

**CLOVERPORT INDEPENDENT  
SCHOOL DISTRICT  
AUDIT REPORT  
JUNE 30, 2014**

## TABLE OF CONTENTS

Independent Auditor's Report	1-3
Management Discussion and Analysis	4-10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Fiduciary Funds	20
Notes to Basic Financial Statements	21-37
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 Fund	39

## TABLE OF CONTENTS (CONTINUED)

### Other Supplementary Information:

Combining Statement – Non-Major Funds:	
Combining Balance Sheet – Non-Major Governmental Funds	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	41
Combining Statement of Revenues, Expenditures and Fund Balances – Agency Funds	42
Statement of Receipts, Disbursements and Fund Balance – High School Activity Fund	43
Schedule of Expenditures of Federal Awards	44
Notes to Schedule of Expenditures of Federal Awards	45
Schedule of Findings and Questioned Costs	46
Schedule of Prior Year Audit Findings	47
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>	48-49
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	50-51
Management Letter Comments	52-54
Letter to Those Charged with Governance	55-57

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September 10, 2014

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Cloverport Independent School District  
214 West Main, P.O. Box 37  
Cloverport, KY 40111

**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 Cloverport Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Cloverport Independent School District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

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

## **Change in Accounting Principle**

As described in Note A to the financial statements, in 2014, the Cloverport Independent School District adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 4 through 10 and 38 and 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 Cloverport Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the 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, the statement of receipts, disbursements and fund balance – High School Activity Fund, 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 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, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2014, on our consideration of Cloverport 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 reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cloverport Independent School District's internal control over financial reporting and compliance.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT – CLOVERPORT, KY  
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

As management of the Cloverport Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

**FINANCIAL HIGHLIGHTS**

- The June 30, 2014 cash balance for the District was \$959,086, as compared with the beginning cash balance of \$775,228. The ending cash balance consists of General Fund of \$951,617, Special Revenue of \$0, Capital Outlay of \$0, Building (FSPK) Fund of \$0, Construction Fund of \$0, Food Service of \$0 and Community Education of \$7,469.
- District-wide net position increased \$106,597 during the 2014 fiscal year. Total long-term obligations had a net decrease of \$290,433.
- The General Fund had \$3,004,422 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$3,006,627 in General Fund expenditures.
- General Fund revenue increased \$125,477 from last fiscal year and General Fund expenses increased \$271,720.
- The financial statements reflect revenues of \$950,784 from the state on-behalf of District employees for retirement contributions, health insurance, administration fees, debt service and technology with a like amount of expenses recorded.

**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) district-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.

**District-wide financial statements**

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

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

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

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

The district-wide financial statements can be found on pages 11-12 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. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our community education and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-20 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 district-wide and fund financial statements.

The notes to the financial statements can be found on pages 21-37 of this report.

### **DISTRICT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,103,282 as of June 30, 2014.

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 debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

A comparison of June 30, 2014 and June 30, 2013 government-wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 1,447,425	\$ 959,068	\$ 12,750	\$ 20,778	\$ 1,460,175	\$ 979,846
Capital Assets	6,270,599	6,916,128	144,602	167,986	6,415,201	7,084,114
<b>Total Assets</b>	<b>7,718,024</b>	<b>7,875,196</b>	<b>157,352</b>	<b>188,764</b>	<b>7,875,376</b>	<b>8,063,960</b>
Deferred Outflows	19,121	-	-	-	19,121	-
Current Liabilities	664,752	547,806	4,840	26,731	669,592	574,537
Non-Current Liabilities	5,121,623	5,412,056	-	-	5,121,623	5,412,056
<b>Total Liabilities</b>	<b>5,786,375</b>	<b>5,959,862</b>	<b>4,840</b>	<b>26,731</b>	<b>5,791,215</b>	<b>5,986,593</b>
<b>Net Position</b>						
Investment in capital assets (net of related debt)	936,147	1,125,396	144,602	167,986	1,080,749	1,293,382
Restricted	363,450	372,499	-	-	363,450	372,499
Unrestricted	651,173	417,439	7,910	(5,953)	659,083	411,486
<b>Total Net Position</b>	<b>\$ 1,950,770</b>	<b>\$ 1,915,334</b>	<b>\$ 152,512</b>	<b>\$ 162,033</b>	<b>\$ 2,103,282</b>	<b>\$ 2,077,367</b>

The following table presents changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>						
Program revenues						
Charges for services	5,770		61,619	55,337	67,389	55,337
Operating grants/Contributions	848,959	3,298,073	202,427	204,496	1,051,386	3,502,569
Fund transfers/gain loss	(12,446)		8,251		( 4,195)	
General revenues						
Property taxes	174,187	186,137				186,137
Motor vehicle taxes	53,414	50,734				50,734
Utility Taxes	64,739	56,042				56,042
Taxes, Other	20,079	82,324			312,419	82,324
Investment earnings	47,716				47,716	
State and formula grants	3,110,957	416,800			3,110,957	416,800
Miscellaneous	104,444	146,748			104,444	146,748
<b>Total revenues</b>	<u>4,417,819</u>	<u>4,236,858</u>	<u>272,297</u>	<u>259,833</u>	<u>4,690,116</u>	<u>4,496,691</u>
<b>EXPENSES</b>						
Instructional	2,390,595	2,008,750			2,390,595	2,008,750
Student support	234,429	140,966			234,429	140,966
Instructional staff Support	246,558	236,691			246,558	236,691
District administrative support	303,944	362,168			303,944	362,168
School administrative support	179,493	177,299			179,493	177,299
Business support	201,242	258,065			201,242	258,065
Plant operations and maintenance	312,035	243,443			312,035	243,443
Student transportation	164,459	191,056			164,459	191,056
Central Office	344				344	
Food Service Operations	22,750	19,935			22,750	19,935
Community Service Operations	39,941	39,084			39,941	39,084
Other		6,551				6,551
Interest on Long Term Debt	205,911	209,721			205,911	209,721
Business-type Activities						
GED Testing Center			3,159	7,282	3,159	7,282
Food Service			278,659	281,498	278,659	281,498
<b>Total expenses</b>	<u>4,301,701</u>	<u>3,893,729</u>	<u>281,818</u>	<u>288,780</u>	<u>4,583,519</u>	<u>4,182,509</u>
<b>Increase (decrease) in net position</b>	<u>\$ 116,118</u>	<u>\$ 343,129</u>	<u>\$ (9,521)</u>	<u>\$ (28,947)</u>	<u>\$ 106,597</u>	<u>\$ 314,182</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2014 and 2013 were \$953,489 and \$953,489 respectively.

**Governmental Activities**

For the governmental program expenses instructional expenses comprise 56% of total expenses, support services equate to 39%, and interest and other expenses make up the remaining 5% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instructional	\$ 2,390,595	\$ 2,008,750	\$ 1,870,426	\$ 1,289,323
Support Services	1,642,504	1,609,688	1,371,214	1,609,688
Other	62,691	65,570	(579)	65,570
Interest Costs	<u>205,911</u>	<u>209,721</u>	<u>205,911</u>	<u>209,721</u>
Total Expenses	<u>\$ 4,301,701</u>	<u>\$ 3,893,729</u>	<u>\$ 3,446,972</u>	<u>\$ 3,174,312</u>

**Business-Type Activities**

The business type activities at the District are Food Service and Adult Education. These programs had total revenues of \$ 264,046 and expenses of \$281,818 for fiscal year 2014. These revenues were made up of \$61,619 charges for services and \$202,427 federal and state operating grants. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

**The School District's Funds**

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2014 was \$4,431,445 and expenditures were \$4,388,757. The net change in fund balance was an increase of \$42,688.

**General Fund Budgetary Highlights**

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$2,655,342 with actual results being \$3,078,669 for a favorable difference of \$423,327. Budgeted expenditures were \$3,273,033 compared to actual expenditures of \$3,021,348 for a favorable difference of \$251,685. Both favorable differences were results of excess anticipated revenues and decreased costs within the District.

### Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for fiscal year 2014-2015 with a contingency in excess of the state minimum requirement.

Significant Board action that impacts the finances includes the Board's salary schedules which include a state mandated 1% raise for the 2014-2015 school year for both certified and classified staff. The State increased the SEEK base from \$3,827 to \$3,911 for the FY 2015. Also, the District continues to experience growth in student numbers.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of the 2014 fiscal year, the District had \$6,415,201 net of depreciations invested in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$229,205. Depreciation expense for the year was \$341,770 and capital additions were \$117,940. During the year, assets costing \$44,164 were retired.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	2014	2013	2014	2013	2014	2013
Land	\$ 146,550	\$ 146,550	\$ -	\$ -	\$ 146,550	\$ 145,550
Construction in Progress						
Land Improvements	3,825	4,675	-	-	3,825	4,675
Buildings and Improvements	5,605,213	5,792,553	-	-	5,605,213	5,792,553
Technology	284,177	315,020	3,898	5,235	288,075	320,255
Vehicles	111,431	135,792	-	-	111,431	135,792
General Equipment	119,403	81,830	140,704	162,751	260,107	244,581
<b>Total</b>	<b>\$ 6,270,599</b>	<b>\$ 6,476,420</b>	<b>\$ 144,602</b>	<b>\$ 167,986</b>	<b>\$ 6,415,201</b>	<b>\$ 6,644,406</b>

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Beginning Balance	\$ 6,476,420	\$ 6,606,575	\$ 167,986	\$ 188,376	\$ 6,644,406	\$ 6,794,951
Additions	117,940	152,143		2,952	117,940	155,095
Retirements	(5,375)	(2,400)			(5,375)	(2,400)
Depreciation	(318,386)	(279,898)	(23,384)	(23,342)	(341,770)	(303,240)
<b>Ending Balance</b>	<b>\$ 6,270,599</b>	<b>\$ 6,476,420</b>	<b>\$ 144,602</b>	<b>\$ 167,986</b>	<b>\$ 6,415,201</b>	<b>\$ 6,644,406</b>

**Long-Term Debt**

At June 30, 2014, the school district had \$5,231,141 in bonds outstanding, of which \$4,259,060 is to be paid from the SFCC funding provided by the State of Kentucky. A total of \$341,552 is due within one year.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (270) 788-3910.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
Cash & Cash Equivalents - Note C	951,617	7,469	959,086
Investments - Note D	363,450		363,450
Accounts Receivable:			
Taxes - Current	14,930		14,930
Taxes - Delinquent	1,244		1,244
Intergovernmental - State	12,244		12,244
Intergovernmental - Federal	103,940	2,648	106,588
Inventories for Consumption		2,633	2,633
<b>Total Current Assets</b>	<b>1,447,425</b>	<b>12,750</b>	<b>1,460,175</b>
<b>Noncurrent Assets - Note G</b>			
Land	146,550		146,550
Buildings & Improvements	7,368,538		7,368,538
Furniture & Equipment	1,462,871	291,568	1,754,439
Less: Accumulated Depreciation	(2,707,360)	(146,966)	(2,854,326)
<b>Total Noncurrent Assets</b>	<b>6,270,599</b>	<b>144,602</b>	<b>6,415,201</b>
<b>TOTAL ASSETS</b>	<b>7,718,024</b>	<b>157,352</b>	<b>7,875,376</b>
Deferred Outflows on Bond Refundings	19,121	0	19,121
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>7,737,145</b>	<b>157,352</b>	<b>7,894,497</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	55,783	4,840	60,623
Accrued Salaries & Sick Leave - Note A	143,212		143,212
Advances from Grantors	35,933		35,933
Bond Obligations - Note E	341,552		341,552
Capital Lease Obligation - Note F	17,030		17,030
Accrued Interest Payable	71,242		71,242
<b>Total Current Liabilities</b>	<b>664,752</b>	<b>4,840</b>	<b>669,592</b>
<b>Noncurrent Liabilities:</b>			
Bond Obligations - Note E	4,889,589		4,889,589
Capital Lease Obligation - Note F	86,281		86,281
Accrued Sick Leave - Note A	145,753		145,753
<b>Total Noncurrent Liabilities</b>	<b>5,121,623</b>		<b>5,121,623</b>
<b>TOTAL LIABILITIES</b>	<b>5,786,375</b>	<b>4,840</b>	<b>5,791,215</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	936,147	144,602	1,080,749
Restricted for:			
Science Program	363,450		363,450
Other Purposes		7,910	7,910
Unrestricted	651,173		651,173
<b>TOTAL NET POSITION</b>	<b>1,950,770</b>	<b>152,512</b>	<b>2,103,282</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>7,737,145</b>	<b>157,352</b>	<b>7,894,497</b>

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instructional	2,390,595	5,770	514,399		(1,870,426)		(1,870,426)
Support Services:							
Student Support Services	234,429		73,053		(161,376)		(161,376)
Staff Support Services	246,558		162,158		(84,400)		(84,400)
District Administration	303,944				(303,944)		(303,944)
School Administration	179,493				(179,493)		(179,493)
Business Support Services	201,242		27,174		(174,068)		(174,068)
Plant Operation & Maintenance	312,035		4,718		(307,317)		(307,317)
Student Transportation	164,459		4,187		(160,272)		(160,272)
Central Office	344				(344)		(344)
Food Service Operations	22,750		22,960		210		
Community Service Operations	39,941		40,310		369		369
Interest on Long-Term Debt	205,911				(205,911)		(205,911)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>4,301,701</b>	<b>5,770</b>	<b>848,959</b>	<b>0</b>	<b>(3,446,972)</b>		<b>(3,446,972)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
GED Testing Center	3,159	8,160				5,001	
Food Service	278,659	53,459	202,427			(22,773)	(22,773)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>281,818</b>	<b>61,619</b>	<b>202,427</b>	<b>0</b>	<b>0</b>	<b>(17,772)</b>	<b>(22,773)</b>
<b>TOTAL SCHOOL DISTRICT</b>	<b>4,583,519</b>	<b>67,389</b>	<b>1,051,386</b>	<b>0</b>	<b>(3,446,972)</b>	<b>(17,772)</b>	<b>(3,469,745)</b>
<b>GENERAL REVENUES:</b>							
Taxes:							
Property					174,187		174,187
Motor Vehicle					53,414		53,414
Utility					64,739		64,739
Other					20,079		20,079
State Aid - Formula Grants					3,110,957		3,110,957
Investment Earnings					47,716		47,716
Miscellaneous					104,444		104,444
<b>SPECIAL ITEMS:</b>							
Funds Transfer (Expense)					(8,251)	8,251	0
Gain(Loss) Sale of Assets					(4,195)		(4,195)
<b>TOTAL GENERAL &amp; SPECIAL</b>					<b>3,563,090</b>	<b>8,251</b>	<b>3,571,341</b>
<b>CHANGE IN NET POSITION</b>					<b>116,118</b>	<b>(9,521)</b>	<b>106,597</b>
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED - NOTE H</b>					<b>1,834,652</b>	<b>162,033</b>	<b>1,996,685</b>
<b>NET POSITION - ENDING</b>					<b>1,950,770</b>	<b>152,512</b>	<b>2,103,282</b>

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>					
Cash & Cash Equivalents	951,617				951,617
Investments	363,450				363,450
Due from Other Funds	80,251				80,251
Accounts Receivable:					
Taxes - Current	14,930				14,930
Taxes - Delinquent	1,244				1,244
Intergovernmental - State		12,244			12,244
Intergovernmental - Federal		103,940			103,940
<b>TOTAL ASSETS</b>	<u>1,411,492</u>	<u>116,184</u>	<u>0</u>	<u>0</u>	<u>1,527,676</u>
<b>LIABILITIES AND FUND BALANCE:</b>					
Liabilities:					
Accounts Payable	55,783				55,783
Due to Other Funds		80,251			80,251
Accrued Salaries & Sick Leave	143,212				143,212
Advances from Grantors		35,933			35,933
<b>Total Liabilities</b>	<u>198,995</u>	<u>116,184</u>	<u>0</u>	<u>0</u>	<u>315,179</u>
Fund Balance:					
Restricted for:					
Science Program	363,450				363,450
Assigned for:					
Sickleave	145,753				145,753
Purchase Obligations	51,610				51,610
Unassigned Fund Balance	651,684				651,684
<b>Total Fund Balance</b>	<u>1,212,497</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,212,497</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>1,411,492</u>	<u>116,184</u>	<u>0</u>	<u>0</u>	<u>1,527,676</u>

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

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

TOTAL GOVERNMENTAL FUND BALANCE		1,212,497
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	8,977,959	
Accumulated Depreciation	<u>(2,707,360)</u>	6,270,599
Deferred Outflows on Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		
		19,121
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(5,231,141)	
Capital Lease Obligation	(103,311)	
Accrued Interest on Bonds	(71,242)	
Accrued Sick Leave	<u>(145,753)</u>	<u>(5,551,447)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>1,950,770</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>					
Taxes:					
Property	155,124			19,063	174,187
Motor Vehicle	53,414				53,414
Utility	64,739				64,739
Other	20,079				20,079
Earnings on Investments	47,716				47,716
Intergovernmental - State	2,603,023	207,639	416,751	153,361	3,380,774
Intergovernmental - Federal	12,291	566,851			579,142
Other Sources	48,036	62,178			110,214
<b>TOTAL REVENUES</b>	<b>3,004,422</b>	<b>836,668</b>	<b>416,751</b>	<b>172,424</b>	<b>4,430,265</b>
<b>EXPENDITURES:</b>					
Instructional	1,599,774	509,690			2,109,464
Support Services:					
Student Support Services	138,717	72,384			211,101
Staff Support Services	74,556	160,674			235,230
District Administration	295,426				295,426
School Administration	171,126				171,126
Business Support Services	231,940	26,925			258,865
Plant Operation & Maintenance	291,284	4,675			295,959
Student Transportation	183,184	4,149			187,333
Food Service Operations		22,750			22,750
Community Service Operations		39,941			39,941
Facilities Acquisition & Construction					0
Debt Service:					
Principal	16,572		333,057		349,629
Interest	3,748		199,934		203,682
<b>TOTAL EXPENDITURES</b>	<b>3,006,327</b>	<b>841,188</b>	<b>532,991</b>	<b>0</b>	<b>4,380,506</b>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>(1,905)</b>	<b>(4,520)</b>	<b>(116,240)</b>	<b>172,424</b>	<b>49,759</b>
<b>OTHER FINANCING SOURCES(USES):</b>					
Proceeds from Sale of Assets	1,180				1,180
Operating Transfers In - Note O	73,067	6,770	116,240		196,077
Operating Transfers Out - Note O	(15,021)	(2,250)		(187,057)	(204,328)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>59,226</b>	<b>4,520</b>	<b>116,240</b>	<b>(187,057)</b>	<b>(7,071)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>57,321</b>	<b>0</b>	<b>0</b>	<b>(14,633)</b>	<b>42,688</b>
<b>FUND BALANCES - BEGINNING</b>	<b>1,155,176</b>	<b>0</b>	<b>0</b>	<b>14,633</b>	<b>1,169,809</b>
<b>FUND BALANCES - ENDING</b>	<b>1,212,497</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,212,497</b>

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT 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

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

NET CHANGES - GOVERNMENTAL FUNDS		42,688
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(318,386)	
Capital Outlays	117,940	(200,446)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid		349,629
<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>		
Amortization-Deferred Outflow on Bond Refundings	(2,676)	
Accrued Interest Payable	447	
KSBIT Assessment	69,098	
Accrued Sick Leave	(137,247)	(70,378)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.</p>		
Gain (Loss)- Sale of Assets		(5,375)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		116,118

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

	ENTERPRISE FUNDS		
	FOOD SERVICE	GED TESTING CENTER	TOTAL
<b>ASSETS:</b>			
Current Assets:			
Cash & Cash Equivalents		7,469	7,469
Accounts Receivable	2,648		2,648
Inventories for Consumption	2,633		2,633
Total Current Assets	5,281	7,469	12,750
Noncurrent Assets:			
Furniture & Equipment	291,568		291,568
Less: Accumulated Depreciation	(146,966)		(146,966)
Total Noncurrent Assets	144,602	0	144,602
<b>TOTAL ASSETS</b>	<b>149,883</b>	<b>7,469</b>	<b>157,352</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Account Payable	4,840		4,840
Total Current Liabilities	4,840	0	4,840
Net Position:			
Net Investment in Capital Assets	144,602	0	144,602
Restricted	441	7,469	7,910
Total Net Position	145,043	7,469	152,512
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>149,883</b>	<b>7,469</b>	<b>157,352</b>

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	ENTERPRISE FUNDS		
	FOOD SERVICE	GED TESTING CENTER	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	52,242		52,242
Other Operating Revenues	1,217	8,160	9,377
TOTAL OPERATING REVENUES	53,459	8,160	61,619
OPERATING EXPENSES:			
Salaries & Benefits	102,858	2,772	105,630
Contract Services	5,829		5,829
Materials & Supplies	146,434	387	146,821
Depreciation - Note F	23,384		23,384
Other Operating Expenses	154		154
TOTAL OPERATING EXPENSES	278,659	3,159	281,818
OPERATING INCOME(LOSS)	(225,200)	5,001	(220,199)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	175,480		175,480
State Grants	16,286		16,286
Donated Commodities	10,661		10,661
Transfer In from General Fund	8,251		8,251
TOTAL NONOPERATING REVENUE	210,678	0	210,678
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(14,522)	5,001	(9,521)
CAPITAL CONTRIBUTIONS			0
CHANGE IN NET POSITION	(14,522)	5,001	(9,521)
TOTAL NET POSITION - BEGINNING	159,565	2,468	162,033
TOTAL NET POSITION - ENDING	145,043	7,469	152,512

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>FOOD SERVICE FUND</u>	<u>GED TESTING CENTER</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from:			
Lunchroom Sales	52,242	8,700	60,942
Other Activities	1,217		1,217
Cash Paid to/for:			
Employees	(88,859)	(2,772)	(91,631)
Supplies	(139,089)	(387)	(139,476)
Other Activities	(5,983)		(5,983)
Net Cash Provided (Used) by Operating Activities	<u>(180,472)</u>	<u>5,541</u>	<u>(174,931)</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Transfer In from General Fund	8,251		8,251
Due to Other Funds	(21,208)		
Federal Grants	191,142		191,142
State Grants	2,287		2,287
Net Cash Provided by Non-Capital and Related Financing Activities	<u>180,472</u>	<u>0</u>	<u>180,472</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchases of Capital Assets			0
Net Increase in Cash and Cash Equivalents	<u>0</u>	<u>5,541</u>	<u>5,541</u>
Balances, Beginning of Year	<u>0</u>	<u>1,928</u>	<u>1,928</u>
Balances, End of Year	<u><u>0</u></u>	<u><u>7,469</u></u>	<u><u>7,469</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Loss	(225,200)	5,001	(220,199)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	23,384		23,384
State On-Behalf Payments	13,999		13,999
Donated Commodities	10,661		10,661
Change in Assets and Liabilities:			
Accounts Receivable		540	
Inventory	(2,633)		(2,633)
Accounts Payable	(683)		(683)
Net Cash Provided (Used) by Operating Activities	<u><u>(180,472)</u></u>	<u><u>5,541</u></u>	<u><u>(174,931)</u></u>
<b>Schedule of Non-Cash Transactions:</b>			
Donated Commodities	10,661	0	10,661
State On-Behalf Payments	13,999	0	13,999

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014

	AGENCY FUNDS		
	SCHOOL ACTIVITY FUNDS	OTHER	TOTAL
ASSETS:			
Cash and Cash Equivalents	53,966	91,427	145,393
TOTAL ASSETS	53,966	91,427	145,393
LIABILITIES:			
Due to Scholarship Recipients	0	91,427	91,427
Due to Student Groups	53,966	0	53,966
TOTAL LIABILITIES	53,966	91,427	145,393
NET POSITION IN TRUST	0	0	0

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

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

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

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

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

Cloverport Independent Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Cloverport 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) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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 total assets. 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 main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified on pages 44 and 45 in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- 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 Fund).
  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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. 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 generally obligation notes payable, as required by Kentucky law.

### II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). 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 or contradict GASB pronouncements.

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

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

### 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.

Revenues – Exchange and Nonexchange 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 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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. Unused donated commodities are reported as deferred 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 costs, such as depreciation, are not recognized in governmental 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 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.647 per \$100 valuation for real property, \$0.647 per \$100 valuation for business personal property, and \$0.539 per \$100 valuation for motor vehicles.

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

### Capital Assets

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and improvements	25-50 years
Land improvements	10-20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	7 years

### Interfund Balances

On fund financial statements, receivables and payable 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 received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the 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 amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

### 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).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

### Investments

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

### 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.

### Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the School Board, and this does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District had no committed fund balance at year end.

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

### **Major Special Revenue Fund**

Special Revenue

### **Revenue Source**

State, Local and Federal Grants

### **Net Position**

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

### **Operating 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.

### **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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

Changes in Accounting Principle

Effective for the fiscal year ending June 30, 2014, the Board adopted GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989, FASB and AICPA Pronouncements*, which codifies all applicable GASB, Financial Accounting Standards Board (“FASB”), and Accounting Principles Board opinions dated according to the title of the statement. Additionally, for fiscal year ending June 30, 2014, the Board has implemented GASB Statement 65 *Items Previously Reported as Assets and Liabilities* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note H for the impact of the adoption of this standard on beginning net position.

**NOTE B – 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 general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE C – CASH AND CASH EQUIVALENTS**

Custodial Credit Risk - Deposits. Custodial Credit is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$1,104,479. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance and \$885,000 was covered by collateral agreements and \$30,521 was not covered by Federal Depository Insurance or collateral agreements. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

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

	<b>Bank Balance</b>	<b>Book Balance</b>
Hancock Bank and Trust	1,210,430	1,104,479

Breakdown per financial statements:

Governmental Funds	951,617
Proprietary Funds	<u>7,469</u>
Subtotal	959,086
Agency Funds	<u>145,393</u>
Total Cash & Cash Equivalents – All Funds	<u>1,104,479</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE D – INVESTMENTS**

The District is the only beneficiary of the Cornelia W. Fraize Charitable Trust, which has been in existence for more than 70 years. The trust requires that earnings be used to provide a science program for the school.

The trust principal is invested in mutual funds not held for trading purposes. Due to the number of years of activity, it is not possible to determine the cost basis of the investments. The fair value at year end was \$363,450, which is estimated based on adjusted quoted market prices for identical assets. The value at the beginning of the fiscal year was \$337,229, with current year investment gain of \$41,791. Distributions were received in the amount of \$15,570.

While such investments are not in conformity with state law or District policy, the assets are in trust, and the trustee makes all investment decisions.

**NOTE E – LONG TERM OBLIGATIONS**

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Cloverport Independent School District Finance Corporation aggregating \$7,323,246.

The original amount of each issue and interest rates are summarized below:

2004	1,190,000	1.15% - 4.40%
2008	5,000,000	3.25% - 3.85%
2009	248,246	1.00% - 3.25%
2010	885,000	1.80% - 4.00%

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

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice if its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 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	341,552	189,516	416,736	114,332
2015-16	350,277	178,482	416,085	112,674
2016-17	319,704	167,805	412,916	74,593
2017-18	334,096	156,938	413,146	77,888
2018-19	345,512	145,426	413,276	77,662
2019-20	330,000	133,683	387,476	76,207
2020-21	345,000	121,538	387,475	79,063
2021-22	355,000	108,853	387,476	76,377
2022-23	370,000	95,397	387,476	77,921
2023-24	385,000	81,250	387,475	78,775
2024-25	370,000	67,015	358,533	78,482
2025-26	380,000	52,855	358,587	74,268
2026-27	395,000	38,150	358,799	74,351
2027-28	410,000	22,768	358,078	74,690
2028-29	65,000	6,700	37,807	33,893
2029-30	70,000	4,000	37,807	36,193
2030-31	65,000	1,297	24,566	41,731
	<u>5,231,141</u>	<u>1,571,673</u>	<u>5,543,714</u>	<u>1,259,100</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bond Payable	5,564,198	-0-	333,057	5,231,141	341,552
Capital Lease Obligations	119,883	-0-	16,572	103,311	17,030
Accrued Sick Leave	<u>8,506</u>	<u>175,916</u>	<u>4,568</u>	<u>179,854</u>	<u>34,101</u>
Governmental Activities					
Long-Term Liabilities	<u>5,692,587</u>	<u>175,916</u>	<u>354,197</u>	<u>5,514,306</u>	<u>392,683</u>

**NOTE F – CAPITAL LEASE PAYABLE**

The District is the lessee of buses under capital leases expiring in various years through 2023. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2014.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2014</u>
Buses	155,118
Accumulated Amortization	<u>(62,047)</u>
	<u>93,071</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2015	20,388
2016	20,328
2017	20,330
2018	18,733
2019	18,716
Thereafter	<u>17,631</u>
Net minimum lease payments	116,126
Amount representing interest	<u>(12,815)</u>
Present value of net minimum lease payments	<u>103,311</u>

Interest rates on capitalized leases vary from 2.00% to 3.90%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE G – CAPITAL ASSETS**

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

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
Non-Depreciable Assets:				
Land	146,550			146,550
Depreciable Assets:				
Buildings & Building Improvements	7,368,538			7,368,538
Technology Equipment	612,187	70,173	41,974	640,386
Vehicles	397,075			397,075
General Equipment	379,833	47,767	2,190	425,410
<b>TOTAL AT HISTORICAL COST</b>	<u>8,904,183</u>	<u>117,940</u>	<u>44,164</u>	<u>8,977,959</u>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Buildings & Building Improvements	1,571,310	188,190		1,759,500
Technology Equipment	297,168	96,140	37,099	356,209
Vehicles	261,282	24,362		285,644
General Equipment	298,003	9,694	1,690	306,007
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>2,427,763</u>	<u>318,386</u>	<u>38,789</u>	<u>2,707,360</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<u>6,476,420</u>	<u>(200,446)</u>	<u>(5,375)</u>	<u>6,270,599</u>
<b>PROPRIETARY ACTIVITIES:</b>				
Depreciable Assets:				
Technology Equipment	7,483			7,483
General Equipment	284,085			284,085
<b>TOTALS AT HISTORICAL COST</b>	<u>291,568</u>	<u>-0-</u>	<u>-0-</u>	<u>291,568</u>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Technology Equipment	2,248	1,337		3,585
General Equipment	121,334	22,047		143,381
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>123,582</u>	<u>23,384</u>	<u>-0-</u>	<u>146,966</u>
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<u>167,986</u>	<u>(23,384)</u>	<u>-0-</u>	<u>144,602</u>
<b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b>				
Instructional				213,953
Student Support Services				23,328
Staff Support Services				11,433
District Administration				8,518
School Administration				8,367
Business Support Services				11,475
Plant Operation & Maintenance				16,076
Student Transportation				24,893
Central Office				343
<b>TOTAL</b>				<u>318,386</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **NOTE H – CHANGES IN BEGINNING NET POSITION**

Governmental Accounting Standards Board statement 65 requires changes to the beginning balances of the Statement of Net Position. Beginning net position of the government activities was decreased \$102,479 to eliminate bond issuance costs, which had been capitalized and amortized on previous statements. Additionally, beginning net position of the governmental activities increased \$21,797 to capitalize deferred saving from refunding bonds issued prior to the 2013-2014 fiscal year.

### **NOTE I – RETIREMENT PLANS**

Certified employees are covered under 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 public educational agencies in Kentucky.

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

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

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 18.89% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$2,310,716. The payroll for employees covered under KTRS was \$1,721,588 and for CERS was \$589,128.

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$196,071, \$181,291 and \$168,534 respectively to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2014, 2013 and 2012 were \$58,068, \$41,851 and \$39,810 respectively which represent those employees covered by federal programs.

The contribution requirements for CERS for the years ended June 30, 2014, 2013 and 2012, were \$142,074, \$151,526 and \$142,096 respectively, which consisted of \$111,287, \$119,533 and \$111,523 from the Board and \$30,787, \$31,993 and \$30,573 respectively from the employees.

NOTES TO FINANCIAL STATEMENTS (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 “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased 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 tables present certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<b>KTRS</b> <b>June 30, 2013</b>	<b>CERS</b> <b>June 30, 2013</b>
Assets available for benefits, at fair value	14,962,758,000	5,637,094,483
Pension benefit obligation	<u>(28,817,232,000)</u>	<u>(9,378,876,114)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(13,854,474,000)</u>	<u>(3,741,781,631)</u>

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. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

**NOTE J – CONTINGENCIES**

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE K – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE L – RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently, the District maintains insurance coverage through WRM America Insurance Company.

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

During 2013, the Kentucky School Boards Insurance Trust ceased to operate. The District's insurance coverage continued through June 30, 2014. (See also Note T.) However, as of July 1, 2014, the District was required to obtain insurance coverage from a commercial insurance company. Coverage was obtained from WRM America Insurance Company.

**NOTE M – DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Debt Service Fund	116,240
Food Service Fund	14,522
Special Revenue Fund	4,520
General Fund	1,905

**NOTE N – 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).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE O – TRANSFER OF FUNDS**

The following transfers were made during the year:

<b>Type</b>	<b>From Fund</b>	<b>To Fund</b>	<b>Purpose</b>	<b>Amount</b>
Matching	General	Special Revenue	Technology Match	6,770
Operating	Building Fund	Debt Service	Debt Service	116,240
Operating	SEEK	General	Operations	39,887
Operating	Special Revenue	General	Indirect Cost	2,250
Operating	Building Fund	General	Operations	<u>30,930</u>
		Subtotal Governmental Fund Transfers		196,077
Operating	General	Food Service	Operations	<u>8,251</u>
		Total Transferred Funds		<u>204,328</u>

**NOTE P – INTERFUND RECEIVABLES AND PAYABLES**

Most program costs in the Special Revenue Fund must be paid for by the District funds before reimbursement is requested from the Federal Government. The General Fund temporarily covered program expenditures, so an interfund balance resulted from the lag time between the dates expenditures were made and the date grant funds were received.

Interfund receivables and payables at year-end were as follows:

From: Special Revenue	To: General	\$80,251
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**NOTE Q – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through September 10, 2014. There were no material subsequent events to disclose.

**NOTE R – ON-BEHALF PAYMENT**

For the year ended June 30, 2014, \$950,784 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 520,034
Food Service Fund	13,999
Debt Service	<u>416,751</u>
Total	<u>\$ 950,784</u>

**NOTE S – COMMITMENTS**

At June 30, 2014 the District had no outstanding commitments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE T – KSBIT ASSESSMENT**

As of June 30, 2014, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. As of June 30, 2014, Cloverport Independent School District's assessment is \$46,355. The District opted to pay the full amount in August 2014, and thus, recorded the full assessment as an account payable at June 30, 2014.

REQUIRED SUPPLEMENTARY  
INFORMATION

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Taxes	261,776	261,776	293,356	31,580
Other Local Sources	63,400	63,400	47,716	(15,684)
State Sources	2,308,166	2,308,166	2,603,023	294,857
Federal Sources	22,000	22,000	12,291	(9,709)
Other Sources			122,283	122,283
<b>TOTAL REVENUES</b>	<u>2,655,342</u>	<u>2,655,342</u>	<u>3,078,669</u>	<u>423,327</u>
<b>EXPENDITURES:</b>				
Instructional	1,619,763	1,613,310	1,599,774	13,536
Student Support Services	156,352	156,352	138,717	17,635
Staff Support Services	91,099	91,099	74,556	16,543
District Administration	470,133	475,633	295,426	180,207
School Administration	178,005	178,005	171,126	6,879
Business Support Services	182,302	182,502	231,940	(49,438)
Plant Operation & Maintenance	362,267	367,048	291,284	75,764
Student Transportation	183,349	179,321	183,184	(3,863)
Debt Service:				0
Principal	16,500	16,500	16,572	(72)
Interest	5,500	5,500	3,748	1,752
Other	7,763	7,763	15,021	(7,258)
<b>TOTAL EXPENDITURES</b>	<u>3,273,033</u>	<u>3,273,033</u>	<u>3,021,348</u>	<u>251,685</u>
<b>NET CHANGE IN FUND BALANCE</b>	(617,691)	(617,691)	57,321	675,012
<b>FUND BALANCES - BEGINNING</b>	<u>617,691</u>	<u>617,691</u>	<u>1,155,176</u>	<u>0</u>
<b>FUND BALANCES - ENDING</b>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>1,212,497</u></u>	<u><u>675,012</u></u>

On-behalf payments totaling \$950,784 are not budgeted by the Cloverport Independent School District.

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Taxes				
Other Local Sources	77,500	77,500	62,178	(15,322)
State Sources	216,124	226,878	207,639	(19,239)
Federal Sources	385,284	460,357	566,851	106,494
Other Sources	7,763	6,670	6,770	100
<b>TOTAL REVENUES</b>	<b>686,671</b>	<b>771,405</b>	<b>843,438</b>	<b>72,033</b>
<b>EXPENDITURES:</b>				
Instructional	377,699	422,031	509,690	(87,659)
Student Support Services	72,958	82,958	72,384	10,574
Staff Support Services	165,856	170,801	160,674	10,127
District Administration				
School Administration				
Business Support Services	27,488	26,715	26,925	(210)
Plant Operation & Maintenance	4,050	4,050	4,675	(625)
Student Transportation			4,149	(4,149)
Food Service		23,205	22,750	455
Central Office				
Community Service Operations	38,620	41,645	39,941	1,704
Facility Acquisition & Construction				
Other			2,250	(2,250)
<b>TOTAL EXPENDITURES</b>	<b>686,671</b>	<b>771,405</b>	<b>843,438</b>	<b>(72,033)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES - BEGINNING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES - ENDING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

See accompanying auditor's report and accompanying notes to financial statements.

**OTHER SUPPLEMENTARY  
INFORMATION**

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
<b>ASSETS:</b>				
Cash & Cash Equivalents				
Accounts Receivable:				
Taxes				
Accounts				
<b>TOTAL ASSETS</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts Payable				
Accrued Sick Leave				
Deferred Revenues				
<b>Total Liabilities</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:				
Restricted for:				
Capital Projects				
Debt Service				
SFCC Escrow				
Committed for:				
Accrued Sick Leave				
Site Based Carryforward				
Other Purposes				
Assigned for:				
Purchase Obligations				
Unassigned Fund Balance				
<b>Total Fund Balances</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
<b>REVENUES:</b>				
Taxes	19,063			19,063
Earnings from Investments				
Intergovernmental - State	116,080	37,281		153,361
Intergovernmental - Federal				
Other Sources				
<b>TOTAL REVENUES</b>	<u>135,143</u>	<u>37,281</u>	<u>0</u>	<u>172,424</u>
<b>EXPENDITURES:</b>				
Instructional				
Student Support Services				
Staff Support Services				
District Administration				
School Administration				
Business Support Services				
Plant Operations & Maintenance				
Student Transportation				
Central Office				
Community Service Operations				
Facilities Acquisition & Construction				
Debt Service:				
Principal				
Interest				
<b>TOTAL EXPENDITURES</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	135,143	37,281	0	172,424
<b>OTHER FINANCING SOURCES(USES):</b>				
Proceeds from Sale of Bonds				
Proceeds from Sale of Assets				
Operating Transfers In				
Operating Transfers Out	(147,170)	(39,887)		(187,057)
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<u>(147,170)</u>	<u>(39,887)</u>	<u>0</u>	<u>(187,057)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(12,027)</u>	<u>(2,606)</u>	<u>0</u>	<u>(14,633)</u>
<b>FUND BALANCES - BEGINNING</b>	<u>12,027</u>	<u>2,606</u>	<u>0</u>	<u>14,633</u>
<b>FUND BALANCES - ENDING</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

See independent auditor's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>FUND BALANCE JULY 1, 2013</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>FUND BALANCE JUNE 30, 2014</u>
Cloverport School Activity Funds	<u>50,924</u>	<u>120,873</u>	<u>117,831</u>	<u>53,966</u>
Total Activity Funds (Due to Student Groups)	<u><u>50,924</u></u>	<u><u>120,873</u></u>	<u><u>117,831</u></u>	<u><u>53,966</u></u>

See independent accountant's report and accompanying notes to financial statements.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
SCHOOL ACTIVITY FUNDS

FOR THE YEAR ENDED JUNE 30, 2014

	CASH BALANCE JULY 1, 2013	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2014	ACCOUNTS RECEIVABLE JUNE 30, 2014	ACCOUNTS PAYABLE JUNE 30, 2014	FUND BALANCE JUNE 30, 2014
General Fund	13,206	14,196	16,578	10,824			10,824
Athletic Account	13,132	29,953	27,533	15,552			15,552
Preschool Room Account	571	1,083	1,423	231			231
Fundraiser Account	0	17,305	17,305	0			0
Elementary Academic	78	290	300	68			68
Middle School Academic	5	0	0	5			5
Drama	0	32	0	32			32
Business Club	542	400	409	533			533
Aces Items Fundraiser	0	69	69	0			0
Boys will be Boys	184	0	29	155			155
ACES Account	634	1,374	1,582	426			426
Gifted/Talented	9	287	280	16			16
Girl Power	1,317	0	268	1,049			1,049
Yearbook	1,032	3,915	3,485	1,462			1,462
Art Fund	479	631	649	461			461
Girls Basketball	225	0	0	225			225
Ace Academy Printing	1,543	390	304	1,629			1,629
Ace Academy Daily	2,370	3,339	2,648	3,061			3,061
FFHS Student Council	122	0	0	122			122
Nature Club	0	1,800	1,800	0			0
Kindergarten	113	965	981	97			97
First Grade	434	664	793	305			305
Second Grade	25	0	25	0			0
Third Grade	148	755	874	29			29
Fourth Grade	43	330	110	263			263
Fifth Grade	11	808	819	0			0
Sixth Grade	315	90	116	289			289
Seventh Grade	508	130	105	533			533
Eight Grade	339	300	460	179			179
Popham Room	187	100	287	0			0
Lyles Room	0	150	150	0			0
Embry Room Account	0	1,265	977	288			288
Dolly Parton Imagination	158	691	556	293			293
Learning Village	6	0	0	6			6
Golf Account	0	40	0	40			40
Bishop Room	0	300	26	274			274
Community Involvement	44	613	657	0			0
Band/Music	195	1,646	1,447	394			394
ASAP Grant Fund	1,517	5,019	4,537	1,999			1,999
Fall Festival Royalty	0	2,440	2,440	0			0



CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3103	20,381
Title I - Parent Involvement	84.010	3104	66,433
Title I Cluster			<u>86,814</u>
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4013	427
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4014	14,514
Title II Total			<u>14,941</u>
Adult Education Basic Grants to States	84.002	3704	8,128
Adult Education Basic Grants to States	84.002	3704	45,030
Adult Education Basic Grants to States	84.002	3704	1,578
Adult Education Basic Grants to States Total			<u>54,736</u>
IDEA - Special Education - Grants to State	84.027	3373	23
IDEA - Special Education - Grants to State	84.027	3374	90,099
IDEA - Special Education - Preschool Grants	84.173	3433	11,091
IDEA - Special Education - Preschool Grants	84.173	3434	5,252
Special Education Cluster			<u>106,466</u>
21st Century Learning Center	84.287	5502	20,559
21st Century Learning Center	84.287	5502J	1,000
21st Century Learning Center	84.287	5503	146,832
21st Century Learning Center	84.287	5501U	1,158
21st Century Learning Center Total			<u>169,549</u>
Race to the Top	84.413A	4364	81,884
Race to the Top	84.413A	4364P	817
Race to the Top	84.413A	4521	2,505
Race to the Top Total			<u>84,389</u>
Title IV - Rural and Low Income Schools	84.358	3463	1,866
Title IV - Rural and Low Income Schools	84.358	3464	18,782
Title IV - Rural and Low Income Schools Total			<u>20,648</u>
Total U.S. Department of Education			<u>537,543</u>
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-13	30,279
National School Lunchroom	10.555	7750002-14	99,362
School Breakfast Program	10.553	7760005-13	10,023
School Breakfast Program	10.553	7760005-14	31,945
Child & Adult Care Food Program	10.558	7790021-13	4,675
Child & Adult Care Food Program	10.558	7790021-14	16,067
Child & Adult Care Food Program	10.558	7800016-13	246
Child & Adult Care Food Program	10.558	7800016-14	847
Summer Food Service Program	10.559	7690024-13	9,379
Child Nutrition Cluster			<u>202,823</u>
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	10,661
Total U.S. Department of Agriculture			<u>213,484</u>
Total Federal Financial Assistance			<u><u>751,027</u></u>

\* Tested as major program

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Cloverport 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.

**NOTE B – FOOD DISTRIBUTION**

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

CLOVERPORT INDEPENDENTSCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2014

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

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ 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 deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ 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>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster
10.555/10.553/10.558/10.559	Child Nutrition Cluster
84.287	21 <sup>ST</sup> Century Community Learning Centers

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes      X   No

**Section II – Financial Statement of Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2014

Finding 13-1

**Condition:** Certain material adjustments were required as part of the audit process indicating a deficiency in internal controls over financial reporting.

**Recommendation:** Prior to releasing its annual financial report, the District should evaluate the ending balances in all funds and make any necessary adjustments to ensure that all account balances are complete and accurate.

**Current Status:** There were no such deficiencies in the current fiscal year.

Finding 13-2: 21<sup>st</sup> Century Learning Grant

**Condition:** The District did not maintain complete documentation of employees' time and effort for those employees working solely on a single federal program. In addition, inadequate time records were maintained for those employees who allocate time over various activities.

**Recommendation:** The auditor recommended that the district become familiar with the cost principles and documentation requirements of OMB Circular A-87.

**Current Status:** Employees' time and effort was appropriately documented and time records were adequately maintained in the current year.

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September 10, 2014

**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  
Cloverport Independent School District  
214 West Main, P.O. Box 37  
Cloverport, KY 40111

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, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cloverport Independent School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Cloverport Independent School District's basic financial statements, and have issued our report thereon dated September 10, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cloverport 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 the Cloverport Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cloverport 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 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 Cloverport 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*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Cloverport Independent School District in a separate letter dated September 10, 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.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
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September 10, 2014

**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  
Cloverport Independent School District  
214 West Main, P.O. Box 37  
Cloverport, KY 40111

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

We have audited the Cloverport 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 Cloverport Independent School District's major federal programs for the year ended June 30, 2014. Cloverport 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, contract, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Cloverport 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, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cloverport 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 Cloverport Independent School District's compliance.

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

In our opinion, Cloverport 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 Cloverport 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 Cloverport 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 Cloverport 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 a 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 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.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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September 10, 2014

**MANAGEMENT LETTER**

Members of the Board of Education  
Cloverport Independent School District  
214 West Main, P.O. Box 37  
Cloverport, KY 40111

In planning and performing our audit of the financial statements of Cloverport Independent School District for the year ended June 30, 2014, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made in the audit report for the year ended June 30, 2013, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

Cash receipts for concessions at the school activity fund level failed to have the proper signatures on the required forms.

Current Year Finding:

During our current year testing, no instances of improper signatures on required forms for school activity fund concessions were noted.

Prior Year Recommendation:

There were instances where multiple receipt forms at the school activity fund level were not signed by the individual students.

Current Year Finding:

We noted no instances of school activity fund multiple receipt forms not properly signed by the individual students.

Prior Year Recommendation:

There were disbursements made with no written receiving report. Additionally, there were instances where the original invoices were not marked “paid” in order to prevent duplicate payments.

Current Year Finding:

During the current year testing, there were no instances noted where proof of receipt for the purchase of tangible items was not present. Additionally, original invoices were noted to be properly marked as paid in order to prevent duplicate payment.

Prior Year Recommendation:

The Food Service Fund incurred increased losses which has driven the cash position to zero and leaving the Food Service Fund owing the General Fund \$21,208. It was recommended that the District review the revenues and expenses in the Food Service Fund to determine if a price increase is necessary or if expenses can be reduced.

Current Year Finding:

It is noted that the loss in the current year is not as large as in the prior year. It is also noted that the General Fund was required to transfer \$8,251 to the Food Service Fund to cover costs of operations. We recommend that the District continue to analyze the revenues and expenses in the Food Service Fund to look for more cost controls and also determine if there should be a price increase to cover future short falls.

Current Year Finding:

It was noted during the testing of fundraising receipts at the school activity fund level that the fundraiser worksheet (form F-SA-2B) was not prepared for half of the fundraisers held by the school. The Redbook requires that this form be completed for each fundraiser held for school activity funds. We recommend that the district instruct all club sponsors that they must prepare this form at the completion of each fundraising activity.

Managements Response:

We will instruct the club sponsors to complete the required forms for all fundraisers.

Current Year Finding:

It was noted during the testing of concessions at the school activity fund level that the inventory control sheet (form F-SA-5) was not being prepared as required. The Redbook requires that this form be completed for all activities where product is being sold and inventory is being maintained. We recommend that the District instruct all club sponsors that they must prepare this form for all sales activities where the school controls the inventory.

Managements Response:

We will instruct the club sponsors to properly prepare the inventory control sheet for all sales activities where inventory is involved.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

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

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**

**Certified Public Accountants  
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Lebanon, Kentucky 40033  
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Charles M. White, CPA  
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September 10, 2014

Members of the Board of Education  
Cloverport Independent School District  
214 West Main, P.O. Box 37  
Cloverport, KY 40111

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cloverport Independent School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 30, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Cloverport Independent School District are described in Note A to the financial statements. As described in Notes A and H to the financial statements, the Cloverport Independent School District changed accounting policies related to deferred outflows and deferred inflows of resources by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 10, 2014.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Cloverport Independent School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Cloverport Independent School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 38 and 39, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Cloverport Independent School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants