

**FAIRVIEW INDEPENDENT  
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Fairview Independent School District  
Ashland, 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 Fairview Independent School District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 9 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 Fairview Independent School District's basic financial statements. The combining and individual non-major fund financial statements and the 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 and individual non-major fund financial statements and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of Fairview Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Kelley Galloway Smith Grady, P.C.*

November 14, 2014

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

As management of the Fairview Independent School District (the "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 this report.

**FINANCIAL HIGHLIGHTS**

- The beginning General Fund cash balance for the District was \$(17,221). Additionally, \$1,647,484 in beginning cash and cash equivalents was restricted for grants, construction, food services and student activities and were accounted for in separate funds. The ending General Fund cash balance was \$466,447, and there was \$322,690 in cash and cash equivalents in other funds.
- During fiscal year 2014, the District saw its financial condition improve. This was the result of the Utility Gross Receipts Tax enacted in the prior fiscal year. This provided much needed new revenue. The District is primarily reliant on funding by the Commonwealth of Kentucky. The Commonwealth decreased its funding level by \$5 per student Average Daily Attendance, which negatively impacted the District's finances for the year. The District ended the year with a 6.28% contingency balance.
- The General Fund had \$7.4 million in revenues including on-behalf payments, of which 67.5% consisted of the state funding (SEEK program), and 13.9% consisted of property and motor vehicle taxes, and 16.8% consisted of utility taxes. Excluding inter-fund transfers, there was \$7.2 million in General Fund expenditures during the year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District made \$423,708 in bond payments during the 2013-2014 year. No new bond issues were sold by the District during fiscal year 2014.
- Total enrollment increased from 849 students in 2013 to 864 in 2014. Average daily attendance increased to 790 students. The SEEK funding is based upon average daily attendance.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of facilities, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 - 11 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The state has mandated a uniform system (MUNIS administrative software) and chart of accounts for all Kentucky public school districts. 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, and fiduciary funds. The District's only proprietary fund is food service operations. Fiduciary funds account for activities of student groups and programs. All other activities of the District are included in the governmental funds.

The fund financial statements can be found on pages 12 - 21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 22 - 34 of this report.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

#### Net Position for the period ending June 30, 2014 as compared to June 30, 2013, as restated.

	<b>June 30, 2014</b>	<b>(Restated) June 30, 2013</b>
Current Assets	\$ 938,850	\$ 1,833,856
Noncurrent Assets	8,880,207	7,761,404
Total Assets	<u>9,819,057</u>	<u>9,595,260</u>
Deferred Outflows	66,595	78,522
Current Liabilities	784,097	815,297
Noncurrent Liabilities	5,768,808	6,185,924
Total Liabilities	<u>6,552,905</u>	<u>7,001,221</u>
<u>Net Position</u>		
Net investment in		
Capital assets	2,701,311	1,321,488
Restricted	198,400	1,232,229
Unrestricted	433,036	118,844
Total Net Position	<u>\$ 3,332,747</u>	<u>\$ 2,672,561</u>

The following table presents a summary of revenue and expense on a government-wide basis for the fiscal years ended June 30, 2014 and 2013, respectively:

	2014 Amount	2013 Amount
<b>Revenues:</b>		
Local revenue sources	\$ 2,417,448	\$ 1,527,600
State revenue sources	5,796,761	5,411,481
Federal revenue sources	914,489	816,131
Other revenues	114,522	7,106
Interest income	1,270	8,731
<b>Total revenues</b>	<u>9,244,490</u>	<u>7,771,049</u>
<b>Expenses:</b>		
Instruction	4,357,199	3,972,721
Student support services	235,849	327,205
Instructional support	360,183	374,592
District administration	277,462	247,320
School administration	433,521	395,866
Business support	411,901	379,667
Plant operations	1,158,976	1,015,125
Student transportation	400,365	388,035
Community services	128,269	116,456
Food services	614,974	587,700
Debt service - interest	205,605	199,063
Total expenses before KSBIT	<u>8,584,304</u>	<u>8,003,750</u>
Extraordinary item - KSBIT	-	141,003
<b>Total expenses</b>	<u>8,584,304</u>	<u>8,144,753</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 660,186</u>	<u>\$ (373,704)</u>

### Capital Assets

At the end of June 30, 2014, the District's investment in capital assets for its governmental and business-type activities was \$8,880,207, representing an increase of \$1,118,803, net of depreciation, from the prior year. Construction in progress decreased significantly due to completion of major renovations at the high school during the fiscal year ended June 30, 2014.

### Debt Service

At year-end, the District had approximately \$6.2 million in outstanding debt, compared to \$6.5 million last year. The District continues to maintain favorable debt ratings from Moody's and Standard & Poor's.

## FUND FINANCIAL STATEMENTS

### Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2014 and 2013, were \$7.4 and \$6.1 million, respectively.
- General fund budget to actual comparison varied slightly from line item to line item with the ending actual balance being \$282,129 more than budget, before interfund transfers. The increase resulted primarily from \$1,150,730 more in revenues as compared to the budget, with \$868,601 in expenditures more than the budget.
- The total cost of all programs and services of the Governmental Funds and Proprietary Funds was \$10.1 million and \$9.6 million for the fiscal years ended June 30, 2014 and 2013, respectively.

- Site Based Decision Making Councils expended 54.3% of the General Fund budget. Additionally, 15.1% was spent on maintenance and operations, 3.9% on District administration, 7.4% on transportation and 9% on business support services.

### **BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for the 2014 - 2015 fiscal year with a 11% contingency.

Questions regarding this report should be directed to the Superintendent, William Musick, or to the Finance Director, Ernest P Sharp, II, at (606) 324-3877, or by mail at 2201 Main St. WW, Ashland, KY 41102.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 585,076	\$ 74,453	\$ 659,529
Receivables (net of allowances for uncollectibles):			
Taxes	141,813	-	141,813
Intergovernmental - federal	120,807	-	120,807
Inventories	-	16,701	16,701
Capital assets, not being depreciated	730,914	-	730,914
Capital assets, being depreciated, net	8,094,968	54,325	8,149,293
Total assets	<u>9,673,578</u>	<u>145,479</u>	<u>9,819,057</u>
<b>Deferred outflows of resources</b>			
Deferred savings from refunding bonds	66,595	-	66,595
Total deferred outflows of resources	<u>66,595</u>	<u>-</u>	<u>66,595</u>
<b>Liabilities</b>			
Accounts payable	168,146	-	168,146
Unearned revenue	119,426	-	119,426
Portion due or payable within one year:			
KSBIT payable	44,560	-	44,560
Capital leases	35,335	-	35,335
Debt obligations	375,000	-	375,000
Noncurrent liabilities:			
Portion due or payable after one year:			
KSBIT payable	66,842	-	66,842
Capital leases	142,952	-	142,952
Debt obligations, net of discounts of \$55,986	5,559,014	-	5,559,014
Accrued sick leave	41,630	-	41,630
Total liabilities	<u>6,552,905</u>	<u>-</u>	<u>6,552,905</u>
<b>Net Position</b>			
Net investment in capital assets	2,646,986	54,325	2,701,311
Restricted	107,246	91,154	198,400
Unrestricted	433,036	-	433,036
Total net position	<u>\$ 3,187,268</u>	<u>\$ 145,479</u>	<u>\$ 3,332,747</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
Instruction	\$ 4,357,199	\$ 14,279	\$ 469,125	\$ -	\$ (3,873,795)	\$ -	\$ (3,873,795)
Support services:							
Students	235,849	-	-	-	(235,849)	-	(235,849)
Instructional staff	360,183	-	73,502	-	(286,681)	-	(286,681)
District administration	277,462	-	-	-	(277,462)	-	(277,462)
School administration	433,521	-	-	-	(433,521)	-	(433,521)
Business and other support services	411,901	-	2,865	-	(409,036)	-	(409,036)
Operation and maintenance of plant	1,158,976	-	-	-	(1,158,976)	-	(1,158,976)
Student transportation	400,365	-	-	-	(400,365)	-	(400,365)
Community services	128,269	-	76,821	-	(51,448)	-	(51,448)
Debt service - interest	205,605	-	-	519,518	313,913	-	313,913
Total governmental activities	<u>7,969,330</u>	<u>14,279</u>	<u>622,313</u>	<u>519,518</u>	<u>(6,813,220)</u>	<u>-</u>	<u>(6,813,220)</u>
Business-type activities:							
Food service	614,974	63,820	548,604	29,497	-	26,947	26,947
Total business-type activities	<u>614,974</u>	<u>63,820</u>	<u>548,604</u>	<u>29,497</u>	<u>-</u>	<u>26,947</u>	<u>26,947</u>
Total primary government	<u>\$ 8,584,304</u>	<u>\$ 78,099</u>	<u>\$ 1,170,917</u>	<u>\$ 549,015</u>	<u>\$ (6,813,220)</u>	<u>\$ 26,947</u>	<u>\$ (6,786,273)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 946,783	\$ -	\$ 946,783
Motor vehicle					164,022	-	164,022
Utility					1,242,823	-	1,242,823
Intergovernmental revenues:							
State					4,977,039	-	4,977,039
Investment earnings					1,175	95	1,270
Other local revenues					114,522	-	114,522
Total general revenues					<u>7,446,364</u>	<u>95</u>	<u>7,446,459</u>
Change in net position					633,144	27,042	660,186
Net position, June 30, 2013, as restated					<u>2,554,124</u>	<u>118,437</u>	<u>2,672,561</u>
Net position, June 30, 2014					<u>\$ 3,187,268</u>	<u>\$ 145,479</u>	<u>\$ 3,332,747</u>

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

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

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 466,447	\$ 11,383	\$ 54,636	\$ 52,610	\$ 585,076
Receivables (net of allowances for uncollectibles):					
Taxes	141,813	-	-	-	141,813
Other	12,764	108,043	-	-	120,807
Total assets	<u>\$ 621,024</u>	<u>\$ 119,426</u>	<u>\$ 54,636</u>	<u>\$ 52,610</u>	<u>\$ 847,696</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 168,146	\$ -	\$ -	\$ -	\$ 168,146
Unearned revenue	-	119,426	-	-	119,426
Total liabilities	<u>168,146</u>	<u>119,426</u>	<u>-</u>	<u>-</u>	<u>287,572</u>
<b>Fund balances:</b>					
Restricted for capital expenditures	-	-	54,636	52,473	107,109
Restricted for debt service	-	-	-	137	137
Unassigned	452,878	-	-	-	452,878
Total fund balances	<u>452,878</u>	<u>-</u>	<u>54,636</u>	<u>52,610</u>	<u>560,124</u>
Total liabilities and fund balances	<u>\$ 621,024</u>	<u>\$ 119,426</u>	<u>\$ 54,636</u>	<u>\$ 52,610</u>	<u>\$ 847,696</u>

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

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

Fund balances—total governmental funds		\$ 560,124
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,825,882
Savings from refunding bonds are not available to pay current period expenditures and therefore, not reported in the funds.		66,595
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the governmental funds financial statements.		
Bonds payable	(5,934,014)	
Capital leases payable	(178,287)	
Accrued sick leave	(41,630)	
KSBIT payable	(111,402)	(6,265,333)
Net position of governmental activities		<u>\$ 3,187,268</u>

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

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

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes -					
Property	\$ 863,191	\$ -	\$ -	\$ 83,592	\$ 946,783
Motor vehicles	164,022	-	-	-	164,022
Utility	1,242,823	-	-	-	1,242,823
Interest income	1,175	-	-	-	1,175
Other local revenues	114,522	-	-	-	114,522
Intergovernmental - State	4,977,039	258,458	-	519,518	5,755,015
Intergovernmental - Indirect federal	-	363,855	-	-	363,855
Intergovernmental - Direct federal	14,279	-	-	-	14,279
Total revenues	<u>7,377,051</u>	<u>622,313</u>	<u>-</u>	<u>603,110</u>	<u>8,602,474</u>
<b>Expenditures:</b>					
Current:					
Instruction	3,853,336	481,376	-	-	4,334,712
Support services:					
Students	231,641	-	-	-	231,641
Instructional staff	246,941	73,502	-	-	320,443
District administration	273,198	-	-	-	273,198
School administration	433,378	-	-	-	433,378
Business and other support services	615,816	2,865	-	-	618,681
Operation and maintenance of plant	980,817	-	-	-	980,817
Student transportation	475,563	-	-	-	475,563
Community services	51,448	76,821	-	-	128,269
Facility acquisition and construction	-	-	1,102,447	-	1,102,447
Debt service	32,784	-	-	550,637	583,421
Total expenditures	<u>7,194,922</u>	<u>634,564</u>	<u>1,102,447</u>	<u>550,637</u>	<u>9,482,570</u>
Excess (deficiency) of revenues over (under) expenditures	<u>182,129</u>	<u>(12,251)</u>	<u>(1,102,447)</u>	<u>52,473</u>	<u>(880,096)</u>
<b>Other financing sources (uses):</b>					
Proceeds from issuance of debt	102,563	-	-	-	102,563
Transfers in	-	12,251	-	317,450	329,701
Transfers out	(12,251)	-	-	(317,450)	(329,701)
Total other financing sources and uses	<u>90,312</u>	<u>12,251</u>	<u>-</u>	<u>-</u>	<u>102,563</u>
Net change in fund balances	272,441	-	(1,102,447)	52,473	(777,533)
Fund balances, June 30, 2013	<u>180,437</u>	<u>-</u>	<u>1,157,083</u>	<u>137</u>	<u>1,337,657</u>
Fund balances, June 30, 2014	<u>\$ 452,878</u>	<u>\$ -</u>	<u>\$ 54,636</u>	<u>\$ 52,610</u>	<u>\$ 560,124</u>

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

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

Net change in fund balances—total governmental funds \$ (777,533)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,457,012	
Depreciation expense	<u>(349,106)</u>	1,107,906

Bond and capital lease proceeds are recognized as revenues in the fund financial statement, but are increases in liabilities in the statement of net position. (102,563)

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave		(2,083)
Amortization of deferred savings from refunding bonds		(11,928)
Amortization of bond discount		(4,363)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position. 423,708

Change in net position of governmental activities \$ 633,144

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

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2014**

	<u>Food Service Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 74,453
Inventories	<u>16,701</u>
Total current assets	<u>91,154</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>54,325</u>
Total noncurrent assets	<u>54,325</u>
Total assets	<u><u>\$ 145,479</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	<u>\$ -</u>
Total current liabilities	<u>-</u>
Total liabilities	<u>-</u>
<b>Net Position</b>	
Invested in capital assets	54,325
Restricted	<u>91,154</u>
Total net position	<u>145,479</u>
Total liabilities and net position	<u><u>\$ 145,479</u></u>

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

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

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 63,820
Total operating revenues	<u>63,820</u>
Operating expenses:	
Salaries and wages	199,294
Employee benefits	89,971
Contract services	10,137
Materials and supplies	308,274
Depreciation	7,298
Total operating expenses	<u>614,974</u>
Operating loss	<u>(551,154)</u>
Nonoperating revenues:	
Federal grants	506,858
Investment income	95
Donated commodities	29,497
State grants	4,956
On-behalf payments	36,790
Total nonoperating revenues	<u>578,196</u>
Increase in net position	27,042
Net position, June 30, 2013	<u>118,437</u>
Net position, June 30, 2014	<u><u>\$ 145,479</u></u>

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

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

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 63,820
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(295,523)
Payments to employees	(252,475)
Net cash used for operating activities	<u>(484,178)</u>
 Cash flows from noncapital financing activities:	
Government grants	534,083
Net cash provided by noncapital and related financing activities	<u>534,083</u>
 Cash flows from capital and related financing activities:	
Purchases of capital assets	(18,195)
Net cash used for capital and related financing activities	<u>(18,195)</u>
 Cash flows from investing activities:	
Interest received on investments	95
Net cash provided by investing activities	<u>95</u>
 Net increase in cash and cash equivalents	31,805
 Cash and cash equivalents, June 30, 2013	<u>42,648</u>
 Cash and cash equivalents, June 30, 2014	<u><u>\$ 74,453</u></u>
 Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (551,154)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	7,298
Donated commodities	29,497
On-behalf payments	36,790
Change in assets and liabilities:	
Accounts receivable	10,092
Inventory	(16,701)
Accounts payable	<u>-</u>
 Net cash used for operating activities	<u><u>\$ (484,178)</u></u>
 Non-cash items:	
On-behalf payments	\$ 36,790
Donated commodities	29,497

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

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

	Agency Funds
<b>Assets</b>	
Cash and cash equivalents	\$ 129,608
Total assets	<u>129,608</u>
<b>Liabilities</b>	
Accounts payable	-
Due to students	129,608
Total liabilities	<u>129,608</u>
<b>Net position held in trust</b>	<u><u>\$ -</u></u>

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

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes -				
Property	\$ 775,000	\$ 775,000	\$ 863,191	\$ 88,191
Motor vehicles	130,000	130,000	164,022	34,022
Utility	500,000	500,000	1,242,823	742,823
Interest income	10,000	10,000	1,175	(8,825)
Other local revenues	5,000	5,000	114,522	109,522
Intergovernmental - State	3,604,558	3,604,558	3,795,276	190,718
Intergovernmental - Federal	20,000	20,000	14,279	(5,721)
Total revenues	<u>5,044,558</u>	<u>5,044,558</u>	<u>6,195,288</u>	<u>1,150,730</u>
Expenditures:				
Current:				
Instruction	2,477,419	2,477,419	2,953,912	(476,493)
Support services:				
Students	175,875	175,875	198,414	(22,539)
Instructional staff	200,251	200,251	212,169	(11,918)
District administration	220,080	220,080	243,584	(23,504)
School administration	271,733	271,733	372,466	(100,733)
Business and other support services	271,018	271,018	555,068	(284,050)
Operation and maintenance of plant	644,028	644,028	933,850	(289,822)
Student transportation	240,674	240,674	459,464	(218,790)
Community services	-	-	51,448	(51,448)
Contingency	568,480	568,480	-	568,480
Debt service	75,000	75,000	32,784	42,216
Total expenditures	<u>5,144,558</u>	<u>5,144,558</u>	<u>6,013,159</u>	<u>(868,601)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(100,000)</u>	<u>(100,000)</u>	<u>182,129</u>	<u>282,129</u>
Other financing sources (uses):				
Proceeds from issuance of debt	-	-	102,563	102,563
Transfers in	-	-	-	-
Transfers out	-	-	(12,251)	(12,251)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>90,312</u>	<u>90,312</u>
Net change in fund balances	<u>(100,000)</u>	<u>(100,000)</u>	<u>272,441</u>	<u>372,441</u>
Fund balance, June 30, 2013	<u>100,000</u>	<u>100,000</u>	<u>180,437</u>	<u>80,437</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 452,878</u>	<u>\$ 452,878</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			\$ 1,181,763	
On-behalf payments:				
Instruction			(899,424)	
Support Services				
Students			(33,227)	
Instruction Staff			(34,772)	
District administration			(29,614)	
School administration			(60,912)	
Business and other support services			(60,748)	
Operation and maintenance of plant			(46,967)	
Student transportation			(16,099)	
Fund balance, June 30, 2014 (GAAP basis)			<u>\$ 452,878</u>	

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

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - State	\$ 181,183	\$ 217,376	\$ 258,458	\$ 41,082
Intergovernmental - Indirect federal	388,776	405,821	363,855	(41,966)
Total revenues	<u>569,959</u>	<u>623,197</u>	<u>622,313</u>	<u>(884)</u>
Expenditures:				
Current:				
Instruction	491,701	541,029	481,376	59,653
Support services:				
Instructional staff	5,178	5,347	73,502	(68,155)
Business and other support services	-	-	2,865	(2,865)
Community services	73,080	76,821	76,821	-
Total expenditures	<u>569,959</u>	<u>623,197</u>	<u>634,564</u>	<u>(11,367)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(12,251)</u>	<u>(12,251)</u>
Other financing sources (uses):				
Transfers in	-	-	12,251	12,251
Transfers out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>12,251</u>	<u>12,251</u>
Net change in fund balances	-	-	-	-
Fund balance, June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

# FAIRVIEW INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

### (1) REPORTING ENTITY

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

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

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

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

#### Fairview Independent School District Finance Corporation

On September 27, 1993 the Fairview Independent Board of Education resolved to authorize the establishment of the Fairview 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 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Fairview Independent School District also comprise the Corporation’s Board of Directors.

Copies of component unit reports may be obtained from the District’s Finance office at 2201 Main St. WW, Ashland, Kentucky 41102.

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

The accounting policies of the Fairview Independent School District substantially comply with accounting principles generally accepted in the United States and the rules prescribed by the Kentucky Department of Education for local school districts.

#### Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information

that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

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

#### I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balance is considered as resources available for use. This is a major fund of the District.
- (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 specified project periods as well as the state grant programs. Project accounting is employed to maintain

integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  2. The Facility Support Program of Kentucky Fund (FSPK Building Fund) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction in accordance with the District's facilities plan. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

## II. Proprietary Fund Type (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA. The Food Service Fund is a major fund.

## III. Fiduciary Fund Types (includes agency and trust funds)

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

## Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue

from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

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

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

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

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

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

#### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

#### Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory at the lower of cost or market, on the first-in, first-out basis.

#### Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000). The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	5-12 years
Other general equipment	7-10 years

### Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem tax is levied prior to October 1, of each year on the assessed value listed as of the prior January 1 for all real and business property located in the District. The assessed value of property upon which the levy for 2014 fiscal year was based was \$139,914,389.

The tax rates assessed for the year ended June 30, 2014 to finance general fund operations were \$.695 on real estate and \$.695 on tangible property per \$100 valuation.

Taxes are due on October 1 and become delinquent by February 1 of the following year. Current tax collections for the year ended June 30, 2014 were 85% of the amount levied.

The District levies a utilities gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the District's boundaries, of telegraphic communications services, cablevision services, electric power, water and gas.

### In-Kind

The District receives commodities from U.S.D.A. The amounts of commodities are recorded in the accompanying financial statements at their estimated fair market values.

### Interfund Balances

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

### 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 difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note (12) for these amounts which were not known by management at the time the budget was adopted.

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

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term

obligations payable from the proprietary fund are reported in the proprietary fund financial statements.

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

### Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund for Governmental Fund types.

When committed, assigned and unassigned resources are available for use, it is the District's policy to use committed and assigned resources first, then unassigned resources as they are needed.

### Net Position

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

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

### Interfund Activity

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

expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### Estimates

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

### Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

### New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District adopted GASB 65 for the year ended June 30, 2014. See Note 13.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015. Management has not yet determined the effect this statement will have on the financial statements.

### **(3) CASH AND CASH EQUIVALENTS**

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2014, the carrying amount of the District's cash and cash equivalents was \$789,137 and the bank balances totaled \$1,005,331. Of the total bank balances, \$250,000 was covered by Federal depository insurance, and the remaining balance was covered by collateral held by the pledging bank in the District's name.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risks are as follows:

Category 1	Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name.
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Category 2 Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Deposits, which are not collateralized or insured.

Based on these three levels of risk, the District's uninsured cash deposits are classified as Category 2.

Due to the nature of the account and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Special Revenue (Grant) Funds, Construction Fund, Debt Service Funds, School Food Service Funds, and School Activity Funds.

**(4) CAPITAL ASSETS**

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

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
<u>Governmental Activities</u>				
Land	\$ 530,582	\$ -	\$ -	\$ 530,582
Construction in progress	1,480,218	1,312,405	2,592,292	200,331
Land improvements	708,544	14,225	-	722,769
Buildings and improvements	7,383,393	2,615,899	-	9,999,292
Technology equipment	647,509	-	-	647,509
General equipment	320,395	6,447	-	326,842
Vehicles	548,592	100,328	-	648,920
Totals	<u>11,619,233</u>	<u>4,049,304</u>	<u>2,592,292</u>	<u>13,076,245</u>
Less: accumulated depreciation				
Land improvements	288,766	29,432	-	318,198
Buildings and improvements	2,507,105	214,629	-	2,721,734
Technology equipment	501,533	50,389	-	551,922
General equipment	167,437	34,400	-	201,837
Vehicles	436,416	20,256	-	456,672
Total accumulated depreciation	<u>3,901,257</u>	<u>349,106</u>	<u>-</u>	<u>4,250,363</u>
Governmental Activities Capital Assets - Net	<u>\$ 7,717,976</u>	<u>\$ 3,700,198</u>	<u>\$ (2,592,292)</u>	<u>\$ 8,825,882</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 286,583	\$ 18,195	\$ -	\$ 304,778
Less: accumulated depreciation Food service equipment	<u>243,155</u>	<u>7,298</u>	<u>-</u>	<u>250,453</u>
Business-Type Activities Capital Assets - Net	<u>\$ 43,428</u>	<u>\$ 10,897</u>	<u>\$ -</u>	<u>\$ 54,325</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 73,611
Student support services	4,208
Instructional staff support	39,740
District administration	4,264
District and other support services	143
Plant operation and maintenance	202,010
Student transportation	25,130
	<u>\$ 349,106</u>

**(5) LONG-TERM OBLIGATIONS**

The amount shown in the accompanying financial statements as debt and lease obligations represents the District's future obligations to make lease payments relating to bonds issued by the Fairview Independent School District Finance Corporation and the Kentucky School Facilities Construction Commission aggregating \$7,540,000, and to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$400,461.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Issue of 1996	\$ 120,000	5.0% - 5.75%
Issue of 2004-KISTA	61,252	1.0% - 3.5%
Issue of 2005	2,055,000	3.25% - 4.3%
Issue of 2005-KISTA	67,887	3.0% - 3.625%
Issue of 2006	270,000	4.3%
Issue of 2007-KISTA	76,995	3.625% - 3.750%
Issue of 2008	2,125,000	2.0% - 3.5%
Issue of 2009-KISTA	91,764	2.0% - 3.9%
Issue of 2011	325,000	2.0% - 3.2%
Issue of 2012	2,645,000	.85% - 2.6%
Issue of 2014-KISTA	102,563	2.0% - 3.0%

The District, through the General Fund, Facilities Support Program (FSPK) Fund and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on the bonds issued by the Fairview Independent Board of Education Finance Corporation and the Fairview Independent School District 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 March 12, 2008, the District issued \$2,125,000 in refunding bonds with an average rate of 5.3% to advance refund \$1,930,000 of the series of 1999 bonds with an average rate of 6.8%. The proceeds of the refunding bonds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. The bonds were called during the 2010 fiscal year with payment being made by the escrow agent.

As a result of this advance refunding, the District reduced its total debt service payments over the next twelve years by \$144,086 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$109,690.

The 2008, 2011 and 2012 bond issues of \$2,125,000, \$325,000 and \$2,645,000, respectively were sold at a discount of \$17,850, \$4,450 and \$48,617, respectively, which is being amortized over the life of the respective debt. A summary of activity in bond obligations and other debts is as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
1996 Issue	\$ 40,000	\$ -	\$ 10,000	\$ 30,000
2004 Issue-KISTA	5,724	-	5,724	-
2005 Issue	1,730,000	-	55,000	1,675,000
2005 Issue-KISTA	12,778	-	6,282	6,496
2006 Issue	210,000	-	10,000	200,000
2007 Issue-KISTA	31,528	-	8,131	23,397
2008 Issue	1,465,000	-	190,000	1,275,000
2009 Issue-KISTA	54,801	-	8,970	45,831
2011 Issue	265,000	-	30,000	235,000
2012 Issue	2,645,000	-	70,000	2,575,000
2014 Issue-KISTA	-	102,563	-	102,563
KSBIT liability	141,003	-	29,601	111,402
Accrued sick leave	39,546	2,084	-	41,630
Discount on bonds	(60,349)	-	(4,363)	(55,986)
<b>Total</b>	<b>\$ 6,580,031</b>	<b>\$ 104,647</b>	<b>\$ 419,345</b>	<b>\$ 6,265,333</b>

In connection with the bond issues of 1996, 2005, 2006, 2008, 2011 and 2012, the District entered into a participation agreement with the School Facility Construction Commission (the "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 on all bond issues.

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

Year	Fairview Independent School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2015	\$ 201,411	\$ 116,721	\$ 173,589	\$ 59,599	\$ 551,320
2016	201,919	110,803	178,081	55,106	545,909
2017	214,475	104,474	180,525	50,381	549,855
2018	222,887	97,094	177,113	45,627	542,721
2019	227,788	89,372	182,212	40,678	540,050
2020-2024	1,137,786	322,422	627,214	144,061	2,231,483
2025-2029	900,015	127,952	469,985	64,156	1,562,108
2030-2033	593,195	30,932	301,805	15,225	941,157
	<u>\$ 3,699,476</u>	<u>\$ 999,770</u>	<u>\$ 2,290,524</u>	<u>\$ 474,833</u>	<u>\$ 7,464,603</u>

Future minimum debt service on notes payable to KISTA, at June 30, 2014, are as follows:

Year	Principal	Interest	Total
2015	\$ 35,335	\$ 4,977	\$ 40,312
2016	28,171	3,925	32,096
2017	27,201	3,118	30,319
2018	18,333	2,292	20,625
2019	18,825	1,783	20,608
2020-2024	50,422	3,916	54,338
	<u>\$ 178,287</u>	<u>\$ 20,011</u>	<u>\$ 198,298</u>

### KSBIT Payable

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during fiscal year 2013 that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance ("KEMI"). As a result, the District's workers' compensation portion of the liability was estimated at \$76,455. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2015 with no interest. The District's property and liability portion of the liability was estimated at \$34,947. The District took the option of paying 40% down by September 15, 2014 and financing the remaining balance over 2 years to be paid in equal annual installments beginning September 15, 2015 with no interest.

### (6) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the

District's past experience of making termination payments, and known retirements during the next fiscal year.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources.

**(7) INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Type	From	To	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 12,251
Debt Service	Capital Outlay	Debt Service	Bond Payments	27,510
Debt Service	FSPK Building Fund	Debt Service	Bond Payments	289,940

**(8) RETIREMENT PLANS**

**A. Kentucky Teachers Retirement System:**

The Fairview Independent School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

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

The payroll for employees covered under KTRS was \$3,381,905. For the years ended June 30, 2014, 2013, and 2012, the Commonwealth of Kentucky contributed \$433,891, \$426,018, and \$392,757, respectively, to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2014, 2013, and 2012 were \$61,353, \$54,988, and \$44,354, respectively, which represents those employees covered by Federal programs.

**B. Medical Insurance Plan**

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment

healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

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, the local school district employers pay 1.5% of members' salary for the 2013-2014 fiscal year.

#### C. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or from the KRS website at <https://kyret.ky.gov>.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 18.89% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The payroll for employees covered under CERS was \$1,089,066. The District's contributions to CERS for the years ending June 30, 2014, 2013, and 2012 were \$205,725, \$192,338, and \$197,802, respectively, equal to the required contributions for the year.

### (9) 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 the grantors' review indicates that the funds have not 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 currently involved in regulatory investigations by the Office of Education Accountability and the Kentucky Auditor of Public Accounts. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the District.

**(10) 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 carries their insurance with Kentucky Employers' Mutual Insurance (KEMI), which is located in Lexington Kentucky. KEMI is a mutual insurance company regulated by the Kentucky Department of Insurance. The District pays annual premiums for their coverage. The premium for workers' compensation is based on a formula. The District is assigned a classification code for their industry and each classification code has a corresponding rate. Multiplying the rate times the estimated payroll for operations then dividing by 100 will give the base premium. In some cases, modifiers may also be added, based on eligibility, which may increase or decrease the premium. In other cases, additional coverages may be requested that increase the premium.

The District purchases unemployment insurance through the KEMI; 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.

**(11) COBRA**

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

**(12) ON-BEHALF PAYMENTS**

For fiscal year 2014, the Commonwealth of Kentucky contributed payments on behalf of the Fairview Independent School District as follows:

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 433,891
Health Insurance Plan	753,376
Technology	31,286
Debt Service	233,187
	<u>\$ 1,451,740</u>

With the exception of the amount for debt service, these amounts are included in the Government-wide statement of activities and the Governmental Fund statement of revenues, expenditures, and changes in fund balances as state revenues and expenses allocated to the different functions in the same proportion as full-time employees.

**(13) CHANGES IN BEGINNING NET POSITION**

The District adopted a change in accounting principle for the year ending June 30, 2014. GASB 65, *Items Previously Reported as Assets and Liabilities* amends or supersedes accounting principles which required debt issuance costs to be amortized over the life of the debt issuance. Under GASB 65, the Board is required to recognize debt issuance costs as an expense of the current period. While there were costs being amortized from prior periods, the removal of these costs reduced net position at June 30, 2013 by \$40,434.

**SUPPLEMENTARY INFORMATION**

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

	Capital Outlay Fund	Debt Service Funds	FSPK Building Fund	Total Non-Major Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 52,473	\$ 137	\$ -	\$ 52,610
Accounts receivable	-	-	-	-
Total assets	\$ 52,473	\$ 137	\$ -	\$ 52,610
 <b>LIABILITIES AND FUND BALANCE:</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
 Fund Balances:				
Restricted for capital expenditures	52,473	-	-	52,473
Restricted for debt service	-	137	-	137
Total fund balance	52,473	137	-	52,610
Total liabilities and fund balances	\$ 52,473	\$ 137	\$ -	\$ 52,610

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

	Capital Outlay Fund	Debt Service Funds	FSPK Building Fund	Total Non-Major Governmental Funds
<b>REVENUES:</b>				
From local sources -				
Property taxes	\$ -	\$ -	\$ 83,592	\$ 83,592
Earnings on investments	-	-	-	-
Intergovernmental - State	79,983	233,187	206,348	519,518
Total revenues	<u>79,983</u>	<u>233,187</u>	<u>289,940</u>	<u>603,110</u>
<b>EXPENDITURES:</b>				
Current -				
Debt service	-	550,637	-	550,637
Total expenditures	<u>-</u>	<u>550,637</u>	<u>-</u>	<u>550,637</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>79,983</u>	<u>(317,450)</u>	<u>289,940</u>	<u>52,473</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	-	317,450	-	317,450
Operating transfers out	(27,510)	-	(289,940)	(317,450)
Total other financing sources (uses)	<u>(27,510)</u>	<u>317,450</u>	<u>(289,940)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	52,473	-	-	52,473
<b>FUND BALANCE JUNE 30, 2013</b>	<u>-</u>	<u>137</u>	<u>-</u>	<u>137</u>
<b>FUND BALANCE JUNE 30, 2014</b>	<u>\$ 52,473</u>	<u>\$ 137</u>	<u>\$ -</u>	<u>\$ 52,610</u>

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balance June 30, 2013	Receipts	Disburse- ments	Cash and Deposits Held in Custody for Students June 30, 2014
Academic	\$ 8	\$ 77	\$ 85	\$ -
Academic MS	129	826	660	295
Annual	12,243	3,430	10,255	5,418
Archery	-	4,442	4,442	-
Athletic Ads	-	-	-	-
Athletic Boosters	118	100	218	-
Athletic Misc	74	-	74	-
Athletic Revolving	-	-	-	-
Athletics	-	16,642	16,642	-
Band A	1,798	21,793	21,852	1,739
Band B	-	-	-	-
Band U	-	-	-	-
Baseball	-	12,305	9,929	2,376
Baseball MS	-	983	224	759
Bowling	-	2,385	1,619	766
Boys Basketball	-	13,738	13,738	-
Boys Basketball MS	1,789	3,205	2,367	2,627
Boys Golf	-	2,793	2,772	21
Cheerleaders ACT	9,189	13,901	22,178	912
Cheerleaders MS	4,969	4,460	6,345	3,084
Cheerleaders VAR	-	1,962	1,962	-
Chorus	3,930	662	4,592	-
Chorus ACT	2,803	4,526	3,452	3,877
Coke ACT	84	-	-	84
Coke HS	879	2,705	421	3,163
Coke STAFF	486	579	-	1,065
Cross Country	2,669	12,127	14,103	693
Drama	534	3,132	554	3,112
ELEM Academic Team	1,142	-	164	978
ELEM Basketball	625	-	-	625
ELEM Books-State	226	-	-	226
ELEM Flower Fund	-	220	60	160
ELEM General	-	4,098	4,098	-
ELEM Grants	100	-	-	100
ELEM Library	1,642	16,756	12,795	5,603
ELEM School Pictures	715	3,990	4,541	164
ELEM School Store	-	-	-	-
ELEM Yearbook	1,324	1,525	1,905	944
FBLA	-	349	284	65
FCA	283	-	38	245
FEA	96	-	-	96
Fifth Gr Banquet	219	1,322	1,541	-
Football	-	84,921	84,516	405
Football MS	53	9,750	9,803	-

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
SCHOOL ACTIVITY FUNDS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balance June 30, 2013	Receipts	Disburse- ments	Cash and Deposits Held in Custody for Students June 30, 2014
Forensics	991	500	572	919
FRYSC	55,442	31,703	32,303	54,842
Girls Basketball	127	14,323	14,450	-
Girls Golf	-	2,015	2,015	-
Girls STEM	346	-	-	346
Golf MS	-	84	84	-
Honor Society	169	451	429	191
Honor Society MS	14	-	-	14
HS Books-State	1,776	120	-	1,896
HS Bookstore	2,528	460	953	2,035
HS General	-	3,776	3,776	-
HS Grants	1,689	-	-	1,689
HS Library	3,622	-	3,576	46
HS School Pictures	24	2,757	2,579	202
Interest	4,420	119	4,442	97
Journalism	-	89	82	7
Junior Class	1,383	8,789	8,381	1,791
Key Club	1,358	1,090	1,358	1,090
Middle School Special	-	-	-	-
Poetry Outloud	-	2	-	2
PTO	878	-	364	514
Scholarship Fund	6,020	400	3,000	3,420
School Patrol	5,136	11,204	10,294	6,046
Senior Class	-	4,546	4,546	-
Senior Class Trip	-	42,339	42,339	-
Sixth Gr. Banquet	325	-	290	35
Softball	-	10,334	7,852	2,482
Spanish Club	408	176	146	438
Special Education	165	560	100	625
Spirit Club	-	-	-	-
STLP	-	-	-	-
STLP Vet Memorial	124	-	-	124
Student Council	4	-	-	4
Student Deposit	-	18,166	15,330	2,836
Student Deposit	-	13,268	9,477	3,791
Tennis	-	4,440	4,440	-
Track	100	14,661	14,761	-
Video Yearbook	2,596	-	-	2,596
Volleyball	379	10,614	9,065	1,928
	<u>\$ 138,151</u>	<u>\$ 446,690</u>	<u>\$ 455,233</u>	<u>\$ 129,608</u>

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100002-13	\$ 197,168	\$ 161,711
Title I Grants to Local Educational Agencies	84.010	3100002-12	29,520	29,520
				<u>191,231</u>
Special Education Cluster (IDEA):				
Special Education Grants to States -IDEA, Part B	84.027	3810002-13	149,427	112,725
Special Education Grants to States -IDEA, Part B	84.027	3810002-12	23,160	23,160
Special Education Preschool Grants	84.173	3800002-13	10,682	10,682
				<u>146,567</u>
Improving Teacher Quality State Grants	84.367	3230002-13	23,377	17,026
Improving Teacher Quality State Grants	84.367	3230002-12	8,431	8,431
				<u>25,457</u>
Race to the Top Grant	84.395	3960002-11	600	600
Total U.S. Department of Education				<u>363,855</u>
<u>U.S. Department of Agriculture</u>				
Child Nutrition Cluster:				
Passed through State Department of Education:				
National School Lunch Program	10.555	7750002-14	-	252,818 *
National School Lunch Program	10.555	7750002-13	-	75,796 *
School Breakfast Program	10.553	7760005-14	-	104,167 *
School Breakfast Program	10.553	7760005-13	-	31,910 *
				<u>464,691</u>
Non-Cash Assistance				
National School Lunch Program - Food Donation	10.555	7750002-14	-	29,497 *
Total Child Nutrition Cluster				<u>494,188</u>
Child & Adult Care Food Program	10.558	7790021-14	-	21,606
Child & Adult Care Food Program	10.558	7790021-13	-	4,795
				<u>26,401</u>
Fresh Fruit and Vegetable Program	10.582	7720012-14	-	12,502
Fresh Fruit and Vegetable Program	10.582	7720012-13	-	3,264
				<u>15,766</u>
Total U.S. Department of Agriculture				<u>536,355</u>
Total Federal Assistance				<u>\$ 900,210</u>

\* Denotes major program.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fairview 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 the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Fairview Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**NOTE C - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, \$8,186 in commodities were on hand and included in inventory.



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

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Fairview Independent School District  
Ashland, 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; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fairview Independent School District (the "District") as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2014.

**Internal Control Over Financial Reporting**

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

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

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

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. [2014-01]

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2014-02 to 2014-05.

We noted certain matters that we reported to management of the District in a separate letter dated November 14, 2014.

### **District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Kelley, Galloway & Company, PSC*

November 14, 2014



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

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Fairview Independent School District  
Ashland, Kentucky

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

We have audited Fairview 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 the District's major federal programs for the year ended June 30, 2014. Fairview 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 Fairview 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. 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 Fairview 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 Fairview Independent School District's compliance.

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

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

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

Management of Fairview 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fairview Independent School District's internal control over compliance.

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

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

### **Purpose of this Report**

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.

*Kelley Sullivan-Smith Goolsby, PSC*

November 14, 2014

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**A. SUMMARY OF AUDIT RESULTS**

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified?   x   yes \_\_\_\_\_ no

Noncompliance material to the financial statements noted? \_\_\_\_\_ yes   x   no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   x   none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ yes   x   no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2014:

Child Nutrition Cluster (10.553 and 10.555)

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

The District qualified as a low risk auditee   x   yes \_\_\_\_\_ no

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**B. FINANCIAL STATEMENT FINDINGS**

**2014-01 AUDIT ADJUSTMENTS**

*Condition:* While performing our audit on the balance sheet and annual financial report (AFR) provided by the District, we noted several account balances that required adjustments. These adjustments included the following:

- Additional accounts payable
- Commodities received from the USDA
- Additional accounts receivable
- Capital lease proceeds

*Criteria:* All required year-end entries should be posted to the balance sheet and the AFR as part of the annual closing process.

*Cause:* Historically, the District has not recorded the identified adjustments and has relied upon the audit to identify the correct balances.

*Effect:* Several account balances were misstated.

*Recommendation:* We recommend the District record all required adjustments to account balances as part of the annual closing process.

*Management's response and corrective action plan:* In the future, the District will attempt to make the appropriate entries to record similar transactions identified in the current year's audit adjustments.

**2014-02 EXTENSIONS OF CREDIT**

*Condition:* During our review of miscellaneous cash receipts, we noted that the District purchased ipads for two employee's personal use and allowed those individuals to reimburse the District at cost. Additionally, we noted a reimbursement from an employee to reimburse the District for family members who attended the Senior Trip. Presumably, this was done to obtain discounts that the employees would not be entitled to.

*Criteria:* Extensions of credit by the Board are prohibited in Sections 177 and 179 of the State Constitution.

*Cause:* Unfamiliarity with legal requirements

*Effect:* Noncompliance with State Constitution

*Recommendation:* We recommend that these short-term extensions of credit cease immediately.

*Management's Response:* The ipads were purchased without the knowledge of the Finance Department. The travel tickets for family members were immediately reimbursed, and this practice has not been questioned in the past. Both practices will be discontinued.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**2014-03 FINANCE OFFICER EMPLOYMENT CONTRACT**

*Condition:* We noted that the finance officer did not have a signed employment contract at the beginning of the current fiscal year. Additionally, when the pay rate for the finance officer was changed during the year, a new contract was not executed.

*Criteria:* KRS 161.011 requires that districts provide contracts for all classified employees.

*Cause:* Oversight

*Effect:* Noncompliance with KRS 161.011

*Recommendation:* We recommend that a contract of employment be executed for all employees before the beginning of the fiscal year. Additionally, the District should execute new contracts if any terms of the original contract change during the year.

*Management's Response:* All employment contracts will be obtained as well as updated contracts if employment terms are changed during the contract period.

**2014-04 TAX RATES**

*Condition:* Tax rates levied by the District were not published after approval by the Kentucky Board of Education.

*Criteria:* Per KRS 424.250, a school district must publish the tax rate levied by the district after approval by the Kentucky Board of Education.

*Cause:* Oversight

*Effect:* Noncompliance with KRS 424.250.

*Recommendation:* We recommend that the District designate a responsible individual to advertise tax rates upon approval by the Kentucky Board of Education. This individual should also maintain copies of the advertisement.

*Management's Response:* This was an oversight and the District will comply with this requirement in the future.

**2014-05 COMPETITIVE BIDDING**

*Condition:* We noted that official bid procedures were not followed for bus inspection and repair services totaling approximately \$42,000. Management stated this amount also includes emergency repairs of District vehicles. However, documentation of the emergency and the reason why bidding procedures are not required is not maintained.

*Criteria:* KRS 424.260 and Board policy requires that all like items purchased during the fiscal year exceeding \$20,000 be purchased through a bid approved by the Board or at state/federal contract pricing.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

*Effect:* Possible noncompliance, with KRS 424.260 and Board policy

*Recommendation:* We recommend that the District document the reason an expenditure does not require an advertisement for bids.

*Management's Response:* This matter has been discussed for some time. Buses are required to be inspected monthly. Regular, monthly inspections will not exceed \$20,000, because the District does not have many buses. When a needed repair is identified, it does constitute an emergency because it has to be fixed immediately. The Board policy does reference "like items", but we feel the nature of the repairs would be variable type items. However, we will increase our documentation in the future to clarify these matters.

Mr. Ernst P. Sharp, II, Finance Officer, is responsible for implementing the above corrective actions.

**C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None noted in current year.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

<u>Finding</u>	<u>Findings/Noncompliance</u>
2013-01	We recommend the District record all required adjustments to account balances as part of the annual closing process.  <u>Status</u> Repeat finding - See 2014-01.
2013-02	Receipt and expenditure budgets should be prepared in accordance with Redbook guidelines (prepared by activity fund sponsor and submitted by the principal) and submitted annually to the Board for approval.  <u>Status</u> Partially corrected. Included in management letter



**K**elley **G**alloway  
**S**mith **G**oolsby, PSC

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Kentucky State Committee for School District Audits  
Members of the Board of Education  
Fairview Independent School District  
Ashland, Kentucky

In planning and performing our audit of the financial statements of Fairview Independent School District (the "District") as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated November 14, 2014, on the financial statements of the District.

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

*Kelley Galloway Smith Goolsby, PSC*

November 14, 2014

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**

**MANAGEMENT LETTER POINTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

**Purchase Orders**

*Condition:* We noted several purchase orders that appeared to be created and approved after the order had been placed or received.

*Criteria:* Board policy states that no bill should be paid without a purchase order signed by the Superintendent or the Superintendent designee. This purchase order should be approved prior to any orders being placed.

*Cause:* Oversight.

*Effect:* Violation of Board policy.

*Recommendation:* We recommend District management remind employees that purchase orders should be obtained and approved prior to orders being placed with vendors.

*Management's Response:* All District personnel have been made aware of the policy and we will continue to monitor compliance with the policy.

**Credit Card Purchases**

*Condition:* While reviewing the credit card statement for April 2014, we noted a charge from a hotel restaurant that did not include a detailed receipt. Management was able to obtain a detailed receipt from the restaurant when we requested it. Additionally, we noted that nine receipts for fuel purchases were not available for the December 2013 Marathon credit card.

*Criteria:* Board policy states that no bill should be paid without the following supporting documentation:

1. A purchase order signed by the Superintendent or the Superintendent designee;
2. An invoice as to goods or services received;
3. Confirmation that invoiced materials were received in accurate quantity and in good order.

*Cause:* Oversight.

*Effect:* Violation of Board policy.

*Recommendation:* The District should obtain a detailed invoice for all purchases through the District's credit card to comply with Board policy. Additionally, all fuel purchase receipts should denote the vehicle and individual making the purchase.

*Management's Response:* All District personnel have been made aware of the policy and we will continue to monitor compliance with the policy.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT LETTER POINTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**Payroll – Timesheets**

*Condition:* While performing our detailed testing of payroll transactions, we noted an error in the summarized timesheet of one employee, which resulted in the employee being compensated for an extra 7 hours of time not worked.

*Criteria:* Proper procedures should be in place to ensure employees are compensated for only the time worked and approved by the supervisor.

*Cause:* Human error.

*Effect:* An employee was improperly compensated for hours not worked.

*Recommendation:* Additional care should be taken by individuals preparing time summaries for the payroll clerk. If possible, an additional individual should review the summaries and perform recalculations based on random selections.

*Management's Response:* We will attempt to perform reviews of the time summaries. The error was inadvertent.

**Payroll – Emergency Certified Substitute**

*Condition:* While performing our detailed testing of payroll transactions, we noted a substitute teacher that was improperly given an emergency certification. The individual had a bachelor's degree from a non-regionally accredited theological seminary.

*Criteria:* Per 16 KAR 2:120, an emergency certificate for full-time or part-time employment shall be issued only to individuals who have completed a minimum of a bachelor's degree from a regionally accredited college.

*Cause:* Oversight.

*Effect:* An employee was compensated at the improper rate.

*Recommendation:* We recommend that colleges listed on applicants' transcripts be checked against the listing of regionally accredited colleges, which is available at the following website: [https://www.k12.wa.us/certification/colleges/reg\\_accred.html](https://www.k12.wa.us/certification/colleges/reg_accred.html).

*Management's Response:* The Superintendent's office will monitor compliance with 16 KAR 2:120.

**Activity Fund – Student Generated Funds**

*Condition:* While reviewing disbursements made from the activity funds, we noted three purchases of food for staff members from activity funds with student generated funds.

*Criteria:* The Accounting Procedures for Kentucky School Activity Funds ("Redbook") states that only staff generated funds can be used for the benefit of the teachers.

*Effect:* Noncompliance with Redbook requirements.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT LETTER POINTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

*Cause:* The new Redbook requirements went into effect during the current fiscal year.

*Recommendation:* District management should closely monitor purchases from student generated activity funds. Additionally, Redbook training should be provided to activity sponsors to ensure compliance with Redbook requirements.

*Management's Response:* The District has established a "District Activity Fund" that should ensure that these problems are not encountered in the future. The funds questioned were actually not "Student Generated Funds", however, the system was not properly set up to track these funds.

**Activity Fund - Budgets**

*Condition:* While progress was made during the current fiscal year in preparing receipt and expenditure budgets for individual activity funds, we noted that budgets were not prepared and submitted to the board for all funds.

*Criteria:* The Redbook requires budgets for each fund to be prepared by fund sponsors and submitted to the school principal by April 15<sup>th</sup>. The principal must then submit a combined budget with the individual fund budgets to the Superintendent by May 15<sup>th</sup>. Local board approval of school activity budgets and fund-raising activities should be completed by the end of May for the following year.

*Cause:* Oversight.

*Effect:* Noncompliance with Redbook requirements.

*Recommendation:* Receipt and expenditure budgets for all activity funds should be prepared in accordance with Redbook guidelines (prepared by activity fund sponsor and submitted by the principal) and submitted annually to the Board for approval.

*Management's Response:* The District continues to work on compliance with the budget requirement and substantial compliance is anticipated in FY 2015.

**Activity Funds - Fundraisers**

*Condition:* We noted that profits from the sale of concessions and fundraisers are not being monitored for reasonableness. Additionally, the Inventory Control Worksheet (F-SA-5) and School Fund Raising Worksheet (F-SA-2B) are not being utilized to monitor activities.

*Criteria:* The Redbook states that fundraisers and inventory should be monitored for reasonableness using the prescribed forms.

*Cause:* Unfamiliarity with Redbook requirements.

*Effect:* Noncompliance with Redbook requirements.

*Recommendation:* Monitor fundraiser profits for reasonableness and use the forms included in the Redbook to document compliance.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT LETTER POINTS (CONCLUDED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

*Management's Response:* The responsible individuals have been made aware of these requirements and will comply in the future. Additionally, fundraising profits will be monitored for reasonableness.

Mr. Ernst P. Sharp, II, Finance Officer, is responsible for implementing the above corrective actions.

Status of Prior Year Management Points

The conditions described in prior year's letter were repeated in the current year. The corrective action plan is the management response for each condition.