

**GARRARD COUNTY SCHOOL DISTRICT  
AUDIT REPORT  
JUNE 30, 2014**

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October 24, 2014

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Garrard County School District  
322 W Maple Street  
Lancaster, KY 40444

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

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

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Garrard County 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.

## **Change in Accounting Principle**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 4 through 10 and 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2014, on our consideration of Garrard County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garrard County School District's internal control over financial reporting and compliance.

Sincerely,

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

Certified Public Accountants

**GARRARD COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**Year Ended June 30, 2014**

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

**FINANCIAL HIGHLIGHTS**

- The General Fund's beginning fund balance was \$2.53 million. The ending fund balance was \$1.77 million. General fund revenues showed an increase of \$146,748 and expenditures showed an increase of \$498,317, as compared with the prior year.
- The General Fund transferred \$35,459 to the Special Revenue Fund for the technology grant match, \$30,912 to the Debt Service Fund for KISTA debt service payments on prior bus purchases, and \$292,955 to the Construction Fund. This amount consisted mainly of insurance proceeds for roofing repairs to hail damaged roofs on district buildings.
- The District had \$26.09 million in revenue and \$26.28 million in expenses.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Total debt service payments, including principal and interest, for fiscal year 2014 were \$2,445,292.
- The District's total net position decreased \$194,042 to \$13,550,190. Current assets decreased \$953,689, non-current assets decreased \$432,502 and total liabilities decreased \$804,838.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The district-wide financial statements can be found on pages 11 - 12 of this report.

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

The basic governmental fund financial statements can be found on pages 13 - 20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 37 of this report.

## DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$13,550,190 as of June 30, 2014.

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

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

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

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

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 3,005,368	\$ 3,941,444	\$ 97,118	\$ 114,731	\$ 3,102,486	\$ 4,056,175
Capital Assets	<u>39,252,912</u>	<u>39,679,730</u>	<u>19,153</u>	<u>24,837</u>	<u>39,272,065</u>	<u>39,704,567</u>
Total Assets	<u>42,258,280</u>	<u>43,621,174</u>	<u>116,271</u>	<u>139,568</u>	<u>42,374,551</u>	<u>43,760,742</u>
Deferred Outflows	<u>178,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,093</u>	<u>-</u>
Total Assets & Def Outflows	<u>42,436,373</u>	<u>43,621,174</u>	<u>116,271</u>	<u>139,568</u>	<u>42,552,644</u>	<u>43,760,742</u>
Current Liabilities	2,526,705	2,067,768	5,149	5,112	2,531,854	2,072,880
Non-Current Liabilities	<u>26,470,600</u>	<u>27,734,412</u>	<u>-</u>	<u>-</u>	<u>26,470,600</u>	<u>27,734,412</u>
Total Liabilities	<u>28,997,305</u>	<u>29,802,180</u>	<u>5,149</u>	<u>5,112</u>	<u>29,002,454</u>	<u>29,807,292</u>
<b>Net Position</b>						
Investment in capital assets (net of related debt)	12,158,241	11,412,461	19,153	24,837	12,177,394	11,437,298
Restricted	497,887	521,230	91,969	109,619	589,856	630,849
Unrestricted	<u>782,940</u>	<u>1,885,303</u>	<u>-</u>	<u>-</u>	<u>782,940</u>	<u>1,885,303</u>
<b>Total Net Position</b>	<u>\$ 13,439,068</u>	<u>\$ 13,818,994</u>	<u>\$ 111,122</u>	<u>\$ 134,456</u>	<u>\$ 13,550,190</u>	<u>\$ 13,953,450</u>

The District's total net position decreased \$403,260. Current assets decreased \$953,689, while non-current assets decreased \$432,502 and total liabilities decreased \$804,838.

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

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 51,077	\$ 823	\$ 412,262	\$ 415,215	\$ 463,339	\$ 416,038
Operating grants and contributions	2,832,651	2,510,794	1,184,768	1,077,411	4,017,419	3,588,205
Capital grants	60,796	993,930			60,796	993,930
General revenues						
Taxes	6,275,002	6,134,685			6,275,002	6,134,685
Investment earnings	50,279	59,885	658	1,162	50,937	61,047
State and formula grants	14,835,109	13,886,835			14,835,109	13,886,335
Miscellaneous	386,401	767,290			386,401	767,290
<b>Total revenues</b>	<u>24,491,315</u>	<u>24,354,242</u>	<u>1,597,688</u>	<u>1,493,788</u>	<u>26,089,003</u>	<u>25,848,030</u>
<b>EXPENSES</b>						
Program Activities						
Instructional	14,989,326	14,939,055			14,989,326	14,939,055
Student support	963,949	882,101			963,949	882,101
Instructional staff Support	597,410	623,011			597,410	623,011
District administrative support	825,413	872,071			825,413	872,071
School administrative support	1,173,689	1,081,616			1,173,689	1,081,616
Business support	431,251	526,841			431,251	526,841
Plant operations and maintenance	2,341,248	1,841,805			2,341,248	1,841,805
Student transportation	2,118,954	2,060,752			2,118,954	2,060,752
Community service activities	157,072	160,834			157,072	160,834
Other	-	3,782			-	3,782
Interest costs	1,063,711	1,100,669			1,063,711	1,100,669
Business-type Activities						
Food service			1,611,115	1,523,251	1,611,115	1,523,251
Adult education			9,907	10,266	9,907	10,266
<b>Total expenses</b>	<u>24,662,023</u>	<u>24,092,537</u>	<u>1,621,022</u>	<u>1,533,517</u>	<u>26,283,045</u>	<u>25,626,054</u>
<b>Change in net position</b>	<u>\$ (170,708)</u>	<u>\$ 261,705</u>	<u>\$ (23,334)</u>	<u>\$ (39,729)</u>	<u>\$ (194,042)</u>	<u>\$ 221,976</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2014 and 2013 were \$3,987,552 and \$3,922,876, respectively.

Changes in net position decreased from \$221,976 in the prior year to (\$194,042) for the current year.

**Governmental Activities**

For the governmental program expenses instructional expenses comprise 60.7% of total expenses, support services equate to 34.2%, and interest and other expenses make up the remaining 5.1% of the total.

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

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instructional	\$ 14,989,326	\$ 14,939,055	\$ 12,524,031	\$ 12,668,474
Support Services	8,451,914	7,888,197	8,033,481	7,647,161
Other	157,072	164,616	157,072	(829,314)
Interest Costs	<u>1,063,711</u>	<u>1,100,669</u>	<u>1,002,915</u>	<u>1,100,669</u>
Total Expenses	<u>\$ 24,662,023</u>	<u>\$ 24,092,537</u>	<u>\$ 21,717,499</u>	<u>\$ 20,586,990</u>

**Business-Type Activities**

The business type activities at the District are food service and community education. These programs had total revenues of \$1,597,688 and expenses of \$1,621,022 for fiscal year 2014. These revenues were made up of \$412,262 charges for services \$1,184,768 federal and state operating grants and \$658 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

**The School District's Funds**

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenues for all governmental funds for 2014 were \$24,241,513 and expenditures were \$25,549,496. The most significant net change in fund balance was in the General Fund with a decrease of \$766,389, which is primarily due to an increase in expenditures for facilities improvements undertaken during the fiscal year.

## **General Fund Budgetary Highlights**

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

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$18,185,471 with actual results being \$19,273,653. Budgeted expenditures were \$20,335,446 compared to actual expenditures of \$20,040,042. The most significant cause of the variance between budget and actual was the tax revenue being \$367,792 and intergovernmental revenues being \$387,440 higher than budgeted coupled with instructional expenses being \$292,011 higher than budgeted.

## **Future Budgetary Implications**

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2013-2014 with a 2% contingency. The District has adopted a budget for 2014-2015 with a 2% contingency.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees decreased for FY 2014 from 19.55% to 18.89%. The Kentucky Teachers Retirement mandated an increase contribution from 1.00% to 1.50% on all employees while the federal grants matching percentage increased to 14.605%.

The SEEK guaranteed base funding has increased from \$3,827 in FY 2013-2014 to \$3,911 per pupil in FY 2014-2015. The district has experienced some growth in the student population in FY 2013-2014 and FY 2014-2015, which should boost the SEEK funding to the district. Federal sequestration estimates for FY 2013-2014 were expected to impact the school district by as much as 8 to 10%, reducing the federal funding for programs such as Title I, Migrant Program, Teacher Quality (Title II) and possibly our Preschool and Special Education programs. The reduction of these funds was not as substantial as originally estimated; however, reductions in some programs were realized, placing a financial burden on the programs affected. The Kentucky Department of Education has notified the school districts of possible additional funding cuts for the FY 2014-2015 school year which would place an additional strain on the General Fund to keep funding certain programs at the current level.

In the current fiscal year, the district is funding certain facility improvements throughout the district. These projects include projects for new bleachers and lighting for the softball and baseball fields, painting, flooring and locker renovations at Garrard Middle School and other miscellaneous facility improvements. In FY 2013-2014 the district initiated a sealcoating rotation for all parking lots in the district to be sealed and striped within a five year cycle.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of the 2014 fiscal year, the District had invested \$39,272,065 in a broad range of capital assets, net of accumulated depreciation, including equipment, buses, buildings, and land. This amount represents a net decrease of \$432,502. Depreciation expense for the year was \$1,517,625 and capital additions were \$1,086,593.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2014 and 2013.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 608,830	\$ 608,830	\$ -	\$ -	\$ 608,830	\$ 608,830
Land Improvements	632,031	86,028	-	-	632,031	86,028
Buildings and Improvemen	36,042,374	36,672,270	-	-	36,042,374	36,672,270
Technology	170,864	338,450	2,288	3,881	173,152	342,331
Vehicles	1,412,089	1,439,669	-	-	1,412,089	1,439,669
General Equipment	386,724	450,458	16,865	20,956	403,589	471,414
Construction in Progress	-	84,025	-	-	-	84,025
<b>Total</b>	<b>\$ 39,252,912</b>	<b>\$ 39,679,730</b>	<b>\$ 19,153</b>	<b>\$ 24,837</b>	<b>\$ 39,272,065</b>	<b>\$ 39,704,567</b>

The table below shows the changes in capital assets for fiscal years ended June 30, 2014 and 2013.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Beginning Balance	\$ 39,679,730	\$ 40,327,237	\$ 24,837	\$ 30,681	\$ 39,704,567	\$ 40,357,918
Additions	1,086,593	883,065	-	-	1,086,593	883,065
Retirements	(1,470)	(2,105)	-	-	(1,470)	(2,105)
Depreciation	(1,511,941)	(1,528,467)	(5,684)	(5,844)	(1,517,625)	(1,534,311)
<b>Ending Balance</b>	<b>\$ 39,252,912</b>	<b>\$ 39,679,730</b>	<b>\$ 19,153</b>	<b>\$ 24,837</b>	<b>\$ 39,272,065</b>	<b>\$ 39,704,567</b>

### Long-Term Debt

At year-end the School District had \$26,714,962 in bonds outstanding, \$130,709 in capital lease obligations and a note payable balance to First Southern National Bank in the amount of \$249,000. Bonded debt principal paid for the year ended June 30, 2014 was \$1,396,016 and capital lease obligation principal paid was \$25,582. A total of \$1,514,988 is due within one year.

### Contacting the District's Financial Management

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

GARRARD COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
Cash & Cash Equivalents - Note C	2,288,756	41,609	2,330,365
Accounts Receivable:			
Taxes - Current	115,459		115,459
Taxes - Delinquent Accounts	21,305		21,305
Intergovernmental - State	30,788	33,019	63,807
Intergovernmental - Federal	145,741		145,741
Inventories for Consumption	403,319		403,319
		22,490	22,490
<b>Total Current Assets</b>	<b>3,005,368</b>	<b>97,118</b>	<b>3,102,486</b>
<b>Noncurrent Assets - Note F</b>			
Land	608,830		608,830
Buildings & Improvements	49,045,638		49,045,638
Furniture & Equipment	6,002,399	390,747	6,393,146
Less: Accumulated Depreciation	(16,403,955)	(371,594)	(16,775,549)
<b>Total Noncurrent Assets</b>	<b>39,252,912</b>	<b>19,153</b>	<b>39,272,065</b>
<b>TOTAL ASSETS</b>	<b>42,258,280</b>	<b>116,271</b>	<b>42,374,551</b>
Deferred Outflows from Advanced Bond Refundings	178,093	0	178,093
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>42,436,373</b>	<b>116,271</b>	<b>42,552,644</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	178,078	5,149	183,227
Accrued Salaries & Sick Leave - Note A	404,800		404,800
Advances from Grantors	260,535		260,535
KSBIT Assessment	39,552		39,552
Bond Obligations - Note D	1,441,530		1,441,530
Note Payable - Note D	47,007		47,007
Capital Lease Obligation - Note E	26,451		26,451
Accrued Interest Payable	128,752		128,752
<b>Total Current Liabilities</b>	<b>2,526,705</b>	<b>5,149</b>	<b>2,531,854</b>
<b>Noncurrent Liabilities:</b>			
Bond Obligations - Note D	25,273,432		25,273,432
Note Payable	201,993		201,993
Capital Lease Obligation - Note E	104,258		104,258
KSBIT Assessment - Note R	118,658		118,658
Accrued Sick Leave - Note A	772,259		772,259
<b>Total Noncurrent Liabilities</b>	<b>26,470,600</b>		<b>26,470,600</b>
<b>TOTAL LIABILITIES</b>	<b>28,997,305</b>	<b>5,149</b>	<b>29,002,454</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	12,158,241	19,153	12,177,394
Restricted for:			
Capital Projects	394,581		394,581
Encumbrances	103,198		103,198
Other Purposes	108	91,969	92,077
Unrestricted	782,940		782,940
<b>TOTAL NET POSITION</b>	<b>13,439,068</b>	<b>111,122</b>	<b>13,550,190</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>42,436,373</b>	<b>116,271</b>	<b>42,552,644</b>

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

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

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instructional	14,989,326	29,215	2,436,080		(12,524,031)		(12,524,031)
Support Services:							
Student Support Services	963,949	2,075	23,870		(938,004)		(938,004)
Staff Support Services	597,410		100,170		(497,240)		(497,240)
District Administration	825,413				(825,413)		(825,413)
School Administration	1,173,689		112,640		(1,061,049)		(1,061,049)
Business Support Services	431,251				(431,251)		(431,251)
Plant Operation & Maintenance	2,341,248		2,428		(2,338,820)		(2,338,820)
Student Transportation	2,118,954	19,787	157,463		(1,941,704)		(1,941,704)
Community Service Operations	157,072				(157,072)		(157,072)
Interest on Long-Term Debt	1,063,711			60,796	(1,002,915)		(1,002,915)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>24,662,023</b>	<b>51,077</b>	<b>2,832,651</b>	<b>60,796</b>	<b>(21,717,499)</b>		<b>(21,717,499)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Adult Education	9,907	10,195				288	288
Food Service	1,611,115	402,067	1,184,768			(24,280)	(24,280)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,621,022</b>	<b>412,262</b>	<b>1,184,768</b>	<b>0</b>	<b>0</b>	<b>(23,992)</b>	<b>(23,992)</b>
<b>TOTAL SCHOOL DISTRICT</b>	<b>26,283,045</b>	<b>463,339</b>	<b>4,017,419</b>	<b>60,796</b>	<b>(21,717,499)</b>	<b>(23,992)</b>	<b>(21,741,491)</b>
<b>GENERAL REVENUES:</b>							
Taxes:							
Property Taxes					4,784,423		4,784,423
Motor Vehicle Taxes					625,729		625,729
Utility Taxes					796,032		796,032
Other Taxes					68,818		68,818
State Aid - Formula Grants					14,835,109		14,835,109
Investment Earnings					50,279	658	50,937
Miscellaneous					136,599		136,599
<b>SPECIAL ITEMS:</b>							
Gain(Loss) Sale of Assets					8,105		8,105
Loss Compensation					241,697		241,697
<b>TOTAL GENERAL &amp; SPECIAL</b>					<b>21,546,791</b>	<b>658</b>	<b>21,547,449</b>
<b>CHANGE IN NET POSITION</b>					<b>(170,708)</b>	<b>(23,334)</b>	<b>(194,042)</b>
<b>NET POSITION - BEGINNING OF YEAR, AS RESTATED - NOTE S</b>					<b>13,609,776</b>	<b>134,456</b>	<b>13,744,232</b>
<b>NET POSITION - ENDING</b>					<b>13,439,068</b>	<b>111,122</b>	<b>13,550,190</b>

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

GARRARD COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>					
Cash & Cash Equivalents	2,167,166	(273,099)	108	394,581	2,288,756
Accounts Receivable:					
Taxes - Current	115,459				115,459
Taxes - Delinquent	21,305				21,305
Accounts	30,788				30,788
Intergovernmental - State		145,741			145,741
Intergovernmental - Federal		403,319			403,319
<b>TOTAL ASSETS</b>	<u>2,334,718</u>	<u>275,961</u>	<u>108</u>	<u>394,581</u>	<u>3,005,368</u>
<b>LIABILITIES AND FUND BALANCE:</b>					
Liabilities:					
Accounts Payable	162,652	15,426			178,078
Accrued Salaries & Sick Leave	404,800				404,800
Advances from Grantors		260,535			260,535
<b>Total Liabilities</b>	<u>567,452</u>	<u>275,961</u>	<u>0</u>	<u>0</u>	<u>843,413</u>
Fund Balance:					
Restricted for:					
Capital Projects				394,581	394,581
Debt Service			108		108
Assigned:					
Accrued Sick Leave	772,259				772,259
Purchase Obligations	103,198				103,198
Unassigned	891,809				891,809
<b>Total Fund Balance</b>	<u>1,767,266</u>	<u>0</u>	<u>108</u>	<u>394,581</u>	<u>2,161,955</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>2,334,718</u>	<u>275,961</u>	<u>108</u>	<u>394,581</u>	<u>3,005,368</u>

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

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

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

TOTAL GOVERNMENTAL FUND BALANCE		2,161,955
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	55,656,867	
Accumulated Depreciation	<u>(16,403,955)</u>	39,252,912
Deferred Outflows from Advanced Bond Refundings		178,093
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(26,714,962)	
Note Payable	(249,000)	
KSBIT Assessment	(158,210)	
Capital Lease Obligation	(130,709)	
Accrued Interest on Bonds	(128,752)	
Accrued Sick Leave	<u>(772,259)</u>	<u>(28,153,892)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>13,439,068</u></u>

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

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

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>					
Taxes:					
Property Taxes	3,508,525			1,275,898	4,784,423
Motor Vehicle Taxes	625,729				625,729
Utility Taxes	796,032				796,032
Other Taxes	68,818				68,818
Earnings on Investments	48,256	4		2,019	50,279
Intergovernmental - State	13,663,099	705,397	230,759	1,002,047	15,601,302
Intergovernmental - Federal	21,187	2,106,067			2,127,254
Other Sources	179,774	7,902			187,676
<b>TOTAL REVENUES</b>	<b>18,911,420</b>	<b>2,819,370</b>	<b>230,759</b>	<b>2,279,964</b>	<b>24,241,513</b>
<b>EXPENDITURES:</b>					
Instructional	11,530,733	2,461,627			13,992,360
Support Services:					
Student Support Services	918,172	24,100			942,272
Staff Support Services	477,501	101,137			578,638
District Administration	800,128				800,128
School Administration	1,059,116	113,727			1,172,843
Business Support Services	427,427				427,427
Plant Operation & Maintenance	2,324,800	2,451			2,327,251
Student Transportation	2,137,553				2,137,553
Community Service Operations	124	156,948			157,072
Facilities Acquisition & Construction				568,660	568,660
Debt Service:					
Principal			1,421,598		1,421,598
Interest			1,023,694		1,023,694
<b>TOTAL EXPENDITURES</b>	<b>19,675,554</b>	<b>2,859,990</b>	<b>2,445,292</b>	<b>568,660</b>	<b>25,549,496</b>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>(764,134)</b>	<b>(40,620)</b>	<b>(2,214,533)</b>	<b>1,711,304</b>	<b>(1,307,983)</b>
<b>OTHER FINANCING SOURCES(USES):</b>					
Proceeds from Loans	249,000				249,000
Proceeds from Sale of Assets	9,575				9,575
Loss Compensation	18,859			222,838	241,697
Operating Transfers In - Note N	84,799	40,620	2,212,033	292,956	2,630,408
Operating Transfers Out - Note N	(364,488)			(2,265,920)	(2,630,408)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>(2,255)</b>	<b>40,620</b>	<b>2,212,033</b>	<b>(1,750,126)</b>	<b>500,272</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(766,389)</b>	<b>0</b>	<b>(2,500)</b>	<b>(38,822)</b>	<b>(807,711)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>2,533,655</b>	<b>0</b>	<b>2,608</b>	<b>433,403</b>	<b>2,969,666</b>
<b>FUND BALANCES - ENDING</b>	<b>1,767,266</b>	<b>0</b>	<b>108</b>	<b>394,581</b>	<b>2,161,955</b>

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

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

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

NET CHANGES - GOVERNMENTAL FUNDS		(807,711)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,511,941)	
Capital Outlays	<u>1,086,593</u>	(425,348)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid		1,421,598
Proceeds from Note Payable		(249,000)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Deferred Outflows on Advanced Refundings of Bonds	(44,229)	
Accrued Interest Payable	4,212	
Accrued Sick Leave	<u>(68,760)</u>	(108,777)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.</p>		
Gain Adjustment - Sale of Assets		<u>(1,470)</u>
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>(170,708)</u></u>

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

GARRARD COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
<b>ASSETS:</b>			
Current Assets:			
Cash & Cash Equivalents	36,518	5,091	41,609
Accounts Receivable	33,019		33,019
Inventories for Consumption	22,490		22,490
Total Current Assets	92,027	5,091	97,118
Noncurrent Assets:			
Furniture & Equipment	390,747		390,747
Less: Accumulated Depreciation	(371,594)		(371,594)
Total Noncurrent Assets	19,153	0	19,153
<b>TOTAL ASSETS</b>	<b>111,180</b>	<b>5,091</b>	<b>116,271</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Account Payable	5,149		5,149
Total Current Liabilities	5,149	0	5,149
Net Position:			
Net Investment in Capital Assets	19,153		19,153
Restricted	86,878	5,091	91,969
Total Net Position	106,031	5,091	111,122
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>111,180</b>	<b>5,091</b>	<b>116,271</b>

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

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	402,067		402,067
Other Operating Revenues		10,195	10,195
TOTAL OPERATING REVENUES	<u>402,067</u>	<u>10,195</u>	<u>412,262</u>
OPERATING EXPENSES:			
Salaries & Benefits	680,331	1,766	682,097
Contract Services	45,707	7,780	53,487
Materials & Supplies	875,974	361	876,335
Depreciation - Note F	5,684		5,684
Other Operating Expenses	3,419		3,419
TOTAL OPERATING EXPENSES	<u>1,611,115</u>	<u>9,907</u>	<u>1,621,022</u>
OPERATING INCOME(LOSS)	(1,209,048)	288	(1,208,760)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	983,132		983,132
State Grants	119,452		119,452
Donated Commodities	82,184		82,184
Interest Income	658		658
TOTAL NONOPERATING REVENUE	<u>1,185,426</u>	<u>0</u>	<u>1,185,426</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(23,622)	288	(23,334)
CAPITAL CONTRIBUTIONS	<u>0</u>	<u>0</u>	<u>0</u>
CHANGE IN NET POSTION	(23,622)	288	(23,334)
TOTAL NET POSITION - BEGINNING	<u>129,653</u>	<u>4,803</u>	<u>134,456</u>
TOTAL NET POSITION - ENDING	<u><u>106,031</u></u>	<u><u>5,091</u></u>	<u><u>111,122</u></u>

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

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

	FOOD SERVICE	ADULT EDUCATION FUND
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from:		
Operating Revenue	402,067	10,195
Cash Paid to/for:		
Employees	(574,629)	(1,766)
Supplies	(801,579)	(361)
Other Activities	(49,126)	(7,780)
	(1,023,267)	288
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Transfer to General Fund		
Federal Grants	963,452	
State Grants	13,750	
	977,202	0
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
	0	0
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipt of Interest Income	658	0
	(45,407)	288
Balances, Beginning of Year	81,925	4,803
Balances, End of Year	36,518	5,091
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating Income (Loss)	(1,209,048)	288
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	5,684	
State On-Behalf Payments	105,702	
Donated Commodities	82,184	
Change in Assets and Liabilities:		
Inventory	(7,826)	
Accounts Payable	37	
	(1,023,267)	288
Schedule of Non-Cash Transactions:		
Donated Commodities	82,184	0
State On-Behalf Payments	105,702	0

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

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

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	299,111
TOTAL ASSETS	<u>299,111</u>
LIABILITIES:	
Accounts Payable	
Due to Other	75,394
Due to Student Groups	223,717
TOTAL LIABILITIES	<u>299,111</u>
NET POSITION HELD IN TRUST	<u>0</u>

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

GARRARD COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

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

Reporting Entity

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

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

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

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

Garrard County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Garrard County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

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

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

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

### Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue on the fund financial statement and advances from grantors on the government wide financial statements.

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

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

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.639 per \$100 valuation for real property, \$0.64 per \$100 valuation for business personal property, and \$0.551 per \$100 valuation for motor vehicles.

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

### Capital Assets

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

### Interfund Balances

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

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

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

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as committed fund balance.

### Budgetary Process

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

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

### Cash and Cash Equivalents

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

### Inventories

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

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

The food service fund uses the specific identification method.

### Investments

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balance

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

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

### **Major Special Revenue Fund**

Special Revenue

### **Revenue Source**

State, Local and Federal Grants

### **Net Position**

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

### **Operating Revenues and Expenses**

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

### **Contributions of Capital**

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Interfund Activity

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

### Changes in Accounting Principle

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

### **NOTE B – ESTIMATES**

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

### **NOTE C – CASH AND CASH EQUIVALENTS**

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

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$2,629,476. Of the total cash balance, \$325,502 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

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

	<b>Bank Balance</b>	<b>Book Balance</b>
Whitaker Bank	75,394	75,394
Farmers National Bank	3,339,812	2,553,974
US Bank	<u>108</u>	<u>108</u>
Total Cash and Cash Equivalents	<u>3,415,314</u>	<u>2,629,476</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Breakdown per financial statements:

Governmental Funds	2,288,756
Proprietary Funds	<u>41,609</u>
Subtotal	2,330,365
Agency Funds	<u>299,111</u>
Total Cash and Cash Equivalents – All Funds	<u><u>2,629,476</u></u>

**NOTE D – BONDED DEBT AND LEASE OBLIGATIONS**

The amount shown in the accompanying financial statements as bond obligations represents the District’s future obligations to make payments relating to the bonds issued by the Garrard County School District Finance Corporation aggregating \$33,314,134.

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

2003	3,225,000	2.00% - 3.30%
2004	935,000	2.20% - 4.70%
2005	880,000	3.90% - 4.10%
2007A	9,975,000	3.40% - 3.80%
2007B	9,975,000	2.00% - 4.00%
2009	4,300,000	3.40% - 4.10%
2009R	194,134	1.00% - 3.00%
2010	3,830,000	1.00% - 3.00%

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Year	Principal	Interest	Participation	District's Portion
2014-15	1,441,530	980,031	238,477	2,183,084
2015-16	1,479,616	925,578	216,540	2,188,654
2016-17	1,529,135	874,680	215,832	2,187,983
2017-18	1,574,681	826,773	215,870	2,185,584
2018-19	1,600,000	775,936	190,223	2,185,713
2019-20	1,655,000	720,242	190,008	2,185,234
2020-21	1,715,000	661,824	189,985	2,186,839
2021-22	1,730,000	589,036	102,285	2,216,751
2022-23	1,800,000	520,448	102,285	2,218,163
2023-24	1,875,000	448,510	102,285	2,221,225
2024-25	1,950,000	373,463	102,286	2,221,177
2025-26	2,015,000	295,561	92,156	2,218,405
2026-27	2,060,000	215,880	53,948	2,221,932
2027-28	2,135,000	133,886	46,691	2,222,195
2028-29	<u>2,155,000</u>	<u>88,354</u>	<u>19,659</u>	<u>2,223,695</u>
	<u>26,714,962</u>	<u>8,430,203</u>	<u>2,078,531</u>	<u>33,066,634</u>

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bond Payable	28,110,978	0	1,396,016	26,714,962	1,441,530
Capital Lease Obligations	156,291	0	25,582	130,709	26,451
Note Payable	0	249,000	0	249,000	47,007
KSBIT Assessment	185,243	0	27,033	158,210	39,552
Accrued Sick Leave	<u>1,008,212</u>	<u>211,518</u>	<u>136,167</u>	<u>1,083,563</u>	<u>311,304</u>
Governmental Activities Long-Term Liabilities	<u>29,460,724</u>	<u>460,518</u>	<u>1,584,798</u>	<u>28,336,444</u>	<u>1,865,844</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE E - CAPITAL LEASE PAYABLE**

The District is the lessee of buses under capital leases expiring in various years through 2019. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2014.

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

<u>Classes of Property</u>	<u>Book Value as of June 30, 2014</u>
Buses	261,708
Accumulated Amortization	(147,803)
	<u>113,905</u>

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

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2015	31,013
2016	30,965
2017	30,936
2018	25,898
Thereafter	<u>25,878</u>
Net minimum lease payments	144,690
Amount representing interest	<u>(13,981)</u>
Present value of net minimum lease payments	<u>130,709</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE F - CAPITAL ASSETS**

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

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES:</b>				
Non-Depreciable Assets:				
Land	608,830			608,830
Construction In Progress	84,025	(84,025)		
Depreciable Assets:				
Land Improvements	1,004,265	582,259		1,586,524
Buildings & Building Improvements	47,082,884	376,230		47,459,114
Technology Equipment	1,687,412		104,878	1,582,534
Vehicles	3,470,833	212,129	100,712	3,582,250
General Equipment	843,703		6,088	837,615
<b>TOTAL AT HISTORICAL COST</b>	<b>54,781,952</b>	<b>1,086,593</b>	<b>211,678</b>	<b>55,656,867</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Land Improvements	918,237	36,256		954,493
Buildings & Building Improvements	10,410,614	1,006,126		11,416,740
Technology Equipment	1,348,962	167,331	104,623	1,411,670
Vehicles	2,031,164	239,709	100,712	2,170,161
General Equipment	393,245	62,519	4,873	450,891
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>15,102,222</b>	<b>1,511,941</b>	<b>210,208</b>	<b>16,403,955</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<b>39,679,730</b>	<b>(425,348)</b>	<b>1,470</b>	<b>39,252,912</b>
<b>PROPRIETARY ACTIVITIES:</b>				
Depreciable Assets:				
Technology Equipment	6,293			6,293
Vehicles	13,345			13,345
Food Service Equipment	380,773		9,664	371,109
<b>TOTALS AT HISTORICAL COST</b>	<b>400,411</b>	<b>0</b>	<b>9,664</b>	<b>390,747</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Technology Equipment	2,412	1,593		4,005
Vehicles	13,345			13,345
Food Service Equipment	359,817	4,091	9,664	354,244
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>375,574</b>	<b>5,684</b>	<b>9,664</b>	<b>371,594</b>
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<b>24,837</b>	<b>(5,684)</b>	<b>0</b>	<b>19,153</b>
<b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b>				
Instructional				1,234,010
Student Support Services				21,677
Staff Support Services				18,772
District Administration				25,285
School Administration				846
Business Support Services				3,824
Plant Operation & Maintenance				13,997
Student Transportation				193,530
<b>TOTAL</b>				<b>1,511,941</b>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES**

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

<u>Year Ending</u>	
June 30, 2015	63,945
June 30, 2016	63,945
June 30, 2015	<u>63,945</u>
Total Lease Commitment	<u>191,835</u>

**NOTE H – RETIREMENT PLANS**

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

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

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

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

The Board's total payroll for the year was \$13,627,125. The payroll for employees covered under KTRS was \$10,532,445 and for CERS was \$3,094,680.

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$1,294,088, \$1,275,750 and \$1,151,226 respectively to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the years ending June 30, 2014, 2013 and 2012 were \$265,060, \$187,124 and \$154,244 respectively which represent those employees covered by federal programs.

The contribution requirements for CERS for the years ended June 30, 2014, 2013 and 2012 were \$750,562, \$757,505 and \$771,124 respectively which consisted of \$584,586, \$604,265 and \$536,643 from the Board and \$165,976, \$161,874 and \$166,859 respectively from the employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

**NOTE I – CONTINGENCIES**

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE J – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE K – RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs for which coverage was provided) would be returned to the members on a pro rata basis.

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

During 2013, the Kentucky School Boards Insurance Trust ceased to operate. The District's insurance coverage continued through June 30, 2013. (See also Note R.) However, as of July 1, 2013, the District was required to obtain insurance coverage from a commercial insurance company; the District's Board selected Linville Insurance Agency, Inc. to be their insurance broker. Coverage was obtained from Ohio Casualty.

**NOTE L – DEFICIT OPERATING BALANCES**

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

General Fund	764,134
Special Revenue Fund	40,620
Debt Service	2,214,533

**NOTE M – COBRA**

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE N – TRANSFER OF FUNDS**

The following transfers were made during the year:

<b>Type</b>	<b>From Fund</b>	<b>To Fund</b>	<b>Purpose</b>	<b>Amount</b>
Matching	General	Special Revenue	Technology Match	35,459
Operating	Capital Outlay	General	Operations	84,799
Operating	Building	Debt Service	Debt Service	2,071,449
Operating	General	Debt Service	Debt Service	30,912
Operating	General	Special Revenue	Operations	5,162
Operating	Capital Outlay	Debt Service	Debt Service	109,672
Operating	General	Construction	Construction	<u>292,955</u>
Total Transferred Funds				<u>2,630,408</u>

**NOTE O – INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund balances at June 30, 2014.

**NOTE P – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through October 24, 2014, and there are no other material subsequent events requiring disclosure.

**NOTE Q – ON-BEHALF PAYMENT**

For the year ended June 30, 2014 \$3,987,552 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	3,651,091
Food Service Fund	105,702
Debt Service Fund	<u>230,759</u>
Total	<u>3,987,552</u>

**NOTE R– KSBIT ASSESSMENT**

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2014, Garrard County School District's assessment is valued at \$158,210. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2015	39,552
2016	19,777
2017	19,777
2018	19,776
2019	19,776
2020	19,776
2021	<u>19,776</u>
Total	<u>158,210</u>

**NOTE S – NET POSITION, AS RESTATED**

Governmental Accounting Standards Board Statement 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was decreased \$458,572 to eliminate bond issuance costs, which had been capitalized and amortized on previous statements. Further, beginning net position of the governmental activities increased \$222,321 to capitalize the deferred costs from refunding bonds prior to the fiscal year beginning July 1, 2013. In addition, beginning net position was restated to correct the Kentucky School Boards Insurance Trust (KSBIT) liability beginning balance. The previous year's balance was recorded based on the best estimate available per KSBIT. The liability decreased by \$27,033; thus, beginning net position increased by \$27,033.

Net Position as of June 30, 2013	\$ 13,818,994
Less: Elimination of bond issuance costs	(458,572)
Add: Deferred outflows from advanced bond refundings	222,321
Add: Decrease in KSBIT assessment	<u>27,033</u>
Beginning Net Position, As Restated	<u>\$ 13,609,776</u>

REQUIRED SUPPLEMENTARY  
INFORMATION

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Taxes	4,631,312	4,631,312	4,999,104	367,792
Other Local Sources	63,000	63,000	48,256	(14,744)
State Sources	13,275,659	13,275,659	13,663,099	387,440
Federal Sources	26,000	26,000	21,187	(4,813)
Other Sources	189,500	189,500	542,007	352,507
<b>TOTAL REVENUES</b>	<b>18,185,471</b>	<b>18,185,471</b>	<b>19,273,653</b>	<b>1,088,182</b>
<b>EXPENDITURES:</b>				
Instructional	11,822,744	11,822,744	11,530,733	292,011
Student Support Services	702,020	702,020	918,172	(216,152)
Staff Support Services	540,886	540,886	477,501	63,385
District Administration	1,043,482	1,043,482	800,128	243,354
School Administration	925,595	925,595	1,059,116	(133,521)
Business Support Services	412,480	412,480	427,427	(14,947)
Plant Operation & Maintenance	1,860,580	1,860,580	2,324,800	(464,220)
Student Transportation	2,188,138	2,188,138	2,137,553	50,585
Central Office			124	(124)
Other	839,521	839,521	364,488	475,033
<b>TOTAL EXPENDITURES</b>	<b>20,335,446</b>	<b>20,335,446</b>	<b>20,040,042</b>	<b>295,404</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(2,149,975)</b>	<b>(2,149,975)</b>	<b>(766,389)</b>	<b>1,383,586</b>
<b>FUND BALANCES - BEGINNING</b>	<b>2,149,975</b>	<b>2,149,975</b>	<b>2,533,655</b>	<b>0</b>
<b>FUND BALANCES - ENDING</b>	<b>0</b>	<b>0</b>	<b>1,767,266</b>	<b>1,383,586</b>

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

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	65,694	65,694	40,624	(25,070)
State Sources	1,660,872	1,660,872	705,397	(955,475)
Federal Sources	4,165,349	4,165,349	2,106,067	(2,059,282)
Other Sources	53,200	53,200	7,902	(45,298)
<b>TOTAL REVENUES</b>	<b>5,945,115</b>	<b>5,945,115</b>	<b>2,859,990</b>	<b>(3,085,125)</b>
EXPENDITURES:				
Instructional	5,255,056	5,255,056	2,461,627	2,793,429
Student Support Services	32,033	32,033	24,100	7,933
Staff Support Services	178,270	178,270	101,137	77,133
School Administration	114,509	114,509	113,727	782
Plant Operation & Maintenance	45,549	45,549	2,451	43,098
Community Service Operations	310,916	310,916	156,948	153,968
Other	8,782	8,782		8,782
<b>TOTAL EXPENDITURES</b>	<b>5,945,115</b>	<b>5,945,115</b>	<b>2,859,990</b>	<b>3,085,125</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES - BEGINNING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES - ENDING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

OTHER SUPPLEMENTARY  
INFORMATION

GARRARD COUNTY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	105,218		289,363	394,581
TOTAL ASSETS	<u>105,218</u>	<u>0</u>	<u>289,363</u>	<u>394,581</u>
LIABILITIES AND FUND BALANCES:				
Total Liabilities	0	0	0	0
Fund Balance:				
Restricted for:				
Capital Projects	105,218		289,363	394,581
Total Fund Balance	<u>105,218</u>	<u>0</u>	<u>289,363</u>	<u>394,581</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>105,218</u>	<u>0</u>	<u>289,363</u>	<u>394,581</u>

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

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

	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
<b>REVENUES:</b>				
Taxes		1,275,898		1,275,898
Earnings from Investments			2,019	2,019
Intergovernmental - State	224,725	777,322		1,002,047
<b>TOTAL REVENUES</b>	<u>224,725</u>	<u>2,053,220</u>	<u>2,019</u>	<u>2,279,964</u>
<b>EXPENDITURES:</b>				
Facilities Acquisition & Construction			568,660	568,660
<b>TOTAL EXPENDITURES</b>	<u>0</u>	<u>0</u>	<u>568,660</u>	<u>568,660</u>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	224,725	2,053,220	(566,641)	1,711,304
<b>OTHER FINANCING SOURCES(USES):</b>				
Loss Compensation			222,838	222,838
Operating Transfers In			292,956	292,956
Operating Transfers Out	(194,471)	(2,071,449)		(2,265,920)
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<u>(194,471)</u>	<u>(2,071,449)</u>	<u>515,794</u>	<u>(1,750,126)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>30,254</u>	<u>(18,229)</u>	<u>(50,847)</u>	<u>(38,822)</u>
<b>FUND BALANCES - BEGINNING</b>	<u>74,964</u>	<u>18,229</u>	<u>340,210</u>	<u>433,403</u>
<b>FUND BALANCES - ENDING</b>	<u><u>105,218</u></u>	<u><u>0</u></u>	<u><u>289,363</u></u>	<u><u>394,581</u></u>

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

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

	FUND BALANCE JULY 1, 2013	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2014
Garrard County High School	90,079	347,702	352,749	85,032
Garrard County Middle School	61,817	148,804	123,439	87,182
Camp Dick Robinson Elementary	15,903	83,649	79,514	20,038
Lancaster Elementary	13,171	37,327	33,674	16,824
Paint Lick Elementary	12,420	43,834	41,613	14,641
Total Due to Student Groups	193,390	661,316	630,989	223,717
Other Agency Funds	88,878	7,477	20,961	75,394
Total Activity Funds	282,268	668,793	651,950	299,111

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

GARRARD COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	CASH BALANCE JULY 1, 2013	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2014	ACCOUNTS RECEIVABLE JUNE 30, 2014	ACCOUNTS PAYABLE JUNE 30, 2014	FUND BALANCE JUNE 30, 2014
Academic Team	200		200	0			0
Advanced Foods	303	1,036	1,265	74			74
AG Shop	1			1			1
Americorps	0	200	186	14			14
Art	0	946	621	325			325
Art Club	4	237		241			241
Band	742	42,190	39,738	3,194			3,194
Baseball	9,398	25,364	26,412	8,350			8,350
Baseball Field Maintenance	0	10,550	10,550	0			0
Beta Club	625	588	796	417			417
Boys Basketball	738	13,928	14,539	127			127
Boys Golf	2,760	3,100	2,975	2,885			2,885
Boys Soccer	2,725	3,452	2,255	3,922			3,922
Boys Tennis	1,068	750	504	1,314			1,314
Cheerleaders	2,096	7,578	8,575	1,099			1,099
Cross Country	0	2,773	2,263	510			510
Junior Historians	0	488	338	150			150
District Tourney	0	3,087	3,087	0			0
Drama Society	2,286	2,201	2,104	2,383			2,383
Fashion	14	60	28	46			46
FBLA	713	1,262	1,848	127			127
FCA	321	11,950	11,548	723			723
FCCLA	454	7,181	7,298	337			337
FEA	206	85		291			291
FFA	161	15,121	12,812	2,470			2,470
Fishing	0	590	477	113			113
FMD	69			69			69
Floral Design	129	1,366	1,494	1			1
Foods Lab	740	1,096	1,653	183			183
Football	515	35,215	33,410	2,320			2,320
French Club	26	156	182	0			0
GCHS Athletic Director	588			588			588
Ghost Out	172	375	375	172			172
Girls Basketball	0	4,459	3,724	735			735
Girls Golf	3			3			3
Girls Soccer	1,746	4,144	4,415	1,475			1,475
Girls Tennis	462	2,152	1,898	716			716
GMS Baseball	37	157	194	0			0
GMS Boys Basketball	582	360	942	0			0

GMS Boys Golf	243		243	0			0
GMS Boys Soccer	52		52	0			0
GMS Cheer	1,437	728	2,165	0			0
GMS Football	1,252	3,704	4,956	0			0
GMS Girls Basketball	0	1,929	1,929	0			0
GMS Girls Soccer	384		384	0			0
GMS Softball	1,276		1,276	0			0
GMS Ticket Revenue	13,307		13,307	0			0
Golden Pride Bank	98	22,121	17,190	5,029			5,029
Graduation	767	1,922	2,601	88			88
Greenhouse	1,977	981	1,272	1,686			1,686
Guidance	962	5,703	5,737	928			928
ID Badges	245	609	854	0			0
Instructional	418	21,434	21,752	100			100
Library	303	1,362	1,438	227			227
National Honor Society	663	348	471	540			540
Newspaper	810		173	637			637
Office	1,248	1,241	2,321	168			168
Parking	540	275	512	303			303
Project Graduation	474	13,297	13,429	342			342
Prom	2,446	6,712	6,403	2,755			2,755
Science Club	52	637	567	122			122
Senior Trip	0	3,660	3,660	0			0
Shop	225	615	496	344			344
Softball	3,211	19,071	17,783	4,499			4,499
Spanish Club	61		53	8			8
Student Council	2,684	2,408	3,691	1,401			1,401
Student Funds	940	931	1,094	777			777
Teacher Vending	39	50	50	39			39
Ticket Revenue	16,270	39,560	34,730	21,100			21,100
Track	84	985	641	428			428
Volleyball	1	1,679	1,680	0			0
Watershed Grant	554			554			554
Yearbook	7,037	7,410	7,000	7,447			7,447
Young Dems/Reps	135			135			135
Total All Funds	90,079	363,569	368,616	85,032	0	0	85,032
Interfund Transfers		(15,867)	(15,867)	0	0	0	0
Total	90,079	347,702	352,749	85,032	0	0	85,032

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

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - School Improvement Grant	84.010	3202	26,238
Title I - School Improvement Grant - ARRA	84.389	5600A	5,995
Title I - School Improvement Grant - ARRA	84.389	5600C	6,528
Title I - Grants to Local Educational Agencies	84.010	3104	516,533
Title I - Grants to Local Educational Agencies	84.010	3103	186,458
Title I - Parent Involvement	84.010	3103M	4,245
Title I - Tier 3 Assist Team	84.010	3102T	3,504
Title I - Parent Involvement	84.010	3104M	1,893
Title I - Parent Involvement	84.010	3102M	248
Title I Cluster			751,642
Career & Technical Education	84.048	3482a	1,080
Career & Technical Education	84.048	3483	985
Career & Technical Education	84.048	3483a	951
Career & Technical Education	84.048	3484	23,051
Career & Technical Education Total			26,067
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4012E	113,727
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4013	63,293
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4014	87,627
Title II - Part A -Teacher Quality Enhancement Grants Total			264,647 *
Migrant Education - State Grant Program	84.011	3113	6,945
Migrant Education - State Grant Program	84.011	3113S	1,163
Migrant Education - State Grant Program	84.011	3114	61,911
Migrant Education - State Grant Program Total			70,019
IDEA - Special Education - Grants to State	84.027	3373	227,267
IDEA - Special Education - Grants to State	84.027	3374	302,103
IDEA - Special Education - Preschool Grants	84.173	3432	4,896
IDEA - Special Education - Preschool Grants	84.173	3433	20,445
IDEA - Special Education - Preschool Grants	84.173	3434	9,923
Special Education Cluster			564,634
21st CCLC - Garrard Middle Summer School	84.287	5502	45,706
21st CCLC - Garrard Middle School	84.287	5503U	4,875
21st CCLC - Garrard Middle School	84.287	5503	49,688
21st CCLC - Garrard Middle School	84.287	5502J	1,000
21st CCLC Total			101,269
Rural and Low Income Schools	84.358	3503	41,216
Rural and Low Income Schools	84.358	350A	831
Rural and Low Income Schools Total			42,047
Gear Up Grant	84.334A	3793G	37,192
Gear Up Grant	84.334A	3794G	243,378
			280,570
Race to the Top	84.413A	4521	5,172
Total U.S. Department of Education			2,106,067
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-13	147,760
National School Lunchroom	10.555	7750002-14	507,284
School Breakfast Program	10.553	7760005-13	24,829
School Breakfast Program	10.553	7760005-14	151,269
Child Nutrition Cluster			831,142 *
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	73,198
Total U.S. Department of Agriculture			904,340
Total Federal Financial Assistance			3,010,407

\* Tested as major program

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

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

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

GARRARD COUNTY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2014

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

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_   X   Yes \_\_\_\_\_ None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_   X   Yes \_\_\_\_\_ No

**Federal Awards**

Internal control over major programs?

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.555/10.553 84.367	Child Nutrition Cluster Title II – Part A

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

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

**Section II – Financial Statement of Findings**

**Reference Number 2014-1: Significant Deficiency in Internal Controls**

**Criteria:** The District’s management is responsible for establishing and maintaining internal controls to prevent material non-compliance with applicable laws.

**Condition:** As part of the audit, we performed procedures relative to the District’s debt. During these procedures, we noted that the District entered into a five year loan with a local lending institution. This type of transaction is prohibited by state law.

**Cause:** The District did not identify the proper Kentucky Revised Statute relative to borrowing from local lending institutions.

**Effect:** The design of controls over compliance with laws did not prevent the District from entering into a long-term loan, which is prohibited by state law.

**Recommendation:** When considering an unusual transaction, we recommend District management and finance personnel review the procedures and processes in place to ensure that their consideration of the transaction includes review of all laws related to the potential transaction. This will strengthen the District's ability to prevent noncompliance.

**Management Response:** Before entering the banking loan agreement with First Southern National Bank, we sought guidance from the Kentucky Department of Education (KDE). We outlined our plan for financing the project on a BG-1 submitted to KDE, detailing our plan to finance the note over a five year period and to repay the loan from general fund money. We submitted the loan document from First Southern National Bank for the project financing to KDE to get their approval to proceed with project and were told that approval from their office was not required to secure the loan. The BG-1 was subsequently approved based on the information that we had provided. The reason that we felt that this granted us the approval we needed to proceed was that we had contacted another school district in Kentucky that had made a similar request and was granted approval for a five-year loan. We now recognize the applicable Kentucky Revised Statute (160.540); however, we feel that we were granted the necessary approval to proceed with the project and are working with KDE to see how our loan agreement is different than that of the other Kentucky school district that was allowed to proceed with their loan agreement with a banking institution.

**Reference Number 2014-2: Non-compliance with Kentucky Revised Statute Number 160.540**

**Criteria:** The District entered into a long-term loan with a local lending institution, which is prohibited by Kentucky Revised Statute number 160.540.

**Condition:** Kentucky Revised Statute number 160.540 states:

“Any board of education may borrow money on the credit of the board and issue negotiable notes in anticipation of revenues from school taxes and state revenue for the fiscal year in which the money is borrowed, and may pledge the anticipated revenues from state and local sources for the payment of principal and interest on the loan. The rate of interest shall be at a rate or rates or method of determining rates as the board determines. In all cases such loans shall be repaid within the fiscal year in which they are borrowed.”

The District entered into a five year note with First Southern National Bank on May 8, 2014 in the amount of \$249,000 with five annual payments of \$54,203, including interest. The first payment is due May 8, 2015.

**Cause:** The District failed to fully research the applicable Kentucky Revised Statutes related to borrowing funds from a local lending institution.

**Effect:** The District entered into a loan with terms that are prohibited by Kentucky Revised Statute.

**Recommendation:** Prior to entering into a transaction which is unusual as it relates to the District's normal course of business, we recommend all avenues of research be performed to ensure that the transaction is in compliance with relevant laws and to obtain an opinion on compliance with laws from the District's legal counsel.

**Management's Response:** Before entering the banking loan agreement with First Southern National Bank, we sought guidance from the Kentucky Department of Education (KDE). We outlined our plan for financing the project on a BG-1 submitted to KDE, detailing our plan to finance the note over a five year period and to repay the loan from general fund money. We submitted the loan document from First Southern National Bank for the project financing to KDE to get their approval to proceed with project and were told that approval from their office was not required to secure the loan. The BG-1 was subsequently approved based on the information that we had provided. The reason that we felt that this granted us the approval we needed to proceed was that we had contacted another school district in Kentucky that had made a similar request and was granted approval for a five-year loan. We now recognize the applicable Kentucky Revised Statute (160.540); however, we feel that we were granted the necessary approval to proceed with the project and are working with KDE to see how our loan agreement is different than that of the other Kentucky school district that was allowed to proceed with their loan agreement with a banking institution.

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

No matters were reported.

GARRARD COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2014

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
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October 24, 2014

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

Members of the Board of Education  
Garrard County School District  
322 W Maple Street  
Lancaster, KY 40444

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Garrard County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Garrard County School District's basic financial statements, and have issued our report thereon dated October 24, 2014.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. 2014-1.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Garrard County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements* and which have been described in the accompanying schedule of findings and questioned costs as item 2014-2.

We noted certain other matters that we reported to management of Garrard County School District in a separate letter dated October 24, 2014.

### **Purpose of this Report**

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

Sincerely,

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

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**  
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October 24, 2014

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

Members of the Board of Education  
Garrard County School District  
322 W Maple Street  
Lancaster, KY 40444

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

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

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Garrard County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Garrard County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

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

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

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

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

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

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

Sincerely,

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

Certified Public Accountants

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October 24, 2014

**MANAGEMENT LETTER**

Members of the Board of Education  
Garrard County School District  
322 W Maple Street  
Lancaster, KY 40444

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

Prior Year Recommendation:

During the course of the audit, we noted an instance where the amount approved on the purchase order was less than the actual amount of the order. Upon further review, it was noted that the amount requested on the purchase order and quote from the company did not include the shipping charges. We suggest that for all purchases the requestors ensure that all costs of the items to be purchased are included on the purchase orders.

Current Year Finding:

No such instances were noted during our current year audit testing.

Prior Year Recommendation:

During the course of the audit, we noted that disbursements were made for maintenance without properly approved purchase orders. Upon further review, it was noted that these were charges not related to an emergency maintenance situation. We recommend that purchase orders be completed and approved prior to contracting services for non-emergency maintenance. Further, we recommend that for emergency maintenance that a standard invoice be completed with the relevant information as to why the purchase constituted an emergency.

Current Year Finding:

Purchase orders for maintenance were properly completed prior to contracting services.

Prior Year Recommendation:

During the course of the audit, we noted that a check was written to a teacher in the amount of \$13,300 from the Garrard County High School Activity Fund – Project Graduation. The check was then cashed in order to give each student fully participating \$100 at the end of the night. Although there was documentation with the students’ signatures that the funds were handed out to students, the *Redbook* states that cash awards, gift cards, or prepaid credit cards are disallowed expenditures. We recommend that all school treasurers and sponsors be provided a copy of the *Redbook* and advised to reference it prior to executing unusual transactions. Additionally, we advise that the school treasurers seek guidance from the District Finance Officer when there is a doubt as to whether or not the expenditure is allowable.

Current Year Finding:

Once again, during the testing of the high school activity funds, we noted that a check was written to the same teacher in the amount of \$12,893 from the Garrard County High School Fund – Project Graduation. As in the prior year, the check was cashed in order to give each student participating cash. The *Redbook* specifically states that cash cannot be given to students. We strongly recommend that the District’s management stress to the sponsors of school clubs that the rules outlined in the *Redbook* are to be adhered to without exception. In addition, we recommend management stress to the principals of each school that they are responsible for guarding against noncompliance through their review and approval process as it relates to disbursements from the school activity funds.

Management Response:

We will communicate to the club sponsors and school principals that they must follow the *Redbook* guidelines and stress that they are never allowed to hand out cash awards to students.

Prior Year Recommendation:

During the course of the audit, we noted that a check was issued from the Garrard County High School Activity Fund for an athletic event official. The required documentation for this type of disbursement is a standard invoice signed by the official being paid. We recommend that no payments be made without proper documentation, in this instance a signed standard invoice.

Current Year Finding:

During the course of the audit, there were two transactions at the high school which did not have signed purchase orders and one that did not have a supporting invoice. We recommend that no purchases be made without an approved purchase order and that no payments be made without the supporting invoice.

Management Response:

We will communicate to the school treasurers that they must have proper documentation prior to disbursing funds.

Prior Year Recommendation:

During the course of the audit, we noted that blanket purchase orders for the school year were issued for various purchases for Garrard County High School Activity Fund. Examples of purchases using the blanket purchase orders include Godfather’s Pizza and Wal-Mart. The *Redbook* states that each disbursement be documented by a completed purchase order and an original vendor invoice. We recommend that the high school cease using blanket purchase orders and prepare a purchase order for each purchase made throughout the year.

Current Year Finding:

No instances were noted where blanket purchase orders were used.

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

Sincerely,

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

Certified Public Accountants

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October 24, 2014

Members of the Board of Education  
Garrard County School District  
322 W Maple Street  
Lancaster, KY 40444

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Garrard County School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 14, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

*Qualitative Aspects of Accounting Practices*

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

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

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

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

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

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 24, 2014.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Garrard County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

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

### Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Sincerely,

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

Certified Public Accountants