

DANVILLE INDEPENDENT SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2014

DANVILLE INDEPENDENT SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Danville Independent School District
Danville, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. 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 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 on the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the District adopted GASB Statement 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62* during the fiscal year.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 36 through 37 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 Danville Independent School District's basic financial statements. The combining financial statements, school schedules and schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements, school schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with accounting standards generally accepted in the United States of America. In our opinion, the combining financial statements, school schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic 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 October 17, 2014, on our consideration of Danville 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Danville Independent School District's internal control over financial reporting and compliance.



Certified Public Accountants
Elizabethtown, Kentucky
October 17, 2014

REQUIRED SUPPLEMENTARY INFORMATION

**DANVILLE INDEPENDENT BOARD OF EDUCATION
DANVILLE, KENTUCKY**

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

As management of the Danville 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 audit.

FINANCIAL HIGHLIGHTS

The beginning fund balance including activity funds for the District was \$4,895,133. The ending fund balance including activity funds for the District was \$6,845,253.

The General Fund had \$17,497,821 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfer, there were \$16,605,363 in General Fund expenditures. This includes on-behalf payments.

The Board of Education approved a 4% revenue increase in property tax rates for 2014. The rate levied was in accordance with KRS 160.470 (HB44).

The District currently has committed on the balance sheet \$135,601 for the potential KSBIT assessment.

The Board approved a 2% increase for certified and classified staff for the 2014 schools year.

The Board purchased one school bus to help get back on track with the replacement cycle. The purchase was made with cash from General Fund. The fleet is aging and replacement will need to occur on a strict cycle to avoid increasing repair bills. The Board plans to purchase two busses in the 2015 school year.

The school district was granted the status of District of Innovation by the Kentucky Department of Education. General Assembly established the start of this process with the 2013 session. Danville was one of 4 districts in the state granted this status. We received a grant from the Gates Foundation to help with implementation of the transformation of curriculum delivery in the district. With that distinction, to make changes you have to make financial investments. The Board committed an additional \$150,000 to the high school for the fiscal year 2013-2014. At the close of 2013 the Board set aside \$300,000 to continue funding the innovation plan for two years. At the close of 2014 the Board set aside an additional \$150,000 to extend the additional funding through 2017. The investment will help fund additional positions to implement the changes. When the implementation of the full innovation plan is complete the high school will have the ability to maintain staffing levels allocated by the approved SBDM formula. They will no longer need an additional infusion funds for additional staff.

The Board also set aside \$160,000 to apply to Bate Middle School partial re-roofing. Bids will be taken in the fall for this project.

The Board issued SFCC funded bonds from the 2004 offer to replace the windows and partial roof on Toliver Elementary. Total project cost \$1.3 M. The project restored the windows to be historically correct visually and consist of current energy savings construction.

The District Facility Plan is in the approval process to change the elementary grading configuration. The plan at the close of 2014 is to move to combined grade level elementary schools and move away from the current configuration of 3 elementary school with grades K-5 in each school. The new plan under consideration would house Central Office at Hogsett Elementary and K-1 at Jennie Rogers Elementary. Toliver Elementary would undergo considerable renovation and new construction to house grades 2-5 beginning in the Fall of 2017. The Board currently has \$12 million in bonding potential to launch the project.

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 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 is also supported by taxes and intergovernmental revenues.

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

Fund financial statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary fund is 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 11-18 of this report.

Notes to the financial statements.

The notes provide additional information that are 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 19-35 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 \$8 million as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets 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					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 7,589,691	\$ 5,653,724	\$ 161,170	\$ 115,048	\$ 7,750,861	\$ 5,768,772
Capital Assets	<u>10,921,386</u>	<u>11,859,044</u>	<u>84,168</u>	<u>102,075</u>	<u>11,005,554</u>	<u>11,961,119</u>
Total Assets	<u>18,511,077</u>	<u>17,512,768</u>	<u>245,338</u>	<u>217,123</u>	<u>18,756,415</u>	<u>17,729,891</u>
Deferred Outflows	<u>97,852</u>	<u>149,382</u>			<u>97,852</u>	<u>149,382</u>
Long-term Debt	8,418,966	7,941,987	-	-	8,418,966	7,941,987
Other Liabilities	<u>1,968,355</u>	<u>1,695,956</u>	<u>1,483</u>	<u>10,675</u>	<u>1,969,838</u>	<u>1,706,631</u>
Total Liabilities	<u>10,387,321</u>	<u>9,637,943</u>	<u>1,483</u>	<u>10,675</u>	<u>10,388,804</u>	<u>9,648,618</u>
Net Position						
Net investment in capital assets	2,549,204	3,841,988	84,168	102,075	2,633,372	3,944,063
Restricted	1,943,864	1,624,303			1,943,864	1,624,303
Unrestricted	<u>3,728,540</u>	<u>2,557,916</u>	<u>159,687</u>	<u>104,373</u>	<u>3,888,227</u>	<u>2,662,289</u>
Total Net Position	<u>\$ 8,221,608</u>	<u>\$ 8,024,207</u>	<u>\$ 243,855</u>	<u>\$ 206,448</u>	<u>\$ 8,465,463</u>	<u>\$ 8,230,655</u>

Budgetary Implications

In Kentucky the public school fiscal year is July 1 -June 30; other programs, i.e. some federal operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2 percent contingency. The district adopted a budget with \$1,778,061 in contingency, which is 7.4 percent of all funds.

Comments on Budget Comparisons

The original budget was amended to reflect changes in the site based allocations and anticipated revenues. The changes made were based on more accurate data being available after the first couple of months of the fiscal year.

The District recorded "On-Behalf" payments as revenues and expenditures during the fiscal year. This is the first year that on-behalf amounts have been included in the budget preparation. This allows a more accurate reading of budget vs actuals. On-behalf amounts are expenditures made by the Kentucky Department of Education or the Commonwealth of Kentucky on behalf of our District. To present a total picture of the cost for the district these amounts are included in our financial statements. These amount include Kentucky Teacher Retirement contributions, health insurance, SFCC debt service payments, technology related items that include McAfee virus and MUNIS cost. The amounts are budgeted as revenues to the district and as expenditures.

(Table 2)
Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
REVENUES:						
Program revenues:						
Charges for services	\$ 3,520	\$ 8,750	\$ 187,590	\$ 252,665	\$ 191,110	\$ 261,415
Operating grants and contributions	6,545,765	5,933,189	1,083,235	947,018	7,629,000	6,880,207
Capital grants and contributions	627,987	617,035	-	-	627,987	617,035
General revenues:						
Property taxes	6,669,320	6,525,662	-	-	6,669,320	6,525,662
Motor vehicle taxes	432,157	412,817	-	-	432,157	412,817
Utility taxes	1,102,583	1,162,555	-	-	1,102,583	1,162,555
Revenue in lieu of taxes	23,017	15,709	-	-	23,017	15,709
Investment earnings	37,761	33,883	283	185	38,044	34,068
State and formula grants	6,287,572	6,035,382	-	-	6,287,572	6,035,382
Miscellaneous	47,549	49,402	-	-	47,549	49,402
Total revenues	<u>21,777,231</u>	<u>20,794,384</u>	<u>1,271,108</u>	<u>1,199,868</u>	<u>23,048,339</u>	<u>21,994,252</u>
EXPENSES						
Program Activities						
Instruction	12,933,846	13,342,723	-	-	12,933,846	13,342,723
Student support	797,615	659,773	-	-	797,615	659,773
Instructional staff support	1,832,776	1,419,777	-	-	1,832,776	1,419,777
District administrative support	870,835	446,266	-	-	870,835	446,266
School administrative support	1,194,855	1,133,990	-	-	1,194,855	1,133,990
Business support	376,927	323,820	-	-	376,927	323,820
Plant operation and maintenance	2,309,898	2,266,953	-	-	2,309,898	2,266,953
Student transportation	745,686	755,853	-	-	745,686	755,853
Community service activities	227,162	202,048	-	-	227,162	202,048
Other	28,360	26,329	-	-	28,360	26,329
Interest costs	314,678	305,495	-	-	314,678	305,495
Business-type Activities:						
Food service			1,233,701	1,205,501	1,233,701	1,205,501
Total expenses	<u>21,632,638</u>	<u>20,883,027</u>	<u>1,233,701</u>	<u>1,205,501</u>	<u>22,866,339</u>	<u>22,088,528</u>
Excess before transfers and extraordinary item	144,593	(88,643)	37,407	(5,633)	182,000	(94,276)
Extraordinary item - KSBIT	52,808	(135,601)				
Increase (decrease) in net position	<u>\$ 197,401</u>	<u>\$ (224,244)</u>	<u>\$ 37,407</u>	<u>\$ (5,633)</u>	<u>\$ 182,000</u>	<u>\$ (94,276)</u>

The government's overall financial position and results of operations improved as a result of the year's operations as reflected in the increase in net position for the year.

	Governmental Activities Total		Net Cost of Services	
	Cost of Services			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instruction	\$ 12,933,846	\$ 13,342,723	\$ 8,316,522	\$ 9,430,363
Support Services	8,128,592	7,006,432	6,452,153	5,205,230
Community Services	227,162	202,048	-	-
Facilities acquisition and construction	-	-	(331,388)	(319,555)
Other	28,360	26,329	-	-
Interest costs	314,678	305,495	18,079	8,015
Total expenses	\$ 21,632,638	\$ 20,883,027	\$ 14,455,366	\$ 14,324,053

	Capital Assets (Net of Depreciation)					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 520,377	\$ 527,420	\$ -	\$ -	\$ 520,377	\$ 527,420
Buildings and improvements	9,374,491	9,916,033	-	-	9,374,491	9,916,033
Technology	377,828	568,869	3,943	5,526	381,771	574,395
Vehicles	402,503	462,004	-	-	402,503	462,004
General equipment	136,997	164,283	80,224	96,549	217,221	260,832
Total	10,812,196	11,638,609	84,167	102,075	10,896,363	11,740,684
Construction in progress	109,190	220,435	-	-	109,190	220,435
Total	\$ 10,921,386	\$ 11,859,044	\$ 84,167	\$ 102,075	\$ 11,005,553	\$ 11,961,119

	Change in Capital Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 11,859,044	\$ 12,672,862	\$ 102,075	\$ 119,868	\$ 11,961,119	\$ 12,792,730
Additions	468,414	395,825	-	-	468,414	395,825
Retirements	(248,504)	(22,315)	(230)	-	(248,734)	(22,315)
Depreciation	(1,157,568)	(1,187,328)	(17,678)	(17,793)	(1,175,246)	(1,205,121)
Ending balance	\$ 10,921,386	\$ 11,859,044	\$ 84,167	\$ 102,075	\$ 11,005,553	\$ 11,961,119

CURRENT ISSUES

The Board of Education has approved the Toliver renovation and addition project. Ross, Tarant Architects have been hired for the project. The project has been approved to proceed by Kentucky Department of Education. The architect is currently holding meetings with teachers and other stakeholders to gather their ideas before going to the drawing phase of the building. The goal is to issue bonds for the project in Spring 2015.

General Assembly increase the SEEK base and mandated and 1% salary increase for the 2014-15 school year. The SEEK base is slated by General Assembly to increase for the 2015-2016 school year with a 2% salary increase. The SEEK base increase will not be enough in the 15-16 school year to fully fund the increase.

The Board received K-8 Textbook funding for the first time in several years and increases to most state grants.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with an overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information should be directed to Superintendent Keith Look, or to the Finance Officer , Joy Campbell, or by mail at 152 Martin Luther King Blvd., Danville, Kentucky 40422.

BASIC FINANCIAL STATEMENTS

DANVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2014

Assets	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>Current Assets</u>			
Cash and cash equivalents	\$ 7,160,157	\$ 113,893	\$ 7,274,050
Inventory		33,167	33,167
Receivables:			
Taxes-current	210,611		210,611
Taxes-delinquent	318		318
Other receivables	34,299		34,299
Intergovernmental-State	8,214		8,214
Intergovernmental-Indirect Federal	176,092	14,110	190,202
Total Current Assets	7,589,691	161,170	7,750,861
<u>Noncurrent Assets</u>			
Non-depreciable capital assets	475,968		475,968
Depreciable capital assets, net of accumulated depreciation	10,445,418	84,168	10,529,586
Total Noncurrent Assets	10,921,386	84,168	11,005,554
Total Assets	18,511,077	245,338	18,756,415
<u>Deferred Outflows of Resources</u>			
Deferred amount on debt refundings	97,852		97,852
Total Deferred Outflows of Resources	97,852	-	97,852
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	43,459	1,483	44,942
Accrued liabilities	15,193		15,193
Unearned revenue	685,786		685,786
Bond obligations	805,000		805,000
Capital leases	57,225		57,225
Compensated absences	257,262		257,262
KSBIT	25,615		25,615
Interest payable	78,815		78,815
Total Current Liabilities	1,968,355	1,483	1,969,838
<u>Noncurrent Liabilities</u>			
Bond obligations	7,227,128		7,227,128
Capital leases	282,829		
Compensated absences	851,831		851,831
KSBIT	57,178		57,178
Total Noncurrent Liabilities	8,418,966	-	8,418,966
Total Liabilities	10,387,321	1,483	10,388,804
<u>Net Position</u>			
Net investment in capital assets	2,549,204	84,168	2,633,372
Restricted	1,943,864		1,943,864
Unrestricted	3,728,540	159,687	3,888,227
Total Net Position	\$ 8,221,608	\$ 243,855	\$ 8,465,463

The notes to the financial statements are an integral part of this statement.

DANVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 12,933,846	\$ 3,520	\$ 4,613,804	\$ -	\$ (8,316,522)	\$ -	\$ (8,316,522)
Support services:							
Student	797,615		291,240		(506,375)		(506,375)
Instruction staff	1,832,776		706,126		(1,126,650)		(1,126,650)
District administrative	870,835		85,323		(785,512)		(785,512)
School administrative	1,194,855		276,623		(918,232)		(918,232)
Business	376,927		66,767		(310,160)		(310,160)
Plant operation and maintenance	2,309,898		155,915		(2,153,983)		(2,153,983)
Student transportation	745,686		94,445		(651,241)		(651,241)
Community service activities	227,162		227,162		-		-
Facilities acquisition and construction				331,388	331,388		331,388
Other	28,360		28,360		-		-
Interest on long-term debt	314,678			296,599	(18,079)		(18,079)
Total Governmental Activities	21,632,638	3,520	6,545,765	627,987	(14,455,366)	-	(14,455,366)
Business-Type Activities:							
Food service	1,233,701	187,590	1,083,235			37,124	37,124
Total Business-Type Activities	1,233,701	187,590	1,083,235	-	-	37,124	37,124
Total Primary Government	\$ 22,866,339	\$ 191,110	\$ 7,629,000	\$ 627,987	(14,455,366)	37,124	(14,418,242)
			General Revenues:				
			Taxes:				
			Property taxes	6,669,320			6,669,320
			Motor vehicle taxes	432,157			432,157
			Utility taxes	1,102,583			1,102,583
			Revenue in lieu of taxes	23,017			23,017
			Investment earnings	37,761	283		38,044
			State and formula grants	6,287,572			6,287,572
			Miscellaneous	47,549			47,549
			Extraordinary item - KSBIT	52,808			52,808
			Total general revenues and extraordinary item	14,652,767	283		14,653,050
			Change in net position	197,401	37,407		234,808
			Net position - beginning	8,024,207	206,448		8,230,655
			Net position - ending	\$ 8,221,608	\$ 243,855		\$ 8,465,463

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

DANVILLE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 4,947,111	\$ 508,882	\$ 1,185,720	\$ 518,444	\$ 7,160,157
Receivables:					
Taxes - current	210,611				210,611
Taxes - delinquent	318				318
Other receivables	2,001	32,298			34,299
Intergovernmental - State		8,214			8,214
Intergovernmental - Indirect Federal		176,092			176,092
Total Assets	\$ 5,160,041	\$ 725,486	\$ 1,185,720	\$ 518,444	\$ 7,589,691
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 43,459				\$ 43,459
Accrued liabilities	15,193				15,193
Unearned revenue		685,786			685,786
Total Liabilities	58,652	685,786	-	-	744,438
Fund Balances					
Restricted	200,000	39,700	1,185,720	518,444	1,943,864
Committed	685,601				685,601
Assigned	792,975				792,975
Unassigned	3,422,813				3,422,813
Total Fund Balances	5,101,389	39,700	1,185,720	518,444	6,845,253
Total Liabilities and Fund Balances	\$ 5,160,041	\$ 725,486	\$ 1,185,720	\$ 518,444	\$ 7,589,691

The notes to the financial statements are an integral part of this statement.

DANVILLE INDEPENDENT SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION**

June 30, 2014

Total fund balance per fund financial statements	\$ 6,845,253
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	
	10,921,386
Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	
	97,852
Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:	
Bonds payable (net of discounts/premiums)	(8,032,128)
Capital leases	(340,054)
Interest payable	(78,815)
Compensated absences	(1,109,093)
KSBIT	(82,793)
	<hr/>
Net position for governmental activities	<u>\$ 8,221,608</u>

The notes to the financial statements are an integral part of this statement.

DANVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2014

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 6,239,203	\$ -	\$ -	\$ 430,117	\$ 6,669,320
Motor vehicle	432,157				432,157
Utilities	1,102,583				1,102,583
Revenue in lieu of taxes	23,017				23,017
Earnings on investments	35,540	429		1,792	37,761
Other local revenues	51,069	770,195		179,808	1,001,072
Intergovernmental - State	9,614,252	893,450	2,306	627,987	11,137,995
Intergovernmental - Indirect Federal		1,365,734			1,365,734
Total Revenues	17,497,821	3,029,808	2,306	1,239,704	21,769,639
Expenditures:					
Instruction	9,908,992	2,140,296		52,721	12,102,009
Support services:					
Student	654,348	140,776		1,126	796,250
Instruction staff	1,403,620	422,203		6,954	1,832,777
District administrative	520,149			278	520,427
School administrative	1,194,855			10,710	1,205,565
Business	376,927				376,927
Plant operation and maintenance	2,114,104	17,523			2,131,627
Student transportation	611,003	40,132			651,135
Facilities acquisition and construction			130,120		130,120
Community service activities		227,162			227,162
Other		28,360			28,360
Bond issue costs			22,617		22,617
Debt service:					
Principal				833,421	833,421
Interest				272,384	272,384
Total Expenditures	16,783,998	3,016,452	152,737	1,177,594	21,130,781
Excess (Deficit) of Revenues over Expenditures	713,823	13,356	(150,431)	62,110	638,858
Other Financing Sources (Uses):					
Revenue bond proceeds			1,325,000		1,325,000
Bond discount			(16,691)		(16,691)
Proceeds from disposal of capital assets	2,953				2,953
Transfers in	164,650	34,242		819,206	1,018,098
Transfers out	(346,238)	(7,898)		(663,962)	(1,018,098)
Total Other Financing Sources (Uses)	(178,635)	26,344	1,308,309	155,244	1,311,262
Net Change in Fund Balances	535,188	39,700	1,157,878	217,354	1,950,120
Fund Balance, July 1, 2013	4,566,201	-	27,842	301,090	4,895,133
Fund Balance, June 30, 2014	\$ 5,101,389	\$ 39,700	\$ 1,185,720	\$ 518,444	\$ 6,845,253

The notes to the financial statements are an integral part of this statement.

DANVILLE INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Net change in total fund balances per fund financial statements	\$ 1,950,120
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(930,519)
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	(1,308,309)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	833,421
In the statement of activities, only the gain (loss) on sale of capital assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(7,139)
Estimated claims that are not mature are not reported in this fund financial statement, but those that are probable and reasonably estimable This item is recorded as extraordinary item in the statement of activities as it is unusual in nature and infrequent in occurrence.	52,808
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.	<u>(392,981)</u>
Change in net position of governmental activities	<u>\$ 197,401</u>

The notes to the financial statements are an integral part of this statement.

DANVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2014

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 113,893
Inventory	33,167
Intergovernmental receivable - Indirect Federal	<u>14,110</u>
Total Current Assets	<u>161,170</u>
<u>Noncurrent Assets</u>	
Depreciable capital assets, net of accumulated depreciation	<u>84,168</u>
Total Noncurrent Assets	<u>84,168</u>
Total Assets	<u>245,338</u>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	<u>1,483</u>
Total Current Liabilities	<u>1,483</u>
<u>Net Position</u>	
Net investment in capital assets	84,168
Unrestricted	<u>159,687</u>
Total Net Position	<u><u>\$ 243,855</u></u>

The notes to the financial statements are an integral part of this statement.

DANVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2014

	Food Service Fund
Operating Revenues	
Lunchroom sales	\$ 177,284
Other operating revenue	10,306
Total Operating Revenues	<u>187,590</u>
Operating Expenses	
Salaries and wages	604,953
Materials and supplies	590,083
Depreciation	17,678
Other operating expenses	20,757
Total Operating Expenses	<u>1,233,471</u>
Operating (loss)	<u>(1,045,881)</u>
Non-Operating Revenues (Expenses)	
Federal grants	921,811
Donated commodities	70,510
State grants	10,985
State on-behalf payments	79,929
Loss on disposal of capital assets	(230)
Interest income	283
Total Non-Operating Revenues (Expenses)	<u>1,083,288</u>
Changes in net position	37,407
Net Position, July 1, 2013	<u>206,448</u>
Net Position, June 30, 2014	<u><u>\$ 243,855</u></u>

The notes to the financial statements are an integral part of this statement.

DANVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2014

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 187,590
Tuition and fees	
Cash paid to/for:	
Employees	(525,024)
Supplies	(519,401)
Other activities	(20,757)
	<u>(877,592)</u>
Net Cash Used by Operating Activities	(877,592)
Cash flows from Non-Capital Financing Activities	
Federal grants	990,892
State grants	10,985
	<u>1,001,877</u>
Net Cash Provided by Non-Capital Financing Activities	1,001,877
Cash Flows from Investing Activities	
Receipt of interest income	283
	<u>283</u>
Net Cash Provided by Investing Activities	283
Net change in cash and cash equivalents	124,568
Balances, beginning of year	<u>(10,675)</u>
Balances, end of year	<u>\$ 113,893</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,045,881)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	17,678
Donated commodities	70,510
State on-behalf payments	79,929
Change in assets and liabilities:	
Inventory	(1,311)
Accounts payable	1,483
	<u>1,483</u>
Net Cash Used by Operating Activities	<u>\$ (877,592)</u>
Schedule of Non-cash Transactions	
Donated commodities received from federal government	<u>\$ 70,510</u>
State on-behalf payments	<u>\$ 79,929</u>

The notes to the financial statements are an integral part of this statement.

DANVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2014

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 145,877
Receivables	
Total Assets	<u>\$ 145,877</u>
Liabilities	
Accounts payable	\$ 13,208
Due to student groups	<u>132,669</u>
Total Liabilities	<u>\$ 145,877</u>
Net Position Held in Trust	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Danville Independent School District (the "District") have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

Danville 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 Danville Independent School District. 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.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, District management has determined that the component unit reportable within the accompanying financial statements is the Danville Independent School District Finance Corporation, (the "Corporation"). 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 Boosters, Parent-Teacher Associations, etc.

Blended Component Unit - Danville Independent School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Danville 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. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT 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.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

The government-wide statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. 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 Governmental Funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Funds are accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income.

- (A) The General Fund is the main operating fund of the District. 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.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund.
- (C) The District Activity Fund is a Special Revenue Fund type and is used to account for funds received at the school level.
- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (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.
- (E) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs; and for the payment of interest on notes payable, as required by Kentucky Law.

Proprietary Funds

Proprietary Funds are used to account for ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Operating expenses include salaries, benefits, supplies and other items. All items not meeting this definition are reported as nonoperating revenues and expenses. The District has one Proprietary Fund.

The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and for on-behalf payments for retirement and health insurance paid by the State of Kentucky. This is a major fund.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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.

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due/paid.

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as unearned revenue.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Revenue Recognition

State Revenue Sources - Revenues from State sources for current operations are primarily from the Support Education Excellence in Kentucky ("SEEK"), administered by the Kentucky Department of Education ("KDE"). The District files reports on average daily attendance ("ADA") student membership with the KDE. The KDE accumulates information from these reports and calculates the allocation of SEEK funds to the District. After review and verification of ADA reports and supporting documentation, the KDE may adjust subsequent fiscal period allocations of SEEK funding. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

Property Taxes - On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

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

C. BUDGETARY POLICIES

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are considered to be demand deposits, money market funds, and other investments with an original maturity of 90 days or less.

F. INVENTORIES

Inventories are valued at cost, which approximates market. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method. Inventory. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method.

G. PREPAID ITEMS

Expenditures for insurance and similar services extending over more than one accounting period are allocated between or among accounting periods in the governmental funds (Consumption method).

H. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. All capital assets greater than \$5,000 are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not. All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. LONG-TERM DEBT

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Bond premiums/discounts are amortized over the life of the bonds while deferred loss on advance refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the new bonds both in a systematic and rational method, which approximates the effective-interest method.

J. COMPENSATED ABSENCES

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

K. ACCOUNTING ESTIMATES

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

L. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In May 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 requires the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB Statement 54 in fiscal year 2011. Required disclosure is reported in Note 9.

In June 2010, the GASB issued Statement 59, *Financial Instruments Omnibus*. GASB 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement is effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB Statement 59 in fiscal year 2012. The adoption of GASB 59 did not have any impact on the District's financial statements.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In November 2010, the GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011 and the District adopted GASB 60 in fiscal year 2013. The District does not have any SCAs and therefore the adoption of GASB 60 does not have any impact on the District's financial statements.

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012 and the District adopted GASB 61 in fiscal year 2013.

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011 and the District adopted GASB 62 in fiscal year 2013. The adoption of GASB 62 does not have any impact on the District's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, and the District adopted GASB 63 in fiscal year 2013.

In June 2011, the GASB issued Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53*. GASB 64 provides clarification on whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement is effective for periods beginning after June 15, 2011 and the District adopted GASB 64 in fiscal year 2013. The adoption of GASB 64 does not have any impact on the District's current financial statements.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 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. This statement is effective for periods beginning after December 15, 2012 and the District adopted GASB 65 in fiscal year 2013.

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012 and the District adopted GASB 66 in fiscal year 2013. There was no effect on the financial statements.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68, as amended by GASB 71 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In March 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement is effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 2 – PROPERTY TAXES

Property Tax Revenues – Property taxes are normally 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 usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property. The property tax rates assessed for the year ended June 30, 2014, to finance operations were \$.837 per \$100 valuation for real property, \$.837 per \$100 valuation for business personal property and \$.669 per \$100 valuation for motor vehicles.

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

NOTE 3 – DEPOSITS

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk 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 June 30, 2014, \$7,789,247 of the District's bank balance of \$8,039,897 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

NOTE 4 – INTERFUND ACTIVITIES

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Technology Match	\$ 26,344
General	Nonmajor Governmental	Operations	10,000
General	Nonmajor Governmental	Debt	309,894
Nonmajor Governmental	Nonmajor Governmental	Close projects	7,898
Nonmajor Governmental	General	Capital funds request	164,650
Nonmajor Governmental	Nonmajor Governmental	Debt	499,312
			<u>\$ 1,018,098</u>

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 5 – CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 366,778	\$ -	\$ -	\$ 366,778
Construction in progress	220,435	130,120	(241,365)	109,190
Total Capital Assets Not Being Depreciated	587,213	130,120	(241,365)	475,968
Capital Assets Being Depreciated:				
Land improvements	418,467	10,678		429,145
Buildings and improvements	23,484,188	230,687		23,714,875
Technology equipment	2,018,583	72,650	(107,060)	1,984,173
Vehicles	1,417,325	16,600		1,433,925
General equipment	1,566,607	7,679	(20,087)	1,554,199
Total Capital Assets Being Depreciated at Historical Cost	28,905,170	338,294	(127,147)	29,116,317
Accumulated depreciation:				
Land improvements	257,825	17,721		275,546
Buildings and improvements	13,568,155	772,229		14,340,384
Technology equipment	1,449,714	258,985	(102,354)	1,606,345
Vehicles	955,321	76,101		1,031,422
General equipment	1,402,324	32,532	(17,654)	1,417,202
Total accumulated depreciation	17,633,339	1,157,568	(120,008)	18,670,899
Total Other Capital Assets, net	11,271,831	(819,274)	(7,139)	10,445,418
Governmental Activities Capital Assets - Net	\$ 11,859,044	\$ (689,154)	\$ (248,504)	\$ 10,921,386
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 870,090			
Student support	1,366			
Plant	202,272			
Transportation	83,840			
	\$ 1,157,568			
Business-Type Activities				
Capital Assets Being Depreciated:				
Technology equipment	\$ 22,077		\$ (11,550)	10,527
General equipment	386,840	-	(6,459)	380,381
Totals at historical cost	408,917	-	(18,009)	390,908
Accumulated depreciation:				
Technology equipment	\$ 16,551	\$ 1,583	\$ (11,550)	6,584
General equipment	290,291	16,095	(6,229)	300,157
Total accumulated depreciation	306,842	17,678	(17,779)	306,741
Business-type Activities Capital Assets - Net	\$ 102,075	\$ (17,678)	\$ (230)	\$ 84,167

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 6 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District purchases commercial insurance.

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.

NOTE 7 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
Revenue bonds	\$ 7,537,990	\$ 1,325,000	\$ 764,000	\$ 8,098,990	\$ 805,000
Capital leases	409,475		69,421	340,054	57,225
Less Premium (Discount)	(66,065)	(16,691)	15,894	(66,862)	-
Total Bonds Payable	7,881,400	1,308,309	849,315	8,372,182	862,225
Other Liabilities:					
Compensated absences	758,407	467,538	116,852	1,109,093	257,262
Claims	135,601		52,808	82,793	25,615
Total Other Liabilities	894,008	467,538	169,660	1,191,886	282,877
Total Governmental Activities Long-Term Liabilities	\$ 8,775,408	\$ 1,775,847	\$ 1,018,975	\$ 9,564,068	\$ 1,145,102

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying compensated absences and claims.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

Bond Liabilities

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

Issue	Original Proceeds	Rates
2014	\$ 1,325,000	1.50% - 2.00%
KISTA ED	108,990	1.50% - 4.00%
2010R	1,130,000	1.00% - 2.00%
2009R	1,225,000	2.20% - 3.00%
2006SBB	1,170,000	4.21%
2006 ECB	3,915,000	4.01%
2006R	2,611,000	3.83%
2003R	515,000	3.00%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Danville 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.

On February 1, 2014, the District issued \$1,325,000 in 2014 Series Revenue Bonds with an average interest rate of 1.58 percent. The net proceeds of \$1,285,692 (after \$22,617 in cost of issuance and \$16,691 of discount) were deposited in the Construction Fund.

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

Capital Leases

	Gross Value
Classes of Property: Buses and Equipment	\$ 808,007
2015	\$ 67,005
2016	63,196
2017	62,755
2018	51,752
2019	51,181
2020-2023	82,053
Total minimum lease payments	377,942
Less: Amount representing interest	(37,888)
Present Value of Net Minimum Lease Payments	<u>\$ 340,054</u>

These assets are being depreciated with capital assets.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 7 – LONG-TERM LIABILITIES - 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 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>
2015	\$ 805,000	\$ 275,665	\$ 348,496	\$ 732,169
2016	825,000	296,987	388,855	733,132
2017	855,000	228,089	347,000	736,089
2018	880,000	200,503	350,545	729,958
2019	885,000	172,317	320,438	736,879
2020-2024	2,330,000	532,918	937,435	1,925,483
2025-2029	1,085,000	173,282	668,652	589,630
2030-2034	433,990	12,541	444,515	2,016
	<u>\$ 8,098,990</u>	<u>\$ 1,892,302</u>	<u>\$ 3,805,936</u>	<u>\$ 6,185,356</u>

NOTE 8 – PENSION PLANS

Plan Descriptions

The Danville Independent School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees' Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 8 – PENSION PLANS - CONTINUED

Funding Policy

KTRS plan members are required to contribute 11.355% of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008 of annual covered payroll. The rate for CERS fiscal year 2014, 2013 and 2012 was 18.89%, 19.55% and 18.96% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2014, 2013 and 2012 were \$550,204, \$575,234 and \$572,692, respectively, equal to the required contributions for each year.

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$1,250,542, \$1,189,253 and \$1,156,547 to KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the years ended June 30, 2014, 2013 and 2012 were \$221,212, \$174,703 and \$181,802.

Medical Insurance Plan

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

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

Funding Policy

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, local school district employers pay 1.5% of members' salary for the 2014 fiscal year.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

NOTE 8 – PENSION PLANS – CONTINUED

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities on these financial statements.

NOTE 9 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2014, there were no nonspendable fund balances

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, the District had \$200,000 restricted for compensated absences in the General Fund, \$39,700 restricted for grants in the Special Revenue Fund, \$118,227 restricted for schools in the District Activity Fund, \$115,686 restricted for capital projects in the Capital Outlay Fund, \$283,884 restricted for capital projects in the FSPK Fund, \$1,185,720 restricted for capital projects in the Construction Fund and \$647 restricted for debt in the Debt Service Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following General Fund commitments at June 30, 2014: \$550,000 for construction and \$135,601 for KSBIT.

Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. There were no amounts assigned related to encumbrances at June 30, 2014. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The District also had assigned \$450,000 for I funds, \$109,784 for buses, \$160,000 for Bates roof and \$73,191 for maintenance.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE 10 – COMMITMENTS AND 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.

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of the cases presently in progress.

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

The District also has construction commitments for on-going projects at June 30, 2014.

On January 14, 2013 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members. On June 26, 2013, members were notified that the KSBIT board voted on June 24, 2013 to submit a plan for the assessment to the Kentucky Department of Insurance in favor of a novation option, under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount. The option resulted in an estimated liability for the District of \$135,601. In August 2014, the District received an invoice for \$82,793 which is the amount expected to satisfy the claim. The amount of \$25,615 is recorded as a current liability in the Statement of Net Position as it is expected to be paid by June 30, 2015; however, it was not due at June 30, 2014, for the fund financial statements. The remaining balance is classified as a non-current liability in the Statement of Net Position. The item is also an extraordinary item in the Statement of Activities because the item is unusual in nature and infrequent in occurrence.

NOTE 11 – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amount recognized for the year ended June 30, 2014 was \$3,703,208, recorded as follows \$3,326,680 in the General Fund, \$296,599 recorded in the Debt Service Fund and \$79,929 recorded in the Food Service Fund.

REQUIRED SUPPLEMENTARY INFORMATION

DANVILLE INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

GENERAL FUND

Year Ended June 30, 2014

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues			
From local sources:			
Taxes:			
Property	\$ 5,854,000	\$ 5,948,000	\$ 6,239,203
Motor vehicle	350,000	350,000	432,157
Utilities	1,000,000	1,050,000	1,102,583
Revenue in lieu of taxes	16,000	16,000	23,017
Earnings on investments	19,500	25,000	35,540
Other local revenues	35,500	20,000	51,069
Intergovernmental - State	9,109,091	9,221,800	9,614,252
Total Revenues	<u>16,384,091</u>	<u>16,630,800</u>	<u>17,497,821</u>
Expenditures			
Instruction	10,859,192	10,726,680	9,908,992
Support services:			
Student	518,330	525,939	654,348
Instruction staff	1,075,781	1,067,856	1,403,620
District administrative	588,288	600,303	520,149
School administrative	1,206,585	1,257,982	1,194,855
Business	364,913	439,550	376,927
Plant operation and maintenance	2,411,019	2,505,217	2,114,104
Student transportation	845,171	838,239	611,003
Facilities acquisition and construction			
Other	1,507,312	1,741,087	
Total Expenditures	<u>19,376,591</u>	<u>19,702,853</u>	<u>16,783,998</u>
Excess (Deficit) of Revenues over Expenditures	(2,992,500)	(3,072,053)	713,823
Other Financing Sources (Uses)			
Proceeds from disposal of capital assets	1,500	1,500	2,953
Transfers in	50,000	164,250	164,650
Transfers out	(359,000)	(346,927)	(346,238)
Total Other Financing Sources (Uses)	<u>(307,500)</u>	<u>(181,177)</u>	<u>(178,635)</u>
Net Change in Fund Balance	(3,300,000)	(3,253,230)	535,188
Fund Balance, July 1, 2013	<u>3,300,000</u>	<u>3,253,230</u>	<u>4,566,201</u>
Fund Balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,101,389</u>

DANVILLE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL

SPECIAL REVENUE FUND

Year Ended June 30, 2014

	Original	Final	Actual
Revenues			
Earnings on investments	\$ -	\$ 113	\$ 429
Other local revenues		612,322	770,195
Intergovernmental - State	754,592	862,136	893,450
Intergovernmental - Indirect Federal	1,317,216	1,268,480	1,365,734
Total Revenues	2,071,808	2,743,051	3,029,808
Expenditures			
Instruction	1,130,900	1,954,337	2,140,296
Support services:			
Student	123,845	140,749	140,776
Instruction staff	713,062	438,843	422,203
Plant operation and maintenance			17,523
Student transportation		58,125	40,132
Community service activities	153,074	216,341	227,162
Other			28,360
Total Expenditures	2,120,881	2,808,395	3,016,452
Excess (Deficit) of Revenues over Expenditures	(49,073)	(65,344)	13,356
Other Financing Sources (Uses)			
Transfers in	49,073	65,344	34,242
Transfers out			(7,898)
Total Other Financing Sources (Uses)	49,073	65,344	26,344
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	39,700
Fund Balance, July 1, 2013			
Fund Balance, June 30, 2014	\$ -	\$ -	\$ 39,700

SUPPLEMENTARY INFORMATION

DANVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	<u>District Activity Fund</u>	<u>Capital Outlay Fund</u>	<u>FSPK Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets:					
Cash and cash equivalents	\$ 118,227	\$ 115,686	\$ 283,884	\$ 647	\$ 518,444
Total Assets	<u>\$ 118,227</u>	<u>\$ 115,686</u>	<u>\$ 283,884</u>	<u>\$ 647</u>	<u>\$ 518,444</u>
Fund Balances					
Restricted	\$ 118,227	\$ 115,686	\$ 283,884	\$ 647	\$ 518,444
Total Fund Balances	<u>\$ 118,227</u>	<u>\$ 115,686</u>	<u>\$ 283,884</u>	<u>\$ 647</u>	<u>\$ 518,444</u>

DANVILLE INDEPENDENT SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2014

	District Activity Fund	Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ -	\$ 430,117	\$ -	\$ 430,117
Other local revenue	179,808				179,808
Earnings on investments	208	600	984		1,792
Intergovernmental - State		164,650	166,738	296,599	627,987
Total Revenues	180,016	165,250	597,839	296,599	1,239,704
Expenditures					
Instruction	52,721				52,721
Support services:					
Student	1,126				1,126
Instruction staff	6,954				6,954
Plant operation and maintenance	278				278
Student transportation	10,710				10,710
Debt service:					
Principal				833,421	833,421
Interest				272,384	272,384
Total Expenditures	71,789	-	-	1,105,805	1,177,594
Excess (Deficit) of Revenues over Expenditures	108,227	165,250	597,839	(809,206)	62,110
Other Financing Sources (Uses)					
Transfers in	10,000			809,206	819,206
Transfers out		(164,650)	(499,312)		(663,962)
Total Other Financing Sources (Uses)	10,000	(164,650)	(499,312)	809,206	155,244
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	118,227	600	98,527	-	217,354
Fund balance, July 1, 2013	-	115,086	185,357	647	301,090
Fund balance, June 30, 2014	\$ 118,227	\$ 115,686	\$ 283,884	\$ 647	\$ 518,444

DANVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2014

	<u>MARY G. HOGSETT ELEMENTARY</u>	<u>JENNIE ROGERS ELEMENTARY</u>	<u>TOLIVER ELEMENTARY</u>	<u>BATE MIDDLE</u>	<u>DANVILLE HIGH</u>	<u>TOTAL AGENCY FUND</u>
Assets						
Cash and cash equivalents	\$ 8,091	\$ 6,694	\$ 1,132	\$ 19,341	\$ 62,643	\$ 97,901
Receivables						-
Total Assets	<u>\$ 8,091</u>	<u>\$ 6,694</u>	<u>\$ 1,132</u>	<u>\$ 19,341</u>	<u>\$ 62,643</u>	<u>\$ 97,901</u>
Liabilities						
Accounts payable	\$ -	\$ 145	\$ -	\$ -	\$ -	\$ 145
Due to student groups	8,091	6,549	1,132	19,341	62,643	97,756
Total Liabilities	<u>\$ 8,091</u>	<u>\$ 6,694</u>	<u>\$ 1,132</u>	<u>\$ 19,341</u>	<u>\$ 62,643</u>	<u>\$ 97,901</u>

DANVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2014

<u>SCHOOL</u>	<u>BALANCE</u> <u>July 1, 2013</u>	<u>RECEIPTS</u>	<u>DISBURSE-</u> <u>MENTS</u>	<u>BALANCE</u> <u>June 30, 2014</u>	<u>RECEIVABLES</u> <u>June 30, 2014</u>	<u>PAYABLE</u> <u>June 30, 2014</u>	<u>DUE TO</u> <u>GROUPS</u> <u>June 30, 2014</u>
MARY G. HOGSETT ELEMENTAR	\$ 14,426	\$ 47,955	\$ 54,290	\$ 8,091	\$ -	\$ -	\$ 8,091
JENNIE ROGERS ELEMENTAR	5,942	43,051	42,299	6,694	-	145	6,549
TOLIVER ELEMENTARY	16,638	33,136	48,642	1,132	-	-	1,132
BATE MIDDLE	29,165	70,684	80,508	19,341	-	-	19,341
DANVILLE HIGH	115,557	393,423	446,337	62,643	-	-	62,643
	<u>\$ 181,728</u>	<u>\$ 588,249</u>	<u>\$ 672,076</u>	<u>\$ 97,901</u>	<u>\$ -</u>	<u>\$ 145</u>	<u>97,756</u>

DANVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
DANVILLE HIGH SCHOOL
YEAR ENDED JUNE 30, 2014

NAME OF ACTIVITY	CASH		DISBURSE- MENTS	CASH		ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS
	BALANCES July 1, 2013	RECEIPTS		BALANCES June 30, 2014	RECEIVABLES June 30, 2014		
ART	\$ -	\$ 480	\$ 480	\$ -	\$ -	\$ -	\$ -
SCHOOL STORE	-	172	127	45	-	-	45
SERVICE LEARNING	-	154	154	-	-	-	-
BUSINESS	629	-	629	-	-	-	-
COPIER	101	-	101	-	-	-	-
STUDENT PARKING TAG	-	465	465	-	-	-	-
DANVILLE BD OF EDU	1,612	-	1,612	-	-	-	-
MINI GRANTS	979	-	979	-	-	-	-
ENGLISH DEPT	10	-	10	-	-	-	-
SPEECH/DRAMA	-	-	-	-	-	-	-
JOURNALISM	-	-	-	-	-	-	-
FEES (STUDENT)	76	10,318	10,373	21	-	-	21
FOREIGN LANGUAGE	768	-	768	-	-	-	-
GENERAL ADMINISTRATION	3,980	986	4,570	396	-	-	396
CAP & GOWN	1,160	40	1,200	-	-	-	-
TEST FEES	-	420	420	-	-	-	-
GUIDANCE	143	178	321	-	-	-	-
AP EXAMS	901	13,439	11,811	2,529	-	-	2,529
INSTRUMENTAL MUSIC	1	-	1	-	-	-	-
INTEREST	88	-	88	-	-	-	-
INTERSESSION	7,487	12,870	15,116	5,241	-	-	5,241
LIBRARY	2,452	588	2,631	409	-	-	409
MATHEMATICS DEPT	520	-	520	-	-	-	-
HEALTH/PHYS ED	990	-	990	-	-	-	-
PROJECT BASED LEARNING	139	-	139	-	-	-	-
SCIENCE	349	1,387	1,736	-	-	-	-
SOCIAL STUDIES	101	49	139	11	-	-	11
HUMANITIES	259	-	259	-	-	-	-
SPECIAL ED	129	28	157	-	-	-	-
FMD	-	600	600	-	-	-	-
SENIOR SCHOLARSHIP	538	538	638	438	-	-	438
BACK TO WALDEN	264	500	764	-	-	-	-
VOCAL MUSIC	552	4,898	4,281	1,169	-	-	1,169
TECHNOLOGY	4,064	-	4,064	-	-	-	-
ACADEMIC BOOSTERS	737	-	737	-	-	-	-
QUIZ BOWL	546	1,000	1,293	253	-	-	253
YEARBOOK	3,846	1,869	3,479	2,236	-	-	2,236
HALL OF FAME	100	-	100	-	-	-	-
VOLLEYBALL	-	5,843	5,769	74	-	-	74
LADY ADS CHRISTMAS	-	5,838	5,838	-	-	-	-
ALL "A" TOURNAMENT	-	1,890	1,890	-	-	-	-
ADMIRAL CLUB	15,893	34,532	50,425	-	-	-	-
BASEBALL	8,259	4,450	10,359	2,350	-	-	2,350
BOYS BASKETBALL	3,434	25,277	19,380	9,331	-	-	9,331
GIRLS BASKETBALL	602	41,273	30,475	11,400	-	-	11,400
CHEERLEADERS	22	5,212	5,234	-	-	-	-
CROSS COUNTRY	3,420	6,992	10,105	307	-	-	307
GIRLS SOCCER	-	9,975	9,725	250	-	-	250
FOOTBALL	4,224	33,150	34,281	3,093	-	-	3,093
GOLF	-	6,135	6,135	-	-	-	-
BOYS SOCCER	4,276	4,937	5,522	3,691	-	-	3,691
SWIMMING	-	6,532	5,362	1,170	-	-	1,170
BOYS TENNIS	-	2,395	2,395	-	-	-	-
GIRLS TENNIS	-	2,422	2,422	-	-	-	-
TRACK	60	6,183	4,159	2,084	-	-	2,084
GIRLS SOFTBALL	-	5,820	5,820	-	-	-	-
WRESTLING	2,257	9,587	9,732	2,112	-	-	2,112
GIRLS BASKETBALL BOOSTERS	-	2,972	2,261	711	-	-	711
CONSTITUTION BOWL	26,571	37,662	63,113	1,120	-	-	1,120
DYFB	4,453	3,920	8,373	-	-	-	-
UNIFORMS	-	10,000	9,264	736	-	-	736
ATHLETIC TRAVEL	-	17,504	17,504	-	-	-	-
FACULTY FUND	28	230	196	62	-	-	62
DECA	677	-	-	677	-	-	677
FCA	-	1,589	1,481	108	-	-	108

NAME OF ACTIVITY	CASH BALANCES July 1, 2013	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2014	RECEIVABLES June 30, 2014	ACCOUNTS PAYABLE June 30, 2014	DUE TO STUDENT GROUPS June 30, 2014
FORENSICS	243	28,305	28,530	18	-	-	18
FORENSICS NATIONALS	-	25,569	24,601	968	-	-	968
CLASS OF 2015	-	4,986	3,273	1,713	-	-	1,713
CLASS OF 2014	1,938	-	1,938	-	-	-	-
CLASS OF 2016	-	500	-	500	-	-	500
HOSA	96	-	96	-	-	-	-
JR STATESMAN OF AMERICA	-	8,023	7,437	586	-	-	586
PLAY PRODUCTION	847	3,272	2,274	1,845	-	-	1,845
ELEMENTARY PROGRAM	97	-	97	-	-	-	-
NHS	424	650	370	704	-	-	704
PROJECT GRAD	487	8,851	8,095	1,243	-	-	1,243
ROOTS & SHOOT	22	-	22	-	-	-	-
FLOIS SMITH LIBRARY FUND	421	575	996	-	-	-	-
SPANISH CLUB	463	1,012	1,275	200	-	-	200
STAFF APPRECIATION	484	-	472	12	-	-	12
STUDENT COUNCIL	1,281	1,640	2,152	769	-	-	769
TEXTBOOKS	920	8,025	8,898	47	-	-	47
STUDENT VENDING	134	1,739	359	1,514	-	-	1,514
FACULTY VENDING	3	121	124	-	-	-	-
N WEST MUTUAL SCHOL	-	500	-	500	-	-	500
KT KIRKLAND SCHOLARS	-	1,000	1,000	-	-	-	-
TOTALS	115,557	438,067	490,981	62,643	-	-	62,643
Transfers	-	44,643	44,641	-	-	-	-
TOTALS	\$ 115,557	\$ 393,424	\$ 446,340	\$ 62,643	\$ -	\$ -	\$ 62,643

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DANVILLE INDEPENDENT SCHOOL DISTRICT

'SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Cash Assistance			
Passed Through State Department of Education			
National School Lunch Program	10.555	7750002-13	\$ 129,968
		7750002-14	534,105
School Breakfast Program	10.553	7760005-13	46,527
		7760005-14	190,674
Summer Food Service Program for Children	10.559	7690024-13	3,930
		7740023-13	30,858
		7740023-14	14,110
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	057502-02	70,510
TOTAL CHILD NUTRITION CLUSTER			<u>1,020,682</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>1,020,682</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster (IDEA) -			
Passed Through State Department of Education			
Special Education - Grants to States	84.027	3373	26,799
		3374	327,774
			<u>354,573</u>
Special Education - Preschool Grants	84.173	3434	21,365
			<u>21,365</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>375,938</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	3103	101,584
		3103D	15,368
		3104	371,982
		3104D	107,339
		3104M	15,000
			<u>611,273</u>
Migrant Education - State Grant Program	84.011	3113	66,332
		3114	63,224
			<u>129,556</u>
Vocational Education - Basic Grants to States	84.048	3483A	887
		3484	17,004
			<u>17,891</u>

The accompanying notes are an integral part of this schedule.

DANVILLE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Fund for the Improvement of Education	84.215	532AF	<u>7,628</u>
Rural Education	84.358	3503 3504	<u>6,014</u> <u>32,799</u>
			<u>38,813</u>
English Language Acquisition Grants	84.365	3454	<u>3,942</u>
Improving Teacher Quality - State Grants	84.367	4013 4014	<u>21,102</u> <u>68,221</u>
			<u>89,323</u>
Race to the Top	84.413	4521	<u>1,843</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,276,207</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Emergency Food and Shelter National Board Program	97.024	6594	<u>1,300</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>1,300</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,298,189</u></u>

DANVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 Danville Independent School District under programs of the federal government for the year ended June 30, 2014. 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*. Because the schedule presents only a selected portion of the operations of Danville Independent School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of Danville Independent School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – FOOD DISTRIBUTION

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

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DANVILLE INDEPENDENT SCHOOL 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 auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? yes no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no

- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes 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 no

Section I-Summary of Auditor's Results - Continued

Identification of major programs:

CFDA Number	Federal Program or Cluster
DEPARTMENT OF AGRICULTURE	
	Child Nutrition Cluster -
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children
DEPARTMENT OF EDUCATION	
	Special Education Cluster -
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants

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

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

MATERIAL WEAKNESSES

REFERENCE NUMBER 2014-001 ADJUSTMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions.

Condition: As part of the audit we proposed material adjustments to the financial statements for on-behalf payments.

Cause: The District did not identify items to be corrected.

Effect: The design of the internal controls identifying adjustments did not prevent material adjustments.

Recommendation: We recommend District management and financial personnel review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items.

Management Response: Management will review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items by October 31, 2014.

Section III – Federal Award Findings and Questioned Costs

No Matters

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

DANVILLE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2014

There were no prior audit findings.

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

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Danville Independent School District
Danville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Danville Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Danville Independent School District's basic financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Danville Independent School District in a separate letter dated October 17, 2014.

Danville Independent School District's Response to Findings

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

Purpose of this Report

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



Certified Public Accountants
Elizabethtown, Kentucky
October 17, 2014

**INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Danville Independent School District
Danville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Danville 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 Danville Independent School District's major federal programs for the year ended June 30, 2014. Danville Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Danville Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Danville 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 Danville Independent School District's compliance

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Danville 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 Danville 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 in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major 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 Danville Independent School District's internal control over compliance.

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

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

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



Certified Public Accountants
Elizabethtown, Kentucky
October 17, 2014

MANAGEMENT LETTER AND COMMENTS

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



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Danville Independent School District
Danville, Kentucky

In planning and performing our audit of the basic financial statements of Danville Independent School District for the year ended June 30, 2014, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated October 17, 2014, contains our report on the District's internal control. This letter does not affect our report dated October 17, 2014, on the financial statements of the Danville Independent School District.

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 their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management, the members of the Danville Independent Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stiles, Carter & Associates".

Certified Public Accountants
Elizabethtown, Kentucky
October 17, 2014

DANVILLE INDEPENDENT SCHOOL DISTRICT

COMMENTS

June 30, 2014

CURRENT YEAR COMMENTS

BATE MIDDLE

CASH ADVANCES

We noted check 10387 dated 8/26/2013 in the amount of \$40 written to Robin Moler for a CBI trip from the FMD fund did not contain form F-SA-9, Expense Report.

We noted check 10580 dated 4/22/2014 in the amount of \$210 written to Robin Moler the end of year outing from the Cheerleading fund did not contain form F-SA-9, Expense Report.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

TRAVEL REIMBURSEMENTS

We noted check 10442 dated 11/11/2013 in the amount of \$151 written to Tony Carney for tournament travel from the Academic Team fund contained form F-SA-16, Travel Voucher, however the form was dated 11/7/2013 for travel expenses incurred on 10/26/2013.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

INVENTORY CONTROL

We noted deposit dated 3/17/14 in the amount of \$2,560 contained form F-SA-6, Multiple Receipt Form, in the amount of \$710 for t-shirt sales but form F-SA-5, Inventory Control Worksheet, was not located. We also noted within the same deposit was form F-SA-17, Sales from Concessions/Bookstore/School Store/Pencil Machine, for cheerleading concession sales but form F-SA-5, Inventory Control Worksheet, was not located.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

DANVILLE INDEPENDENT SCHOOL DISTRICT

COMMENTS

June 30, 2014

DANVILLE HIGH

ANNUAL FINANCIAL REPORT

We noted form F-SA-15A, Annual Financial Report, was signed and dated by the bookkeeper and principal on 7/30/2014. The Redbook requires that this be submitted by 7/25.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

TICKET SALES

We noted a deposit dated 9/30/2013 which contained four Multiple Receipt Forms, F-SA-6, for dance ticket sales for the homecoming dance totaling \$329, but could not locate the Requisition and Report of Ticket Sales, F-SA-1, or Fundraiser Worksheet, F-SA-2B.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

PURCHASE ORDERS

We noted check #19161, dated 11/26/2013, written to Lowe's Sporting Goods in the amount of \$4,253.15 contained two invoices that were not approved before purchase. The Purchase Order for this check was dated 6/17/2013 and contained invoice #1224/1 dated 1/23/13 in the amount of \$117 and invoice #26192/1 dated 6/12/2013 in the amount of \$412.15.

We noted check #18956, dated 9/24/13 written to Parker Lawson in the amount of \$100.00 to officiate a boy's soccer game did not contain form F-SA-7, Purchase Order with check documentation. The school had a blanket Purchase Order for officials to cover officials for all sporting events, however, this blanket Purchase Order for Boy's Soccer was not dated.

We noted check #18779, dated 7/22/13 written to Wal-Mart in the amount of \$650.00 to purchase gift cards for gas purchases contained form F-SA-7, Purchase Order, in the check documentation that was not dated. We could not determine if this purchase approved before the purchase was made.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

UNALLOWABLE PURCHASES

We noted check #18779, dated 7/22/13 written to Wal-Mart in the amount of \$650.00 to purchase gift cards for gas purchases was an unallowable purchase. Per Redbook, school activity funds are not allowed to purchase gift cards.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

DANVILLE INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2014

DANVILLE HIGH – CONTINUED

INVENTORY CONTROL

We noted the school has ballgame concessions and snack sales fundraisers. Per conversation with the bookkeeper, the school does not keep form F-SA-5, inventory control on the concessions/fundraisers. The sponsor must complete this form monthly per Redbook requirements.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

JENNIE ROGERS ELEMENTARY

MISSING INVOICE

We noted check #1441 in the amount of \$1,003.77, dated 9/10/2013, written to Sportime from the Student Council fund for a basketball goal was paid from the vendor's quote and not an invoice.

We noted check #1516 in the amount of \$125, dated 3/17/2014, written to Michael Robinson from the 5th Grade Trip fund for a gratuity for the charter bus driver was not paid from a vendor's invoice or the Standard Invoice, Form F-SA-8. The school paid this item from a typed letter which was not signed for approval from the principal and did not contain the vendor's certification.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

DANVILLE INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2014

MARY G HOGSETT ELEMENTARY

CREDIT CARD SIGN IN/OUT

We noted there was only one form F-SA-13, Credit Card Sign In/Out Form, for both of the school's Wal-Mart Credit Cards. The Redbook requires a separate form F-SA-13 for each card with a separate card number.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

FUNDRAISERS

We noted both the 5th Grade Kettle Corn Sales and the 4th Grade Bulb sales started on 8/16/2013 and were not approved as a fundraiser until 8/21/2013.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

INVENTORY CONTROL

We noted forms F-SA-5, Inventory Control Worksheet for the 4th Grade & 5th Grade Kettle Corn Sales were not on file.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

TOLIVER ELEMENTARY

ANNUAL FINANCIAL REPORT

We noted form F-SA-15A, Annual Financial Report, was signed and dated by the bookkeeper and principal on 7/28/2014. The Redbook requires that this form be submitted by 7/25.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.

INVENTORY CONTROL

We noted forms F-SA-5, Inventory Control Worksheet, for the school's bookstore were not complete. The person in charge of the bookstore is counting and reporting ending inventory each month. However, sales and deliveries are not reported.

MANAGEMENT RESPONSE

Management has discussed this item with school personnel and corrective action will be taken by October 31, 2014.