,037	-	-	-	76,037
Plant operations and maintenance	479,520	-	-	-	479,520
Student transportation	489,722	-	-	-	489,722
Community service activities	1,296	79,770	-	-	81,066
Other	51,714	-	1,113,806	171,472	1,336,992
Total expenditures	<u>6,056,384</u>	<u>1,461,415</u>	<u>1,113,806</u>	<u>171,472</u>	<u>8,803,077</u>
Excess (deficit) of revenues over expenditures	<u>76,866</u>	<u>(10,194)</u>	<u>(1,110,500)</u>	<u>153,423</u>	<u>(890,405)</u>
Other financing sources (uses):					
Proceeds from sale of fixed assets	2,021	-	-	-	2,021
Bond proceeds	-	-	-	2,134,750	2,134,750
Operating transfers in	213,550	10,194	2,259,946	96,465	2,580,155
Operating transfers out	(10,194)	-	-	(2,554,583)	(2,564,777)
Total other financing sources (uses)	<u>205,377</u>	<u>10,194</u>	<u>2,259,946</u>	<u>(323,368)</u>	<u>2,152,149</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	282,243	-	1,149,446	(169,945)	1,261,744
Fund balance, July 1, 2013	<u>1,230,182</u>	-	-	169,945	1,400,127
Fund balance, June 30, 2014	<u>\$ 1,512,425</u>	<u>\$ -</u>	<u>\$ 1,149,446</u>	<u>\$ -</u>	<u>\$ 2,661,871</u>

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

Net changes in total fund balances per fund financial statements	\$ 1,261,744
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense.</p>	1,024,036
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term in the statement of net position. This is the amount in which proceeds were received in the current year for issuances and refinancing amounts.</p>	(2,134,750)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>	(148,280)
<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.</p>	<u>247,362</u>
Change in net position of governmental activities	<u>\$ 250,112</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2014

	Food Service Fund	Total
Assets		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 44,672	\$ 44,672
Inventory	19,220	19,220
Total current assets	63,892	63,892
<u>Noncurrent Assets</u>		
Capital assets	81,888	81,888
Less: accumulated depreciation	(74,866)	(74,866)
Total noncurrent assets	7,022	7,022
Total assets	\$ 70,914	\$ 70,914
Liabilities		
Accounts payable	\$ 1,370	\$ 1,370
Total liabilities	1,370	1,370
Net Position		
Invested in capital assets net of related debt	7,022	7,022
Unrestricted	62,522	62,522
Total net position	\$ 69,544	\$ 69,544

See accompanying notes to basic financial statements.

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Food Service Fund	Totals
Operating Revenues:		
Lunchroom sales	\$ 44,021	\$ 44,021
Total operating revenues	44,021	44,021
Operating Expenses:		
Salaries and wages	303,823	303,823
Material and supplies	247,088	247,088
Depreciation	2,215	2,215
Other operating expenses	27,084	27,084
Total operating expenses	580,210	580,210
Operating loss	(536,189)	(536,189)
Non-Operating Revenues (Expenses):		
Federal grants	436,637	436,637
Donated commodities	23,448	23,448
State grants	90,757	90,757
Other income	160	160
Fund transfers	(15,378)	(15,378)
Total non-operating revenues	535,624	535,624
Change in net position	(565)	(565)
Net position, July 1, 2013	70,109	70,109
Net position, June 30, 2014	\$ 69,544	\$ 69,544

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For the Year Ended June 30, 2014**

Cash Flows From Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 44,021
Cash paid to/for:	
Employees	(213,066)
Supplies	(222,606)
Other activities	<u>(27,084)</u>
Net cash provided (used) by operating activities	<u>(418,735)</u>
Cash Flows from Non Capital Financing Activities:	
Cash received for operating grants	<u>441,874</u>
Net decrease in cash and cash equivalents	23,139
Balances, beginning of year	<u>21,533</u>
Balances, end of year	<u>\$ 44,672</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating loss	\$ (536,189)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	2,215
On-behalf revenues	90,757
Donated commodities used in operations	23,448
Change in assets and liabilities	
Inventory	<u>1,034</u>
Net cash provided (used) by operating activities	<u>\$ (418,735)</u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u>\$ 23,448</u>
On Behalf payments	<u>\$ 90,757</u>

See accompanying notes to basic financial statements.

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	\$ <u>80,570</u>
Total assets	\$ <u>80,570</u>
Liabilities:	
Accounts payable	\$ 786
Due to student groups	<u>79,784</u>
Total liabilities	<u>80,570</u>
Net Position Held in Trust	<u>\$ -</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

1. Summary of Significant Accounting Policies and Description of Funds:

Reporting Entity:

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Caverna Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of these 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.

Management has evaluated subsequent events through October 24, 2014, the date which the financial statements were available to be issued.

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

Caverna Independent School District Finance Corporation - On August 30, 1989, the Caverna Board of Education resolved to authorize the establishment of the Caverna Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Caverna Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation:

District-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the district, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The district-wide statements are prepared using the economic resources measurement focus. This focus 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 district-wide statements and the statements for governmental funds.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

The district-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 service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District. The district allocates certain indirect costs to be included in the program expenses reported for individual functions and activities in the District-Wide Statement of Activities.

In the District-wide Financial Statement of Net Position and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses on assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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

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

The District has the following funds:

I. Governmental Fund Types:

- a. The General Fund is the primary operating fund of the District and is always classified as a major fund. 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. Reservations have been placed on the fund balance for accrued sick leave and other contingencies.
- b. 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.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

- b. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund to always be classified as a major fund.
- c. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy which is 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.
- d. Debt Service Fund:
The Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Type (Enterprise Fund):

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund. The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with other GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds):

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

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

District-Wide Financial Statements

Net position is displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position- Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations, or 2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Position- All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements

Under GASB Statement 54, fund balance is separated into five categories, as follows:

- Nonspendable-Permanently nonspendable by decree of the donor, such as endowment, or items which may not be used for another purpose, such as amounts used to prepay future expenses or already purchased inventory on hand.
- Restricted-Legally restricted under federal or state law, bond authority, or grantor contract
- Committed-Commitments passed by the Board
- Assigned-Funds assigned to management priority including issued encumbrances
- Unassigned-Funds available for future operations

It is the Board’s practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

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.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

1. Summary of Significant Accounting Policies, Continued

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing reports, 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 specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

In order to present the Special Revenue Fund on the accrual basis of accounting, and because the awards are not yet available as assets, cash awards received in advance for the 2013-2014 school year have been classified as deferred revenues. Likewise, all awards requested as a result of the 2013-2014 expenditures have been classified as receivables. Revenues of the Special Revenue Fund are considered earned when reimbursable expenditures are made or obligations are incurred, and of an equal amount.

Grants and entitlements received before the eligibility requirements are met are recognized as deferred revenue.

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 government funds.

Property Taxes

Property Tax Revenues – 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 date is based on a period ending 60 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited onto the General Fund and then transferred to the appropriate fund.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014**

1. Summary of Significant Accounting Policies, Continued:

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.694 per \$100 valuation for real property, \$.694 per \$100 valuation for business personal property and \$.627 per \$100 valuation for motor vehicles.

Capital Assets

General capital assets are those 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 capitalized threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not.

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

<u>Description</u>	<u>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	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave and has no maximum accumulation.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

1. Summary of Significant Accounting Policies, Continued:

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 is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

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

Budgetary Process

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 an original maturity of 90 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 donated and purchased foods held for resale and are expensed when used. Purchased food is valued at cost (first-in, first-out method) and U.S. Government donated commodities value is determined by the U.S. Department of Agriculture.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

1. Summary of Significant Accounting Policies, Continued:

Investments

The private purpose trust funds record investments at their quoted market price. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net position.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Position. All realized gains and losses and changes in fair market value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

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

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

Operating Revenues and Expenses

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

On-Behalf Payments

During the year ended June 30, 2014, the Kentucky Division of Finance made payments on behalf of Caverna Independent School District in amount of \$1,286,894. These payments were paid for fringe benefits for the District personnel. These payments have been included in both revenue and expenditures on the District's financial statements for the year ended June 30, 2014.

Contributions of Capital

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

Donated Commodities

The fair value of donated commodities received during the year is reported in the Proprietary Fund Statement of Revenues, Expenditures, and Changes in Net Position as an expense and as donated commodities revenue (nonoperating revenue).

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

1. Summary of Significant Accounting Policies, Concluded:

Interfund Activity

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

2. Estimates:

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

3. Deferred Outflows/Inflows of Resources:

The District adopted GASB No. 63, and in addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has unamortized discounts on bonds that qualify for reporting in this category in the amount of \$40,593.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred revenue of \$91,634 that qualifies for reporting in this category.

4. Cash and Cash Equivalents:

At year-end, the carrying amount of the District's cash and cash equivalents was \$3,173,236. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014**

4. Cash and Cash Equivalents, Concluded:

Cash and cash equivalents at June 30, 2014 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Kentucky Banking Center	\$ 3,346,407	\$ 3,173,236

Breakdown per financial statements:

Governmental funds	\$ 3,047,994
Proprietary funds	44,672
Agency funds	80,570
	<u>\$ 3,173,236</u>

All deposits are in financial institutions and brokerage accounts. The District's bank deposits are categorized below to give an indication of the custodial credit risk assumed by the District at June 30, 2014.

Category 1 – Insured by FDIC or collateralized with securities held by the District or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no writer or approved collateral agent.

	Category			Total Bank Balance	Carrying Amount
	One	Two	Three		
Deposits with Financial Institutions	\$ 250,000	\$ 3,096,407	\$ -	\$ 3,346,407	\$ 3,173,236

Interest Rate Risk

The District invests in certificates of deposits with numerous financial institutions. The District purchases and sells their investments as interest rate fluctuate in order to manage their exposure to fair value losses arising from increasing interest rates.

Currently, Certificates of Deposits maturity dates range from 30 days to 90 days with an interest rate of .74%.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014**

5. Capital Assets:

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

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
<u>Governmental Activities:</u>				
Capital Assets, not being Depreciated:				
Land	\$ 121,636	\$ -	\$ -	\$ 121,636
Construction in process	-	1,113,806	-	1,113,806
Total Capital, not being Depreciated	<u>121,636</u>	<u>1,113,806</u>	<u>-</u>	<u>1,235,442</u>
Land and improvements	779,870	-	-	779,870
Buildings and improvements	6,404,170	-	-	6,404,170
Technology equipment	719,092	166,030	(55,697)	829,425
Vehicles	971,303	91,464	(1,000)	1,061,767
General equipment	209,332	-	(4,850)	204,482
Total at historical cost	<u>9,083,767</u>	<u>257,494</u>	<u>(61,547)</u>	<u>9,279,714</u>
Less: accumulated depreciation for:				
Land and improvements	(717,386)	(12,114)	-	(729,500)
Buildings and improvements	(3,348,219)	(158,353)	-	(3,506,572)
Technology	(471,799)	(110,315)	53,301	(528,813)
Vehicles	(700,263)	(60,205)	1,000	(759,468)
General equipment	(170,229)	(6,277)	4,338	(172,168)
Total accumulated depreciation	<u>(5,407,896)</u>	<u>(347,264)</u>	<u>58,639</u>	<u>(5,696,521)</u>
Governmental Activities Capital Assets - Net	<u>\$ 3,797,507</u>	<u>\$ 1,024,036</u>	<u>\$ (2,908)</u>	<u>\$ 4,818,635</u>
 <u>Business - Type Activities:</u>				
Food service and equipment	\$ 77,491	\$ -	\$ -	\$ 77,491
Technology equipment	5,705	-	(1,308)	4,397
Total at historical cost	<u>83,196</u>	<u>-</u>	<u>(1,308)</u>	<u>81,888</u>
Less: accumulated depreciation for:				
Food service and equipment	(68,254)	(2,215)	-	(70,469)
Technology equipment	(5,705)	-	1,308	(4,397)
Total accumulated depreciation	<u>(73,959)</u>	<u>(2,215)</u>	<u>1,308</u>	<u>(74,866)</u>
Business-Type Activities Capital Assets - Net	<u>\$ 9,237</u>	<u>\$ (2,215)</u>	<u>\$ -</u>	<u>\$ 7,022</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014**

6. Bonded Debt and Lease Obligations:

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>	<u>Maturity Date</u>
Issue of 2004	\$ 1,715,000	1.75% - 4.90%	6/1/2024
Issue of 2012	\$ 1,185,000	1.10% - 6.25%	6/1/2024
Issue of 2014 QZAB	\$ 2,150,000	1%	2/1/2033

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

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the 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 amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

Long-term debt activities for the year ended June 30, 2014, are as follows:

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Debt Payments and Reductions</u>	<u>Balance June 30, 2014</u>	<u>Amount Due Within One Year</u>
Series 2004	\$ 80,000	\$ -	\$ (80,000)	\$ -	\$ -
Series 2012	1,150,000	-	(20,000)	1,130,000	(105,000)
Series 2014 QZAB	-	2,150,000	-	2,150,000	(40,000)
	<u>\$ 1,230,000</u>	<u>\$ 2,150,000</u>	<u>\$ (100,000)</u>	<u>\$ 3,280,000</u>	<u>\$ (145,000)</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

6. Bonded Debt and Lease Obligations, Concluded:

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2014-15	\$ 145,000	\$ 44,921	\$ 68,972	\$ 120,949
2015-16	150,000	43,246	68,972	124,274
2016-17	150,000	41,222	68,974	122,248
2017-18	155,000	39,196	68,972	125,224
2018-19	155,000	36,546	68,972	122,574
2020-24	825,000	137,534	344,860	617,674
2025-29	925,000	66,700	193,580	798,120
2030-2033	<u>775,000</u>	<u>19,450</u>	<u>154,865</u>	<u>639,585</u>
	<u>\$ 3,280,000</u>	<u>\$ 428,815</u>	<u>\$ 1,038,167</u>	<u>\$2,670,648</u>

7. Capital Lease Payable:

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2014</u>
Buses	<u>\$ 218,963</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2014:

<u>Year Ended June 30</u>	<u>Capital Lease Payable</u>
2015	\$ 49,057
2016	42,282
2017	32,853
2018	26,534
2019	18,320
Thereafter	<u>62,698</u>
Total minimum lease payments	231,744
Less: Amount representing interest	<u>(25,650)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 206,094</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014**

8. Commitments Under Noncapitalized Leases:

Commitments under operating lease agreements for office equipment provide for minimum future rental payments as of June 30, 2014 as follows:

Year ending June 30:

2015	\$	9,129
2016		9,456
2017		9,799
2018		2,658
2019		-
Thereafter		-
Total Minimum Rentals		<u>\$ 31,042</u>

9. Retirement Plans:

The Caverna Independent School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

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

Contribution rates are established by KTRS. Members are required to contribute 11.355% of their salaries to KTRS for retirement and an additional 1.5% for insurance benefits. The Commonwealth of Kentucky is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, and public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 18.89% of the employee's total compensation subject to contribution. Effective September 1, 2008 new members were required to contribute 6% of their salaries.

The District's total payroll for the year was \$4,771,238. The payroll for employees covered under KTRS was \$3,766,581 and for CERS was \$987,074. For the year ended June 30, 2014, the Commonwealth contributed \$420,755 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2014 were \$133,798 which represents those employees covered by federal programs and the 5% insurance contributions. This consists of \$47,780 for the shared school portion and \$86,018 for the employees paid from federal grants.

The contribution requirement for CERS for the year ended June 30, 2014, was \$237,620 which consisted of \$185,967 from the District and \$51,653 from the employees.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

9. Retirement Plans, Continued:

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The actuarial accrued liabilities is a standardized disclosure measure of the present value of pension benefits, adjusted for effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the Plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	CERS as of June 30, 2013	CERS as of June 30, 2012	CERS as of June 30, 2011
	(In Thousands)		
Actuarial value of assets	\$ 7,438,785	\$ 7,294,615	\$ 7,409,157
Actuarial accrued liabilities	12,503,081	12,149,560	11,777,126
 Unfunded actuarial accrued liabilities	 \$ (5,064,296)	 \$ (4,854,945)	 \$ (4,367,969)

The following table presents the last three years of the total of all employer contributions to the Plan and the District's contributions for the year ending June 30:

Total Plan Contributions - CERS

Fiscal Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
2013	\$ 490,475,114	\$ 454,906,887	92.75%
2012	\$ 476,185,027	\$ 447,661,027	94.01%
2011	\$ 432,414,052	\$ 435,404,150	100.69%

District's Contributions - CERS

Fiscal Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
2014	\$ 185,967	\$ 185,967	100.00%
2013	\$ 208,310	\$ 208,310	100.00%
2012	\$ 195,148	\$ 195,148	100.00%

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

9. Retirement Plans, Concluded:

	KTRS as of June 30, 2013	KTRS as of June 30, 2012	KTRS as of June 30, 2011
	(In Thousands)		
Accrued value of assets	\$ 14,962,800	\$ 14,691,400	\$ 14,908,100
Actuarial accrued liabilities	<u>28,817,200</u>	<u>26,973,900</u>	<u>25,968,700</u>
Unfunded actuarial accrued liabilities	<u>\$ (13,854,400)</u>	<u>\$ (12,282,500)</u>	<u>\$ (11,060,600)</u>

Total Plan Contributions - KTRS

Fiscal Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2013	\$ 802,984,644	\$ 568,233,446	70.77%
June 30, 2012	\$ 757,822,190	\$ 557,339,552	73.54%
June 30, 2011	\$ 678,740,000	\$ 1,038,472,200	153.00%

District's Contributions - KTRS

Fiscal Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2014	\$ 133,798	\$ 133,798	100.00%
June 30, 2013	\$ 118,972	\$ 118,972	100.00%
June 30, 2012	\$ 115,063	\$ 115,063	100.00%

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. Total employee contributions to these plans were \$38,632 for the year. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

10. Medical Insurance Plan:

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

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

Funding Policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, 1.5% of the gross annual payroll of all members before July 1, 2008 is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from State appropriation. Members joining the Plan after July 1, 2008 contribute an additional 1% to the medical insurance fund. Also, the premiums collected from retirees as described in the Plan description and investment interest help meet the medical expenses of the Plan.

11. Contingencies:

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the 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 grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional burden to comply with a change.

12. Insurance and Risk Management:

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

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONCLUDED
June 30, 2014**

12. Insurance and Risk Management, Concluded:

In prior years, the District obtained workers' compensation and general liability insurance through the Kentucky School Boards Insurance Trust ("KSBIT"), a public entity risk pool for school districts. To address actuarial deficits, KSBIT is issuing all former members assessments for prior years and ceased to operate after June 30, 2013. Caverna Independent School District has an assessment of \$96,796. The district paid \$33,985 in the current year and has an unpaid balance of \$62,811 which is recorded in the District-Wide Statement of Net Position. This balance will be paid over the next six years.

13. Deficit Operating Balances:

The following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Building	\$	72,827
Capital Outlay	\$	97,118

14. COBRA:

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

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	Food Service	General	Indirect Cost	\$ 15,378
Operating	General	Special Revenue	Matching	\$ 10,194
Operating	Capital Outlay	General	Repairs	\$ 160,823
Operating	Building Fund	Debt Service	Debt Service	\$ 96,465
Operating	Building Fund	General	Debt Service	\$ 37,349
Operating	Debt Service	Construction	Construction	\$ 2,090,000
Operating	Building Fund	Construction	Construction	\$ 169,946

REQUIRED SUPPLEMENTARY INFORMATION

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes:				
Property	\$ 1,715,000	\$ 1,715,000	\$ 1,909,743	\$ 194,743
Motor vehicles	110,000	110,000	133,836	23,836
Other	113,000	113,000	216,389	103,389
Earnings on investments	7,000	7,000	9,124	2,124
Other local revenues	5,464	5,464	4,126	(1,338)
Intergovernmental-state	2,654,917	2,654,917	3,831,727	1,176,810
Intergovernmental-direct federal	4,000	4,000	28,305	24,305
Total revenues	<u>4,609,381</u>	<u>4,609,381</u>	<u>6,133,250</u>	<u>1,523,869</u>
Expenditures:				
Instruction	2,753,198	2,753,198	3,465,809	(712,611)
Support services:				
Student	158,480	158,480	158,657	(177)
Instructional staff	230,808	230,808	245,339	(14,531)
District administration	929,723	929,723	497,384	432,339
School administration	494,321	494,321	590,906	(96,585)
Business	51,205	51,205	76,037	(24,832)
Plant operations and maintenance	560,763	560,763	479,520	81,243
Student transportation	530,074	530,074	489,722	40,352
Community service activities	5,232	5,232	1,296	3,936
Debt service	45,217	45,217	51,714	(6,497)
Total expenditures	<u>5,759,021</u>	<u>5,759,021</u>	<u>6,056,384</u>	<u>(297,363)</u>
Excess (deficit) of revenues over expenditures	<u>(1,149,640)</u>	<u>(1,149,640)</u>	<u>76,866</u>	<u>1,226,506</u>
Other financing sources (uses):				
Proceeds from sale of fixed assets	-	-	2,021	2,021
Operating transfers in	219,803	219,803	213,550	(6,253)
Operating transfers out	(10,381)	(10,381)	(10,194)	187
Total other financing sources (uses)	<u>209,422</u>	<u>209,422</u>	<u>205,377</u>	<u>(4,045)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(940,218)	(940,218)	282,243	1,222,461
Fund balance, July 1, 2013	940,218	940,218	1,230,182	289,964
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,512,425</u>	<u>\$ 1,512,425</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Other local revenues	\$ -	\$ -	\$ 26,897	\$ 26,897
Intergovernmental-state	296,323	296,323	296,570	247
Intergovernmental-indirect federal	1,054,298	1,054,298	1,127,754	73,456
Total revenues	<u>1,350,621</u>	<u>1,350,621</u>	<u>1,451,221</u>	<u>100,600</u>
Expenditures:				
Instruction	1,054,303	1,054,303	1,108,533	(54,230)
Support services:				
Student	40,644	40,644	74,440	(33,796)
Instructional staff	189,047	189,047	198,672	(9,625)
School administration	-	-	-	-
Community service activities	76,821	76,821	79,770	(2,949)
Total expenditures	<u>1,360,815</u>	<u>1,360,815</u>	<u>1,461,415</u>	<u>(100,600)</u>
Excess (deficit) of revenues over expenditures	<u>(10,194)</u>	<u>(10,194)</u>	<u>(10,194)</u>	<u>-</u>
Other financing sources (uses):				
Operating transfers in	10,194	10,194	10,194	-
Total other financing sources (uses)	<u>10,194</u>	<u>10,194</u>	<u>10,194</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2013	-	-	-	-
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

**CAVERNA INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014**

	Seek Capital Outlay Fund	FSPK Fund	<u>Debt</u> Service	Total Nonmajor Governmental Funds
Assets and resources:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Total Assets and Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and fund balance:				
Liabilities:				
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:				
Nonspendable:	-	-	-	-
Restricted:				
Capital Projects	-	-	-	-
Committed:	-	-	-	-
Assigned:	-	-	-	-
Unassigned:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES -- NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014**

	Seek Capital Outlay Fund	FSPK Fund	Debt Service	Total Nonmajor Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ -	\$ 161,238	\$ -	\$ 161,238
Intergovernmental-State	63,705	69,695	30,257	163,657
Total revenues	<u>63,705</u>	<u>230,933</u>	<u>30,257</u>	<u>324,895</u>
Expenditures:				
Total expenditures	-	-	171,472	171,472
Excess (deficit) of revenues over expenditures	<u>63,705</u>	<u>230,933</u>	<u>(141,215)</u>	<u>153,423</u>
Other financing sources (uses):				
Bond Proceeds	-	-	2,134,750	2,134,750
Operating transfers in	-	-	96,465	96,465
Operating transfers out	(160,823)	(303,760)	(2,090,000)	(2,554,583)
Total other financing sources (uses)	<u>(160,823)</u>	<u>(303,760)</u>	<u>141,215</u>	<u>(323,368)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(97,118)	(72,827)	-	(169,945)
Fund balance, July 1, 2013	<u>97,118</u>	<u>72,827</u>	-	<u>169,945</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES – CAVERNA INDEPENDENT HIGH SCHOOL ACTIVITY FUNDS
For the Year Ended June 30, 2014

	Cash Balance June 30, 2014	(1) Receipts	(1) Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2014
GENERAL	\$ 1,985	\$ 3,694	\$ 4,621	\$ 1,058	\$ -	\$ -	\$ 1,058
LOCKERS	1,581	-	1,581	-	-	-	-
FACULTY AND STAFF	410	1,605	1,893	122	-	69	53
SCHOOL CONCESSIONS	1,823	1,042	1,538	1,327	-	325	1,002
ATHLETIC CONCESSIONS	220	10,890	10,203	907	-	-	907
ACADEMIC TEAM	86	-	-	86	-	-	86
CLASS OF 2013	31	-	-	31	-	-	31
CLASS OF 2014	14	6,871	6,885	-	-	-	-
PROM	-	4,705	4,605	100	-	-	100
ART DEPARTMENT	1,437	315	728	1,024	-	-	1,024
STUDENT YMCA	374	2,227	2,600	1	-	-	1
CHEMISTRY	649	196	175	670	-	-	670
BCA	13	-	-	13	-	-	13
ATHLETICS	8,895	96,657	94,448	11,104	-	120	10,984
LIBRARY	-	1,602	1,552	50	-	-	50
BAND	52	562	280	334	-	272	62
CHEERLEADERS	3,891	7,553	11,266	178	-	-	178
BETA CLUB	676	881	1,390	167	-	-	167
CHESS	-	30	-	30	-	-	30
FOREIGN LANGUAGE	1	-	-	1	-	-	1
PEP CLUB	52	-	-	52	-	-	52
SADD	504	-	298	206	-	-	206
COFFEE CLUB	29	-	-	29	-	-	29
PTSO	740	2,743	2,540	943	-	-	943
YEARBOOK	4,032	2,296	6,288	40	-	-	40
FFA	853	655	180	1,328	-	-	1,328
SCIENCE	89	-	-	89	-	-	89
	<u>\$ 28,437</u>	<u>\$ 144,524</u>	<u>\$ 153,071</u>	<u>\$ 19,890</u>	<u>\$ -</u>	<u>\$ 786</u>	<u>\$ 19,104</u>

(1) Included in receipts and disbursements are Inter-fund transfers in the amount of \$10,398.

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES – CAVERNA MIDDLE SCHOOL AND CAVERNA ELEMENTARY
SCHOOL ACTIVITY FUNDS
For the Year Ended June 30, 2014

	<u>Cash Balance June 30, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance June 30, 2014</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Due to Student Groups June 30, 2014</u>
CAVERNA MIDDLE SCHOOL (1)	\$ 29,601	\$ 32,723	\$ 23,971	\$ 38,353	\$ -	\$ -	\$ 38,353
CAVERNA ELEMENTARY (2)	<u>25,825</u>	<u>24,722</u>	<u>28,220</u>	<u>22,327</u>	<u>-</u>	<u>-</u>	<u>22,327</u>
TOTALS	<u>\$ 55,426</u>	<u>\$ 57,445</u>	<u>\$ 52,191</u>	<u>\$ 60,680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,680</u>

(1) Included in receipts and disbursements are Inter-fund transfers in the amount of \$0.

(2) Included in receipts and disbursements are Inter-fund transfers in the amount of \$0.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE -
FAMILY RESOURCE CENTER
For the Year Ended June 30, 2014**

Beginning cash, July 1, 2013		\$	-
Receipts:			
United Way	\$	2,200	
Donations		7,641	
Grant from state		<u>76,821</u>	
Total receipts			86,662
Disbursements:			
Salaries and benefits	\$	70,135	
Program supplies		10,321	
Student activities		4,539	
Travel		375	
Food		511	
Award and grants		499	
Advertising		281	
Other		<u>1</u>	
Total disbursements			<u>86,662</u>
Fund balance, June 30, 2014		\$	<u>-</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CAVERNA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Agriculture:</u>			
Passed-through State Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 14	\$ 290,524
National School Breakfast Program	10.553	7760005 14	116,677
National School Summer Meal Program	10.559	7690024-14	<u>3,362</u>
Total Child Nutrition Cluster:			410,563
Other Programs			
Commodity Supplemental Food Program	10.565	7750002-14	23,448
Fresh Fruit and Vegetable Program	10.582	7720012-13/14	<u>26,074</u>
Total Other Programs			49,522
Total U.S. Department of Agriculture:			<u>\$ 460,085</u>
<u>U.S. Department of Education:</u>			
Passed-through State Department of Education:			
Title I, Part A Cluster			
2013 Project	84.010	3100002-13	\$ 66,573
2014 Project	84.010	3100002-14	<u>345,570</u>
Total Title I, Part A Cluster:			412,143
Special Education Cluster (IDEA)			
2013 Project - Preschool	84.173	3800002-13	6,437
2014 Project - Preschool	84.173	3800002-14	20,886
2013 Project - Special Education	84.027	3810002-13	1,271
2014 Project - Special Education	84.027	3810002-14	<u>199,852</u>
Total Special Education Cluster (IDEA)			228,446
2013 Title 1 School Improvement - ARRA	84.388	4100302-13	97,743
Other Programs			
Migrant - 2013	84.011	3110002-13	38,697
Migrant - 2014	84.011	3110002-14	<u>34,882</u>
			73,579
Rural and Low Income-13/14	84.358	3140002-13/14	12,321
Perkins, Title I Part C	84.048	4621032-13/14	7,441
Race to the Top	84.413	3960002-11	378
2013 Improving Teacher Quality	84.367	3230002-13	8,612
2014 Improving Teacher Quality	84.367	3230002-14	<u>54,529</u>
			63,141
2012 21st Century	84.287	3400001-12	31,647
2013 21st Century	84.287	3400001-13	<u>87,792</u>
			<u>119,439</u>
Total U.S. Department of Education			<u>\$ 1,014,631</u>
Total Federal Financial Assistance			<u>\$ 1,474,716</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

1. Basis of Presentation:

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

2. Food Distribution:

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiencies identified
That are not considered to be material
weaknesses? _____ Yes X None Reported

Noncompliance material to financial
Statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiencies identified
that are not considered to be material
weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>
U.S. Department of Education	
Passed Through Kentucky Department of Education:	
Title I, Part A Cluster	
Title I grants to Local Education Agency	84.010

Dollar threshold used to distinguish
Between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

**CAVERNA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONCLUDED
For the Year Ended June 30, 2014**

II. FINANCIAL STATEMENTS FINDINGS

A. No matters were reported.

III. FEDERAL AWARD FINDING AND QUESTIONED COSTS

A. No matters were reported.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2014**

No prior year audit findings.



Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Sammie D. Parsley, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA ▪ Adam Duvall

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*

Members of the Board of Education
Caverna Independent School District
Horse Cave – Cave City, Kentucky 42127

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caverna Independent School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Caverna Independent School District's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Caverna Independent 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 Caverna Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Caverna Independent 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 Caverna Independent 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*.

We noted other matters that we reported to management of Caverna Independent School District in a separate letter dated October 24, 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.

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
October 24, 2014



Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Sammie D. Parsley, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA ▪ Adam Duvall

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

Members of the Board of Education
Caverna Independent School District
Horse Cave – Cave City, Kentucky 42127

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Caverna Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 Caverna Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Caverna Independent 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 Caverna Independent School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Caverna Independent 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 Caverna Independent School District's internal control over compliance.

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

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

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.

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
October 24, 2014



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA
Skip R. Campbell, CPA ▪ Sammie D. Parsley, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA ▪ Adam Duvall

Members of the Board of Education
Caverna Independent School District
Horse Cave – Cave City, Kentucky 42127

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 Caverna Independent 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 Caverna Independent School District's internal control over financial reporting (internal control) as a basis for designing 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 Caverna Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Caverna Independent School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

During our audit, we became aware of the following deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

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 governmental unit 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 management, Caverna Independent School District, and others within organization, and is not intended to be and should not be used by anyone other than these specified parties.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

October 24, 2014

**CAVERNA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
June 30, 2014**

No prior year audit findings

**CAVERNA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
June 30, 2014**

CURRENT YEAR FINDINGS

Caverna Elementary

Criteria: *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) requires that multiple receipt forms be used when collecting money.

Condition: It could not be ascertained as to how many multiple receipt forms had been distributed or received by the school treasurer as deposits were being made with no multiple receipt forms being completed.

Cause: Proper controls were not being maintained over the receipt and distribution of multiple receipt forms.

Effect: Compliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was not achieved.

Recommendation: We recommend that the school treasurer keep record of the multiple receipt forms distributed to school teachers and sponsors and require multiple receipt forms accompany deposits.

Response: Annual training for *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was instituted in FY 2012 and current issues were brought to the attention of administrative personnel for emphasis. The District plans to internally audit this finding over the course of the next year to make sure it is still not occurring.

Caverna Elementary

Criteria: *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) sets forth accounting guidelines require deposits to be made daily when there is over \$100 on hand and at a minimum, deposits should be made on a weekly basis.

Condition: The Caverna Elementary School was not making deposits timely.

Cause: Receipts were being accumulated on site and not being deposited into the bank account timely.

Effect: Compliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was not achieved.

Recommendation: We recommend that deposits be made in conformity with Red Book Guidelines and that the school principal periodically verify this is being done.

Response: Annual training for *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was instituted in FY 2012 and current issues were brought to the attention of administrative personnel for emphasis. The District plans to internally audit this finding over the course of the next year to make sure it is still not occurring.

