

MCCREARY COUNTY

SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2014

Prepared by:

WHITE & ASSOCIATES, PSC

CERTIFIED PUBLIC ACCOUNTANTS

1407 Lexington Road

Richmond, Kentucky 40475

Phone (859) 624-3926 Fax (859) 625-0227

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2014

	<u>Page</u>
Independent Auditor’s Report	1-3
Management’s Discussion & Analysis (MD&A).....	4-10
Statement of Net Position.....	11
Statement of Activities.....	12
Balance Sheet-Governmental Funds.....	13
Reconciliation of the Balance Sheet- Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund.....	18
Statement of Net Position – Proprietary Funds.....	19
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	20
Statement of Cash Flows – Proprietary Funds.....	21
Statement of Fiduciary Net Position – Fiduciary Funds.....	22
Statement of Changes in Net Position – Fiduciary Funds.....	23
Notes to the Financial Statements.....	24-39

TABLE OF CONTENTS (CONTINUED)

Supplemental Schedules

Combining Balance Sheet – Nonmajor Governmental Funds	40
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	41
Combining Balance Sheet of Fiduciary Fund – School Activity Funds.....	42-43
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds	44-45
Statement of Revenues, Expenses, and Changes in Fund Balance – McCreary County High School.....	46
Notes to the Schedule of Expenditures of Federal Awards.....	47
Schedule of Expenditures of Federal Awards.....	48
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49-50
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	51-52
Schedule of Findings and Questioned Costs.....	53-54
Corrective Action Plan.....	55
Summary Schedule of Prior Audit Findings.....	56



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the McCreary County Board of Education and
State Committee for School District Audits
Stearns, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information as listed in the table of contents 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 District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky
October 23, 2014

MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014

As management of the McCreary 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 audit.

FINANCIAL HIGHLIGHTS

- The fund balance (prior fiscal year actual revenues less the prior fiscal year actual expenses) becomes the beginning balance for the next fiscal year. The General Fund beginning balance for fiscal year 2013-2014 was \$898,292. It increased by \$301,694 as compared to the beginning balance for fiscal year 2012-2013.

- The final SEEK calculation for 2013-2014 was based upon a guaranteed base per pupil amount of \$3,827. The guaranteed base per pupil decreased \$6 as compared to the previous fiscal year’s guaranteed base per pupil amount of \$3,833. The school district also experienced a decreased in adjusted average daily attendance (AADA) of 18.957 in which the prior year end of year AADA for 2013-2014 was 2,603.464 as compared to the prior year end of year AADA for 2012-2013 of 2,622.421; however, a growth in AADA of 10.245 was identified and added to the SEEK calculation after the second month attendance. The total Net General Fund SEEK on the final SEEK calculation for 2013-2014 was reduced by \$57,072 as compared to the final SEEK calculation for 2012-2013.

- The District made bond principal and interest payments during FY2013-2014 totaling \$1,049,572. The payments consisted of transfers to the Debt Service Fund from the Capital Outlay Fund in the amount of \$102,103.46 and the Building Fund in the amount of \$947,469. The District transferred the remaining available balance of \$159,267.54 from the Capital Outlay Fund to the General Fund during fiscal year 2013-2014 to cover the cost of annual insurance premium expenses.

- The District recorded \$5,563,749 in revenues and expenses for on-behalf payments during 2013-2014. The on-behalf payments are payments made on behalf of the school district by various state entities including the employer’s portion of health benefits, Kentucky Teacher Retirement System (KTRS), technology, and debt service.

- The District transferred \$41,656 from the General Fund to the Special Revenue Fund to match the states Kentucky Education Technology System (KETS) offers during 2013-2014. The KETS funding is used to maintain technology operating costs for the district.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014

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

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

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

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

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 vending and food service operations. All other activities of the District are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

The district’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital

MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
 YEAR ENDED JUNE 30, 2014

assets, and the depreciation of capital assets.

The statement of net activities provides a summary of all the assets in the District from governmental and business-type activities.

The following schedule is a summary of the District’s net position for fiscal year 2013 and fiscal year 2014:

COMPARATIVE STATEMENT OF NET POSITION

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
ASSETS		
Current Assets	\$ 2,932,093	\$ 2,593,317
Noncurrent Assets	<u>27,187,605</u>	<u>24,510,692</u>
Total Assets	<u>30,119,698</u>	<u>27,104,009</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Loss for the difference in reacquisition and carrying value of refunding debt	\$ <u>337,325</u>	\$ <u>319,571</u>
	<u>337,325</u>	<u>319,571</u>
 LIABILITIES		
Current Liabilities	\$ 2,495,695	\$ 1,959,324
Noncurrent Liabilities	<u>17,666,257</u>	<u>16,981,753</u>
Total Liabilities	<u>20,161,952</u>	<u>18,941,077</u>
 NET POSITION		
Investment in capital assets (Net of related debt)	\$ 8,719,930	\$ 7,300,263
Expendable restricted for capital projects	940,289	928,058
Expendable restricted for encumbrances	38,298	52,781
Expendable restricted for food services	-	-
Unrestricted	596,553	201,401
Total Net Position	<u>\$ 10,295,071</u>	<u>\$ 8,482,503</u>

The net position at the end of fiscal year 2013 was \$10,295,071 and \$8,482,503 at the end of fiscal year 2014 – a decrease of \$1,812,568.

The following schedule is a summary of the District’s statement of activities for fiscal year 2013 and fiscal year 2014:

MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014

STATEMENT OF ACTIVITIES

	Governmental Activities		Business-Type Activities	
	2013	2014	2013	2014
Revenues:				
Program Revenues:				
Charges for services	\$ 313,871	\$ 212,885	\$ 43,396	\$ 61,469
Operating grants and contributions	5,151,114	5,544,220	1,988,070	
Capital grants and contributions	1,814,637	959,992		
General revenues	<u>22,180,556</u>	<u>22,283,258</u>	<u>7,543</u>	<u>2,318,023</u>
Total revenues	<u>29,460,178</u>	<u>29,000,355</u>	<u>2,039,009</u>	<u>2,379,492</u>
Expenses:				
Instruction	16,702,223	16,535,000		
Student	1,778,067	1,672,574		
Instructional staff	1,079,252	926,103		
District administration	545,184	859,621		
School administration	1,588,344	1,415,492		
Business	780,041	754,210		
Plant operation & maintenance	2,577,121	2,537,705		
Student transportation	1,852,490	1,768,431		
Food service operations	-42,615		1,771,907	1,942,499
Community service operations	500,537	388,447		
Building Acquisitions & Construction		12,230		
Amortization	17,754	17,754		
Depreciation	2,087,845	2,710,230	39,346	95,027
Loss on retirement of assets	740		564	
Interest on long-term debt	600,497	621,830		
Total expenses	<u>30,067,480</u>	<u>30,219,627</u>	<u>1,811,817</u>	<u>2,037,526</u>
Change in net position	-607,302	-1,219,272	227,192	341,966
Net position, beginning	11,217,907	9,516,203	413,260	640,452
Prior period adjustment	<u>-315,534</u>	<u>185,572</u>		
Net position, ending	<u>\$ 10,295,071</u>	<u>\$ 8,482,503</u>	<u>\$ 640,452</u>	<u>\$ 982,418</u>

**MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

CAPITAL ASSETS

At the end of fiscal 2014, the District had \$24,606,145 invested in capital assets, including land and land improvements, buildings, buses, computers and other general equipment. This amount represents a net decrease (including additions, asset retirements, and depreciation) of \$2,686,740 over fiscal year 2013.

**CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)**

	Governmental Activities		Business-type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Land & Land Improvements	\$ 1,415,380	1,341,579	\$		\$ 1,415,380	1,341,579
Buildings	24,196,442	22,860,911			24,196,442	22,860,911
Technology Equipment	216,158	(224,348)	(1,084)	(1,322)	215,074	(225,670)
Vehicles	980,289	767,742			980,289	767,742
General Equipment	378,905	(235,623)	106,364	96,775	485,269	(138,848)
Infrastructure	431	431			431	431
Construction in Progress						
Totals	\$ 27,187,605	24,510,692	\$ 105,280	95,453	\$ 27,292,885	24,606,145

The net decrease in capital assets in the Governmental and Business-type Activities is primarily due to the depreciation expense exceeding the cost of assets.

DEBT

The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

The District made bond principal and interest payments during fiscal year 2014 totaling \$1,049,572. The payments consisted of transfers to the Debt Service Fund from the Capital Outlay Fund in the amount of \$102,103 and the Building Fund in the amount of \$947,469.

The SFCC made bond payments on behalf of the District in the amount of \$848,775 during fiscal year 2014.

MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
 YEAR ENDED JUNE 30, 2014

OUTSTANDING DEBT AT YEAR-END

	Government Activities	
	2013	2014
General Obligation Bonds	\$ 18,805,000	\$ 17,530,000
Total Obligations	\$ 18,805,000	\$ 17,530,000

COMMENTS ON BUDGET COMPARISONS

- The actual revenue received from local sources was less than the District’s budgeted amounts. The property taxes and revenue in lieu of taxes showed unfavorable amounts in comparison to the actual amount of revenue received. On the other hand, the motor vehicle, unmined minerals, utility tax and telecommunication tax all had favorable variances.

- The actual revenue received from intergovernmental – state sources was less than the budgeted amount by \$92,255. The decrease in intergovernmental – state sources was the result of the actual on-behalf payments recorded for fiscal year 2014. By comparison, there was less on-behalf payments recorded during fiscal year 2014 than the previous fiscal year 2013.

- The District received \$34,604 more from intergovernmental – federal sources in comparison to the budgeted amount. The intergovernmental – federal revenues consists of federal reimbursements for the ARMY ROTC program, as well as, federal reimbursements for Medicaid.

- The General Fund expenditure budgeted amounts showed favorable balances in comparison to the actual funds expended for fiscal year 2014; whereas, the revenue budgeted amounts showed a unfavorable balance of \$33,863 in comparison to the actual funds received. The ending fund balance for fiscal year 2014 was \$1,141,601 which will be transferred to the beginning balance revenues for fiscal year 2015.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District’s overall budget. By law, the budget must have a minimum 2% contingency.

**MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2014, for selected funds:

REVENUES & EXPENDITURES

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>
Revenues:				
Local Revenue	\$ 3,093,688	\$ 6,297	\$	\$ 248,848
State Revenue	19,059,706	1,481,666	848,775	959,992
Federal Revenue	84,604	3,213,779		
Other				
Total Revenue	<u>22,237,998</u>	<u>4,701,742</u>	<u>848,775</u>	<u>1,208,840</u>
Expenses:				
Instruction	12,575,899	3,960,217		
Student support	1,582,796	89,779		
Instructional staff support	751,824	174,278		
District administration	859,621			
School administration support	1,415,492			
Business support	754,210			
Plant operations	2,507,436	30,269		
Student transportation	1,662,987	105,444		
Community service	5,036	383,411		
Debt service			1,898,347	
Building Acquisition & Construction				12,230
Total expenses	<u>22,115,301</u>	<u>4,743,398</u>	<u>1,898,347</u>	<u>12,230</u>
Revenue Over (Under) Expenses	<u>\$ 122,697</u>	<u>\$ -41,656</u>	<u>\$ -1,049,572</u>	<u>\$ 1,196,610</u>

FINANCIAL CONTACT INFORMATION

Questions regarding this report should be directed to Arthur D. Wright, Superintendent or Kristi Sizemore-Curry, Director of Finance by mail at McCreary County Board of Education, 120 Raider Way, Stearns, KY 42647.

McCreary County School District
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,326,309	\$ 836,972	\$ 2,163,281
Restricted cash and cash equivalents	19,338		19,338
Receivables (net)	1,247,670		1,247,670
Inventories		49,992	49,992
Capital assets:			
Land, improvements, and construction in progress	814,437		814,437
Other capital assets, net of depreciation	23,696,255	95,454	23,791,709
Total capital assets	24,510,692	95,454	24,606,146
Total assets	27,104,009	982,419	28,086,428
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	319,571		319,571
LIABILITIES			
Accounts payable and accrued expenses	147,601		147,601
Accrued interest payable	125,667		125,667
Unearned revenue	376,057		376,057
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,315,000		1,315,000
Total due within 1 year	1,315,000	-	1,315,000
Due in more than 1 year:			
Bond obligations	16,215,000		16,215,000
KSBIT payable	593,295		593,295
Sick leave	168,458		168,458
Total due in more than 1 year	16,976,753	-	16,976,753
Total liabilities	18,941,077	-	18,941,077
NET POSITION			
Net Investment in capital assets	7,300,263	95,454	7,395,717
Restricted for:			
Expendable restricted for capital projects	928,058		928,058
Expendable restricted for encumbrances	52,781		52,781
Expendable restricted for food services		886,965	886,965
Unrestricted	201,401		201,401
Total net position	\$ 8,482,503	\$ 982,419	\$ 9,464,922

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 16,535,001	\$ 212,885	\$ 3,920,181	\$ -	\$ (12,401,934)		\$ (12,401,934)
Support Services							
Student	1,672,574		88,871		(1,583,703)		(1,583,703)
Instructional Staff	926,103		172,517		(753,586)		(753,586)
District Administration	859,621				(859,621)		(859,621)
School Administration	1,415,492				(1,415,492)		(1,415,492)
Business	754,210				(754,210)		(754,210)
Plant Operation & Maintenance	2,537,705		29,963		(2,507,742)		(2,507,742)
Student Transportation	1,768,431		104,378		(1,664,053)		(1,664,053)
Community Services Operations	388,447		379,535		(8,912)		(8,912)
Building Acquisitions & Construction	12,230			959,992	947,762		947,762
Amortization	17,754				(17,754)		(17,754)
Depreciation	2,710,230				(2,710,230)		(2,710,230)
Interest on long term debt	621,831			848,775	226,944		226,944
Total governmental activities	<u>30,219,627</u>	<u>212,885</u>	<u>4,695,445</u>	<u>1,808,767</u>	<u>(23,502,530)</u>		<u>(23,502,530)</u>
Business-type activities:							
Food service operations	1,942,499	61,469				\$ (1,881,030)	(1,881,030)
Depreciation	95,027					(95,027)	(95,027)
Total business-type activities	<u>2,037,526</u>	<u>61,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,976,057)</u>	<u>(1,976,057)</u>
Total primary government	\$ <u>32,257,153</u>	\$ <u>274,354</u>	\$ <u>4,695,445</u>	\$ <u>1,808,767</u>	<u>(23,502,530)</u>	<u>(1,976,057)</u>	<u>(25,478,587)</u>
General revenues:							
Taxes:							
Property taxes					1,674,550		1,674,550
Motor vehicle taxes					198,196		198,196
Unmined minerals tax					4,296		4,296
Utilities					810,367		810,367
Telecommunications tax					56,702		56,702
Revenue in lieu of taxes					310,587		310,587
State and formula grants					19,144,310	2,301,578	21,445,888
Sale of equipment					3,000		3,000
Unrestricted investment earnings					81,250	16,446	97,696
Total general revenues					<u>22,283,258</u>	<u>2,318,023</u>	<u>24,601,281</u>
Change in net position					(1,219,273)	341,966	(877,306)
Net Position - beginning					9,516,204	640,452	10,156,656
Prior period adjustment					185,572		185,572
Restated net position - beginning					<u>9,701,776</u>	<u>640,452</u>	<u>10,342,228</u>
Net Position - ending					\$ <u>8,482,503</u>	\$ <u>982,419</u>	\$ <u>9,464,922</u>

See the accompanying notes to the financial statements.

McCreary County School District
Balance Sheet
Governmental Funds
June 30, 2014

	Governmental Funds				
	General	Special Revenue	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 999,841	\$ -	\$ -	\$ 928,058	\$ 1,927,900
Restricted cash and cash equivalents	19,338				19,338
Receivables, net					
Taxes-current	158,282				158,282
Taxes-delinquent	26,927				26,927
Accounts	61,467				61,467
Intergovernmental-state		24,713			24,713
Intergovernmental-federal	1,462	974,819			976,281
Total assets	1,267,317	999,532	-	928,058	3,194,908
LIABILITIES					
Accounts payable	107,617	21,885			129,502
Accrued unemployment	18,099				18,099
Cash shortage		601,591			601,591
Unearned revenue		376,057			376,057
Total liabilities	125,716	999,532	-	-	1,125,248
FUND BALANCE					
Restricted				928,058	928,058
Assigned	52,781				52,781
Unassigned	1,088,820				1,088,820
Total fund balance	\$ 1,141,601	\$ -	\$ -	\$ 928,058	\$ 2,069,659

See the accompanying notes to the financial statements.

McCreary County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balance per fund financial statements	\$	2,069,659
<p>Amounts reported for governmental activities in the statement of netposition are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		24,510,692
<p>Capitalized the bond defeasance costs of the sale/refunding bonds and amortized over the life of the bond.</p>		319,571
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Noncurrent sick leave payable		(168,458)
Accrued interest payable		(125,667)
KSBIT payable		(593,295)
Bond obligations		<u>(17,530,000)</u>
 Net position of governmental activities	 \$	 <u><u>8,482,503</u></u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
From Local Sources					
Taxes					
Property	\$ 1,425,702	\$ -	\$ -	\$ 248,848	\$ 1,674,550
Motor vehicle	198,196				198,196
Unmined minerals	4,296				4,296
Utility tax	810,367				810,367
Telecommunications tax	56,702				56,702
Revenue in lieu of taxes	310,587				310,587
Earnings on investments	81,250				81,250
Other local revenue	206,588	6,297			212,885
Intergovernmental - state	19,059,706	1,481,666	848,775	959,992	22,350,139
Intergovernmental - federal	84,604	3,213,779			3,298,383
Total revenues	<u>22,237,998</u>	<u>4,701,742</u>	<u>848,775</u>	<u>1,208,840</u>	<u>28,997,355</u>
EXPENDITURES					
Instruction	12,575,900	3,960,217			16,536,117
Support Services					
Student	1,582,796	89,779			1,672,574
Instructional Staff	751,824	174,279			926,103
District Administration	859,621				859,621
School Administration	1,415,492				1,415,492
Business	754,210				754,210
Plant Operation & Maintenance	2,507,436	30,269			2,537,705
Student Transportation	1,662,987	105,444			1,768,431
Community Services Operations	5,036	383,411			388,447
Building Acquisitions & Construction				12,230	12,230
Debt Service			1,898,348		1,898,348
Total expenditures	<u>22,115,301</u>	<u>4,743,398</u>	<u>1,898,348</u>	<u>12,230</u>	<u>28,769,276</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	122,697	(41,656)	(1,049,572)	1,196,610	228,078
OTHER FINANCING SOURCES (USES)					
Sale of equipment	3,000				3,000
Operating transfers in	159,268	41,656	1,049,572		1,250,496
Operating transfers (out)	(41,656)			(1,208,840)	(1,250,496)
Total other financing sources and (uses)	<u>120,612</u>	<u>41,656</u>	<u>1,049,572</u>	<u>(1,208,840)</u>	<u>3,000</u>
NET CHANGE IN FUND BALANCE	243,309	-	-	(12,230)	231,078
FUND BALANCE-BEGINNING	<u>898,292</u>	<u>-</u>	<u>-</u>	<u>940,289</u>	<u>1,838,581</u>
FUND BALANCE-ENDING	<u>\$ 1,141,601</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 928,058</u>	<u>\$ 2,069,659</u>

See the accompanying notes to the financial statements.

McCreary 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

Net change in total fund balances per fund financial statements	\$	231,078
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(2,676,913)
<p>The difference in the refunding/sale bond issue amount and the amount for payment to escrow the amount to repay the original bonds amortized over the life of the bonds</p>		(17,754)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		1,275,000
<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>		
Sick leave payable		(32,201)
KSBIT payable extraordinary item		
Accrued interest payable		<u>1,517</u>
Change in net position of governmental activities	\$	<u><u>(1,219,273)</u></u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 1,691,700	\$ 1,691,700	\$ 1,425,702	\$ (265,998)
Motor vehicle	183,000	183,000	198,196	15,196
Unmined minerals	200	200	4,296	4,096
Utility tax	800,000	800,000	810,367	10,367
Telecommunication tax	-	-	56,702	56,702
Revenue in lieu of taxes	330,000	330,000	310,587	(19,413)
Earnings on investments	65,000	65,000	81,250	16,250
Other local revenue	-	-	206,588	206,588
Intergovernmental - state	19,151,961	19,151,961	19,059,706	(92,255)
Intergovernmental - federal	50,000	50,000	84,604	34,604
Total revenues	<u>22,271,861</u>	<u>22,271,861</u>	<u>22,237,998</u>	<u>(33,863)</u>
EXPENDITURES				
Instruction	12,961,979	12,968,605	12,575,900	392,705
Support Services				
Student	1,456,516	1,456,516	1,582,796	(126,280)
Instructional Staff	772,210	767,210	751,824	15,386
District Administration	1,614,631	1,614,631	859,621	755,010
School Administration	1,411,991	1,411,991	1,415,492	(3,501)
Business	597,299	590,673	754,210	(163,536)
Plant Operation & Maintenance	2,212,812	2,212,812	2,507,436	(294,624)
Student Transportation	1,956,134	1,956,134	1,662,987	293,147
Community Services Operations		5,000	5,036	(36)
Total expenditures	<u>22,983,571</u>	<u>22,983,571</u>	<u>22,115,301</u>	<u>868,271</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(711,710)	(711,710)	122,697	834,407
OTHER FINANCING SOURCES (USES)				
Sale of equipment			3,000	3,000
Operating transfers in	153,853	153,853	159,268	5,415
Operating transfers (out)	(41,958)	(41,958)	(41,656)	302
Total other financing sources and (uses)	<u>111,895</u>	<u>111,895</u>	<u>120,612</u>	<u>8,717</u>
NET CHANGE IN FUND BALANCE	(599,816)	(599,816)	243,309	843,124
FUND BALANCE-BEGINNING	<u>599,816</u>	<u>599,816</u>	<u>898,292</u>	<u>298,477</u>
FUND BALANCE-ENDING	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,141,601</u>	<u>\$ 1,141,601</u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Other local revenue	\$ -	\$ 367	\$ 6,297	\$ 5,930
Intergovernmental - state	1,442,287	1,461,487	1,481,666	20,178
Intergovernmental - federal	3,269,124	3,229,683	3,213,779	(15,904)
Total revenues	<u>4,711,412</u>	<u>4,691,538</u>	<u>4,701,742</u>	<u>10,204</u>
EXPENDITURES				
Instruction	3,929,794	3,909,073	3,960,217	(51,144)
Support Services				
Student		103,534	89,779	13,756
Instructional Staff	175,470	167,074	174,279	(7,205)
Plant Operation & Maintenance	33,171	25,025	30,269	(5,244)
Student Transportation	124,795	93,631	105,444	(11,813)
Community Services Operations	490,139	384,129	383,411	719
Total expenditures	<u>4,753,370</u>	<u>4,682,466</u>	<u>4,743,398</u>	<u>(60,932)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(41,958)	9,072	(41,656)	(50,728)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	41,958	41,656	41,656	-
Operating transfers out		(50,728)		50,728
Total other financing sources and (uses)	<u>41,958</u>	<u>(9,072)</u>	<u>41,656</u>	<u>50,728</u>
NET CHANGE IN FUND BALANCE	-	-	-	0
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Net Position
Proprietary Funds
June 30, 2014

		School Food Services
ASSETS		
Cash and cash equivalents	\$	836,972
Receivables		
Inventories		49,992
Capital assets:		
Other capital assets, net of depreciation		95,454
Total assets		982,419
 NET POSITION		
Net Investment in capital assets		95,454
Restricted for:		
Expendable Restricted for Food Service		886,965
Total net position	\$	982,419

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2014

	<u>School Food Services</u>
OPERATING REVENUES	
Lunchroom sales	\$ 61,469
Total operating revenues	<u>61,469</u>
OPERATING EXPENSES	
Depreciation	95,027
Food service operations	
Salaries and benefits	794,180
Operational	1,148,319
Total operating expenses	<u>2,037,526</u>
Operating income (loss)	(1,976,057)
NONOPERATING REVENUES (EXPENSES)	
Federal grants	1,643,645
State grants	657,933
Earnings from investments	16,446
Total nonoperating revenues	<u>2,318,023</u>
CHANGE IN NET POSITION	341,966
NET POSITION-BEGINNING	<u>640,452</u>
NET POSITION-ENDING	<u>\$ 982,419</u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 61,469
Payments to suppliers	(937,028)
Payments to employees	(794,180)
Net cash provided (used) by operating activities	<u>(1,669,739)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants and contributions	2,301,578
Net cash provided (used) by noncapital financing activities	<u>2,301,578</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(85,201)
Net cash provided (used) by capital and related financing activities	<u>(85,201)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	16,446
Net cash provided (used) by investing activities	<u>16,446</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	563,084
CASH AND CASH EQUIVALENTS-BEGINNING	<u>273,889</u>
CASH AND CASH EQUIVALENTS-ENDING	<u>\$ 836,972</u>
Reconciliation of operating income (loss) to net cash used	
by operating activities:	
Operating income (loss)	\$ (1,976,057)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	95,027
Changes in assets and liabilities:	
Receivables	208,137
Inventory	4,942
Accrued liabilities	(1,788)
Net cash used by operating activities	<u>\$ (1,669,739)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$139,053 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$158,924 provided by state government.

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>School Activity Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Fiduciary Fund Total</u>
ASSETS			
Cash and cash equivalents	\$ 178,485	\$ 84,759	\$ 263,244
Accounts receivable	<u>303</u>		<u>303</u>
 Total Assets	 <u><u>178,788</u></u>	 <u><u>84,759</u></u>	 <u><u>263,547</u></u>
 LIABILITIES			
Accounts payable	1,788	-	1,788
Due to student groups	<u>176,999</u>	<u>-</u>	<u>176,999</u>
 Total Liabilities	 <u><u>178,788</u></u>	 <u><u>-</u></u>	 <u><u>178,788</u></u>
 NET POSITION HELD IN TRUST	 <u><u>\$ -</u></u>	 <u><u>\$ 84,759</u></u>	 <u><u>\$ 84,759</u></u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Changes in Net Position
Fiduciary Funds
June 30, 2014

		<u>Private Purpose Trust Fund</u>
Additions		
Trust activities	\$	86,926
Deductions		
Benefits paid		<u>2,167</u>
Increase in net position		84,759
Net position, June 30, 2013		<u>-</u>
Net position, June 30, 2014	\$	<u><u>84,759</u></u>

See the accompanying notes to the financial statements.

MCCREARY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The McCreary 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 the McCreary 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 relevant to the operation of the McCreary 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 District itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

McCreary County Board of Education Finance Corporation

The Board authorized establishment of the McCreary County Board of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the McCreary County Board of Education.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of 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) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

programs are identified in the Schedule of Expenditures of Federal Awards included in this report. KDE requires this fund to be a major fund.

(C) Capital Project Funds

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).

SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

(D) Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

(A) Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The schools funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

(B) Private Purpose Trust Fund

The Private Purpose Trust Funds are maintained within MUNIS and account for revenues generated by trusts set up to benefit students in McCreary County.

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 Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations 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.

Unearned Revenue – Unearned 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 unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.394 per \$100 valuation of real property, \$.398 per \$100 valuation for business personal property and \$.30 per \$100 valuation for motor vehicles.

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 government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
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 payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave.

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

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

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

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

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 expended when used.

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

Prepaid Assets

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

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 judgment, 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 Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

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 THE 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.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

The District’s cash and cash equivalents are interest bearing accounts with the local bank depository. Due to the liquidity nature of these accounts the carrying value is the fair market value. The deposits are insured with FDIC and pledged assets of the local bank. The demand accounts include a money market account. The District only maintains one money market account. Included within the cash and cash equivalents are restricted cash amounts for the “Rewards Program” totaling \$19,338.

	<u>Bank Balance</u>
<u>Bank of McCreary County</u>	<u>Demand</u>
FDIC	\$4,353,726
Securities pledged to district	<u>250,000</u>
Bank balance	<u><u>\$4,603,726</u></u>
	<u>Book Balance</u>
	<u>Cash equivalents</u>
Governmental Activities	\$1,326,309
Business-type Activities	836,972
Agency funds	
School Activity	178,485
Private Purpose Trust	<u>84,759</u>
Total carrying amount	<u><u>\$2,426,525</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District also has a money market account held by LPL financial in the amount of \$84,759 which is secured by FDIC insurance.

NOTE D – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Land	\$ 814,437	\$ -	\$ -	\$ 814,437
Land improvements	1,528,787	-	76,813	1,451,974
Buildings	44,158,054	-	91,911	44,066,143
Technology equipment	3,920,339	8,389	2,641,785	1,286,943
Vehicles	4,448,705	-	200,400	4,248,305
General equipment	2,128,589	24,928	1,686,142	467,375
Infrastructure	-	-	-	431
Construction in progress	-	-	-	\$ -
Total at historical cost	\$ 56,998,911	\$ 33,317	\$ 4,697,052	\$ 52,335,607
Less: Accumulated depreciation				
Land improvements	\$ 927,844	\$ 73,801	\$ 76,813	924,832
Buildings	19,961,612	1,335,531	91,911	21,205,232
Technology equipment	3,704,181	448,895	2,641,785	1,511,291
Vehicles	3,468,416	212,547	200,400	3,480,563
General equipment	1,749,684	639,456	1,686,142	702,998
Total accumulated depreciation	\$ 29,811,737	\$ 2,710,230	\$ 4,697,052	\$ 27,824,915
Governmental Activities				
Capital Assets-net	\$ 27,187,175	\$ (2,676,913)	\$ -	\$ 24,510,692
<u>Business-Type Activities</u>				
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Buildings	\$ -	\$ -	\$ -	\$ -
Technology equipment	2,999	-	6,359	(3,360)
General equipment	1,055,615	85,201	482,003	658,813
Total at historical cost	\$ 1,058,614	\$ 85,201	\$ 488,362	\$ 655,453
Less: Accumulated depreciation				
Buildings	\$ -	\$ -	\$ -	\$ -
Technology equipment	4,083	237	6,359	(2,039)
General equipment	949,252	94,790	482,003	562,039
Total accumulated depreciation	\$ 953,334	\$ 95,027	\$ 488,362	\$ 559,999
Business-Type Activities				
Capital Assets-net	\$ 105,280	\$ (9,826)	\$ -	\$ 95,454

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE E – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the McCreary County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and Food Service funds. The amounts recorded for both revenues and expenditures (expenses) are \$4,556,051 for the General Fund, \$848,775 for the Debt Service Fund and \$158,924 for the Food Service Fund.

NOTE F – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Outlay	\$ 90,549	School Facilities Construction Commission
Construction	837,510	Future Construction
Food Service	\$ 886,965	Food Service Operations

NOTE G – PRIOR PERIOD ADJUSTMENT

Due to the estimated KSBIT liability being overstated in the prior year the beginning net position was understated as follows:

Net Position July 1, 2013	\$ 9,516,204
Prior Period Adjustment	185,572
Restated Net Assets July 1, 2013	<u>\$ 9,701,776</u>

NOTE H– BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the McCreary County School District Finance Corporation aggregating \$17,530,000, and \$1,310,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, 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 McCreary 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 proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of outstanding issues, the issue dates, maturity dates, interest rates, and outstanding balances, at June 30, 2014 are summarized below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013</u>			<u>2014</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2003R	\$ 2,700,000	8/1/2014	1.10-3.9%	\$ 145,000	\$ -	\$ 70,000	\$ 75,000
2003R-2nd	4,655,000	8/1/2016	2-3.4%	2,370,000	-	535,000	1,835,000
1998	3,595,000	10/1/2010	4.125-4.45%	6,655,000	-	345,000	6,310,000
2008	\$ 11,095,000	5/1/2028	3.0-4.5%	9,635,000	-	325,000	9,310,000
Totals				<u>\$ 18,805,000</u>	<u>\$ -</u>	<u>\$ 1,275,000</u>	<u>\$ 17,530,000</u>

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

<u>Fiscal Year Ended</u>	<u>Principal</u>		<u>Interest</u>		<u>Principal Total</u>	<u>Interest Total</u>
	<u>Local</u>	<u>KSFCC</u>	<u>Local</u>	<u>KSFCC</u>		
2015	\$ 752,647	\$ 562,353	\$ 299,582	\$ 286,424	\$ 1,315,000	\$ 586,005
2016	776,380	573,620	276,608	269,709	1,350,000	546,318
2017	796,899	573,101	251,874	251,978	1,370,000	503,853
2018	813,868	591,132	237,341	233,946	1,405,000	471,288
2019	825,212	609,788	216,397	215,291	1,435,000	431,688
2020-2024	3,916,423	3,078,577	732,307	762,412	6,995,000	1,494,719
2025-2028	1,719,854	1,940,146	197,219	222,462	3,660,000	419,681
	<u>\$ 9,601,283</u>	<u>\$ 7,928,717</u>	<u>\$ 2,211,329</u>	<u>\$ 2,242,222</u>	<u>\$ 17,530,000</u>	<u>\$ 4,453,551</u>

NOTE I – RETIREMENT PLANS

Kentucky Teachers’ Retirement System

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

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

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.605%.

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, four and a half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and a half percent (1.5%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The McCreary County School System's total payroll for the year was \$16,762,214. The payroll for employees covered under KTRS was \$13,032,553. For the year ended June 30, 2014, the Commonwealth contributed \$1,506,446 KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2014 were \$236,503, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,888,715, \$2,035,953, and \$2,239,958 respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.89% of the employee's compensation during the fiscal year ended June 30, 2014. The District contributed \$694,566 of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$887,705, \$1,033,706, and \$1,084,353 respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will require that unfunded portions of future pension benefit obligations shall be recorded as a liability of governments. This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. Although the data is not available from the Kentucky Teachers Retirement System or the County Employees Retirement System at this time, we believe that this implementation will have a material effect on future financial statements.

NOTE J – COMMITMENTS

There are no material commitments of the District.

NOTE K - CONTINGENCIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE L - LITIGATION

There is no known, threatened or pending litigation at this time.

NOTE M – 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, illegal acts, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include Workers' Compensation insurance.

NOTE N – RISK MANAGEMENT

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

The District purchases unemployment insurance through the Kentucky School Districts 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 coverage in any of the past three fiscal years.

NOTE O – DEFICIT OPERATING BALANCES

The following funds had an operating deficit at the end of the fiscal year causing a reduction in the fund balance.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Construction	(\$12,230)
Governmental Activities	(1,291,273)

NOTE P - 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 THE FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Purpose</u>		<u>Amount</u>
General Fund	Special Revenue Fund	KETS	\$	41,656
Capital Outlay Fund	General Fund	Operating Expenditures		159,268
Capital Outlay Fund	Debt Service Fund	Debt Payments		102,103
FSPK Fund	Debt Service Fund	Debt Payments	\$	947,469

NOTE R – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 23, 2014, the date the financial statements were available to be issued.

McCreary County School District
Combining Balance Sheet-Nonmajor Governmental Funds
 June 30, 2014

	Other Governmental Funds			
	Capital Outlay	FSPK	Construction Fund	Total
Assets				
Cash and Cash Equivalents	\$ 90,549	\$ -	\$ 837,510	\$ 928,058
Total Assets	90,549	-	837,510	928,058
Fund Balances				
Restricted	90,549	-	837,510	928,058
Total Fund Balances	\$ 90,549	\$ -	\$ 837,510	\$ 928,058

See the accompanying notes to the financial statements.

McCreary County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2014

	Other Governmental Funds			
	Capital Outlay	FSPK	Construction Fund	Total
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ 248,848	\$ -	\$ 248,848
Intergovernmental - State	261,371	698,621		959,992
Total Revenues	261,371	947,469	-	1,208,840
Expenditures				
Building Acquisitions & Construction			12,230	12,230
Total Expenditures	-	-	12,230	12,230
Excess (Deficit) of Revenues Over Expenditures	261,371	947,469	(12,230)	1,196,610
Other Financing Sources (Uses)				
Operating transfers (out)	(261,371)	(947,469)		(1,208,840)
Total Other Financing Sources (Uses)	(261,371)	(947,469)	-	(1,208,840)
Net Change in Fund Balances	-	-	(12,230)	(12,230)
Fund Balance Beginning	90,549	-	849,740	940,289
Fund Balance Ending	\$ 90,549	\$ -	\$ 837,510	\$ 928,058

See the accompanying notes to the financial statements.

McCreary County School District
Combining Balance Sheet Fiduciary Fund- School Activity Funds
As of June 30, 2014

	SCHOOL ACTIVITY FUNDS				
	MCCREARY CENTRAL HIGH SCHOOL	MCCREARY COUNTY MIDDLE SCHOOL	MCCREARY COUNTY PRESCHOOL	PINE KNOT INTERMEDIATE	PINE KNOT PRIMARY
ASSETS					
Cash and cash equivalents	\$ 85,164	\$ 23,100	\$ 3,980	\$ 9,779	\$ 28,125
Accounts receivable	151	112	-	40	-
Total Assets	85,315	23,212	3,980	9,819	28,125
LIABILITIES					
Accounts payable	-	1,748	-	-	-
FUND BALANCE					
School activities	\$ 85,315	\$ 21,464	\$ 3,980	\$ 9,819	\$ 28,125

See the accompanying notes to the financial statements.

McCreary County School District
Combining Balance Sheet Fiduciary Fund- School Activity Funds
As of June 30, 2014

	SCHOOL ACTIVITY FUNDS				
	WHITLEY CITY ELEMENTARY	MCCREARY CO. BD OF EDUCATION CONCESSIONS	MCCREARY CO. BUS GARAGE	PRIVATE PURPOSE TRUST FUND	FIDUCIARY FUNDS TOTAL
ASSETS					
Cash and cash equivalents	\$ 27,962	\$ 174	\$ 200	\$ 84,759	\$ 263,244
Accounts receivable	-	-	-	-	303
Total Assets	27,962	174	200	84,759	263,547
LIABILITIES					
Accounts payable	-	40	-	-	1,788
FUND BALANCE					
School activities	\$ 27,962	\$ 134	\$ 200	\$ 84,759	\$ 261,758

See the accompanying notes to the financial statements.

McCreary County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds
 For the period ended June 30, 2014

	SCHOOL ACTIVITY FUNDS				
	MCCREARY CENTRAL HIGH SCHOOL	MCCREARY COUNTY MIDDLE SCHOOL	MCCREARY COUNTY PRESCHOOL	PINE KNOT INTERMEDIATE	PINE KNOT PRIMARY
Revenues					
Student/Trust revenues	\$ 267,104	\$ 116,951	\$ 4,448	\$ 34,836	\$ 74,168
Expenses					
Student/Trust activities	254,774	115,001	2,683	29,426	72,980
Excess (Deficit) of Revenues Over Expenses	12,330	1,950	1,765	5,410	1,188
Fund Balance July 1, 2013	72,985	19,514	2,215	4,409	26,937
Fund Balance June 30, 2014	\$ 85,315	\$ 21,464	\$ 3,980	\$ 9,819	\$ 28,125

See the accompanying notes to the financial statements.

McCreary County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds
 For the period ended June 30, 2014

	SCHOOL ACTIVITY FUNDS				
	WHITLEY CITY ELEMENTARY	MCCREARY CO. BD OF EDUCATION CONCESSIONS	MCCREARY CO. BUS GARAGE	PRIVATE PURPOSE TRUST FUNDS	FIDUCIARY FUND BALANCES
Revenues					
Student/Trust revenues	\$ 24,599	\$ 990	\$ 701	\$ 86,926	\$ 610,022
Expenses					
Student/Trust activities	12,026	1,245	792	2,167	490,303
Excess (Deficit) of Revenues Over Expenses	12,572	(255)	(91)	84,759	119,719
Fund Balance July 1, 2013	15,389	389	292	-	141,839
Fund Balance June 30, 2014	\$ 27,962	\$ 134	\$ 200	\$ 84,759	\$ 261,758

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - McCreary County High School
For the period ended June 30, 2014

	FUND BALANCE July 1, 2013	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE June 30, 2014
GENERAL FUND	\$ 194	\$ 3,129	\$ 8,634	\$ 6,116	\$ 805
ATTENDANCE INCENTIVES	10,182	4,100	5,892	-	8,390
LOCKERS	889	2,280	833	(2,337)	-
PARKING	1,269	1,440	19	(804)	1,886
TEXTBOOKS	810	-	-	-	810
SPEC ED OFFICE	807	355	-	(140)	1,022
SCIENCE SUPPLIES	135	1,254	1,139	-	250
DRAMA	938	1,229	604	(250)	1,313
FCA	13	-	-	-	13
TECHNOLOGY STUDENT	117	-	-	-	117
MCHS ACADEMY	-	280	23	-	256
MCHS ACADEMY ATTENDANCE	-	2,500	-	-	2,500
STUDENT VENDING	1,243	3,464	4,378	1,896	2,224
SCHOLARSHIP FUND	27	-	-	-	27
FACULTY FUND	658	3,533	3,358	-	833
MCHS DANCE TEAM	469	-	-	-	469
RAIDERS CRUSADERS	-	1,860	2,016	156	-
FLOWER FUND	61	70	40	-	91
MADRIGAL CALENDAR A	403	2,291	2,173	-	521
CROSS COUNTRY	418	1,055	985	(127)	362
BASEBALL	3,902	9,497	9,897	-	3,502
BOYS BASKETBALL	3,459	14,597	9,335	-	8,721
FOOTBALL	242	12,446	9,030	(2,588)	1,070
GIRLS BASKETBALL	613	7,784	7,087	-	1,309
BOYS/GIRLS CONCESSIONS	-	3,640	2,784	117	973
WRESTLING	673	3,264	3,892	-	46
GOLF	972	8,578	7,698	(39)	1,813
CHEERLEADERS	275	11,181	11,218	-	238
VOLLEYBALL	3,011	4,885	6,545	-	1,351
GIRLS SOFTBALL	1,761	8,609	8,474	(360)	1,535
TENNIS	14	1,249	1,127	-	136
ACADEMIC TEAM	-	1,202	1,034	-	168
FBLA	300	-	-	-	300
UNITE (CHAMPION AGAIN	122	5	48	-	79
DECA	7,683	14,482	12,640	(117)	9,408
DECA OFFICE	255	25	-	-	280
FFA	1,860	15,649	12,881	204	4,833
HOSA	203	13,040	13,180	-	63
MADRIGALS	273	425	480	-	218
MATH CLUB	427	-	63	-	364
NATIONAL HONOR SOCIETY	11	-	-	-	11
SPANISH CLUB	280	1,136	1,364	-	52
SR BETA	196	75	17	-	254
STUDENT COUNCIL	160	-	-	-	160
STUDENT GOVERNMENT	70	-	-	-	70
PEER TUTORING	797	2,718	2,643	-	872
STUDENT HELPER ACCO	17	-	-	-	17
AUTO MECHANICS	71	2,917	1,602	-	1,385
SOCCER	741	814	1,430	-	124
BAND	81	13,014	13,652	560	4
CARPENTRY	75	-	-	-	75
CHORUS	1,590	3,215	5,002	220	24
ROTC	2,244	16,532	15,422	-	3,354
SKILLS USA	32	3,314	2,107	-	1,239
PRINTING	251	32	-	-	283
JR CLASS	7,617	10,241	4,158	(5,350)	8,350
SENIOR CLASS 2009	1,018	-	-	(1,018)	-
SENIOR CLASS 2010	774	-	-	(774)	-
SR CLASS	437	41,815	50,451	8,199	-
SENIOR CLASS 2011 REU	339	-	-	(339)	-
TRIP	212	-	-	-	212
FRESHMAN CLASS	2,000	-	-	(2,000)	-
SOPHMORE CLASS	2,225	6,222	4,009	(225)	4,212
ANNUAL	4,433	3,554	5,046	-	2,941
COUNSELING	507	160	365	-	302
LIBRARY	1,727	196	-	-	1,922
PICTURES	406	1,747	-	(1,000)	1,154
Totals	<u>\$ 72,985</u>	<u>\$ 267,104</u>	<u>\$ 254,774</u>	<u>\$ -</u>	<u>\$ 85,315</u>

See the accompanying notes to the financial statements.

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

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the McCreary 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. At June 30, 2014, the District had received food commodities totaling \$139,053.

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

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Total Expenditures
U.S. Department of Agriculture				
Passed through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 14		510.4950	\$ N/A	\$ 139,053
Passed through State Department of Education				
* National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	391,009
Fiscal Year 14		7750002 14	N/A	1,085,356
* School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	N/A	181,544
Fiscal Year 14		7760005 14	N/A	534,377
Child Nutrition Cluster Subtotal				<u>2,192,286</u>
Total U.S. Department of Agriculture				<u>2,331,339</u>
U.S. Department of Education				
Passed through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 12		3100002 12	2,215,707	16,475
Fiscal Year 13		3100002 13	2,099,877	354,214
Fiscal Year 13M		3100002 13	107,354	337
Fiscal Year 14		3100002 14	1,992,646	1,627,977
Fiscal Year 14M		3100002 14	103,534	89,779
* Title I Grants to Local Education Agencies, School Improvement (Part A)	84.010A			
Fiscal Year 12		3100202 12	96,889	23,026
Title I Cluster Subtotal				<u>2,111,808</u>
Title I Grants to Local Educational Agencies, School Improvement (Part G)	84.377A			
Fiscal Year 10B		3100302 10	248,500	22,125
Fiscal Year 10C		3100302 10	150,000	4,855
				<u>26,980</u>
Special Education Grants to State	84.027A			
Fiscal Year 13		3810001 13	680,341	147,830
Fiscal Year 14		3810001 14	647,597	392,591
Special Education - Preschool Grants	84.173A			
Fiscal Year 13		3800002 13	57,706	50,000
Special Education Cluster Subtotal				<u>590,422</u>
Vocation Education - Basic Grants to States (Perkins)	84.048			
Fiscal Year 13		4610910 13	49,965	1,253
Fiscal Year 13A		4610910 13	2,737	2,737
Fiscal Year 14		4610910 14	52,477	19,558
				<u>23,548</u>
Rural Education	84.358B			
Fiscal Year 12		3140002 12	64,733	3,964
Fiscal Year 13		3140002 13	56,062	52,798
Fiscal Year 14		3140002 14	52,120	52,120
				<u>108,881</u>
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 13		3230002 13	327,072	34,070
Fiscal Year 14		3230002 14	314,198	240,844
				<u>274,914</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	93,694	3,261
Passed through Morehead State University				
Appalachian Higher Education Network (KY AHED)	23.011			
Fiscal Year 14		6884	3,991	3,521
Passed through Workforce Development Cabinet				
Community Based Work Transition	84.002			
Fiscal Year 14		3714	44,596	44,596
Total U.S. Department of Education				<u>3,187,932</u>
U.S. Department of Commerce				
Passed through Eastern Kentucky PRIDE				
PRIDE-Environmental Education	11.420			
Fiscal Year 14		2704	5,485	5,397
Fiscal Year 14C		2704C	750	661
Total U.S. Department of Commerce				<u>6,058</u>
U.S. Department of Defense				
Passed directly from the U.S. Department of the Army				
ROTC	12.000			
Fiscal Year 13		5043	N/A	164
Total U.S. Department of Defense				<u>164</u>
Passed Through Kentucky School Board Association				
Medical Assistance Program	93.778			
Fiscal Year 14		110.4810	N/A	47,671
Total US Department of Health and Human Services				<u>47,671</u>
U.S. Department of Justice				
Passed Through UNITE				
Operation UNITE	16.753			
Fiscal Year 14		3004	\$ 5,000	2,954
Total US Bureau of Justice Administration				<u>2,954</u>
Grand Totals of All Federal Programs			\$	<u>5,576,117</u>

* Major program

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*

To the McCreary County Board of Education and
State Committee for School District Audits
Stearns, Kentucky

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 the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCreary County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise McCreary County School District's basic financial statements, and have issued our report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McCreary 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 McCreary County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of McCreary 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies 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 a certain deficiency in internal

control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency [14-1].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McCreary 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the McCreary County School District, in a separate letter dated October 23, 2014.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

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.

White & Associates, P.C.

Richmond, Kentucky
October 23, 2014



CERTIFIED PUBLIC ACCOUNTANTS

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

To the McCreary County Board of Education and
State Committee for School District Audits
Stearns, Kentucky

Report on Compliance for Each Major Federal Program

We have audited McCreary 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 McCreary County School District’s major federal programs for the year ended June 30, 2014. McCreary 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, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of McCreary 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*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts’ Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCreary 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 McCreary County School District’s compliance.

Opinion on Each Major Federal Program

In our opinion, McCreary 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 McCreary 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 McCreary 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 McCreary 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

White & Associates, P.C.

Richmond, Kentucky
October 23, 2014

MCCREARY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2014

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	Yes
If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title I Cluster[CFDA 84.010A] Child Nutrition Cluster [CFDA 10.553, 10.555]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

Significant Deficiency

Statement of Condition: The designee at the Elementary School allowed an outside non-profit organization (TPO) to collect school activity money received from ballgames without board approval.

Criteria for the Condition: The board is responsible to see designees at each school keep financial records on funds raised by students according to state guidelines on school activity accounting; as well as allowing outsourcing of financial accounting responsibilities.

Cause of the Condition: Designees at the elementary school did not ask for board approval to outsource accounting for certain school activities.

Effect of the Condition: The board did not authorize and was unaware of the outsourcing of certain school activity accounting at the elementary school.

MCCREARY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

MCCREARY COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2014

Date: October 24, 2014

Oversight Agency: Kentucky Department of Education

The *McCreary County School District* respectfully submits the following corrective action plan for the year ended June 30, 2013.

Name and Address of Independent Public Accounting Firm: White & Associates, PSC, 1407 Lexington Road, Richmond, Kentucky 40475.

Audit Period: For the year ended June 30, 2014.

The finding from the year ended June 30, 2014 schedule of findings and questioned costs is discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

14-1

Recommendation for Correction: All school activity money should be maintained by the school treasurer unless the Board approves otherwise.

Management Response: The school district hired RJ Flannery, Inc. to conduct an internal audit of the school activity fund accounts during the period of May 28, 2014 through May 29, 2014. The finance department was made aware of the condition during the final report of the internal audit conducted. Upon receiving the internal audit finding report for the elementary school, the finance department directed the school bookkeeper, as well as, the school principal to correct the condition immediately by contacting the external support group to write a check back to the school activity fund for all monies currently being held in the external support group's checking account no later than June 30, 2014. The school district will continue to conduct internal audits of the school activity fund accounts to ensure they are being managed properly according to the Redbook policy and procedures.

Implementation: The finance officer directed the school bookkeeper to request the external support group (TPA) to write a check back to the school activity fund for all monies currently being held in the external support group's checking account by June 30, 2014. Once the school bookkeeper received the check, the funds were deposited into the corresponding activity account in which the total check amount represented. The school bookkeeper and principal are working together to ensure the external support group continues to support the school while remaining a separate legal entity. This has been implemented.

If the Kentucky Department of Education has questions regarding this plan, please call me at 606.376.2591.

Sincerely yours,

Arthur Wright

Arthur Wright, Superintendent

MCCREARY COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

Finding 13-1

Statement of Condition: The annual financial report was not published.

Criteria for Condition: KRS 424.220 requires local boards of education to publish annual financial statements.

Cause of the Condition: The Board of Education has not taken action to make the annual financial statements available to the public.

Effect of the Condition: The District is not in compliance with the statute.

Subsequent Review: The finding was corrected.