

**SOMERSET INDEPENDENT
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2014

Prepared by:

WHITE & ASSOCIATES, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475
Phone (859) 624-3926 Fax (859) 625-0227

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Somerset Independent Board of Education and
State Committee for School District Audits
Somerset, 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 Somerset 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 the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Somerset Independent School District's basic financial statements. The additional supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of the Somerset 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 Somerset Independent School District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky
November 10, 2014

SOMERSET INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) Year ended June 30, 2014

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

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the district was \$8,058,215 and the ending cash balance for the district was \$10,009,847.
- Enrollment for 2013/14 school year was 1,614 with ADA of 1,476.
- Total SEEK of 2012/13 was \$4,911,619 and total SEEK for 2013/14 was \$5,250,404. This is an increase of \$338,785 due to an increase in enrollment.
- Total General Fund revenues for the 2012/13 school year were \$12,359,718. Total revenues for 2013/14 school year were \$12,778,506. This is an increase of \$418,788 total for general fund. This increase is due to the SEEK, Property Tax and Tuition.
- Tax rates for 2013/14 school year were set for 64.8 on real estate and 56.8 on motor vehicle; resulting in more revenues for the school district by \$286,472.
- In the fiscal year 2013/14 the board paid \$626,414 in bond principal and interest payments, and KISTA payments of \$55,776. For 2012/13 school year, principal and interest bond payments were \$696,129 and KISTA of \$62,655. The bond payments for FY 2015 will be \$649,288 and KISTA payments of \$64,234.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

SOMERSET INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED Year ended June 30, 2014

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

The government-wide financial statements outline functions of the District that are primarily 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 asset acquisitions and related debt are also supported by taxes and intergovernmental revenues.

See the Table of Contents for the government-wide financial statements.

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

See the Table of Contents for the basic governmental fund financial statements.

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

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, governmental assets plus deferred outflows exceeded liabilities by \$13,129,300; proprietary assets exceeded liabilities by \$536,734 and total primary government assets exceeded liabilities by \$13,666,034 at June 30, 2014.

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

SOMERSET INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
Year ended June 30, 2014

The following is a summary of the District's net position:

	Government Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current and other assets	8,279,265	10,132,997	276,929	311,269	8,556,194	10,444,266
Capital assets, net depreciation	14,377,118	16,303,249	228,361	227,249	14,605,480	16,530,499
Total Assets	22,656,383	26,436,247	505,290	538,518	23,161,674	26,974,765
Loss for the difference in reacquisition and carrying value of refunding debt	261,760	187,670	-	-	261,760	187,670
Total Deferred Outflows of Resources	261,760	187,670	-	-	261,760	187,670
Short-term liabilities	1,732,793	1,360,131	1,119	1,784	1,733,912	1,361,915
Other liabilities	8,832,706	12,134,486			8,832,706	12,134,486
Total Liabilities	10,565,499	13,494,617	1,119	1,784	10,566,618	13,496,401
Net assets						
Invested in capital assets, net of related debt	5,434,517	3,960,958	228,361	227,249	5,662,878	4,188,207
Restricted	970,258	2,364,946	275,811	309,484	1,246,069	2,674,430
Unrestricted	5,947,869	6,803,396			5,947,869	6,803,396
Total Net Position	12,352,644	13,129,300	504,172	536,734	12,856,816	13,666,034

The following is a summary of the District's changes in net position

	Government Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Revenues						
Program revenues						
Charges for services	135,455	221,029	265,758	244,333	401,213	465,362
Operating grants & contributions	1,849,821	1,554,151	552,911	724,113	2,402,732	2,278,264
Capital grants & contributions	296,714	661,366			296,714	661,366
General revenues						
Local taxes	5,437,920	5,509,852			5,437,920	5,509,852
State sources	7,274,991	7,711,621			7,274,991	7,711,621
Other	165,985	177,866	2,686	2,895	168,671	180,761
Total revenues	15,160,886	15,835,885	821,355	971,341	15,982,241	16,807,226
Expenses						
School operation and administration	13,051,713	14,546,582	807,353	938,778	14,095,648	15,485,360
Interest on debt service	324,308	485,177			288,527	485,177
Total expenses	13,376,021	15,031,759	807,353	938,778	14,384,175	15,970,537
Increase (Decrease) in net position	1,784,865	804,126	14,002	32,562	1,598,066	836,688

SOMERSET INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
Year ended June 30, 2014

There has been some decrease in the financial position of the District due to much needed maintenance and repair to our facilities.

Governmental Activities

Total net position has increased from the prior year by \$776,656 including a prior period adjustment.

Business-Type Activities

Net position has increased from the prior year by \$32,562.

Debt

Debt increased by \$3.32 million as follows:

		Outstanding Debt at Year-End (in Millions)	
		Government Activities	
		<u>2013</u>	<u>2014</u>
General Obligation Bonds	\$	8.95	\$ 12.2
Capital Lease Obligations		<u>0.26</u>	<u>0.33</u>
 Total Obligations	 \$	 <u>9.21</u>	 <u>\$ 12.53</u>

Capital Assets

At the end of the fiscal year 2014, the district had \$16.53 million invested in capital assets, including land, buildings, buses, computers, and other equipment.

		Capital Assets at Year-End (Net of Depreciation, in Millions)						
		Governmental Activities		Business-type Activities		Totals		
		<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	
Land	\$	0.65	0.65	\$		\$ 0.65	0.65	
Buildings & Improvements		9.08	8.84	0.07	0.07	9.15	8.91	
Technology Equipment		0.39	0.36		0.02	0.39	0.38	
Vehicles		0.28	0.20			0.28	0.20	
General Equipment		0.04	0.02	0.16	0.14	0.20	0.16	
Construction in Progress		<u>3.95</u>	<u>6.23</u>			<u>3.95</u>	<u>6.23</u>	
 Totals	 \$	 <u>14.39</u>	<u>16.30</u>	 \$	 <u>0.23</u>	 \$	 <u>14.62</u>	 <u>16.53</u>

SOMERSET INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED Year ended June 30, 2014

Comments on Budget Comparisons

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2013 and 2014:

	<u>2013</u>	<u>2014</u>
Revenues and other financing sources		
Local revenue sources	\$ 5,650,561	\$ 5,860,324
State revenue sources	7,896,142	8,607,991
Federal revenue	1,347,808	1,319,148
Other sources	61,480	48,420
Bond proceeds	4,532,163	3,730,000
Transfers in	<u>523,324</u>	<u>1,192,462</u>
 Total Revenue		
and other financing sources	<u>20,011,478</u>	<u>20,758,345</u>
 Expenditures and other financing uses		
Instruction	8,651,122	9,279,181
Student support services	329,613	387,577
Instructional support	405,169	416,656
District administration	354,807	542,052
School administration	686,466	698,855
Business support	285,013	375,192
Plant operations	1,175,001	1,231,230
Student transportation	506,314	412,882
Building improvements	3,945,990	2,904,104
Community support	120,411	162,205
Debt service	848,834	889,504
Transfers out	<u>523,324</u>	<u>1,192,462</u>
 Total Expenditures		
and other financing uses	<u>17,832,064</u>	<u>18,491,900</u>
 Net change in fund balance	 \$ <u>2,179,414</u>	 \$ <u>2,266,445</u>

SOMERSET INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED **Year ended June 30, 2014**

On behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement and administration fees. The on-behalf payments are allocated to expense and are credited to revenues and have no effect on the District level fund balance.

BUDGETARY IMPLICATION

In Kentucky the public school fiscal year is from July 1-June 30; other programs, i.e., some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with a contingency of 47%.

Questions regarding this report should be directed to the Superintendent (606) 679-4451, or to the Finance Officer (606) 679-4451 or by mail at 305 College Street, Somerset, Kentucky 42501.

Somerset Independent School District
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,733,078	\$ 276,769	\$ 10,009,847
Receivables (net)	399,920		399,920
Inventories		34,500	34,500
Capital assets:			
Land, improvements, and construction in progress	6,878,956		6,878,956
Other capital assets, net of depreciation	9,424,293	227,249	9,651,543
Total capital assets	16,303,249	227,249	16,530,499
Total assets	26,436,247	538,518	26,974,765
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	187,670		187,670
LIABILITIES			
Accounts payable and accrued expenses	520,403	1,784	522,188
Accrued interest payable	19,372		19,372
Unearned revenue	255,563		255,563
Long-term liabilities:			
Due within 1 year:			
Bond obligations	505,000		505,000
Capital lease obligations	59,792		59,792
Total due within 1 year	564,792	-	564,792
Due in more than 1 year:			
Bond obligations	11,699,163		11,699,163
Capital lease obligations	266,006		266,006
KSBIT payable	24,394		24,394
Sick leave	144,923		144,923
Total due in more than 1 year	12,134,486	-	12,134,486
Total liabilities	13,494,617	1,784	13,496,401
NET POSITION			
Net Investment in capital assets	3,960,958	227,249	4,188,208
Expendable restricted for:			
Capital projects	2,213,490		2,213,490
Debt service	151,457		151,457
Day care operations		21,989	21,989
Food service		287,495	287,495
Unrestricted	6,803,396		6,803,396
Total net position	\$ 13,129,300	\$ 536,734	\$ 13,666,034

See the accompanying notes to the financial statements.

Somerset Independent School District
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 9,073,150	\$ 221,029	\$ 1,423,969.17	\$ -	\$ (7,428,152)		\$ (7,428,152)
Support Services							
Student	387,577				(387,577)		(387,577)
Instructional Staff	416,656		4,097		(412,559)		(412,559)
District Administration	542,052				(542,052)		(542,052)
School Administration	698,855				(698,855)		(698,855)
Business	375,192				(375,192)		(375,192)
Plant Operation & Maintenance	1,231,230			314,865	(916,365)		(916,365)
Student Transportation	412,882		12,378		(400,504)		(400,504)
Community Services Operations	162,205		113,707		(48,498)		(48,498)
Building Improvements	97,860				(97,860)		(97,860)
Amortization	74,090				(74,090)		(74,090)
Depreciation	1,067,793				(1,067,793)		(1,067,793)
Loss on retirement of assets	7,039				(7,039)		(7,039)
Interest on general long-term debt	485,177			346,501	(138,676)		(138,676)
Total governmental activities	<u>15,031,759</u>	<u>221,029</u>	<u>1,554,151</u>	<u>661,366</u>	<u>(12,595,212)</u>		<u>(12,595,212)</u>
Business-type activities:							
Food service operations	813,728	143,495	724,113			\$ 53,879	53,879
Daycare operations	95,310	100,838				5,528	5,528
Depreciation	29,740					(29,740)	(29,740)
Total business-type activities	<u>938,778</u>	<u>244,333</u>	<u>724,113</u>	<u>-</u>	<u>-</u>	<u>29,667</u>	<u>29,667</u>
Total primary government	\$ <u>15,970,537</u>	\$ <u>465,361</u>	\$ <u>2,278,264</u>	\$ <u>661,366</u>	<u>(12,595,212)</u>	<u>29,667</u>	<u>(12,565,545)</u>
General revenues:							
Taxes:							
Property taxes					4,417,103		4,417,103
Motor vehicle taxes					270,306		270,306
Utility taxes					822,442		822,442
State and formula grants					7,711,621		7,711,621
Unrestricted investment earnings					129,445	2,895	132,340
Sale of equipment					48,420		48,420
Total general revenues					<u>13,399,338</u>	<u>2,895</u>	<u>13,402,233</u>
Change in net position					804,126	32,562	836,688
Net position - beginning					12,229,906	504,172	12,734,077
Prior period adjustment					95,268		95,268
Restated net position - beginning					<u>12,325,174</u>	<u>504,172</u>	<u>12,829,346</u>
Net position - ending					\$ <u>13,129,300</u>	\$ <u>536,734</u>	\$ <u>13,666,034</u>

See the accompanying notes to the financial statements.

Somerset Independent School District
Balance Sheet
Governmental Funds
June 30, 2014

	Governmental Funds					
	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 7,098,861	\$ 34,370	\$ 2,396,524	\$ 151,457	\$ 51,866	\$ 9,733,078
Receivables, net						
Taxes-current	53,022					53,022
Taxes-delinquent	2,169					2,169
Accounts		19,184				19,184
Intergovernmental-state	86,182	27,880				114,061
Intergovernmental-federal		211,483				211,483
Total assets	7,240,234	292,917	2,396,524	151,457	51,866	10,132,997
LIABILITIES						
Accounts payable	248,149	37,354	234,900			520,403
Unearned revenue		255,563				255,563
Total liabilities	248,149	292,917	234,900	-	-	775,966
FUND BALANCE						
Restricted			2,161,623	151,457	51,866	2,364,946
Unassigned	6,992,085					6,992,085
Total fund balance	\$ 6,992,085	\$ -	\$ 2,161,623	\$ 151,457	\$ 51,866	\$ 9,357,031

See the accompanying notes to the financial statements.

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

Total fund balance per fund financial statements	\$	9,357,031
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		16,303,249
<p>The deferred outflow of resources due to the refunding of bonds</p>		187,670
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
<p>Accrued interest payable</p>		(19,372)
<p>Bonds payable</p>		(12,204,163)
<p>Capital lease payable</p>		(325,798)
<p>KSBIT payable</p>		(24,394)
<p>Noncurrent sick leave payable</p>		(144,923)
		(144,923)
Net position of governmental activities	\$	<u><u>13,129,300</u></u>

See the accompanying notes to the financial statements.

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

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 3,679,287	\$ -	\$ -	\$ -	\$ 737,816	\$ 4,417,103
Motor vehicle	270,306					270,306
Utilities	822,442					822,442
Earnings on investments	100,554	390	26,715	1,786		129,445
Tuition	103,619					103,619
Other local revenue	42,256	75,153				117,409
Intergovernmental - state	7,681,975	431,911		179,239	314,866	8,607,991
Intergovernmental - federal	29,646	1,122,241		167,262		1,319,148
Total revenues	<u>12,730,086</u>	<u>1,629,695</u>	<u>26,715</u>	<u>348,287</u>	<u>1,052,682</u>	<u>15,787,464</u>
EXPENDITURES						
Instruction	7,765,069	1,514,112				9,279,181
Support Services						
Student	387,577					387,577
Instructional Staff	412,299	4,357				416,656
District Administration	542,052					542,052
School Administration	698,855					698,855
Business	375,192					375,192
Plant Operation & Maintenance	1,231,230					1,231,230
Student Transportation	399,720	13,162				412,882
Community Services Operations		120,905			41,300	162,205
Building Improvements			2,904,104			2,904,104
Debt Service	61,628			827,876		889,504
Total expenditures	<u>11,873,624</u>	<u>1,652,535</u>	<u>2,904,104</u>	<u>827,876</u>	<u>41,300</u>	<u>17,299,439</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	856,462	(22,840)	(2,877,390)	(479,590)	1,011,382	(1,511,975)
OTHER FINANCING SOURCES (USES)						
Sale or compensation for loss of assets	48,420					48,420
Bond proceeds			3,730,000			3,730,000
Operating transfers in		22,840	542,055	627,567		1,192,462
Operating transfers (out)	(37,646)				(1,154,816)	(1,192,462)
Total other financing sources and (uses)	<u>10,774</u>	<u>22,840</u>	<u>4,272,055</u>	<u>627,567</u>	<u>(1,154,816)</u>	<u>3,778,420</u>
NET CHANGE IN FUND BALANCE	867,237	-	1,394,665	147,977	(143,434)	2,266,445
FUND BALANCE-BEGINNING	6,124,848	-	766,958	3,480	198,376	7,093,662
Prior Period Adjustment	-	-	-	-	(3,077)	(3,077)
RESTATED FUND BALANCE - BEGINNING	<u>6,124,848</u>	<u>-</u>	<u>766,958</u>	<u>3,480</u>	<u>195,300</u>	<u>7,090,586</u>
FUND BALANCE-ENDING	<u>\$ 6,992,085</u>	<u>\$ -</u>	<u>\$ 2,161,623</u>	<u>\$ 151,457</u>	<u>\$ 51,866</u>	<u>\$ 9,357,031</u>

See the accompanying notes to the financial statements.

Somerset Independent School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2014

Net change in total fund balances per fund financial statements	\$	2,266,445
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		1,926,131
<p>This issue of bonds is reported as revenue in this fund financial statement because it is current financial resources, but they are presented as a liability in the statement of net position.</p>		(3,730,000)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the shorter life of the refunding issue or remaining bond.</p>		(74,090)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		404,400
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		(72)
<p>Noncurrent sick leave payable</p>		11,312
		11,312
Change in net position of governmental activities	\$	804,126

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 3,710,000	\$ 3,710,000	\$ 3,679,287	\$ (30,713)
Motor vehicle	200,000	200,000	270,306	70,306
Utilities	820,000	820,000	822,442	2,442
Earnings on investments	20,000	20,000	100,554	80,554
Tuition	55,000	55,000	103,619	48,619
Other local revenue	10,500	10,500	42,256	31,756
Intergovernmental - state	4,900,391	4,900,391	*	5,266,521
Intergovernmental - federal	25,000	25,000	29,646	4,646
Total revenues	<u>9,740,891</u>	<u>9,740,891</u>	<u>10,314,632</u>	<u>573,741</u>
EXPENDITURES				
Instruction	6,452,803	6,454,178	*	5,878,065
Support Services				
Student	326,318	326,318	*	311,952
Instructional Staff	350,065	350,065	*	329,628
District Administration	612,535	612,535	*	500,525
School Administration	581,967	580,573	*	560,845
Business	293,420	293,420	*	318,634
Plant Operation & Maintenance	2,530,309	2,530,309	*	1,144,622
Student Transportation	605,422	605,422	*	352,269
Debt Service	62,656	62,656	61,628	1,028
Total expenditures	<u>11,815,496</u>	<u>11,815,475</u>	<u>9,458,169</u>	<u>2,357,306</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(2,074,605)	(2,074,584)	856,462	2,931,047
OTHER FINANCING SOURCES (USES)				
Sale of equipment	500	500	48,420	47,920
Operating transfers (out)	(21,779)	(21,779)	(37,646)	(15,867)
Total other financing sources and (uses)	<u>(21,279)</u>	<u>(21,279)</u>	<u>10,774</u>	<u>32,053</u>
NET CHANGE IN FUND BALANCE	(2,095,884)	(2,095,863)	867,237	2,963,100
FUND BALANCE-BEGINNING	<u>3,293,263</u>	<u>3,293,263</u>	<u>6,124,848</u>	<u>2,831,585</u>
FUND BALANCE-ENDING	<u>\$ 1,197,379</u>	<u>\$ 1,197,400</u>	<u>\$ 6,992,085</u>	<u>\$ 5,794,685</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$2,415,454.

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Earnings on investments	\$ -	\$ -	\$ 390	\$ 390
Other local revenue	58,065	61,065	75,153	14,088
Intergovernmental - state	447,517	449,283	431,911	(17,372)
Intergovernmental - federal	1,096,994	1,093,121	1,122,241	29,120
Total revenues	<u>1,602,576</u>	<u>1,603,468</u>	<u>1,629,695</u>	<u>26,227</u>
EXPENDITURES				
Instruction	1,490,393	1,493,336	1,514,112	(20,776)
Support Services				
Instructional Staff	6,138	6,424	4,357	2,067
Student Transportation	12,362	12,362	13,162	(800)
Community Services Operations	113,105	116,524	120,905	(4,381)
Total expenditures	<u>1,621,998</u>	<u>1,628,646</u>	<u>1,652,535</u>	<u>(23,889)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(19,422)	(25,177)	(22,840)	2,337
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>21,779</u>	<u>22,840</u>	<u>22,840</u>	-
Total other financing sources and (uses)	<u>21,779</u>	<u>22,840</u>	<u>22,840</u>	-
NET CHANGE IN FUND BALANCE	2,357	(2,337)	-	2,337
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ 2,357</u>	<u>\$ (2,337)</u>	<u>\$ -</u>	<u>\$ 2,337</u>

See the accompanying notes to the financial statements.

Somerset Independent School District
Statement of Net Position
Proprietary Funds
June 30, 2014

	Enterprise Funds		
	School Food Services	Other Enterprise Service	Total
ASSETS			
Cash and cash equivalents	\$ 254,166	\$ 22,603	\$ 276,769
Inventories	34,500		34,500
Capital assets:			
Other capital assets, net of depreciation	227,249		227,249
Total assets	515,916	22,603	538,518
LIABILITIES			
Accounts payable and accrued expenses	1,171	613	1,784
Total liabilities	1,171	613	1,784
NET POSITION			
Net Investment in capital assets	227,249	-	227,249
Restricted for:			
Expendable Restricted for Day Care Operations		21,989	21,989
Expendable Restricted for Food Services	287,495		287,495
Total net position	\$ 514,744	\$ 21,989	\$ 536,734

See the accompanying notes to the financial statements.

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

	Enterprise Funds		
	School Food Services	Other Enterprise Service	Total
OPERATING REVENUES			
Lunchroom sales	\$ 143,495	\$ -	\$ 143,495
Community services		100,838	100,838
Total operating revenues	<u>143,495</u>	<u>100,838</u>	<u>244,333</u>
OPERATING EXPENSES			
Depreciation	29,740		29,740
Food service operations			
Salaries and benefits	399,730		399,730
Operational	413,998		413,998
Day care operations			
Salaries and benefits		91,415	91,415
Operational		3,895	3,895
Total operating expenses	<u>843,469</u>	<u>95,310</u>	<u>938,778</u>
Operating income (loss)	<u>(699,974)</u>	<u>5,528</u>	<u>(694,446)</u>
NONOPERATING REVENUES (EXPENSES)			
Federal grants	645,423		645,423
State grants	78,690		78,690
Earnings from investments	2,895		2,895
Total nonoperating revenues (expenses)	<u>727,008</u>	<u>-</u>	<u>727,008</u>
CHANGE IN NET POSITION	27,034	5,528	32,562
NET POSITION-BEGINNING	<u>487,710</u>	<u>16,461</u>	<u>504,172</u>
NET POSITION-ENDING	\$ <u><u>514,744</u></u>	\$ <u><u>21,989</u></u>	\$ <u><u>536,734</u></u>

See the accompanying notes to the financial statements.

Somerset Independent School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	Enterprise Funds		
	School Food Services	Other Enterprise Service	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 143,495	\$ 100,838	\$ 244,333
Payments to suppliers	(361,786)	367	(361,420)
Payments to employees	(399,730)	(91,415)	(491,145)
Net cash provided (used) by operating activities	(618,022)	9,790	(608,232)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating grants and contributions	724,113		724,113
Net cash provided (used) by noncapital financing activities	724,113	-	724,113
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(28,629)		(28,629)
Net cash provided (used) by capital and related financing activities	(28,629)	-	(28,629)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	2,895	-	2,895
Net cash provided (used) by investing activities	2,895	-	2,895
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	80,357	9,790	90,147
CASH AND CASH EQUIVALENTS-BEGINNING	173,809	12,813	186,622
CASH AND CASH EQUIVALENTS-ENDING	\$ 254,166	\$ 22,603	\$ 276,769
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	\$ (699,974)	\$ 5,528	\$ (694,446)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	29,740		29,740
Changes in assets and liabilities:			
Receivables	44,814	3,792	48,606
Inventories	7,201		7,201
Accrued liabilities	196	469	666
Net cash used by operating activities	\$ (618,022)	\$ 9,790	\$ (608,232)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$53,034 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$70,276 for school food services provided by state government.

See the accompanying notes to the financial statements.

Somerset Independent School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>School Activity Fund</u>	<u>Private Purpose Trust Fund</u>	<u>Fiduciary Fund Total</u>
ASSETS			
Cash and cash equivalents	\$ 99,175	\$ 22,406	\$ 121,581
Accounts receivable	<u>2,760</u>	<u>-</u>	<u>2,760</u>
Total Assets	<u><u>101,935</u></u>	<u><u>22,406</u></u>	<u><u>124,341</u></u>
LIABILITIES			
Accounts payable	12,304	-	12,304
Due to student groups	<u>89,631</u>	<u>-</u>	<u>89,631</u>
Total Liabilities	<u><u>101,935</u></u>	<u><u>-</u></u>	<u><u>101,935</u></u>
NET POSITION HELD IN TRUST	<u><u>\$ -</u></u>	<u><u>\$ 22,406</u></u>	<u><u>\$ 22,406</u></u>

See the accompanying notes to the financial statements.

Somerset Independent School District
Statement of Changes in Net Position
Fiduciary Funds
June 30, 2014

		<u>Private Purpose Trust Fund</u>
Additions		
Earnings on investments	\$	205
Deductions		
Benefits paid		<u>-</u>
Increase in Net Position		205
Net position, June 30, 2013		19,124
Prior period adjustment		<u>3,077</u>
Restated Net Position, June 30, 2013		<u>22,201</u>
Net position, June 30, 2014	\$	<u><u>22,406</u></u>

See the accompanying notes to the financial statements.

**SOMERSET INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Somerset Independent Board of Education Finance Corporation

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

Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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

(B) Special Revenue (Grant) Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(C) Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

SEEK Capital Outlay Fund

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan.

Building (FSPK) Fund

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

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District

(D) Debt Service Fund

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

(E) Permanent Fund

Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

II. Proprietary Funds (Enterprise Funds)

(A) Food Service Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(B) Child Care Fund

The Child Care Fund accounts for the funds raised at schools providing after school care for children.

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds,” except for those accounted through the central office.

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

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.648 per \$100 valuation of real property, \$.648 per \$100 valuation for business personal property and \$.568 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Inter-fund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Budgetary Process

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, all amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Cash and Cash Equivalents

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

Inventories

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

Nonspendable: Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

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

Net Position

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

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

The District’s cash and cash equivalents were interest bearing demand accounts at a local bank. Due to the liquidity nature of these accounts the carrying value is the fair market value. The District secures deposits with bank pledged securities in the name of the school district and FDIC insurance.

	<u>Bank Balance</u>
<u>Forcht Bank</u>	<u>Demand</u>
FDIC	\$ 250,000
Securities pledged to district	<u>10,040,834</u>
Bank balance	<u><u>\$ 10,290,834</u></u>
	 <u>Book Balance</u>
	 <u>Cash and cash equivalents</u>
Governmental Activities	\$ 9,733,078
Business-type Activities	276,769
Fiduciary Funds:	
School Activity	99,175
Private Purpose Trust	<u>22,406</u>
Total carrying amount	<u><u>\$ 10,131,428</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – CAPITAL ASSETS

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

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Land	\$ 647,537	\$ -	\$ -	\$ 647,537
Land improvements	1,669,932	-	-	1,669,932
Buildings	16,630,544	520,815	-	17,151,359
Technology equipment	1,558,833	187,580	166,234	1,580,180
Vehicles	1,175,089	-	-	1,175,089
General equipment	325,949	7,139	8,223	324,865
Construction in progress	<u>3,945,990</u>	<u>2,806,244</u>	<u>520,815</u>	<u>6,231,419</u>
	<u>\$ 25,953,874</u>	<u>\$ 3,521,779</u>	<u>\$ 695,272</u>	<u>\$ 28,780,381</u>
Land improvements	\$ 1,040,147	\$ 102,145	\$ -	\$ 1,142,292
Buildings	8,184,533	657,593	-	8,842,126
Technology equipment	1,171,898	207,520	159,960	1,219,458
Vehicles	891,426	83,867	-	975,293
General equipment	<u>288,751</u>	<u>16,668</u>	<u>7,457</u>	<u>297,962</u>
	<u>\$ 11,576,756</u>	<u>\$ 1,067,793</u>	<u>\$ 167,417</u>	<u>\$ 12,477,132</u>
Capital Assets-net	<u>\$ 14,377,118</u>	<u>\$ 2,453,986</u>	<u>\$ 527,855</u>	<u>\$ 16,303,249</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Buildings	\$ 169,156	\$ -	\$ -	\$ 169,156
Technology Equipment	5,185	10,661	-	15,846
General equipment	<u>317,323</u>	<u>17,968</u>	<u>4,677</u>	<u>330,614</u>
	<u>\$ 491,665</u>	<u>\$ 28,629</u>	<u>\$ 4,677</u>	<u>\$ 515,616</u>
Buildings	95,989	-	-	95,989
Technology Equipment	5,185	-	-	5,185
General equipment	<u>162,130</u>	<u>29,740</u>	<u>4,677</u>	<u>187,193</u>
	<u>\$ 263,304</u>	<u>\$ 29,740</u>	<u>\$ 4,677</u>	<u>\$ 288,367</u>
Capital Assets-net	<u>228,361</u>	<u>\$ (1,111)</u>	<u>\$ -</u>	<u>\$ 227,249</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE E – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Somerset Independent School District Finance Corporation aggregating \$12,204,163, and \$505,000 is the portion due within one year.

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

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

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2013</u>			<u>2014</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2007	\$ 577,000	1/1/2027	4.0%	\$ 446,000	\$ -	\$ 24,000	\$ 422,000
2010	710,000	5/1/2030	1.0 - 3.10%	650,000		20,000	630,000
2010	1,085,000	6/30/2019	1.0 - 3.10%	740,000		115,000	625,000
2002	1,160,000	6/1/2014	1.0 - 4.0%	145,000		145,000	-
2003	930,000	6/1/2014	3.75%	20,000		20,000	-
2003	155,000	7/1/2015	3.10%	45,000		20,000	25,000
2004	760,000	6/1/2014	4.0 -5.0%	10,000		10,000	-
2006	1,355,000	5/1/2017	3.50 - 3.70%	860,000		100,000	760,000
2012	1,535,000	6/1/2024	1.125 - 2.50%	1,500,000		20,000	1,480,000
2012	4,532,163	12/1/2035	3.70%	4,532,163		-	4,532,163
2013	\$ 3,730,000	10/1/1933	.60%-3.9%	-	3,730,000	-	3,730,000
Totals				\$ 8,948,163	\$3,730,000	\$ 474,000	\$ 12,204,163

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year Ended	Principal		Interest		Federal Interest	Total	
	Local	Sfcc	Local	Sfcc	Rebate	Principal	Interest
					Local		
2015	\$ 447,722	\$ 57,278	\$ 314,206	\$ 32,183	\$ (179,051)	\$ 505,000	\$ 167,338
2016	432,078	58,922	360,273	30,478	(178,771)	491,000	211,980
2017	471,293	60,707	347,289	28,635	(178,491)	532,000	197,433
2018	485,446	63,554	332,536	26,707	(178,211)	549,000	181,033
2019	495,478	64,522	322,537	24,639	(177,931)	560,000	169,245
2020-2024	1,479,166	332,834	1,496,764	83,985	(884,904)	1,812,000	695,845
2025-2029	1,382,414	210,586	1,300,558	29,117	(864,511)	1,593,000	465,164
2030-2034	1,609,090	20,910	1,029,726	1,171	(839,822)	1,630,000	191,074
2035-2036	2,557,876	1,974,287	251,535	-	(251,535)	4,532,163	-
	\$ 9,360,563	\$ 2,843,600	\$ 5,755,423	\$ 256,916	\$ (3,733,228)	\$ 12,204,163	\$ 2,279,112

NOTE F – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

KISTA Issue	Original Amount	Maturity Dates	Interest Rates	2013			2014
				Outstanding Balance	Additions	Retirements	Outstanding Balance
2012	\$ 116,274	3/1/2022	2.0 - 2.625%	\$ 103,628	\$ -	\$ 13,093	\$ 90,535
2004	70,488	3/1/2014	1.0 - 3.50%	6,587		6,587	-
2005	56,955	3/1/2015	3.0 - 3.625%	10,720		5,270	5,450
2006	77,473	3/1/2017	3.50 - 3.875%	32,245		8,319	23,926
2008	204,162	3/1/2018	3.0 - 3.75%	103,018		20,621	82,397
2014	\$ 123,490	3/1/2024	2-3%	-	123,490	-	123,490
Totals				\$ 256,198	\$ 123,490	\$ 53,890	\$ 325,798

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2014:

Fiscal Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
30-Jun			
2015	\$ 59,792	\$ 8,846	\$ 68,638
2016	54,490	7,052	61,542
2017	50,025	5,477	55,502
2018	43,407	4,006	47,413
2019	24,082	2,791	26,873
2020-2024	<u>94,002</u>	<u>6,353</u>	<u>100,355</u>
	<u>\$ 325,798</u>	<u>\$ 34,524</u>	<u>\$ 360,322</u>

Total minimum lease payments	\$ 360,322
Less: Amount representing interest	(34,524)
 Present Value of Net Minimum Lease Payments	 \$ 325,798

NOTE G – RETIREMENT PLANS

Kentucky Teachers' Retirement System

Plan Description – The Somerset Independent School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

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

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, four and one half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and one half percent (1.0%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Somerset Independent Schools' total payroll for the year was \$8,580,294. The payroll for employees covered under KTRS was \$6,902,631. For the year ended June 30, 2014, the Commonwealth contributed \$839,670 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2014, were \$80,806, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$959,839, \$977,671 and \$979,122 respectively.

County Employees Retirement System

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

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.89%. The District contributed \$293,139 of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$374,636, \$388,899 and \$294,044 respectively.

Recently Issued Accounting Standards

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

NOTE H – COMMITMENTS

The District has \$2,090,069 in the Construction Fund for construction projects.

NOTE I - CONTINGENCIES

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

NOTE J - LITIGATION

The District is not subject to various other legal actions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

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

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

NOTE M - COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	KETS Matching	\$ 22,840
Capital Outlay	Construction	CO Roof Replacements	85,749
FSPK	Construction	CO Roof Replacements	441,500
General	Construction	CO Roof Replacements	14,806
FSPK	Debt Service	Debt Payments	565,473
Capital Outlay	Debt Service	Debt Payments	62,094
			\$1,192,462
			\$1,192,462

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE O – DEFICIT FUND AND OPERATING BALANCES

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net Assets</u>	
FSPK Fund	\$	(102,134)
School Activity Funds		(53,004)
Permanent Fund	\$	(41,300)

NOTE P – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Somerset Independent School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$2,415,454 for the General Fund, \$179,239 for the Debt Service Fund and \$70,276 for the School Food Service Fund.

NOTE Q – RESTRICTED FUND BALANCES

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Debt Service	\$ 151,457	Debt Service
Construction Fund	2,161,623	Construction
FSPK	51,866	SFCC Requirement
Proprietary Fund	287,495	School Food Service
Proprietary Fund	\$ 21,989	Day Care Operations

NOTE R – PRIOR PERIOD ADJUSTMENT

Due to a Court ordered assessment of the KSBIT liability, the liability was reduced by \$98,345 causing Net Position to be understated. In addition, cash was adjusted (\$3,077) causing Net Position to be overstated, fund balance to be overstated and the fiduciary fund to be understated. Both adjustments resulted in prior period adjustments as follows:

(SEE SCHEDULE BELOW)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Activities

Net Position July 1, 2013	\$12,229,906
Prior Period Adjustment	98,345
Prior Period Adjustment	(3,077)
Restated Net Position July 1, 2013	<u><u>\$12,325,174</u></u>

Permanent Fund Balance

Fund Balance July 1, 2013	\$ 44,377
Prior Period Adjustment	(3,077)
Restated Fund Balance July 1, 2013	<u><u>\$ 41,300</u></u>

Private Purpose Trust Fund

Net Position July 1, 2013	\$ 19,124
Prior Period Adjustment	3,077
Restated Net Position July 1, 2013	<u><u>\$ 22,201</u></u>

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 10, 2014, the date of the audit report.

Somerset Independent School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2014

Other Governmental Funds				
	Capital Outlay	FSPK	Permanent Fund	Total
Assets				
Cash and Cash Equivalents	\$ -	\$ 51,866	\$ -	\$ 51,866
Total Assets	-	51,866	-	51,866
Fund Balances				
Restricted	-	51,866	-	51,866
Total Fund Balances	\$ -	\$ 51,866	\$ -	\$ 51,866

See the accompanying notes to the financial statements.

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

	Other Governmental Funds			
	Capital Outlay	FSPK	Permanent Fund	Total
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ 737,816	\$ -	\$ 737,816
Earnings from investments				-
Intergovernmental - State	147,843	167,023		314,866
Total Revenues	147,843	904,839	-	1,052,682
Expenditures				
Community Services			41,300	41,300
Total Expenditures	-	-	41,300	41,300
Excess (Deficit) of Revenues Over Expenditures	147,843	904,839	(41,300)	1,011,382
Other Financing Sources (Uses)				
Transfers (Out)	(147,843)	(1,006,973)		(1,154,816)
Total Other Financing Sources (Uses)	(147,843)	(1,006,973)	-	(1,154,816)
Net Change In Fund Balances	-	(102,134)	(41,300)	(143,434)
Fund Balance Beginning	-	154,000	44,377	198,376
Prior Period Adjustment			(3,077)	(3,077)
Restated Fund Balance Beginning	-	154,000	41,300	195,300
Fund Balance Ending	\$ -	\$ 51,866	\$ -	\$ 51,866

See the accompanying notes to the financial statements.

Somerset Independent School District
Combining Balance Sheet of Fiduciary Funds- School Activity and Private Purpose Trust
As of June 30, 2014

	<u>SCHOOL ACTIVITY FUNDS</u>			<u>PRIVATE PURPOSE TRUST FUND</u>	<u>FIDUCIARY FUND TOTALS</u>
	<u>SOMERSET INDEPENDENT HIGH SCHOOL</u>	<u>MEECE MIDDLE SCHOOL</u>	<u>HOPKINS ELEMENTARY</u>		
ASSETS					
Cash and cash equivalents	\$ 50,639	\$ 40,509	\$ 8,027	\$ 22,406	\$ 121,581
Accounts receivable	<u>2,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,760</u>
Total Assets	<u>53,399</u>	<u>40,509</u>	<u>8,027</u>	<u>22,406</u>	<u>124,341</u>
LIABILITIES					
Accounts Payable	<u>12,304</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,304</u>
Total Liabilities	<u>12,304</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,304</u>
FUND BALANCE					
Scholarships				22,406	22,406
School Activities	<u>41,095</u>	<u>40,509</u>	<u>8,027</u>	<u>-</u>	<u>89,631</u>
Total Fund Balances	<u>\$ 41,095</u>	<u>\$ 40,509</u>	<u>\$ 8,027</u>	<u>\$ 22,406</u>	<u>\$ 112,037</u>

See the accompanying notes to the financial statements.

Somerset Independent School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance-School Activity and Private Purpose Trust
For the period ended June 30, 2014

	SCHOOL ACTIVITY FUNDS				
	SOMERSET INDEPENDENT HIGH SCHOOL	MEECE MIDDLE SCHOOL	HOPKINS ELEMENTARY	PRIVATE PURPOSE TRUST FUND	FIDUCIARY FUND TOTALS
REVENUES					
Student revenues	\$ 300,717	\$ 102,058	\$ 9,286	\$ -	\$ 412,061
Earnings on Investments	-	-	-	205	205
Total revenues	<u>300,717</u>	<u>102,058</u>	<u>9,286</u>	<u>205</u>	<u>412,266</u>
EXPENSES					
Student activities	<u>339,893</u>	<u>106,756</u>	<u>18,621</u>	<u>-</u>	<u>465,270</u>
Total expenses	<u>339,893</u>	<u>106,756</u>	<u>18,621</u>	<u>-</u>	<u>465,270</u>
Excess (Deficit) of Revenues Over Expenses	(39,176)	(4,698)	(9,335)	205	(53,004)
FUND BALANCE JULY 1, 2013	80,271	45,207	17,362	19,124	161,965
PRIOR PERIOD ADJUSTMENT				3,077	3,077
RESTATED FUND BALANCE JULY 1, 2013	<u>80,271</u>	<u>45,207</u>	<u>17,362</u>	<u>22,201</u>	<u>165,041</u>
FUND BALANCE JUNE 30, 2014	<u>\$ 41,095</u>	<u>\$ 40,509</u>	<u>\$ 8,027</u>	<u>\$ 22,406</u>	<u>\$ 112,037</u>

See the accompanying notes to the financial statements.

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

	FUND BALANCE July 1, 2013	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE June 30, 2014
ACADEMIC TEAM	\$ 29	\$ -	\$ 385	\$ 948	\$ 592
ART CLUB	613	837	463	-	987
CHORUS	565	1,398	1,471	-	491
CLASS OF 2015	182	13,020	9,451	-	3,751
CLASS OF 2016	283	1,080	1,188	-	174
CLASS OF 2014	3,275	-	3,268	-	8
CLASS OF 2017	-	1,014	843	-	171
DECA	3,009	49,792	48,541	-	4,260
CLASS OF 2012	3	-	-	(3)	-
FCA	621	1,100	703	-	1,018
DRAMA	340	6,794	8,237	1,103	-
FCCLA	690	150	359	12	493
E-TEAM	39	-	-	-	39
NHS	617	4,393	4,329	(277)	405
NHS-KICK BUTTS GRANT	26	-	-	(26)	-
PEP CLUB	231	-	-	-	231
NANA'S GOLDEN KAZOO	-	1,000	1,000	-	-
KATHY HALL MEMORIAL	-	150	25	-	125
PSAT	-	238	238	-	-
HONORS NIGHT	1,054	3,083	2,695	-	1,442
BILL ADAMS AWARD	1,153	-	50	-	1,103
AP EXAMS	5,837	8,323	9,883	(1,103)	3,174
SCIENCE CLUB	605	-	-	-	605
STUDENT COUNCIL	1,462	1,525	1,620	-	1,367
TEENS WHO CARE	42	-	-	-	42
YEARBOOK	4,983	2,965	4,004	-	3,943
Y-CLUB	133	5,369	4,934	-	567
WRIGHT STEPS ACADEMY	-	-	-	-	-
BETA CLUB	293	1,221	1,068	-	445
ATHLETICS	14,678	63,549	86,660	9,785	1,352
HALL OF FAME	3,045	1,430	2,081	-	2,394
ATHLETIC PROGRAM	1,640	11,403	16,479	(6,107)	(9,544)
ATHLETICS MISC	600	-	-	(600)	-
RAY CORRELL BOWL	-	26,454	23,867	(2,587)	-
ATHLETIC CHANGE	-	47,300	47,300	-	-
STLP	502	-	-	-	502
MATH RAND REWARD	5	-	-	(5)	-
UNITE	11	-	-	-	11
FBLA	119	-	-	-	119
CULTURE CLUB	246	-	-	-	246
BOOK CLUB	35	116	-	-	151
LIBRARY-AV	63	-	-	(63)	-
LIBRARY-PRINTED	201	-	-	63	264
LIBRARY-SOFT/HARDWARE	327	-	-	-	327
LIBRARY FEE	947	-	200	-	747
ADVANCED SCIENCE	-	865	584	303	584
INTEREST	3,405	1,186	2,718	-	1,873
21ST CENTURY GRANT	784	-	-	-	784
STLP CLUB	50	-	-	-	50
PRINCIPALS OFFICE	4,452	82	2,457	-	2,077
FIELD TRIPS	29	2,364	2,390	-	3
ARCHERY TEAM	834	-	397	-	437
STUDENT ACT/INST	1,353	239	1,632	68	28
JUMPER TEAM	316	3,203	2,608	-	910
STUDENT VENDING	696	1,561	1,996	-	261
GUIDANCE	1,322	320	827	-	816
TEACHER VENDING	443	776	986	-	233
STUDENT FEES	208	595	389	-	414
TEXTBOOKS	-	-	-	-	-
ART DEPT	407	-	295	-	112
BUSINESS DEPT	160	-	-	-	160
ENGLISH DEPT	160	32	-	8	199
ENGLISH GRANT MONEY	8	-	-	(8)	-
HEALTH/PE DEPT	125	125	-	-	250
FAMILY AND CONS SCIENCE	12	-	-	(12)	-
SCIENCE DEPT	887	-	426	-	461
SENIOR TRIP	-	1,860	1,800	(60)	-
BOYS BASKETBALL TEAM	491	-	-	(491)	-
TRACK TEAM	-	10,220	10,172	-	48
BOYS GOLF TEAM	7,863	8,687	11,038	-	5,513
GIRLS GOLF TEAM	1,494	-	308	-	1,186
TENNIS TEAM	330	3,155	3,485	-	(0)
VOLLEYBALL TEAM	4,891	9,654	12,392	-	2,153
SWIM TEAM	1	-	-	-	1
ACADEMIC TEAM	948	-	-	(948)	-
CROSS COUNTRY TEAM	100	2,090	1,652	-	538
Totals	\$ 80,271	\$ 300,717	\$ 339,893	\$ -	\$ 41,095

See the accompanying notes to the financial statements.

SOMERSET INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Somerset 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 basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the District had food commodities totaling \$53,034.

SOMERSET INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
* School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	\$ N/A	\$ 33,637
Fiscal Year 14		7760005 14	N/A	124,089
* National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	91,480
Fiscal Year 14		7750002 14	N/A	332,672
* Summer Food Service Program for Children	10.559			
Fiscal Year 13		7690024 13	N/A	1,000
Fiscal Year 13		7740023 13	N/A	9,511
Child Nutrition Cluster Subtotal				<u>592,388</u>
Child and Adult Care Food Program	10.558			
Fiscal Year 14		7790021 14	N/A	1,451
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 14		510.4950	N/A	53,034
Total US Department of Agriculture				<u>646,873</u>
US Department of Education				
Passed Through State Department of Education				
Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	563,734	159,740
Fiscal Year 13M		3100002 13	5,695	5,329
Fiscal Year 14		3100002 14	536,161	363,228
Fiscal Year 14M		3100002 14	5,416	2,536
Title I Grants, Part D	84.010A			
Fiscal Year 12		3100102 12	12,111	1,201
Fiscal Year 13		3100102 13	13,737	11,219
Fiscal Year 14		3100102 14	16,757	158
Title I Cluster Subtotal				<u>543,412</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	328,161	59,492
Fiscal Year 14		3810002 14	313,456	311,684
Special Education - Preschool Grants	84.173A			
Fiscal Year 13		3800002 13	24,480	2,164
Fiscal Year 14		3800002 14	24,278	8,297
Special Education Cluster Subtotal				<u>381,636</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 12A		4621332 12	683	683
Fiscal Year 13A		4621332 13	866	866
Fiscal Year 14		3710002 14	16,603	16,603
				<u>18,152</u>
Rural Education	84.358B			
Fiscal Year 12		3140002 12	32,426	5,707
Fiscal Year 13		3140002 13	29,045	20,559
				<u>26,266</u>
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 13		3230002 13	82,429	1,904
Fiscal Year 14		3230002 14	79,270	58,566
				<u>60,471</u>
Twenty-First Century Community Learning Centers	84.287			
Fiscal Year 12		3400002 12	112,500	19,993
Fiscal Year 12J		3400002 12	1,000	1,000
Fiscal Year 13		3400002 13	75,000	59,997
Fiscal Year 13S		3400002 13	5,000	5,000
				<u>85,991</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	24,172	9,013
Total US Department of Education				<u>1,124,940</u>
US Department of Health and Human Services				
Passed Through Kentucky School Board Association				
Medical Assistance Program	93.778			
Fiscal Year 14		110.4810	\$ N/A	29,646
Total US Department of Health and Human Services				<u>29,646</u>
Total Expenditure of Federal Awards				<u>\$ 1,801,459</u>

* Major program

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

To the Somerset Independent Board of Education and
State Committee for School District Audits
Somerset, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Somerset Independent School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Somerset Independent School District's basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Somerset 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 Somerset Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Somerset 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 Somerset 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*.

We noted certain matters that we reported to management of the Somerset Independent School District, in a separate letter dated November 10, 2014.

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

Purpose of this Report

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

White & Associates, P.C.

Richmond, Kentucky
November 10, 2014

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

To the Somerset Independent Board of Education and
State Committee for School District Audits
Somerset, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Somerset 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 Somerset Independent School District's major federal programs for the year ended June 30, 2014. Somerset 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 Somerset Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Somerset 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 Somerset Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Somerset 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 Somerset 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 Somerset 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 Somerset 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.

White & Associates, P.C.

Richmond, Kentucky
November 10, 2014

**SOMERSET INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

SUMMARY OF AUDITORS' RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

SOMERSET INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2014

There were no prior year findings.