

PADUCAH INDEPENDENT SCHOOL DISTRICT



FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
ROBERT R. ROBERTSON
MARK A. THOMAS

G. LEON WILLIAMS, 1926-2004
H. WILLIAM LENTZ, 1925-2007
J. RICHARD WALKER
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
www.willcpa.com

Independent Auditor's Report

Kentucky State Committee for School
District Audits
Members of the Board
Paducah Independent School District
Paducah, 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 Paducah Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the 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 *Appendix I to the Independent Auditor's Contract – Audit Extension Request and Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 37 and 38 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 Paducah Independent School District's basic financial statements. The additional information shown on pages 39 through 51 is presented for purposes of additional analysis and is 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 combining and individual nonmajor fund financial statements 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2014 on our consideration of Paducah Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paducah Independent School District's internal control over financial reporting and compliance.

Williams, Williams + Lentz, LLP

Paducah, Kentucky
November 11, 2014

REQUIRED SUPPLEMENTARY INFORMATION

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

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

FINANCIAL HIGHLIGHTS

- The District had fund balances on July 1, 2012, of \$17.98 million. The balance decreased to \$7.12 million on June 30, 2013. By the end of the school year, June 30, 2014, the balance had decreased to \$5.86 million. These totals incorporate all funds including Governmental, Proprietary, and Fiduciary. Fund balance decreased in fiscal year 2013 and subsequently decreased in fiscal year 2014 as a result of \$18.312 million in bond proceeds for construction of the Paducah Middle School being received in fiscal year 2012 and spent in fiscal years 2013 and 2014.
- The General Fund had \$27,684,630 in revenue (receipts plus beginning balance) primarily from the state program (SEEK), property taxes, local occupational license taxes, utility taxes, motor vehicle taxes, and state insurance and retirement on-behalf payments. On-behalf payments are payments made directly by the state for our staff (i.e. retirement and insurance). Subtracting the \$4,267,145 in on-behalf payments, General Fund revenue amounted to \$23,417,485. This is an increase from last year of \$1,283,669. Increased receipts were a result of an increase in the SEEK funding from the state due to growth.
- General Fund had total expenditures equaling \$20,734,747, excluding the on-behalf expenses.
- The District's carry forward balance in General Fund increased from \$1,449,879 (amount prior to restricted sick leave adjustment) at the start of the year to \$2,682,738 by the end of the year.
- The District continues to renovate facilities consistent with a long-range facilities plan established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The new Paducah Middle School opened in August of 2013.
- There were no significant changes in any of the individual funds affecting the use of resources.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those 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.

Government-wide financial statements: The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of a private-sector business.

The statement of net position presents information on all of the District's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, the changes in net position, both increases and decreases, may serve as an indicator of the District's financial position. Increases in net position indicate an improving financial position and decreases indicate a deteriorating position. However, the reader must understand that the District's goal is to provide quality services to our students, not to generate profits as commercial entities strive to do. Many non-financial factors must be considered when looking at the position of the District, such as the property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs, and other factors.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. The District uses an accrual basis of accounting commonly used by private-sector businesses. This accounting practice takes into account all of the current year's revenues and expenses, regardless of when cash is received and paid.

(Continued)

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

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

Fund financial statements: A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to guarantee and exhibit compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Our only proprietary fund is food service operations. Fiduciary funds are held as trust funds established by benefactors to aid in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statement can be found on pages 11-19 of this report.

Notes to the financial statements: The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 20-36 of this report.

COMMENTS ON AFR BUDGET COMPARISONS

- During the fiscal year ended June 30, 2014, the District amended its General Fund budget numerous times. Most amendments were due to changes in expenditure priorities.
- The District's General Fund total revenues (receipts plus beginning balance) for the fiscal year ended June 30, 2014, net of state on-behalf payments, were \$23.4 million. This includes a beginning balance of \$1.4 million and receipts of \$22.0 million.
- General Fund budget, compared to actual revenue, excluding on-behalf payments, varied slightly from line item to line item, with the ending actual balance \$1.1 million more than budget or approximately more than 5 percent.
- The total cost of all General Fund programs and services was \$20.4 million excluding transfers and state on-behalf payments.
- General Fund actual expenditures, compared to budgeted appropriations, were \$1.9 million less.
- Actual expenditures of \$20.7 million including transfers were \$2.7 million less than the actual receipts and beginning balance of \$23.4 million.
- By comparing actual receipts of \$21.97 million and expenditures of \$20.73 million, the District increased its beginning balance by \$1.24 million from \$1.44 million (this figure reflects a restricted sick leave adjustment) to \$2.68 million.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10.1 million as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any related debt used to acquire those assets that is still outstanding and restrictions for capital projects. The District uses these capital assets to provide services to its students; as a result, 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 cannot be used to liquidate these liabilities.

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

(Continued)

Net Position for the Years Ended June 30

GASB 34 allows the District to compare this year's assets with last year's assets.

	<u>2014</u>	<u>2013</u>
Current assets	\$ 9,153,475	\$11,881,520
Non-current assets	<u>51,403,405</u>	<u>52,005,966</u>
Total assets	<u>60,556,880</u>	<u>63,887,486</u>
Deferred outflows of resources	<u>454,897</u>	<u>497,583</u>
Current liabilities	2,630,056	5,429,729
Non-current liabilities	<u>48,284,648</u>	<u>49,328,301</u>
Total liabilities	<u>50,914,704</u>	<u>54,758,030</u>
Net Position:		
Investment in capital assets	5,739,668	6,462,616
Restricted	5,224,147	4,632,101
Unreserved fund balance	<u>(866,742)</u>	<u>(1,467,678)</u>
TOTAL NET POSITION	<u>\$10,097,073</u>	<u>\$ 9,627,039</u>

The following are significant current year transactions that have had an impact on the statement of net position:

- Technology purchases continued by replacing outdated systems.

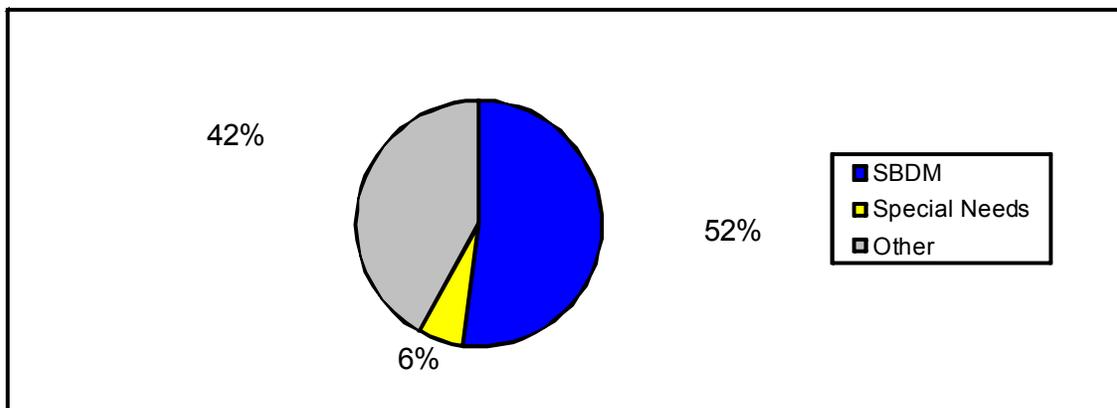
The following table presents a summary of government-wide revenues and expenses for the fiscal years ended June 30:

	<u>2014</u>	<u>2013</u>
Revenues:		
Charges for services	\$ 381,633	\$ 355,676
Operating grants and contributions	7,038,656	6,828,333
Capital grants and contributions	2,206,826	2,120,065
Taxes	10,939,810	11,255,759
State aid	11,331,354	10,551,036
Federal aid	116,973	74,341
Investment earnings	122,869	25,064
On-behalf payments	5,154,524	5,248,831
Gain on sale of equipment	(292,904)	11,700
Other	<u>243,241</u>	<u>184,569</u>
Total revenues	<u>37,242,982</u>	<u>36,655,374</u>
Expenses:		
Instruction	17,830,398	18,194,701
Student support services	1,312,011	1,439,739
Instructional support	1,330,412	1,437,955
District administration	1,372,875	1,274,277
School administration	2,316,467	2,502,701
Business support	1,141,234	976,210
Plant operations	4,931,493	3,790,673
Student transportation	1,571,465	1,497,278
Community support	424,376	406,998
Food service operations	2,037,467	1,932,702
Facility acquisition and construction	323,980	29,606
Other	<u>2,180,770</u>	<u>2,226,044</u>
Total expenses	<u>36,772,948</u>	<u>35,708,884</u>
CHANGE IN NET POSITION	<u>\$ 470,034</u>	<u>\$ 946,490</u>

(Continued)

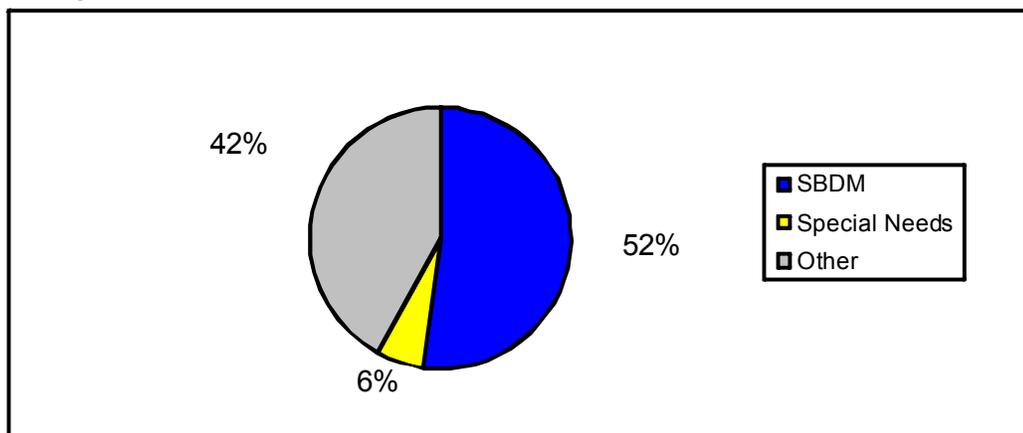
Due to the requirements of GASB Statement No. 34, bond proceeds are reported as liabilities in the statement of net position and any payments for bonds are reductions in bond liabilities. Expenditures for fixed assets are reported as assets on the statement of net position while they are expenses on the fund statements. Therefore, the above revenues and expenses for 2014 do not reflect construction related expenses of \$2,434,286 which are reflected in the statement of revenues, expenditures, and changes in fund balances - governmental funds. There were no new bond issues during the year; therefore, there are no bond proceeds reported. Construction related expenses include the remainder of the \$3,965,000 bond proceeds received in the prior year for the Paducah Middle School. Expenses over revenues on the fund statements as of June 30, 2014, were \$1.35 million compared to the gain of \$.47 million shown on the government-wide statement of activities.

General Fund Revenue Chart 1



The majority of revenue was derived from state funding at 59% and local funding at 40%. All other funding sources accounted for less than 1 percent of total General Fund revenue.

General Fund Budget Allocation Chart



Site Based Decision Making Councils expended 52% or \$12.93 million of the General Fund budget. An additional \$1.57 million or 6% of Non-SBDM money was spent serving children with special needs. The remaining 42% was expended in district-wide support services and central office support.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the District had \$51,403,405 invested in land, buildings, and equipment. Of that amount, \$51,372,205 is in governmental activities.

See footnote 5 for a breakdown of additions by class on page 29.

Debt Administration

The District had \$49,054,401 in bonds outstanding on June 30, 2014. A total of \$1,159,478 is due within one year.

See note 6 on pages 30-32 for a detailed listing.

BUDGETARY IMPLICATIONS

In Kentucky, the fiscal year for public schools runs from July 1 through June 30; other programs, e.g., federal programs such as Head Start, operate on a different fiscal calendar, but are reflected in the District overall budget.

By law, the District must maintain a 2% contingency. The District ended the year with an 11.7% contingency. The District has developed a working budget for the next fiscal year that contains a 5.7% contingency. Significant Board actions may impact this budget during the year. A 1% pay raise has been required by the Commonwealth of Kentucky for the upcoming school year.

Questions regarding this report should be directed to the Superintendent, Donald Shively (270-444-5600), or Julie D. Huff, Director of Finance (270-444-5600 Ext. 1040), or by mail at P. O. Box 2550, Paducah, KY 42002-2550.

BASIC FINANCIAL STATEMENTS

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

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$ 5,544,542	\$ 186,287	\$ 5,730,829
Accounts receivable:			
Taxes	270,633	-	270,633
Delinquent taxes, net of allowance of \$134,000	259,957	-	259,957
Accounts	197,048	-	197,048
Interest on prefunded escrow	4,996	-	4,996
Intergovernmental - state	580	-	580
Intergovernmental - federal	443,612	27,476	471,088
Investment - prefunded escrow	2,176,612	-	2,176,612
Inventories	-	41,732	41,732
Nondepreciated capital assets:			
Land	3,063,386	-	3,063,386
Construction-in-progress	891,198	-	891,198
Depreciated capital assets:			
Land improvements	948,178	-	948,178
Buildings	63,066,265	-	63,066,265
Furniture and equipment	8,844,254	458,684	9,302,938
Less: accumulated depreciation	<u>(25,441,076)</u>	<u>(427,484)</u>	<u>(25,868,560)</u>
Total assets	<u>60,270,185</u>	<u>286,695</u>	<u>60,556,880</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred bond discounts	<u>454,897</u>	<u>-</u>	<u>454,897</u>
<u>LIABILITIES</u>			
Accounts payable	471,400	621	472,021
Overdraft	150,824	-	150,824
Advanced revenues	293,368	-	293,368
Long-term obligations:			
Due within one year:			
Bond and lease obligations	1,159,478	-	1,159,478
Interest payable	328,832	-	328,832
Construction retainage	172,824	-	172,824
KISBIT assessment	52,709	-	52,709
Due beyond one year:			
Bond and lease obligations	47,894,923	-	47,894,923
Accrued sick leave payable	231,600	-	231,600
KISBIT assessment	<u>158,125</u>	<u>-</u>	<u>158,125</u>
Total liabilities	<u>50,914,083</u>	<u>621</u>	<u>50,914,704</u>
<u>NET POSITION</u>			
Net investment in capital assets	5,708,468	31,200	5,739,668
Restricted for:			
Capital projects	2,293,432	-	2,293,432
Debt service	2,854,345	-	2,854,345
Accrued sick leave	36,400	-	36,400
School activities	39,970	-	39,970
Unrestricted	<u>(1,121,616)</u>	<u>254,874</u>	<u>(866,742)</u>
TOTAL NET POSITION	<u>\$ 9,810,999</u>	<u>\$286,074</u>	<u>\$ 10,097,073</u>

See notes to financial statements.

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

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Instruction	\$ 17,830,398	\$ 202,938	\$ 4,023,611	\$ -
Support services:				
Student	1,312,011	-	62,830	-
Instructional staff	1,330,412	-	211,515	-
District administration	1,372,875	-	-	-
School administration	2,316,467	-	243,730	-
Business	1,141,234	-	1,235	-
Plant operations and maintenance	4,931,493	-	34,299	-
Student transportation	1,571,465	-	142,455	-
Community service	424,376	-	420,984	-
Facility acquisition and construction	323,980	-	-	1,102,766
Interest on long-term debt	2,180,770	-	-	1,104,060
Total governmental activities	<u>34,735,481</u>	<u>202,938</u>	<u>5,140,659</u>	<u>2,206,826</u>
Business-type Activities:				
Food services	<u>2,037,467</u>	<u>178,695</u>	<u>1,897,997</u>	<u>-</u>
TOTAL SCHOOL DISTRICT	<u><u>\$ 36,772,948</u></u>	<u><u>\$ 381,633</u></u>	<u><u>\$ 7,038,656</u></u>	<u><u>\$ 2,206,826</u></u>

General revenue and receipts:

Taxes:
Property
Motor vehicle
Utility
In lieu
State aid
State aid - on-behalf
Federal - formula grant
Investment earnings
Other

Special items:

Loss on sale of equipment
Transfers

Total general revenue and special items

Change in net position

Net position July 1, 2014

NET POSITION, JUNE 30, 2014

See notes to financial statements.

**Net (Expense) Revenue and
Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$(13,603,849)	\$ -	\$ (13,603,849)
(1,249,181)	-	(1,249,181)
(1,118,897)	-	(1,118,897)
(1,372,875)	-	(1,372,875)
(2,072,737)	-	(2,072,737)
(1,139,999)	-	(1,139,999)
(4,897,194)	-	(4,897,194)
(1,429,010)	-	(1,429,010)
(3,392)	-	(3,392)
778,786	-	778,786
(1,076,710)	-	(1,076,710)
(27,185,058)	-	(27,185,058)
-	39,225	39,225
(27,185,058)	39,225	(27,145,833)
7,271,493	-	7,271,493
640,101	-	640,101
2,206,211	-	2,206,211
822,005	-	822,005
11,331,354	-	11,331,354
4,994,545	159,979	5,154,524
116,973	-	116,973
122,542	327	122,869
243,241	-	243,241
(292,904)	-	(292,904)
109,464	(109,464)	-
27,565,025	50,842	27,615,867
379,967	90,067	470,034
9,431,032	196,007	9,627,039
<u>\$ 9,810,999</u>	<u>\$ 286,074</u>	<u>\$ 10,097,073</u>

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

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue (Grant) Fund</u>
Cash and cash equivalents	\$ 2,589,417	\$ -
Accounts receivable:		
Taxes	270,633	-
Accounts	145,932	-
Intergovernmental - state	-	580
Intergovernmental - federal	-	443,612
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 3,005,982</u>	<u>\$444,192</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 323,244	\$ -
Overdraft	-	150,824
Advanced revenues	-	293,368
	<hr/>	<hr/>
Total liabilities	<u>323,244</u>	<u>444,192</u>
Fund Balances:		
Restricted for:		
SFCC escrow	-	-
Debt service	-	-
School activities	-	-
Committed for:		
Contingency	1,297,483	-
Sick leave	36,400	-
Assigned for:		
Other purposes	323,562	-
Unassigned	1,025,293	-
	<hr/>	<hr/>
Total fund balances	<u>2,682,738</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,005,982</u>	<u>\$444,192</u>

See notes to financial statements.

FSPK Fund	Construction Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<u>\$ 2,086,704</u>	<u>\$ 96,938</u>	<u>\$672,737</u>	<u>\$98,746</u>	<u>\$ 5,544,542</u>
-	-	-	-	270,633
-	51,116	-	-	197,048
-	-	-	-	580
-	-	-	-	443,612
<u>\$ 2,086,704</u>	<u>\$148,054</u>	<u>\$672,737</u>	<u>\$98,746</u>	<u>\$ 6,456,415</u>

\$ -	\$148,054	\$ -	\$ 102	\$ 471,400
-	-	-	-	150,824
-	-	-	-	293,368
-	<u>148,054</u>	-	<u>102</u>	<u>915,592</u>

2,086,704	-	-	58,674	2,145,378
-	-	672,737	-	672,737
-	-	-	39,970	39,970
-	-	-	-	1,297,483
-	-	-	-	36,400
-	-	-	-	323,562
-	-	-	-	1,025,293
<u>2,086,704</u>	<u>-</u>	<u>672,737</u>	<u>98,644</u>	<u>5,540,823</u>
<u>\$ 2,086,704</u>	<u>\$148,054</u>	<u>\$672,737</u>	<u>\$98,746</u>	<u>\$ 6,456,415</u>

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

Total fund balances per fund financial statement \$ 5,540,823

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost	\$ 76,813,281	
Accumulated depreciation	<u>(25,441,076)</u>	51,372,205

Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.

Delinquent taxes	259,957	
Investments - prefunded escrow	2,176,612	
Interest receivable on prefunded escrow	<u>4,996</u>	2,441,565

Deferred charges including bond discounts are amortized in the governmental activities, but were recognized in full in the governmental funds. 454,897

Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

Interest payable	(328,832)	
Construction retainage	<u>(172,824)</u>	(501,656)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bond and lease obligations	(49,054,401)	
Accrued sick leave payable	<u>(231,600)</u>	(49,286,001)

The Kentucky School Boards Insurance Trust liability related to the deficit in the worker's compensation and liability pools is not due and payable in the current period and, therefore, not reported as a liability in the fund statements. (210,834)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 9,810,999

Note: Nonmajor funds consist of the SEEK Capital Outlay and District Activity Funds.

See notes to financial statements.

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

	General Fund	Special Revenue (Grant) Fund
Revenues:		
Taxes	\$10,003,550	\$ -
Earnings on investments	6,068	318
Intergovernmental - state	11,331,354	678,140
Intergovernmental - on-behalf	4,267,145	-
Intergovernmental - federal	116,972	4,462,519
Other	366,695	39,310
	<hr/>	<hr/>
Total revenues	26,091,784	5,180,287
	<hr/>	<hr/>
Expenditures:		
Current:		
Instruction	12,960,186	4,204,621
Support services:		
Student	1,231,799	62,830
Instructional staff	1,098,442	211,515
District administration	1,298,001	-
School administration	2,023,905	243,730
Business	1,005,450	1,235
Plant operations and maintenance	3,720,492	34,299
Student transportation	1,269,462	142,455
Community service	-	420,984
Facility acquisition and construction	-	-
Debt service:		
Principal	65,944	-
Interest and other charges	12,250	-
	<hr/>	<hr/>
Total expenditures	24,685,931	5,321,669
	<hr/>	<hr/>
Excess (deficit) of revenues over expenditures	1,405,853	(141,382)
	<hr/>	<hr/>
Other Financing Sources (Uses):		
Proceeds from sale of assets	23,503	-
Operating transfers in	119,464	151,382
Operating transfers out	(315,961)	(10,000)
	<hr/>	<hr/>
Total other financing sources (uses)	(172,994)	141,382
	<hr/>	<hr/>
Net change in fund balances	1,232,859	-
Fund balances, July 1, 2013	1,449,879	-
	<hr/>	<hr/>
FUND BALANCES, JUNE 30, 2014	\$ 2,682,738	\$ -
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

FSPK Fund	Construction Fund	Debt Service Fund	Nonmajor Funds	Totals Governmental Funds
\$1,126,748	\$ -	\$ -	\$ -	\$11,130,298
6,299	147	1	658	13,491
832,522	-	-	270,244	13,112,260
-	-	727,400	-	4,994,545
-	-	1,104,060	-	5,683,551
-	-	-	40,174	446,179
<u>1,965,569</u>	<u>147</u>	<u>1,831,461</u>	<u>311,076</u>	<u>35,380,324</u>
-	-	-	204	17,165,011
-	-	-	-	1,294,629
-	-	-	-	1,309,957
-	-	-	-	1,298,001
-	-	-	-	2,267,635
-	-	-	-	1,006,685
-	-	-	-	3,754,791
-	-	-	-	1,411,917
-	-	-	-	420,984
-	2,758,266	-	-	2,758,266
-	-	1,962,014	-	2,027,958
-	-	2,135,411	-	2,147,661
<u>-</u>	<u>2,758,266</u>	<u>4,097,425</u>	<u>204</u>	<u>36,863,495</u>
<u>1,965,569</u>	<u>(2,758,119)</u>	<u>(2,265,964)</u>	<u>310,872</u>	<u>(1,483,171)</u>
-	-	-	-	23,503
-	510,862	2,290,719	-	3,072,427
<u>(2,254,779)</u>	<u>-</u>	<u>-</u>	<u>(382,223)</u>	<u>(2,962,963)</u>
<u>(2,254,779)</u>	<u>510,862</u>	<u>2,290,719</u>	<u>(382,223)</u>	<u>132,967</u>
(289,210)	(2,247,257)	24,755	(71,351)	(1,350,204)
<u>2,375,914</u>	<u>2,247,257</u>	<u>647,982</u>	<u>169,995</u>	<u>6,891,027</u>
<u>\$2,086,704</u>	<u>\$ -</u>	<u>\$ 672,737</u>	<u>\$ 98,644</u>	<u>\$ 5,540,823</u>

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

Net change in fund balance \$(1,350,204)

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense for the year.

Depreciation expense	\$ (2,339,626)	
Capital outlays	<u>2,057,214</u>	(282,412)

The loss on disposal of capital assets is not recorded in the governmental funds because the assets were recorded as expenditures when purchased. (316,407)

Repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position. Similarly, sinking fund payments are an expenditure in the governmental funds, but are recorded as an escrow asset account in the statement of net position.

Prefund escrow payment	910,014	
Capital lease paid	65,944	
Bond principal paid	<u>1,052,000</u>	2,027,958

Governmental funds report the effect of discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.

Amortization of deferred bond issuance costs and discounts	(42,686)
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Generally, revenue is recognized in this fund financial statement when it becomes both measurable and available to finance expenditures of the current period.

Delinquent taxes	(190,487)	
Interest receivable on prefunded escrow	2,162	
Interest earned on prefunded escrow	<u>106,889</u>	(81,436)

Construction retainage payable is not recognized on the fund statements since it does not require the use of current financial resources. The expense is recognized when incurred in the statement of activities.

Construction retainage	584,112
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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. These net differences are as follows:

Accrued interest expense	9,576	
Accrued sick leave	(7,700)	
KSBIT assessment	<u>(160,834)</u>	<u>(158,958)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 379,967</u></u>
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See notes to financial statements.

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

<u>ASSETS</u>	<u>Enterprise Fund Food Services</u>
Current Assets:	
Cash and cash equivalents	\$ 186,287
Accounts receivable	27,476
Inventories	41,732
Total current assets	<u>255,495</u>
Noncurrent Assets:	
Furniture and equipment	458,684
Less accumulated depreciation	<u>(427,484)</u>
Total noncurrent assets	<u>31,200</u>
TOTAL ASSETS	<u><u>286,695</u></u>
 <u>LIABILITIES</u>	
Liabilities:	
Accounts payable	<u>621</u>
Total liabilities	<u>621</u>
 <u>NET POSITION</u>	
Net Position:	
Invested in capital assets	31,200
Unrestricted	<u>254,874</u>
TOTAL NET POSITION	<u><u>\$ 286,074</u></u>

See notes to financial statements.

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

	<u>Enterprise Fund Food Services</u>
Operating Revenues:	
Lunchroom sales	\$ 163,595
Other operating revenues	15,100
Total operating revenues	<u>178,695</u>
Operating Expenses:	
Salaries and wages	916,825
In-kind commodities	116,010
Materials and supplies	955,238
Depreciation expense	4,976
Other operating expenses	44,418
Total operating expenses	<u>2,037,467</u>
Operating loss	<u>(1,858,772)</u>
Non-Operating Revenues:	
Federal grants	1,763,179
Federal grants - in-kind commodities	116,010
State grants	18,808
State - on-behalf	159,979
Interest income	327
Total non-operating revenues	<u>2,058,303</u>
Operating Transfers:	
Transfers out	<u>(109,464)</u>
Change in net position	90,067
Net position, July 1, 2013	<u>196,007</u>
NET POSITION, JUNE 30, 2014	<u><u>\$ 286,074</u></u>

See notes to financial statements.

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

	<u>Enterprise Fund Food Services</u>
Cash Flows from Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 178,695
Cash paid to/for:	
Employees	(916,825)
Supplies	(996,077)
Other activities	(44,418)
	<u>(1,778,625)</u>
Net cash used by operating activities	
Cash Flows from Non-Capital Financing Activities:	
Transfers to other funds	(109,464)
Government grants	2,075,023
	<u>1,965,559</u>
Net cash provided by non-capital financing	
Cash Flows from Investing Activities:	
Purchase of equipment	(1,234)
Receipt of interest income	327
	<u>(907)</u>
Net cash used by investing activities	
Net increase in cash and cash equivalents	186,027
Cash and cash equivalents, July 1, 2013	<u>260</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2014	<u><u>\$ 186,287</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,858,772)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	4,976
Commodities used	116,010
Change in assets and liabilities:	
Inventory	7,088
Overdraft	(48,548)
Accounts payable	621
	<u>621</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (1,778,625)</u></u>
Schedule of Non-Cash Transactions:	
Donated commodities received from federal government	<u><u>\$ 116,010</u></u>

See notes to financial statements.

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

	Private- Purpose Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$32,661	\$372,588
Accounts receivable	-	835
Total assets	32,661	373,423
Liabilities:		
Accounts payable	3,800	5,525
Due to student groups	-	31,992
Due to students in general	-	333,735
Due to teachers	-	2,171
Total liabilities	3,800	373,423
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	\$28,861	\$ -

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private- Purpose Trust Funds
Additions	<u>\$ 481</u>
Deductions:	
Other deductions	2,385
Benefits paid	<u>3,800</u>
Total deductions	<u>6,185</u>
Change in net position	(5,704)
Net position, beginning of year	<u>34,565</u>
NET POSITION, END OF YEAR	<u><u>\$28,861</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 - Reporting Entity:

The Paducah Board of Education, 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 Paducah Independent School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirement 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 because board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Paducah Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations, nor has any influence over the operation of the organizations.

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

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

Paducah Independent School District Finance Corporation – In 1989, the Paducah Independent School District resolved to authorize the establishment of the Paducah Independent School District Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Paducah Independent School District also comprise the Corporation’s Board of Directors.

Paducah Public Schools Foundation, Inc. – The Paducah Public Schools Foundation, Inc. (Foundation) was organized as a nonprofit corporation under Chapter 273 of the Kentucky Revised Statutes. The Foundation was formed for the purpose of establishing an education endowment fund to support education programs of the Paducah Public Schools. Resources for activities of the Foundation are primarily provided by contributions from the public. The Foundation is financially accountable to the District. Copies of the Foundation’s audit can be obtained by contacting the board office of the Paducah Independent School District.

Note 2 - Summary of Significant Accounting Policies:

The District’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District’s accounting policies are described below.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

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 all 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a 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, 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

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, and fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Non-major 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, current liabilities, and fund balances, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenue and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resource measurement focus.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

The District has the following funds:

a. Governmental Fund Type

The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

The District Activity Fund accounts for proceeds of specific revenue sources, such as donations, grants, non-student fundraisers, etc., that are restricted by the individual schools. Project accounting is employed to maintain integrity for the various sources of 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 funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

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.

b. Proprietary Fund Type (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$116,010 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

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

Agency Funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These activity funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.

The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Basis of Accounting

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

Exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the 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 resources are 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 the 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 resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Advanced Revenues - Advanced 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 advanced revenue.

Deferred Outflows and Deferred Inflows - Deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period.

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

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.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1 for all real and personal property within the School District. The billings are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they are levied.

The property tax rates assessed for the year ended June 30, 2014, to finance operations were \$.765 per \$100 valuation for real property, \$.765 per \$100 valuation for business personal property, and \$.566 per \$100 valuation for motor vehicles.

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

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Cash and Cash Equivalents

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

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the proprietary fund. Inventory consists of purchased food held for consumption and is expensed when used. The purchased food is valued at cost.

Debt Discounts

Unamortized debt discounts in the amount of \$454,897 are included in the government-wide statements as deferred outflows of resources. Debt discounts are amortized over the lives of the related debt issues using the effective interest method.

Capital Assets

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

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars with the exception of computers, printers, and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Technology assets acquired through E-rate are capitalized at full cost with the portion paid by E-rate being treated as donated assets.

All capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both governmental and business-type capital assets:

<u>Description</u>	<u>Governmental Activities 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	12 years
Furniture and fixtures	10 years
Rolling stock	15 years
Other	10 years

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted a policy of providing at retirement a percentage of their accumulated unused sick leave.

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

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

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

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.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Accrued Liabilities and Long-Term Obligations

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, 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 liabilities 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 liabilities in the fund financial statements until due.

Fund Balance Classifications

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District, is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows the District's Superintendent or his designee to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts, except negative balances, that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. The Board committed funds to ensure fund balance remains above this level. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net position reports \$5,224,147 of restricted net position, of which \$36,400 is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues and expenses are those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

Use of Restricted Sources

When an expense is incurred for which there are both restricted and unrestricted net position available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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. Interfund transfers between funds of the same type are eliminated in the government-wide statements. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Subsequent Events

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through November 11, 2014, the date the financial statements were available to be issued.

The District is planning on selling bonds to refund their Series 2010 Build America Bonds. At the time of this report, the District is awaiting approval from the State.

The school system initiated an eminent domain action against Putnam & Sons, LLC to acquire a 2.79 acre tract for the Paducah Middle School. A trial before the circuit court was held July 29, 2014. The District paid \$85,000 for the land pursuant to the Court Commissioners' award. Putnam claims the property was worth \$650,000. It is unlikely the court will award a value in excess of \$150,000, thereby requiring the district to possibly pay an additional \$65,000 as its maximum reasonable exposure.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 3 - Estimates:

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

During the fiscal year ended June 30, 2013, the District received notification from Kentucky School Boards Insurance Trust (KSBIT) of underfunded risk pools and KSBIT proposed a plan to the Kentucky Department of Insurance for assessment of current and former member participants. Under the plan, the District's portion of the assessment was estimated at \$50,000 and recorded as a liability in the government-wide statements as of June 30, 2013 for the estimated liability. During the current fiscal year, the final assessments were provided to the District in the amount of \$210,834 which is \$160,834 more than the original estimate. The liability reported in the government-wide statements has been adjusted to reflect the final assessment with the difference reducing current year expenses.

Note 4 - Cash and Cash Equivalents:

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the Board to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptance for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

At year end, the carrying amount of the District's cash and cash equivalents was \$6,136,078 which includes \$93,805 in the Federated U.S. Government Bond Fund and \$672,737 in Bank of New York Bond Funds, which are valued at fair market value. Both the Federated and Bank of New York accounts invest in Government Obligations. The bank balance excluding the bond funds was \$6,131,775. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Of the remaining balance, \$5,881,775 was uninsured and collateralized with securities held by the pledging bank's agent, not in the District's name.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 5 - Capital Assets:

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

	Balance			Balance
	July 1, 2013	Additions	Deductions	June 30, 2014
Governmental Activities:				
Land	\$ 663,386	\$ 2,400,000	\$ -	\$ 3,063,386
Construction-in-progress	23,868,735	(22,977,537)	-	891,198
Land improvements	1,035,888	-	87,710	948,178
Buildings and improvements	43,847,744	22,487,904	3,269,383	63,066,265
Technology equipment	5,045,004	115,883	7,070	5,153,817
General equipment	755,770	9,546	-	765,316
Vehicles	<u>2,903,703</u>	<u>21,418</u>	<u>-</u>	<u>2,925,121</u>
Totals at historical cost	<u>78,120,230</u>	<u>2,057,214</u>	<u>3,364,163</u>	<u>76,813,281</u>
Less accumulated depreciation:				
Land improvements	960,582	4,788	83,594	881,776
Building and improvements	19,274,201	1,635,404	2,957,245	17,952,360
Technology equipment	3,544,134	466,587	6,917	4,003,804
General equipment	476,657	37,238	-	513,895
Vehicles	<u>1,893,632</u>	<u>195,609</u>	<u>-</u>	<u>2,089,241</u>
Total accumulated depreciation	<u>26,149,206</u>	<u>2,339,626</u>	<u>3,047,756</u>	<u>25,441,076</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS – NET	<u>\$51,971,024</u>	<u>\$ (282,412)</u>	<u>\$ 316,407</u>	<u>\$51,372,205</u>
Business-type Activities:				
Food service and equipment	\$ 441,129	\$ -	\$ -	\$ 441,129
Technology equipment	<u>16,321</u>	<u>1,234</u>	<u>-</u>	<u>17,555</u>
Totals at historical cost	<u>457,450</u>	<u>1,234</u>	<u>-</u>	<u>458,684</u>
Less accumulated depreciation:				
Food service equipment	406,187	4,976	-	411,163
Technology equipment	<u>16,321</u>	<u>-</u>	<u>-</u>	<u>16,321</u>
Total accumulated depreciation	<u>422,508</u>	<u>4,976</u>	<u>-</u>	<u>427,484</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS – NET	<u>\$ 34,942</u>	<u>\$ (3,742)</u>	<u>\$ -</u>	<u>\$ 31,200</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 551,630
Support services:	
Student	9,692
Instructional staff	15,219
District administration	74,873
School administration	30,278
Business	128,635
Plant operations and maintenance	1,350,831
Student transportation	175,076
Community services	<u>3,392</u>
TOTAL DEPRECIATION EXPENSE	<u>\$2,339,626</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 6 - Bond and Lease Obligations:

The amount shown in the accompanying government-wide financial statements as bond and lease obligations represents the District's future obligations to make payments related to bond and lease issued by the Paducah Independent School District Finance Corporation (the Finance Corporation) on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund is obligated to make lease payments. The agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security for the holders of the bonds.

Bonds

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Remaining Balances</u>	<u>Rates</u>
March 1, 2007	\$4,520,000	\$4,070,000	3.85%
July 1, 2008	2,650,000	2,575,000	3.00%-4.20%
January 1, 2009 refunding	3,915,000	1,920,000	2.00%-3.40%
April 9, 2009	6,720,000	6,340,000	2.00%-4.25%
May 24, 2010	5,045,000	4,575,000	2.00%-5.50%
July 15, 2010 refunding	440,000	30,000	1.20%-3.00%
June 29, 2011	3,170,000	2,785,000	3.597%
June 29, 2011 QZAB	3,950,000	3,950,000	4.859%
July 12, 2011 refunding	211,000	156,000	2.98%
December 22, 2011 QSCB	18,312,000	18,312,000	5.00%
November 27, 2012	3,965,000	3,935,000	1.50%-2.60%

In March 2009, the District issued bonds to redeem its outstanding January 15, 1998, May 1, 1998, and January 1, 1999 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2014, \$3,775,000 of bonds outstanding is considered defeased. In the Statement of Net Position, the net discounts associated with the early retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$37,963. Amortization for the year was \$3,597 and is included as a component of interest expense.

In May 2010, the District issued \$5,045,000 in School Building Revenue Bonds (Build America Bonds). The District is eligible to receive a subsidy payment from the federal government equal to thirty-five percent of each interest payment on the Build America Bonds. Beginning July 1, 2013, the federal government will only pay 92.8% of the eligible interest subsidy due to budget cuts. The subsidy payment is included in interest expense on the financial statements. These payments are disclosed below.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 6 - Bond and Lease Obligations:

In July 2010, the District issued bonds to redeem its outstanding March 1, 2000 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2014, \$415,000 of bonds outstanding is considered defeased. In the Statement of Net Position, the net discounts associated with the early retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$1,710. Amortization for the year was \$49 and is included as a component of interest expense.

On June 29, 2011, the District issued \$3,950,000 in Qualified Zone Academy Bonds which is a tax credit bond. The District is required to make annual sinking fund payments to be held in escrow by the purchaser of the bonds. Payments of \$248,547 were made in fiscal year 2014. The fair market value of this account at June 30, 2014 was \$820,731. The purchaser of the bonds receives a tax credit for purchasing them and guarantees the payments in escrow plus the compounded interest earned on it over the life of the bonds will equal exactly \$3,950,000 at June 1, 2027, which is the maturity date. At maturity, the escrow will be transferred back to the District's bond accounts to pay the bonds in full. One hundred percent of the interest is eligible to be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Beginning July 1, 2013, the federal government will only pay 92.8% of the eligible interest subsidy due to budget cuts. The interest subsidy payments are included in interest expense on the financial statements. These payments are disclosed below.

In July 2011, the District issued bonds to redeem its outstanding April 1, 2001 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2014, \$195,000 of bonds outstanding is considered defeased. In the Statement of Net Position, the net discounts associated with the early retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the new debt issued to finance the refunding. The total deferred discounts were \$1,725. Amortization for the year was \$244 and is included as a component of interest expense.

The December 2011 bond issue is an \$18,312,000 Qualified School Construction Bond which is a tax credit bond. The District received \$18,312,000, less the issuance cost of \$242,998 to deposit into its construction fund. The District and the Kentucky School Facility Construction Commission are required to make annual sinking fund payments to The Bank of New York Mellon Trust Company, an escrow agent commencing June 1, 2012 and such amounts shall be held and invested by the escrow agent for payment of principal of \$18,312,000 at the bonds maturity on December 1, 2030. District's sinking fund requirements are \$56,945 for the first seven years, \$51,945 for years eight and nine, \$111,945 in year ten, and \$301,945 for years eleven through nineteen. The Kentucky School Facility Construction Commission will pay annual sinking fund payments of \$604,522. Payments of \$604,522 and \$56,945 were made in fiscal year 2014 by the School Facility Construction Commission and the District, respectively. The fair market value of this account at June 30, 2014 was \$1,355,881. One hundred percent of the interest is eligible to be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Beginning July 1, 2013, the federal government will only pay 92.8% of the eligible interest subsidy due to budget cuts. The interest subsidy payments are included in interest expense on the financial statements. These payments are disclosed below.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 6 - Bond and Lease Obligations:

In 2009, the District entered into a “participation agreement” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amounts remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

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

<u>Fiscal Year</u>	<u>Paducah Independent School District</u>		<u>US Treasury Subsidy</u>	<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014-2015	\$ 1,047,855	\$ 1,873,273	\$ (1,101,410)	\$ 44,145	\$ 33,420	\$ 1,897,283
2015-2016	1,081,531	1,839,337	(1,098,594)	45,469	32,095	1,899,838
2016-2017	1,119,167	1,803,950	(1,095,695)	46,833	30,731	1,904,986
2017-2018	1,162,668	1,766,543	(1,092,713)	48,332	29,233	1,914,063
2018-2019	1,204,977	1,728,473	(1,089,649)	50,023	27,541	1,921,365
2019-2024	6,844,584	7,921,558	(5,398,631)	280,416	107,405	9,755,332
2024-2029	11,867,017	6,404,469	(4,952,397)	342,983	44,839	13,706,911
2029-2033	<u>9,004,533</u>	<u>1,697,503</u>	<u>(1,297,126)</u>	<u>14,457,467</u>	<u>-</u>	<u>23,862,377</u>
TOTALS	<u>\$33,332,332</u>	<u>\$25,035,106</u>	<u>\$(17,126,215)</u>	<u>\$15,315,668</u>	<u>\$305,264</u>	<u>\$56,862,155</u>

Interest expense paid for fiscal year ending June 30, 2014, was \$2,180,770 including \$1,076,710 in federal subsidy payments on the 2010 Build America Bonds, the 2011 Qualified Zone Academy Bonds, and the 2011 Qualified School Construction Bonds.

Capital Leases

The KISTA school bus acquisition bonds provide for the title of the equipment (buses) to vest in the District subject to a first lien, and if nonrenewal or default occurs, the title will revert to KISTA. The District leases and rents the equipment from KISTA on an annual basis and has an exclusive option to renew this lease from year to year for the period of time of the pooled bond issue (approximately 10 years). The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to keep the equipment in good repair and provide insurance coverage.

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 6 - Bond and Lease Obligations:

Capital Leases

The buses have a historical cost and accumulated amortization of \$722,204 and \$270,826, respectively, under the capital lease agreements. Amortization is included in depreciation expense. Future minimum lease payments at June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-2015	\$ 67,478	\$11,162	\$ 78,640
2015-2016	67,478	9,812	77,290
2016-2017	70,545	8,192	78,737
2017-2018	72,079	6,288	78,367
2018-2019	62,877	4,125	67,002
2019-2020	<u>65,944</u>	<u>2,176</u>	<u>68,120</u>
TOTALS	<u>\$406,401</u>	<u>\$41,755</u>	<u>\$448,156</u>

Changes in Long-Term Liabilities

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Bonds payable	\$49,700,000	\$ -	\$(1,052,000)	\$48,648,000	\$1,092,000
Capital leases	<u>472,345</u>	<u>-</u>	<u>(65,944)</u>	<u>406,401</u>	<u>67,478</u>
Bond and lease obligations	50,172,345	-	(1,117,944)	49,054,401	1,159,478
Accumulated sick leave	223,900	7,700	-	231,600	-
KSBIT assessment	<u>50,000</u>	<u>160,834</u>	<u>-</u>	<u>210,834</u>	<u>52,709</u>
GOVERNMENTAL ACTIVITY					
LONG-TERM LIABILITIES	<u>\$50,446,245</u>	<u>\$168,534</u>	<u>\$(1,117,944)</u>	<u>\$49,496,835</u>	<u>\$1,212,187</u>

Note 7 - Commitments Under Non-Capitalized Leases:

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

<u>Fiscal Year</u>	
2014-2015	\$25,415
2015-2016	12,640
2016-2017	8,870
2017-2018	7,267
2018-2019	<u>4,242</u>
TOTAL	<u>\$58,434</u>

Rent expense for the year ended June 30, 2014, was \$21,173.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 8 - Retirement Plans:

Plan Descriptions

The Paducah Independent School District participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing multiple-employer defined benefit pension plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system and other public educational agencies in Kentucky.

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan administrator.

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800
(502) 573-3266

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601-6124
(502) 564-4646

Funding Policies

Contribution rates are established by the Kentucky Revised Statutes. Plan members of KTRS are required to contribute 11.355% of their annual covered salary for fiscal year 2014. Plan members were required to contribute 10.855% for fiscal year 2013, and 10.355% for fiscal year 2012 if employed before July 1, 2008 and 10.855% if employed after July 1, 2008. The State provides a contribution of 14.605%, except for federal programs for fiscal year 2014. The 14.605% and matching contributions for covered salaries of federal programs are paid by those programs. The State contribution for fiscal year 2013 was 14.105%. The State contribution for fiscal year 2012 was 13.605% if employed before July 1, 2008 and 14.605% if employed after July 1, 2008. For fiscal years ended June 30, 2014, 2013, and 2012, the District contributed an additional 1.50%, 1.00%, and .50%, respectively for employee medical insurance. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education. Plan members of CERS are required to contribute 5.000% of their annual covered salary, and the Paducah Independent School District provides a contribution of 18.89% of that salary. The required District contribution rates for fiscal years ending June 30, 2013 and 2012 were 19.55% and 18.96%, respectively. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed by employees to a health insurance account. The District's total payrolls for the years ending June 30, 2014, 2013, and 2012 were \$18,741,540, \$19,113,303, and \$19,525,089, respectively. For the years ended June 30, 2014, 2013, and 2012, the payroll for employees covered under KTRS was \$13,666,734, \$14,037,631, and \$14,246,806, respectively. For the years ended June 30, 2014, 2013, and 2012, the Commonwealth contributed \$1,582,144, \$1,648,214, and \$1,682,114, respectively, to KTRS for the benefit of participating employees. The District's contribution to KTRS for the years ended June 30, 2014, 2013, and 2012 were \$253,237, \$225,324, and \$203,080, respectively, which relates to those employees covered by federal programs. The District's contribution to Retiree Medical Insurance fund for the years ended June 30, 2014, 2013, and 2012 were \$178,992, \$124,402, and \$63,802, respectively. The District's contribution requirements and the amounts contributed to CERS were \$933,296, \$966,459, and \$969,079, respectively, for the years ended June 30, 2014, 2013, and 2012.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 9 - Benefits Funded by Kentucky State Department of Education:

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contributions to Kentucky Teachers' Retirement System	\$1,582,144
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	2,805,270
Debt Service	727,400
Technology	<u>39,710</u>
TOTAL	<u>\$5,154,524</u>

These payments are recorded in the General, Debt Service, and Food Service Funds as revenues and expenditures. The District is not legally responsible for these contributions. These payments are not budgeted by the District.

On-behalf contributions were charged to governmental functions as follows:

Instruction	\$2,305,097
Support services:	
Student	352,603
Instructional staff	480,509
District administration	56,995
School administration	449,149
Business	201,055
Plant operations and management	261,056
Student transportation	160,681
Debt service	727,400
Food services	<u>159,979</u>
TOTAL ON-BEHALF CONTRIBUTIONS	<u>\$5,154,524</u>

Note 10 - Commitments and Contingencies:

Contingencies

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

Note 11 - Insurance and Related Activities:

The Paducah Independent School 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, injuries to employees, 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.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note 11 - Insurance and Related Activities:

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss, including the coverage listed on pages 48 through 50 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12 - COBRA:

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

Note 13 - Commitments for School Construction:

The District approved an agreement for the construction of a new middle school and field house. The estimated total cost of this project is \$26,550,000. The middle school was completed in the fall of 2013. As of the balance sheet date, \$24,827,711 has been completed and is included in the statement of net position as land, building and improvements, and general equipment. The field house is expected to be completed in the fall of 2014. As of the balance sheet date, \$891,198 has been completed and is included in the statement of net position as construction in progress. The cost of construction as of June 30, 2014, has been funded by the 2011 School Building Revenue Bond issue.

Note 14 - Excess of Expenditures over Appropriations:

The District has no funds with a deficit balance. General Fund had \$1,615,926 less in expenditures than appropriations when excluding on-behalf payments of \$4,267,145 which are not budgeted.

Note 15 - Transfer of Funds:

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	Grant Overspent	\$ 151,382
Operating	1	310	Debt Service	32,916
Operating	1	320	Debt Service	131,664
Operating	310	400	Debt Service	295,139
Operating	320	400	Debt Service	1,995,580
Operating	310	360	Debt Service	120,000
Operating	320	360	Debt Service	390,862
Operating	2	1	Indirect Costs	10,000
Operating	51	1	Indirect Costs	109,464

Note 16 - Change in Accounting Standards:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The new standard addresses several issues regarding public pension plans, including the liabilities reported pertaining to unfunded portions and the disclosure requirements of those plans. GASB Statement No. 68 will be effective for the District for the fiscal year beginning July 1, 2014. The effects of the new standard on the District have yet to be determined.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 9,267,435	\$ 9,459,581	\$ 10,003,550	\$ 543,969
Other	594,266	588,776	372,763	(216,013)
Intergovernmental - state	10,647,939	10,647,939	11,331,354	683,415
Intergovernmental - on-behalf	-	-	4,267,145	4,267,145
Intergovernmental - federal	72,500	90,100	116,972	26,872
Other sources	69,990	69,990	142,967	72,977
Total revenues	20,652,130	20,856,386	26,234,751	5,378,365
Expenditures:				
Instruction	10,496,497	10,720,314	12,960,186	(2,239,872)
Support services:				
Student	1,004,152	1,005,633	1,231,799	(226,166)
Instructional staff	670,536	649,983	1,098,442	(448,459)
District administration	1,232,313	1,351,200	1,298,001	53,199
School administration	1,591,437	1,574,477	2,023,905	(449,428)
Business	878,158	875,158	1,005,450	(130,292)
Plant operations and maintenance	3,024,349	3,291,832	3,720,492	(428,660)
Student transportation	1,164,855	1,163,955	1,347,656	(183,701)
Facility acquisition and construction	40,850	20,650	-	20,650
Debt service	148,000	274,988	-	274,988
Contingency	1,475,983	1,297,483	-	1,297,483
Other	125,000	125,000	315,961	(190,961)
Total expenditures	21,852,130	22,350,673	25,001,892	(2,651,219)
Net change in fund balances	(1,200,000)	(1,494,287)	1,232,859	2,727,146
Fund balances, July 1, 2013	1,200,000	1,494,287	1,449,879	(44,408)
FUND BALANCES, JUNE 30, 2014	\$ -	\$ -	\$ 2,682,738	\$2,682,738

Note 1 - Benefits Funded by Kentucky State Department of Education:

The budget presented above does not include on-behalf payments provided by the Kentucky State Department of Education. If on-behalf payments had been included, budgetary revenues would total \$25,123,531 and budgetary expenditures would total \$26,617,818.

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Earnings on investments	\$ -	\$ 63	\$ 318	\$ 255
Other local	-	22,268	39,310	17,042
Intergovernmental - state	597,426	650,763	678,140	27,377
Intergovernmental - federal	4,396,996	4,167,072	4,462,519	295,447
Other sources	125,000	170,261	151,382	(18,879)
Total revenues	5,119,422	5,010,427	5,331,669	321,242
Expenditures:				
Instruction	4,001,910	3,918,351	4,204,621	(286,270)
Support services:				
Student	84,281	85,068	62,830	22,238
Instructional staff	204,030	217,319	211,515	5,804
School administration	207,105	203,988	243,730	(39,742)
Business	17,714	3,782	1,235	2,547
Plant operations and maintenance	35,859	25,996	34,299	(8,303)
Student transportation	118,473	113,973	142,455	(28,482)
Community service activities	405,050	401,357	420,984	(19,627)
Other	45,000	40,593	10,000	30,593
Total expenditures	5,119,422	5,010,427	5,331,669	(321,242)
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2013	-	-	-	-
FUND BALANCES, JUNE 30, 2014	\$ -	\$ -	\$ -	\$ -

OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

<u>ASSETS</u>	<u>SEEK Capital Outlay Fund</u>	<u>District Activity Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Cash and cash equivalents	<u>\$58,674</u>	<u>\$40,072</u>	<u>\$98,746</u>
TOTAL ASSETS	<u><u>\$58,674</u></u>	<u><u>\$40,072</u></u>	<u><u>\$98,746</u></u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ 102</u>	<u>\$ 102</u>
Fund Balances:			
Restricted for:			
School activities	-	39,970	39,970
SFCC - escrow	<u>58,674</u>	<u>-</u>	<u>58,674</u>
Total fund balances	<u>58,674</u>	<u>39,970</u>	<u>98,644</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$58,674</u></u>	<u><u>\$40,072</u></u>	<u><u>\$98,746</u></u>

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	SEEK Capital Outlay Fund	District Activity Fund	Total Nonmajor Governmental Funds
Revenues:			
Earnings on investments	\$ 658	\$ -	\$ 658
Miscellaneous	-	40,174	40,174
Intergovernmental - state	270,244	-	270,244
Total revenues	270,902	40,174	311,076
Expenditures:			
Instruction	-	204	204
Total expenditures	-	204	204
Excess (deficit) of revenues over expenditures	270,902	39,970	310,872
Other Financing Sources (Uses):			
Operating transfers out	(382,223)	-	(382,223)
Net change in fund balances	(111,321)	39,970	(71,351)
Fund balances, July 1, 2013	169,995	-	169,995
FUND BALANCES, JUNE 30, 2014	\$ 58,674	\$39,970	\$ 98,644

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH TILGHMAN HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Due to Student Groups and Others July 1, 2013	Revenues Actual	Expenditures Actual (1)	Net Transfers (1)	Due to Student Groups and Others June 30, 2014
A.P. Test Fees Fund	\$ -	\$ 21,795	\$ 20,837	\$ (958)	\$ -
American Studies Fund	-	23,544	22,744	(800)	-
Athletic Association Fund	234	196,378	199,951	3,339	-
B.A.B.E.S.	-	2,780	3,232	868	416
Band Fund	10	11,309	10,936	-	383
Band Trip	230	45,024	45,445	191	-
Bell Fund	200	5,405	4,535	(1,070)	-
Beta Club Fund	-	995	176	(819)	-
Building Rentals Fund	600	1,773	900	(1,473)	-
Choir Fund	-	-	1,500	1,500	-
Clearing Fund	-	800	1,200	400	-
DDA Interest	-	58	230	172	-
FACS	-	75	178	103	-
FBLA Fund	-	4,228	7,084	2,856	-
F.C.A.	-	30	-	(30)	-
FCCLA Fund	-	1,540	1,938	398	-
Film Fund	-	75	-	(75)	-
General Fund	378	19,811	34,305	14,442	326
Girls Night Out	-	1,500	1,451	(49)	-
Interact	-	275	209	(66)	-
Japanese Club	-	155	-	(155)	-
Law Club	-	-	137	137	-
McRight Fund	-	15	-	(15)	-
Mock Trial	-	2,190	2,085	(105)	-
National Honor Society Fund	-	1,312	1,118	(194)	-
NJROTC Activity Fund	3,178	53,178	48,275	(7,253)	828
NJROTC Training Expense	1,203	487	(125)	-	1,815
Oklahoma	-	11,294	5,162	(6,132)	-
Orientation Fund	-	14,224	13,463	-	761
Pathways Fund	-	19,475	17,627	(1,848)	-
Project Grad	-	10,439	11,059	620	-
Prom Fund	-	5,700	5,030	(670)	-
PSAT	-	435	387	(48)	-
PTSO	-	4,218	1,468	(2,750)	-
PTHS Recycle	-	350	102	(248)	-
School Store Fund	-	5,261	5,585	324	-
Social Account Fund	-	987	959	(28)	-
Special Baseball	-	800	500	(300)	-
Special Boys' Basketball	-	200	-	(200)	-
Special Boys' Track Fund	-	1,659	1,659	-	-
Special Cross Country	-	65	-	(65)	-
Special Events	1,950	-	2,045	95	-
Special Girls' Basketball	-	200	-	(200)	-
Special Girls' Track Fund	-	2,126	1,843	(283)	-
Special Softball	52	8,421	5,618	(2,000)	855
Special Volleyball	50	1,692	2,160	418	-
Special Wrestling	-	74	-	(74)	-

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH TILGHMAN HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Due to Student Groups and Others July 1, 2013	Revenues Actual (1)	Expenditures Actual (1)	Net Transfers (1)	Due to Student Groups and Others June 30, 2014
Speech Team	\$ -	\$ 4,921	\$ 5,708	\$ 787	\$ -
Student Council Fund	-	2,404	1,904	(500)	-
Student Fees Fund	-	17,120	17,032	(48)	40
Technology Fund	-	-	198	198	-
Teen Link	-	4,114	2,728	(53)	1,333
Tiny Tornado Meet	-	3,371	5,364	1,993	-
Tornado League	-	5,425	3,840	(1,585)	-
Uniform Maintenance	-	1,753	2,963	1,210	-
Unit Maintenance	278	2,408	1,497	43	1,232
TOTALS	\$ 8,363	\$ 523,868	\$ 524,242	\$ -	\$ 7,989

(1) Interfund transfers total \$142,430.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Paducah Middle</u>	<u>Emma Morgan</u>	<u>McNabb</u>	<u>Clark</u>	<u>Totals</u>
Due to student groups and others, July 1, 2013	<u>\$ 51,458</u>	<u>\$ 23,134</u>	<u>\$ 24,065</u>	<u>\$ 44,223</u>	<u>\$ 142,880</u>
Revenues:					
Student activities	<u>106,536</u>	<u>56,277</u>	<u>18,269</u>	<u>61,722</u>	<u>242,804</u>
Expenditures:					
Student activities	<u>117,506</u>	<u>75,451</u>	<u>35,941</u>	<u>68,368</u>	<u>297,266</u>
DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2014	<u><u>\$ 40,488</u></u>	<u><u>\$ 3,960</u></u>	<u><u>\$ 6,393</u></u>	<u><u>\$ 37,577</u></u>	<u><u>\$ 88,418</u></u>

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
SPECIAL ACTIVITIES FUND
FOR THE YEAR ENDED JUNE 30, 2014

Revenues:

From local sources:

Earnings on investments

\$ 613

Other local revenues

135,530

Total revenues

136,143

Expenditures:

Student activities

106,041

Excess (deficit) of revenues over expenditures

30,102

Due to student groups and others, July 1, 2013

241,389

DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2014

\$271,491

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT DIFFERENCES
FOR THE YEAR ENDED JUNE 30, 2014

In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the District has state on-behalf amounts included in total revenue from state sources in the District's AFR as specified by the Kentucky Department of Education. These funds are reported as intergovernmental revenues - on-behalf or state grants - on-behalf in the financial statements. The District also has child nutrition donated commodities included in the total revenue from federal sources in the District's AFR. These funds are recorded as federal grants - in-kind commodities in the financial statements. The following is a reconciliation of the receipts reported in the District's AFR with that shown in the financial statements. In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the District has not recorded certain revenues and expenditures of the expendable trust funds. The following is a reconciliation of the revenues and expenditures reported in the District's AFR with that shown in the financial statements and the supplemental schedules.

General Fund:

Revenue from state sources reported to the Department of Education	\$ 15,598,499
On-behalf/state sources	<u>(4,267,145)</u>
Amount per financial statements	<u><u>\$ 11,331,354</u></u>

Debt Service:

Revenue from state sources reported to the Department of Education	\$ 727,400
On-behalf/state sources	<u>(727,400)</u>
Amount per financial statements	<u><u>\$ -</u></u>

Food Service:

Revenue from state sources reported to the Department of Education	\$ 178,787
On-behalf/state sources	<u>(159,979)</u>
Amount per financial statements	<u><u>\$ 18,808</u></u>
Revenue from federal sources reported to the Department of Education	\$ 1,879,189
In-kind donated commodities	<u>(116,010)</u>
Amount per financial statements	<u><u>\$ 1,763,179</u></u>

Expendable Trust Funds (Special Activities Fund):

Other local revenue as reported to the Department of Education	\$ 122,441
Private purpose trust increase in value	<u>13,089</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others- agency funds-special activities fund	<u><u>135,530</u></u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT DIFFERENCES
FOR THE YEAR ENDED JUNE 30, 2014

Net interest and investment gains/(losses) as reported to the Department of Education	\$ 1,083
Private purpose trust interest	(481)
Additional interest not recorded	<u>11</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others-agency funds-special activities fund	<u>613</u>
TOTAL	<u><u>\$ 136,143</u></u>
Expenditures as reported to the Department of Education	\$ 109,841
Private purpose trust benefits paid	<u>(3,800)</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others-agency funds-special activities fund	<u><u>\$ 106,041</u></u>

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
JUNE 30, 2014

General Fund:

Accounts receivable reported in Board's annual financial report to the State Department of Education, Division of Finance	\$ 617,784
Reversal of prior year accounts receivable	(430,230)
Additional accounts receivable recorded subsequent to the annual financial report:	
KY State Treasurer - omitted taxes	21,149
City of Paducah - property taxes	40,028
KSBIT - refund	75,437
McCracken County Clerk - motor vehicle taxes	43,249
Liberty Mutual	44,591
Harrison Street Baptist Church	1,595
Mayfield School District	819
Pepsi Mid-America	793
Ballard County School District	735
Dale Beck	615
TOTAL ACCOUNTS RECEIVABLE	\$ 416,565

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS PAYABLE
JUNE 30, 2014

General Fund:

Accounts payable reported in Board's annual financial report to the State Department of Education, Division of Finance	\$388,085
Reversal of prior year accounts payable	(104,304)
Reclassification of postings to salaries payable	(115,008)
Additional accounts payable recorded subsequent to the annual financial report:	
Paducah Power	104,439
Worker's compensation	
Miscellaneous	9,083
Tri-Turf	6,956
NCS Pearson	6,267
Best One Tire	5,209
Griffin Plumbing	4,450
DK Masonry	3,500
Tri-State	3,084
Joe Travis	2,750
City of Paducah	2,306
Midwest Terminal	2,158
Harshaw Trane	1,892
Paducah Sun	1,200
Cintas	1,177
	104,439
TOTAL ACCOUNTS PAYABLE	\$323,244

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2014

Property Covered:	Type of Coverage	Amount
School buildings and contents - all school buildings and dwelling and Paducah Tilghman Stadium	Earthquake	\$ 1,000,000
	Flood	50,000
	Fire, lightning and extended coverage, vandalism and malicious mischief	139,530,528
	Equipment breakdown	250,000
	Mower and trailers	45,998
	Computer equipment	396,000
Workmen's compensation	Kentucky statutory coverage	500,000
School board members, superintendents, administrators, teachers, and classified employees	Comprehensive general liability	1,000,000
		2,000,000
	Sexual misconduct and molestation liability	1,000,000
	Miscellaneous school property floater	440,120
School board members and employee liability insurance	Errors and omissions wrongful acts	1,000,000
School law enforcement	School law enforcement professional liability	1,000,000
Student Insurance:		
Catastrophic accident medical expense		6,000,000
Accidental death, dismemberment and loss of sight		500,000

See auditor's report on pages 1-3.

<u>Deductible Per Occurrence</u>	<u>Type of Limit</u>
10%	Deductible
10%	Deductible
\$ 5,000	Per occurrence
5,000	Per occurrence
500	Per occurrence
1,000	Deductible
	Per occurrence
	Per occurrence
	Annual aggregate
	Per occurrence
250	Deductible
10,000	Per occurrence
2,500	Per occurrence
	Annual aggregate
25,000	Deductible

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
 AT JUNE 30, 2014

Automobile Liability:	<u>Amount of Coverage</u>	<u>Comprehensive</u>	<u>Collision Deductible</u>
1995 Ford 3/4 ton truck		ACV	\$500
2002 Ford Windstar		ACV	500
2002 Ford Windstar		ACV	500
1997 Ford pickup 4 by 4		ACV	500
1997 Ford Contour		ACV	500
1998 Ford Econoline van		ACV	500
1999 Ford van (diesel)		ACV	500
1999 Ford van (diesel)		ACV	500
2002 Ford Excursion		ACV	500
2002 Ford Excursion		ACV	500
2010 Toyota RAV 4		ACV	500
2011 Ford Escape		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F350		ACV	500
2011 Ford F350		ACV	500
Coverage on all the above vehicles includes:			
Liability limit per occurrence, including property damage and bodily injury	\$ 2,000,000		
Property damage	ACV		
Uninsured motorists	500,000		
Underinsured motorists	500,000		
Head Start Vehicles:			
1997 International bus - 70 passenger		ACV	500
1991 Chevrolet bus - 30 passenger		ACV	500
Coverage on Head Start vehicles includes:			
Liability limit per occurrence	2,000,000		
Personal injury protection	10,000		
Uninsured motorist	500,000		
Bus Liability:			
Thirty-one school buses - coverage includes:			
Public liability	2,000,000		
Uninsured motorists	500,000		
Underinsured motorists	500,000		
Comprehensive		ACV	250
Collision		ACV	500

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2014

Fidelity Bonds:	<u>Amount</u>
Treasurer of the Board	\$300,000
Depository Bonds:	
The Paducah Bank and Trust Company, Paducah, Kentucky on deposit with Compass Bank of Birmingham, Alabama:	
Federal Government Agency Obligations	160,000

See auditor's report on pages 1-3.

**MEMBERS OF THE PADUCAH INDEPENDENT SCHOOL BOARD OF EDUCATION
AS OF JUNE 30, 2014**

<u>Name</u>	<u>Date Elected</u>	<u>Term Expires</u>
Carl LeBuhn Chair	November 2005	January 2018
Felix Akojie Vice Chair	November 2003	January 2015
Janice Howard	November 2004	January 2018
Danette Humphrey	November 2002	January 2015
Rose Lowery	November 2012	January 2018

Other Officials:

Dr. Randy Greene, Superintendent and Director of Personnel through June 30, 2014

Mr. Donald Shively, Assistant Superintendent, Director of District Instructional Programs
Superintendent beginning July 1, 2014

Ms. Julie Huff, Finance Officer and Treasurer of the Board

Ms. Lisa Chappel, Secretary of the Board

Mr. Troy Brock, Director of Pupil Personnel Services

Ms. Aime Tooley, Director of Special Programs

Mr. Dale Weaver, Director of Technology

See auditor's report on pages 1-3.

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

	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Totals
U.S. Department of Education:				
Direct Programs:				
Impact Aid (Maintenance and Operations)	84.041	5213		\$ 13,068
Passed-through Kentucky Department of Education:				
Special Education - Grants to States (IDEA, Part B)	84.027	3810002 12 3810002 13	\$ 145 <u>625,320</u>	625,465
		3800002 11	4	
Special Education - Preschool Grants (IDEA, Preschool)	84.173	3800002 12 3800002 13	<u>12,244</u> <u>38,976</u>	51,224
Special Education Cluster Sub-Total				676,689
		3100002 11	4,203	
		3100202 11	20,658	
Title I Grants to Local Educational Agencies (LEAs)	84.010	3100002 12 3100002 13	<u>544,681</u> <u>1,088,909</u>	1,658,451
Education for Homeless Children and Youth	84.196	3990002 12 3990002 13	<u>8,530</u> <u>34,993</u>	43,523
21st Century Community Learning Centers Program	84.287	3400002 12		103,778
		3230002 11	6,712	
Improving Teacher Quality State Grants	84.367	3230002 12 3230002 13	<u>106,932</u> <u>172,874</u>	286,518
		3300002 11	2,600	
English Language Acquisition State Grants	84.365	3300002 12	<u>1,811</u>	4,411
ARRA - School Improvement Grants, Recovery Act	84.388	4100302 09		20,993
Race to the Top	84.413A	3960002 11		7,650
Passed-through West Kentucky Educational Cooperative:				
Career and Technical Education - Basic Grants to States	84.048	3710002 12 3710002 13 4621332 13	495 21,188 <u>914</u>	22,597
Total U.S. Department of Education				<u>2,837,678</u>
U.S. Department of Agriculture:				
Passed-through Kentucky Department of Agriculture:				
National School Lunch Program	10.555	7750002 13 7750002 14	249,054 1,008,723	
National School Lunch Program - Non-monetary Food Distribution (1)	10.555	2014 7760005 13	<u>116,010</u> 84,298	1,373,787
School Breakfast Program	10.553	7760005 14	<u>421,104</u>	505,402
Child Nutrition Cluster Sub-Total				1,879,189
Total U.S. Department of Agriculture				<u>1,879,189</u>
U.S. Department of Health and Human Services:				
Direct Programs:				
Head Start	93.600	6553 6554	461,759 <u>1,289,832</u>	1,751,591
U.S. Department of Defense:				
Direct Program:				
ROTC Language and Culture Training Grants	12.357	5042		48,986
TOTAL FEDERAL AWARDS				<u>\$ 6,517,444</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

- (1) Expense recognized is the total dollar value of commodities used during the year. Amounts are based on dollar values reported by the State Department of Agriculture. This amount is included in the combined statement of revenues, expenditures, and changes in net position.

Note 1 - Basis of Presentation

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

Note 2 - Federal Interest Subsidy

The United States Treasury pays a portion of the semi-annual interest payments on three separate bond issues made by Paducah Independent School District. The interest is paid directly to the issuer or its designee paying agent and is to be applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Interest subsidy payments are reported as intergovernmental federal revenues and interest expense on the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, they are not required to be reported on the Schedule of Expenditures of Federal Awards. The IDEA CEIS grants were overspent in fiscal year 2013. No grant proceeds will be received on these grants; therefore, excess expenditures were moved to the general fund. Federal revenues reflected in the general fund include reimbursements for Medicaid claims and are not included in the Schedule of Expenditures of Federal Awards.

Federal revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds	\$ 5,683,551
Federal grants as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	1,763,179
Federal grants - in-kind commodities as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	<u>116,010</u>
Total federal expenditures	7,562,740
Excess grant expenditures moved to general fund	113,682
Less federal interest subsidy	(1,104,060)
Less medicaid claims	<u>(54,918)</u>
TOTAL FEDERAL AWARDS	<u><u>\$ 6,517,444</u></u>

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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PADUCAH, KENTUCKY 42001

J. DAVID BAILEY, III
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J. RICHARD WALKER
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
www.willcpa.com

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited, 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 *Appendix I to the Independent Auditor's Contract – Audit Extension Request and Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paducah Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Paducah Independent School District's basic financial statements, and have issued our report thereon dated November 11, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Paducah Independent School District in a separate report letter dated November 11, 2014.

Purpose of this Report

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

Williams, Williams + Lentz, LLP

Paducah, Kentucky
November 11, 2014

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

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FAX
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WEBSITE
www.willcpa.com

**Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control Over Compliance
Required by OMB Circular A-133**

Kentucky State Committee for
Audits of School Districts
Members of the Board of Education
Paducah Independent School District
Paducah, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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.

Williams, Williams + Lentz, LLP

Paducah, Kentucky
November 11, 2014

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Paducah Independent School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Paducah Independent School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report On Compliance for Each Major Program And On Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal awards programs for the Paducah Independent School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

Name	CFDA #
Special Education – Grants to States (IDEA, Part B)	84.027
Special Education – Preschool Grants (IDEA Preschool)	84.173
National School Lunch Program	10.555
National School Lunch Program – Non-monetary Food Distribution	10.555
School Breakfast Program	10.553

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Paducah Independent School District was determined to be a low-risk auditee.

Findings - Financial Statements Audit

None

Findings and Questioned Costs - Major Federal Awards Programs Audit

None

**PADUCAH INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014**

There are no prior year audit findings relative to federal awards to report.

PADUCAH INDEPENDENT SCHOOL DISTRICT



MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2014

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. DAVID BAILEY, III
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Members of the Board
Paducah, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paducah Independent School District as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Paducah Independent School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. This letter does not affect our report dated November 11, 2014 on the financial statements of Paducah Independent School District.

GENERAL PROCEDURES

All prior year recommendations appear to have been properly addressed.

DISBURSEMENTS

All prior year recommendations appear to have been properly addressed.

ACTIVITY FUNDS

Paducah Tilghman High School

Finding: We tested twenty-six disbursements. Purchase orders were either not prepared or not completed correctly and appropriately approved prior to purchases being made on several of the disbursements tested. The lack of purchase orders has been a repeat comment for the last three years.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, a purchase order must be completed for **all** purchases prior to making purchases. The purchase order should be dated and include the school name, the activity account, P.O. number, vendor name, a description and quantity of items to be purchased, and the estimated cost. This information should be completed by the teacher/sponsor requesting the purchase unless a purchase requisition is prepared by the teacher/sponsor and the CFT prepares the purchase order. It should be authorized by the teacher/sponsor for the activity account and approved by the Principal.

Cause: This was due to a break down in the internal controls over purchases.

Effect: Purchase orders act as an estimate of costs expected to be incurred and provide the codes to which the purchase should be posted. They also serve as an approval mechanism for management. Incomplete or missing purchase orders denote weakness in the internal controls. Missing or incomplete purchase orders could serve as a way to misappropriate funds.

Recommendation: The individual in charge of purchases should always make sure a signed purchase order is available prior to making purchases and all required information is included in the purchase order. The purchase order should include signatures of both the sponsor and Principal. It is allowable to use an open purchase order for officials at athletic events. However, a copy of the purchase order should be attached to every disbursement to an official and the remaining purchase order balance should be reduced by the amount of the payment. Once the entire purchase order balance is paid, a new purchase order is required. If the actual cost is significantly different from the estimated cost on the approved purchase order, the purchase order should be changed and re-approved.

Management's Response: Purchase orders will be written and filled out completely and signed by the Principal and the Bookkeeper prior to all purchases. If a purchase is made in an amount that is over the original amount, the purchase order will be readjusted and initialed.

Finding: We noted two disbursements for reimbursement lacking proper signatures, and one incomplete form. We noted four disbursements to concession workers and officials using expense reports when the more appropriate form is a standard invoice.

Criteria: Expense reports should be accompanied by receipts signed by the employee requesting reimbursement. The expense reports should be completely filled out including the school name, activity account, date, and a description of the activity as well as the dates, descriptions and amounts of expenses incurred. The total expenses should be adjusted for any advances or returned items. The individual requesting reimbursement, the sponsor, Principal, and treasurer must all sign the form. All receipts for expenses incurred should be attached. Standard invoices should be used for payments to individuals such as concession workers or officials at ballgames when no invoice is received from the vendor.

Cause: There was a break down in internal controls over reimbursed expenses.

Effect: Receipts provide evidence to support the legitimacy of the purchases made and to determine if they are reasonable and for allowable costs. Most receipts also contain information about the location of the purchase which can be an important control when reimbursing travel expenses. The signatures indicate sufficient funds are available to make the payment, it is for an allowable cost, and proof that the vendor was paid.

Recommendation: Employees should not be reimbursed without the proper expense form completed in its entirety and all receipts attached. If an expense form is used in place of a standard invoice, it should contain all the same required information in addition to the vendors address and federal id number or social security number and be signed by the vendor.

Management's Response: When checks are written to any worker for services, a standard invoice will be used along with a signature of each worker receiving payment.

Finding: During our disbursements testing, we identified two disbursements for which the individual receiving goods did not initial the packing slip/invoice. This is a repeat comment from the prior year.

Criteria: When goods are purchased and shipped to the District, the individual receiving the purchase must initial the packing slip or invoice to indicate all items purchased were received prior to paying the invoice.

Cause: Lack of initials on the packing slip/invoice is a weakness in internal controls.

Effect: The initials provide accountability and reassurance that the goods have been received and the invoice is ready for payment. This mitigates the risk of paying an invoice for items that were not received. It also mitigates the risk of unauthorized purchases through the District that may be shipped to another location.

Recommendation: Extra care should be used to make sure the proper internal control procedures are in place and always being followed.

Management's Response: The Bookkeeper will speak with all staff to go over proper protocol and appropriate paper work needed to be signed and return to the business office after goods are received.

Finding: We identified two disbursements for expenditures not allowed to be paid from activity funds. This is a repeat comment from the prior year.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, all expenditures from activity funds must directly benefit the students. Maintenance, operational, and instructional costs are not allowed to be purchased from activity funds. One purchase was for pest control, and the other was for textbooks for the classroom.

Cause: There may be a lack of adequate training with regard to the guidance governing school activity funds.

Effect: Funds meant to directly benefit the students are being used for other purposes.

Recommendation: Extra care should be used in identifying which expenditures are prohibited from being paid out of activity funds. These expenditures should be paid from site-based money or district activity funds.

Management's Response: The Bookkeeper will review Redbook allowable expenses to ensure this is not a reoccurring finding.

Finding: During disbursements testing, we identified two disbursements for student refunds of AP test fees for which the proper form was not used.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, the Student Refund/Disbursement Form should be used when money is reimbursed or refunded to students. The student should sign the form when he/she receives the refund. The form should be completely filled out including school, teacher name, activity fund, amounts, totals, signature of person remitting the money, and signature of the Treasurer.

Cause: This is a new form that came out with the 2013 Redbook. There may be a lack of adequate training with regard to the forms to be used for activity funds.

Effect: There is lack of proper support for the disbursements made which creates a weakness in internal controls over disbursements and an opportunity for possible misappropriation of funds.

Recommendation: We recommend the proper student refund form be used and completely filled out with all appropriate signatures when money is refunded to students.

Management's Response: In Redbook training it was said that the only time the Student Refund/Disbursement Form had to be used was when teachers were refunding cash showing that the student received cash back. However, when the Bookkeeper issues refund checks in the future, a refund/disbursement sheet will be used.

Finding: The appropriate signatures are not being obtained in the correct locations on the ticket reports. This is a repeat comment from the prior year.

Criteria: The report should be signed by the person in charge of sales both when receiving change and tickets prior to the event and once the cash has been counted and reconciled. The ticket taker also signs the report. These have to be two different individuals. The Treasurer signs the report once all information on the form is complete and accurate to indicate receipt of the money.

Cause: The proper procedures over ticket reports were not clearly understood by the individuals in charge of them.

Effect: The risk of altering the ticket reports in an attempt to misappropriate funds increases when proper procedures are not followed.

Recommendation: The proper procedures for completing ticket reports should be communicated to those working gates at all athletic events. The completeness and accuracy of ticket reports should be verified by the Central Fund Treasurer when the reports are turned in.

Management's Response: The Bookkeeper will instruct all gate workers on how to fill out the ticket reports completely and correctly with appropriate signatures on line provided.

Finding: The number of tickets sold was not calculated correctly causing the amount of calculated collections to be incorrect.

Criteria: The first ticket available on the roll is attached to the ticket report. The first ticket number sold (not the one attached to the form) is the beginning ticket number recorded on the report. The ending ticket number recorded on the form is the next ticket number on the ticket roll that was not sold. The difference between these numbers is the number of tickets sold.

Cause: The proper procedures over ticket reports were not clearly understood by the individuals in charge of them.

Effect: The risk of altering the ticket reports in an attempt to misappropriate funds increases when proper procedures are not followed.

Recommendation: The proper procedures for completing ticket reports should be communicated to those working gates at all athletic events. The completeness and accuracy of ticket reports should be verified by the Central Fund Treasurer when the reports are turned in.

Management's Response: The Bookkeeper will instruct all gate workers on how to calculate totals. Number after sales completed (-) the beginning number (=) number of tickets sold. That number is then multiplied by the price of the ticket and should equal the amount of money collected.

Finding: Ticket sales for theatrical events in which tickets from ticket rolls are sold for admission should be reported on a ticket sales report the same as gate tickets for ballgames.

Criteria: The requisition and report of ticket sales is used to acknowledge receipt of tickets sold for the event listed on the ticket report on the date stated. It provides a reconciliation of the number of tickets sold and the amount of cash on hand and to be deposited. The report should be signed by the person in charge of sales both when receiving change and tickets prior to the event and once the cash has been counted and reconciled. The ticket taker also signs the report. The Treasurer signs the report once all information on the form is complete and accurate to indicate receipt of the money.

Cause: The proper procedures over ticket reports were not clearly understood by the individuals in charge of them.

Effect: The risk of altering the ticket reports in an attempt to misappropriate funds increases when proper procedures are not followed and the proper forms are not completed.

Recommendation: The proper procedures for completing ticket reports should be communicated to those working gates at all events. The completeness and accuracy of ticket reports should be verified by the Central Fund Treasurer when the reports are turned in.

Management's Response: The Bookkeeper will correspond with Choral department for future Theatrical events on how to sell tickets and instruct on how to fill out ticket reports.

Finding: We noted several old outstanding checks. This is a repeat comment from the prior two years.

Criteria: Fourteen checks over 90 days old are still outstanding including nine checks that are over six months old.

Cause: The checks have not been cashed, possibly due to being misplaced, and have not been followed up on to determine if they should be voided or reissued.

Effect: These checks could represent errors in bank reconciliations or methods of covering up fraudulent activities.

Recommendation: Checks greater than 90 days old should be followed up on to see if they need to be voided and reissued. If the checks are to be voided, they should be voided by entering them as negative disbursements.

Management's Response: The Bookkeeper will cancel outstanding checks and contact vendors to see if new checks need to be issued.

Finding: Multiple Receipt Forms are not completely filled out including school, activity fund, receipt number, teacher, student signatures, amounts, totals, dates, signature of person remitting the funds, and signature of the Treasurer.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, secondary receipts should be used by teachers/sponsors collecting money from students. All sections of the Multiple Receipt Form should be filled out completely.

Cause: Lack of understanding and purpose of procedures, as well as a breakdown in controls over secondary receipts.

Effect: Lack of complete information filled out on the secondary receipt, such as the date the money was collected from students, does not provide the information to assess if proper procedures were followed as to the timeliness of collections, remittance, and deposit of funds. Signatures provide an audit trail of every individual handling the funds.

Recommendation: To provide proper documentation, all forms should be filled out properly with all information included on the form itself. It is also recommended that the Central Fund Treasurer check these requirements before accepting and receipting remittance and signing the form.

Management's Response: The Bookkeeper will instruct staff on how to fill out Multiple Receipt Forms completely. The Bookkeeper will not accept Multiple Receipt Forms from staff until forms are filled out correctly.

Finding: Multiple Receipt Forms are being filled out by teachers for students 3rd grade and above.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), students 3rd grade and above must sign the Multiple Receipt Form.

Cause: A breakdown in internal controls over secondary and primary receipts.

Effect: Students 3rd grade and above should sign their own name on the Multiple Receipt Forms to show that they actually turned in funds to the teacher/sponsor. The student signature is proof that that student actually turned in funds. If there were a discrepancy in who had or had not turned in funds, the teacher filled out Multiple Receipt Form would not provide sufficient proof without the signatures of the students.

Recommendation: The teacher/sponsor should allow the student to fill out the Multiple Receipt Form with the student signature with the amount remitted. The teacher should double check the amount and the signature to verify accuracy.

Management's Response: The Bookkeeper will instruct staff on how to fill out Multiple Receipt Forms completely. The Bookkeeper will not accept Multiple Receipt Forms from staff until forms are filled out correctly.

Finding: Receipts for two deposits were not turned into the Treasurer and deposited in a timely manner. This is a repeat comment from the prior year.

Criteria: Deposits should be made daily. For after events outside the normal school day, receipts should be locked in a safe overnight and deposited the next school day.

Cause: This is a break down in internal controls over receipts. Teachers/sponsors are not turning in collections on a daily basis. Deposits are not being made daily.

Effect: This could be a red flag to indicate funds are being misappropriated.

Recommendation: Collections should be turned into the Treasurer and receipted on a daily basis. Deposits should be made on a daily basis. There should not be more than one day between the time funds are collected and deposited into the bank.

Management's Response: The Bookkeeper will remind staff that money must be turned in on a daily basis whether it is check or cash. A Multiple Receipt Form will accompany all funds turned into the Bookkeeper. The Bookkeeper will make daily deposits to the bank.

Finding: No Donation Acceptance Form could be located for Project Graduation donations received.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), the Donation Acceptance Form shall be completed stating the purpose of and any restrictions on donations received. These forms should be provided to the school board at year end.

Cause: This is a break down in internal controls over donations.

Effect: Donations are to be accounted for separately from other activity funds and used for the specified purpose or restricted as designated on the Donation Acceptance Form. Without this form, the proper supporting documentation of the restrictions may not exist.

Recommendation: A Donation Acceptance Form should be fully completed and signed by the Principal for all donations received. If there are no restrictions on the donations, they can be deposited into the general activity fund. Copies of the Donation Acceptance Forms should be provided to the school board at year end.

Management's Response: Project Graduation was in the activity account for one year only due to PTO organization dispersing in 2013. The Project Graduation account has been turned back over to the 2014-2015 PTO and is no longer managed in the activity account.

Finding: No Fundraiser Approval or Fundraiser Worksheet Form could be located for a softball fundraiser.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), a Fundraiser Approval Form shall be completed before the fundraiser begins and shall state the proposed use of the funds and be approved by the board or Principal. Fundraisers where items are sold, require the use of a Fundraiser Worksheet to recap the profitability of the sales. The worksheet must be completed and sent to the Principal for review within one week of the end of the fundraising period.

Cause: This is a break down in internal controls over fundraisers.

Effect: Student fundraisers cannot be used to raise money for unallowed expenses from activity funds. The Principal or board uses the information on the fundraiser approval form to determine if the fundraiser is for allowable expenditures and if it can be a student fundraiser. The fundraiser worksheets provide a summary of the receipts and expenses involved with the fundraiser.

Recommendation: The proper fundraising forms should be completed and maintained by the Treasurer for every fundraiser.

Management's Response: The Bookkeeper will make sure ALL organizational leaders and coaches are aware they cannot conduct a fundraiser without filling out a fundraiser approval form prior to the fundraiser and filling out a fundraiser worksheet after the fundraiser is complete. The Bookkeeper will keep a copy of all fundraiser forms on file.

All other prior year recommendations appear to have been properly addressed.

Paducah Middle School

Finding: Several activity fund accounts had excessive balances at year end or no activity during the year but carried a fund balance. Funds, such as the library, yearbook, and office, should be at the district activity fund level and not at the school level.

Criteria: According to “Accounting Procedures for Kentucky School Activity Funds,” (the Redbook), school activity funds are raised for a specific function or purpose during a specific fiscal year and must be used for that specific function during that period. Due to timing of fundraiser activities, a school may carry forward funds from year to year. However, the carry over balances should not be excessive and should be associated with a specific expense that was not paid by the end of the fiscal year. If extra funds were raised over expenditures, the activity fund group should vote on how to handle the extra funds at year end. If the activity fund group does not vote, the funds shall be transferred to the school general activity fund account. It is permissible to leave a balance in the account sufficient to cover startup costs for the next year.

Cause: Fees and fundraising receipts were more than actual expenditures.

Effect: Activity funds are intended for the use of the students that actually paid or raised the funds. Excessive funds could cause the student organization to be prohibited from fundraising until excessive fund/balances have been appropriately used.

Recommendation: Principal and Central Fund Treasurer should evaluate activity fund balances on a regular basis, especially year end, for excessive amounts and evaluate if the specific student organization should be prohibited from fundraising until the excessive balances have decreased appropriately or if the funds should be transferred to the general fund for the benefit of the entire student body. Any additional collections for the library, yearbook, and office should be deposited at the district level. At the end of each year, the accounts should be evaluated to see if it is necessary for the student group to vote on how to handle any remaining unspent funds.

Management’s Response: Cheerleading account had an outstanding invoice that was not paid until July. The Principal and CFT will meet on a regular basis to discuss the accounts with excessive balances. CFT was not aware of the carryover policy; it will be shared with all activity fund sponsors at the next staff meeting. CFT discussed with Principal the option of transferring some of the activity funds to the district level, but before this could be done, CFT learned this should have been done prior to June 30, and CFT was not aware of the deadline. This procedure was going to take place before the activity funds had been rolled over to the next year.

Finding: The change amount for ballgames was noted correctly as being received at the top of the ticket reports. However, the change amount is excluded from the cash on hand and cash from sales calculations on the bottom of the report. This has been a repeat comment for the last three years.

Criteria: The calculation sections for cash are not fully completed. Total sales plus change returned adjusted for cash over/short should equal the amount total of the cash counted. The change is not being added to the sales amount to arrive at the total cash. The cash counted does not include the change.

Cause: There is a breakdown in internal controls over ticket sales and ticket reports. Many times volunteers work the gates at ball games. The appropriate procedures may not have been communicated to the individuals.

Effect: If the reports are completed accurately, the total cash counted should equal the total sales plus change. If there are discrepancies, they need to be investigated. These reports serve as protection for individuals collecting money at athletic events if there were ever to be a question of funds being misappropriated.

Recommendation: Extra care should be used to communicate proper procedures for completing ticket reports. The Treasurer should review the reports at the time they are turned in for incomplete or inaccurate information. Reasons for any discrepancies should be noted on the report.

Management’s Response: In the past years, start-up change was left in the money box and locked in the safe for the next game until the end of the current season. It was returned with the deposit made from ticket sales from the last game of that sport/season. This was also the first year for the athletic director and she was not aware of this procedure.

Finding: Secondary receipts are not being completed properly and signed by the students. This is a repeat comment from the prior year.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, secondary receipts should be used by teachers/sponsors collecting money from students. Each student giving money to a teacher/sponsor should sign their own name to the Multiple Receipt Form next to the amount paid by that student. The total receipts should be noted on the form. Teachers/sponsors must sign the form and turn it into the Treasurer along with all money collected on a daily basis. There is a separate form for concessions and school store sales.

Cause: This is caused by a breakdown in internal controls over receipts.

Effect: By students signing their own name and amounts, the student signatures show the students actually turned in funds to the teacher/sponsor. This is a control to prevent the teacher/sponsor from pocketing money collected from students. The teacher/sponsor must turn into the CFT an amount equal to the amount on the Multiple Receipt Form.

Recommendation: Separate secondary receipts should be used for each activity and should be turned in daily. Students should sign their own names. The receipt should reflect the individual amounts paid by each student. The proper form should be used for concession and school store receipts.

Management's Response: CFT pulled this Multiple Receipt Form and two student signatures were on the form, the last three were signed for by Abigail Nguyen because teachers gave her the money. CFT was not aware that teachers should have signed instead. Every effort will be made to make sure this is done correctly.

Finding: No Donation Acceptance Form could be located for Project Graduation donations received.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), the Donation Acceptance Form shall be completed stating the purpose of and any restrictions on donations received. These forms should be provided to the school board at year end.

Cause: This is a break down in internal controls over donations.

Effect: Donations are to be accounted for separately from other activity funds and used for the specified purpose or restricted as designated on the Donation Acceptance Form. Without this form, the proper supporting documentation of the restrictions may not exist.

Recommendation: A Donation Acceptance Form should be fully completed and signed by the Principal for all donations received. If there are no restrictions on the donations, they can be deposited into the general activity fund. Copies of the Donation Acceptance Forms should be provided to the school board at year end.

Management's Response: PMS does not have Project Graduation. This specific receipt was written for donations made for Charles George, one of our custodians injured during the tornado in Brookport, IL. PMS received an excessive amount of donations from the community on his behalf. The donations were deposited into his personal bank account on a regular basis using checks written from the student activity funds. CFT was not aware of the donation form at that time. An account was created at the instruction of the board finance department. Funds were deposited into the PMS account as received and were then deposited into his personal bank account on a regular basis on his behalf at the instruction of Paducah Bank.

Finding: A Student Reimbursement Form was not used to refund money to a student.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), a Student Reimbursement Form should be used to account for student reimbursements. An example of this form is included in the Redbook.

Cause: There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

Effect: Technically, there was no purchase made, therefore, no purchase order required. The Student Reimbursement Form should be signed by the student to indicate the student did receive the reimbursement.

Recommendation: All teachers/sponsors should be made aware of the forms required and provided by the Redbook.

Management's Response: CFT was not aware of the reimbursement form at the time this check was written. Refunds were handled as they were in previous years. CFT was not aware of the reimbursement form until the meeting during the summer. Refunds were given to the parents of any student who was not allowed to attend the event.

Finding: Purchase orders were either not prepared or not appropriately approved prior to purchases being made. This is a repeat comment from the prior year.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, a purchase order must be completed for **all** purchases prior to making purchases. The purchase order should be dated and include the school name, the activity account, P.O. number, vendor name, a description and quantity of items to be purchased, and the estimated cost.

This information should be completed by the teacher/sponsor requesting the purchase unless a purchase requisition is prepared by the teacher/sponsor and the CFT prepares the purchase order. It should be authorized by the teacher/sponsor for the activity account and approved by the Principal.

Cause: This was due to a break down in the internal controls over purchases.

Effect: Purchase orders act as an estimate of costs expected to be incurred and provide the codes to which the purchase should be posted. They also serve as an approval mechanism for management. Incomplete or missing purchase orders denote weakness in the internal controls. Missing or incomplete purchase orders could serve as a way to misappropriate funds.

Recommendation: The individual in charge of purchases should always make sure a signed purchase order is available prior to making purchases and all required information is included in the purchase order. The purchase order should include signatures of both the sponsor and Principal. It is allowable to use an open purchase order for officials at athletic events. However, a copy of the purchase order should be attached to every disbursement to an official and the remaining purchase order balance should be reduced by the amount of the payment. Once the entire purchase order balance is paid, a new purchase order is required. If the actual cost is significantly different from the estimated cost on the approved purchase order, the purchase order should be changed and re-approved.

Management's Response: This was the first year for our current Principal. He was giving verbal pre-approval before he was informed that it was not acceptable practice. Every effort has been made to correct this and this procedure is now in place.

Finding: During our disbursements testing, we identified one disbursement for which the individual receiving goods did not initial the packing slip/invoice.

Criteria: When goods are purchased and shipped to the District, the individual receiving the purchase must initial the packing slip or invoice to indicate all items purchased were received prior to paying the invoice.

Cause: Lack of initials on the packing slip/invoice is a weakness in internal controls.

Effect: The initials provide accountability and reassurance that the goods have been received and the invoice is ready for payment. This mitigates the risk of paying an invoice for items that were not received. It also mitigates the risk of unauthorized purchases through the District that may be shipped to another location.

Recommendation: Extra care should be used to make sure the proper internal control procedures are in place and being always followed.

Management's Response: Every effort will be made to make sure this procedure is in place. A "received" stamp has been ordered and will be used to ensure this practice is in place.

Finding: The invoices for eight disbursements selected for testing were not properly cancelled or approved for payment.

Criteria: Invoices should be properly cancelled using a paid stamp on the actual invoice, not the purchase order, including the check number, amount, and an authorization for payment noted by a signature or initials.

Cause: This was due to a break down in internal controls over payment of invoices.

Effect: When invoices are not properly cancelled, the risk for duplicate payment increases as well as the risk of unauthorized purchases.

Recommendation: Invoices should be viewed along with the checks for payment and canceled at the time the checks are signed.

Management's Response: Every effort will be made to make sure this procedure is in place. A "received" stamp has been ordered and will be used to ensure this practice is in place. This is a new policy and CFT was not aware it was in place.

Finding: No budget was provided.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), a budget should be prepared for all activity funds for the school year unless the school has been specifically exempted by regulations of the board. Budgets provide a guide for the coming year's revenues and expenditures. This helps the Principal, Central Fund Treasurer, and corresponding sponsor have an approximation of the funding that will be available so they may plan activities accordingly. Budgets also provide a reasonable estimate that can be compared to the actual numbers and allow for any large discrepancies to be investigated.

Cause: This could be due to a lack of understanding the budgeting process. Adequate time and effort was not spent on preparing the budget.

Effect: There were no estimates of revenues and expenses to compare actual amounts to in order to plan for activities during the year.

Recommendation: A budget should be prepared for each activity fund on an annual basis. The beginning balances should equal the ending actual balances from the prior year. The columns should be totaled. For each individual account, and in total, the beginning balance plus budgeted receipts less budgeted expenditures should equal the ending budgeted balance. An excel spreadsheet with formulas would be helpful in preparing the budget.

Management's Response: This was due to the CFT not getting the information to and from the sponsors and meeting with the Principal to compile a budget.

Finding: No listing of receivables and payables listing at June 30th was available. This is a repeat comment from the prior year.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), a list of accounts receivable and accounts payable should be completed at year end. Any receipts or disbursements received or paid after June 30th that applied to the previous fiscal year are considered accounts receivable and accounts payable.

Cause: This may be due to a lack of understanding of the rules governing activity funds.

Effect: Accounts receivable and payable need to be taken into consideration when checking to make sure no funds have a negative balance at year end. Activity funds are reported on the accrual basis in the audit report sent to the Kentucky Department of Education. Activity funds are not allowed to have a negative balance at year end.

Recommendation: The Central Fund Treasurer should complete a listing of all accounts receivable and payable as of June 30.

Management's Response: CFT submitted a folder with receivables and payables for June and July when records were sent to the auditors. CFT was not aware there was a form to list the items. Every effort will be made to make sure this is done at year end.

All other prior year recommendations appear to have been properly addressed.

McNabb Elementary

Finding: The Pepsi, yearbook, and first grade activity fund accounts had excessive balances at year end. The Coke, fourth grade, and CATS reward funds had no activity during the year but carried a fund balance. The yearbook fund should be at the district activity fund level and not at the school level.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), school activity funds are raised for a specific function or purpose during a specific fiscal year and must be used for that specific function during that period. Due to timing of fundraiser activities, a school may carry forward funds from year to year. However, the carry over balances should not be excessive and should be associated with a specific expense that was not paid by the end of the fiscal year. If extra funds were raised over expenditures, the activity fund group should vote on how to handle the extra funds at year end. If the activity fund group does not vote, the funds shall be transferred to the school general activity fund account. It is permissible to leave a balance in the account sufficient to cover startup costs for the next year.

Cause: Fees and fundraising receipts were more than actual expenditures.

Effect: Activity funds are intended for the use of the students that actually paid or raised the funds. Excessive funds could cause the student organization to be prohibited from fundraising until excessive fund/balances have been appropriately used.

Recommendation: Principal and Central Fund Treasurer should evaluate activity fund balances on a regular basis, especially year end, for excessive amounts and evaluate if the specific student organization should be prohibited from fundraising until the excessive balances have decreased appropriately or if the funds should be transferred to the general fund for the benefit of the entire student body. Any additional collections for the yearbook should be deposited at the district level. At the end of each year, the accounts should be evaluated to see if it is necessary for the student group to vote on how to handle any remaining unspent funds.

Management's Response: **Pepsi / Coke Funds:** These funds are completely funded by staff members. The money is set aside to use for staff meetings and staff appreciation. Since the funds are generated by staff only, we have not made it a priority to spend that money by the end of each year; we didn't realize that these funds had to be spent each year. We will be using this money for items for staff this year and will be closing out the Pepsi fund after this school year due to the District no longer having a contract with them.

Yearbook Funds: This fund is not a fundraiser. The purchase price of the yearbooks (\$12.00 each) goes back to pay for the printing costs of the yearbooks. The sales that are made go to pay the first deposit of the next year's printing costs, then the remainder of the previous year's money and a portion of the current year's money will pay the remaining costs in late May or early June. The money is strictly used to purchase yearbooks. At the beginning of this fiscal year, treasurers were given a deadline to switch over necessary accounts to the District Activity Funds level; I did ask for Julie Huff's recommendations on each account including this one. After explaining to her how we used this account, she suggested that might keep it at the school activity fund level, we chose to do so. We will make the proper transactions to have this transferred to the District level.

First Grade Activity Funds: Mrs. Spann and I have explained to the first grade staff that they are to make sure that they only take up enough money to cover field trip costs and that ALL money collected each year is to be used on that year's students. We are allowing the staff to use the previous year's balance this year on this year's students. We will make sure that there is a zero balance or as close to a zero balance as they can get at year end.

Fourth Grade Activity Funds: Mrs. Spann and I have explained to the fourth grade staff that they are to use the balance this year on the students. Also, any money that is taken up this school year is to be used this school year on this year's students. We've explained the importance of teachers only taking up the necessary money needed to go on field trips, etc. They are to spend ALL money collected by the current year's students on those students.

CATS Fund: This is money that the school received a few years ago for testing; these funds are no longer received by the school. We use these funds to purchase testing incentives. We did not, however, use any of this money last school year because we used money from another activity account fund. We will be purchasing items this school year and will close this account out after the fiscal year is closed.

All prior year recommendations appear to have been properly addressed.

Morgan Elementary

Finding: Secondary receipts were not turned into the Treasurer in a timely manner. A single secondary receipt is used for multiple days. The secondary receipts should indicate the grade level. Students do not always appear to be signing their own names. Teachers, not the CFT, should be filling out the secondary receipt and signing it. The CFT is not allowed to collect money or even open the mail with receipts. The secretary should be doing this and creating a Multiple Receipt Form to turn into the CFT.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, secondary receipts should be used by teachers/sponsors collecting money from students. Each student giving money to a teacher/sponsor should sign their own name to the Multiple Receipt Form next to the amount paid by that student. The total receipts should be noted on the form. Teachers/sponsors must sign the form and turn it into the Treasurer along with all money collected on a daily basis.

Cause: This is caused by a breakdown in internal controls over receipts.

Effect: By not turning the collections in promptly, the risks of the teacher misplacing it or someone stealing it is greater.

Recommendation: Separate secondary receipts should be used for each activity and should be turned in daily. Students should sign their own names. The receipt should reflect the individual amounts paid by each student. The primary receipt should be written to the individual teacher turning the money in. The CFT should not be collecting money first hand.

Management's Response: The Bookkeeper has reminded all of the teachers to turn money in on a daily basis and all students third grade or above should be signing their own names on the Multiple Receipt Forms.

Finding: Purchase order was not prepared correctly and appropriately approved prior to purchases being made. The Principal should not be approving her own purchase order.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, a purchase order must be completed for **all** purchases prior to making purchases. The purchase order should be dated and include the school name, the activity account, P.O. number, vendor name, a description and quantity of items to be purchased, and the estimated cost. This information should be completed by the teacher/sponsor requesting the purchase unless a purchase requisition is prepared by the teacher/sponsor and the CFT prepares the purchase order.

It should be authorized by the teacher/sponsor for the activity account and approved by the Principal.

Cause: This was due to a break down in the internal controls over purchases.

Effect: Purchase orders act as an estimate of costs expected to be incurred and provide the codes to which the purchase should be posted. They also serve as an approval mechanism for management. Incomplete or missing purchase orders denote weakness in the internal controls. Missing or incomplete purchase orders could serve as a way to misappropriate funds.

Recommendation: The individual in charge of purchases should always make sure a signed purchase order is available prior to making purchases and all required information is included in the purchase order. The purchase order should include signatures of both the sponsor and Principal. It is allowable to use an open purchase order for officials at athletic events. However, a copy of the purchase order should be attached to every disbursement to an official and the remaining purchase order balance should be reduced by the amount of the payment. Once the entire purchase order balance is paid, a new purchase order is required. If the actual cost is significantly different from the estimated cost on the approved purchase order, the purchase order should be changed and re-approved.

Management's Response: The Bookkeeper will make sure that all purchase orders are submitted to the Principal and approved before the payment is made. Our Principal will have all purchase requests that she submits approved by our Assistant Principal, Mr. Sheffer.

Finding: Invoices were not properly cancelled or approved for payment.

Criteria: Invoices should be properly cancelled using a paid stamp on the actual invoice, not the purchase order, including the check number, amount, and an authorization for payment noted by a signature or initials.

Cause: This was due to a break down in internal controls over payment of invoices.

Effect: When invoices are not properly cancelled, the risk for duplicate payment increases as well as the risk of unauthorized purchases.

Recommendation: Invoices should be viewed along with the checks for payment and canceled at the time the checks are signed.

Management's Response: The Bookkeeper has asked that all invoices be signed by the employee receiving the merchandise before it is sent to her for payment. The Bookkeeper will list the date and check number on the invoice instead of the purchase order in the future.

All other prior year recommendations appear to have been properly addressed.

Clark Elementary

Finding: Several activity fund accounts had excessive balances at year end. Several funds need to be evaluated to determine if the purpose of the fund is allowed at the school level or if it should be at the district activity fund level.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), school activity funds are raised for a specific function or purpose during a specific fiscal year and must be used for that specific function during that period. Due to timing of fundraiser activities, a school may carry forward funds from year to year. However, the carry over balances should not be excessive and should be associated with a specific expense that was not paid by the end of the fiscal year. If extra funds were raised over expenditures, the activity fund group should vote on how to handle the extra funds at year end. If the activity fund group does not vote, the funds shall be transferred to the school general activity fund account. It is permissible to leave a balance in the account sufficient to cover startup costs for the next year.

Cause: Fees and fundraising receipts were more than actual expenditures. Grade level activity funds still had balances carrying over to the next year.

Effect: Activity funds are intended for the use of the students that actually paid or raised the funds. Excessive funds could cause the student organization to be prohibited from fundraising until excessive fund/balances have been appropriately used.

Recommendation: The Principal and Central Fund Treasurer should evaluate activity fund balances on a regular basis, especially year end, for excessive amounts and evaluate if the specific student organization should be prohibited from fundraising until the excessive balances have decreased appropriately or if the funds should be transferred to the general fund for the benefit of the entire student body. Any additional collections for the accounts that should be at the district level such as library, yearbook, and picture profit should be deposited at the district level. There may be others that should be at the district level as well. The funds currently in these activity funds at the school level cannot be transferred at this time and must be used for the direct benefit of the students.

At the end of each year, the accounts should be evaluated to see if it is necessary for the student group to vote on how to handle any remaining unspent funds.

Management's Response: Since I, Kim Wilson, began my roll as Clark Elementary Secretary mid-year of 2013-2014, I didn't have control over the money that had been carried over from year-to-year. My plans are to reduce the excess balances in 2014-2015 by spending the excess on rewards/awards, assemblies, club activities/events and sport activities/events that benefit the students but are not curriculum-based.

Changes that have already been made:

Assignment Notebook, Picture Profit and Principal Funds have been transferred to a "General Account", opened on 9-4-14. This has created a large amount of money in the general fund. We are trying to spend as much as we can in this school year, 2014-2015.

Clark Elementary has opened a General Activity and Library Activity Account at the district level for all receipts received this year that are not student-generated.

From this point forward, I plan to deplete the following accounts during 2014-2015 school year and open an account for these accounts at the district level:

Art Fund	Super-Valu Fund
Library Fund	Donation Fund
Music Fund	Kids Co. I Fund
P.E. Fund	Yearbook Funds

Science Fund will be closed when depleted at the end of this year.

Kindergarten Snack and Brandon Spring Trip Fund:

The account balances of these funds will be spent on their intended purposes during this school year, 2014-2015.

Courtesy Fund: (staff-generated account)

Courtesy Fund: A staff member collects money from employees at the beginning of each year to use for staff-related funeral/illness flowers and gifts, as well as staff meals and gatherings.

Finding: The purchase of instructional and classroom supplies is not allowed to be paid from activity funds.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, all expenditures from activities funds must directly benefit the students. Maintenance, operational, and instructional costs are not allowed to be purchased from activity funds.

Cause: There may be a lack of adequate training with regard to the guidance governing school activity funds.

Effect: Funds meant to directly benefit the students are being used for other purposes.

Recommendation: Extra care should be used in identifying which expenditures are prohibited from being paid out of activity funds. These expenditures should be paid from site-based money or district activity funds.

Management's Response: At the time the toner for the classroom printer was purchased, I was under the assumption that if the students were the ones that used the printer in the classroom that it would fall under the guidelines "for student use". However, after the Redbook meeting and phone conversations with auditors concerning what can and can't be paid from the activity funds, I understand that activity funds can only be used for rewards/awards, assemblies, club/sport activities and events that benefit the students (not curriculum-based). I understand now that toner, for no reason, can be purchased with activity funds.

* * * * *

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. This report is intended solely for the board, management, and others within the organization as deemed appropriate.

Williams, Williams + Lentz, LLP

November 11, 2014