

CAVERNA INDEPENDENT SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2015

CAVERNA INDEPENDENT SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Caverna Independent School District
Cave City, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Caverna Independent School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the accompanying 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; 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 *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 on the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 11, budgetary comparison information on pages 44 to 45, schedule of proportionate share of the net pension liability on page 46 and schedule of contributions on page 47 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 Caverna Independent School District's basic financial statements. The combining financial statements, school schedules and schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements, school schedules 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 accounting standards generally accepted in the United States of America. In our opinion, the combining financial statements, school schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2015, on our consideration of Caverna 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 the 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 Caverna Independent School District's internal control over financial reporting and compliance.



Certified Public Accountants
Elizabethtown, Kentucky
August 25, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Caverna Independent Schools, Horse Cave and Cave City, Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2015

Caverna Independent School District remains in excellent financial condition, as we struggle with keeping staffing at appropriate levels while providing the resources needed to provide a quality education that prepares students to be productive College and Career ready citizens. Effective July 31, 2014, Superintendent Sam Dick retired after 33 years with the district, 10 as Superintendent. The high school exited Priority Status effective June 30, 2014. Caverna High School is one of only five schools out of 40 to exit priority status. Our Assistant Superintendent, Cornelius Faulkner, was named as the new Superintendent in October. Mr. Faulkner has been a math teacher, principal, and assistant superintendent during his 19 years in the Caverna district .

Although Caverna High School exited priority status as of June 2014, after a district audit in October 2014, the state placed Caverna under assistance. Caverna is the only district ever placed under assistance due to test scores. All other districts placed under assistance were due to financial reasons, such as being below the required 2% contingency. Caverna's contingency for 2014-2015 was 32.07%. Twenty three districts in the state have higher contingencies than Caverna. As a result of being under assistance, the district has developed leadership teams and has reviewed and updated policies and procedures. We have also hired a Director of Curriculum and Professional Development for the 2015-2016 year as recommended in the past audits. The state required we change auditors for 2014-2015 audit. We have also replaced the Assistant Superintendent position with a Director of District Wide Programs in charge of Maintenance, Transportation and DPP duties for 2015-2016.

State funding increased this year, as the state mandated a 2% raise. The cost of the raise is more than the increase in SEEK funding resulting in no increase in financial position for the district. The ending cash balance for the general fund increased allowing us to do some large maintenance projects in July 2015, including repaving the elementary entrance and parking lot as well as sealing all the other paved areas in the district. We also replaced the old telephone system with a new one in July 2015. The increase in the ending balance was due to several factors. First, we did not have a DDP last year. Mr. Faulkner performed both his Superintendent and DPP duties last year as he was not named Superintendent until October 1, making it hard to find a qualified DPP that far into the new year. The board also approved a Capital Outlay Waiver allowing us to use \$181,523 of Building and Capital Outlay funds to pay general expenses. This option is available for 2015-2016 but the amount is \$175,495. ADA increased slightly to 641 from 635 for 2013-2014 and 637 for 2012-2013. ADA at the High School increased 1% to 92% while the Elementary and the Middle School remained at 95%. ADA for 2015-2016 is expected to remain steady.

Even though the Commissioner of Education has repeatedly stated only 30% of Kentucky students are ready to enter kindergarten at age five, Kentucky still only funds half-day Kindergarten. We continue to use some Title I funds to provide all day Kindergarten. If the state funded all day kindergarten, we would be able to reduce class sizes at the elementary.

Caverna Board of Education has attempted to bring the staffing in line with state guidelines. The Superintendent recommended eliminating the Assistant Principal at the high/middle school and a math intervention teacher at the high school based on the enrollment in June 2014, but the board chose not to do so for 2014-2015. The positions were eliminated for the 2015-2016 school year, along with one teaching position at the high school. These positions were eliminated due to enrollment and to bring the staffing closer to state guidelines. The elementary is staffed according to state guidelines. The middle school eliminated one teacher for 2014-2015, they are still over by 1.2 teachers during 2015-2016. The high school remains over 2.8 teachers with shared teachers for 2015-2016 even with the decrease of the Math Interventionist and one teacher. All small schools face staffing challenges in order to offer the necessary courses and some electives.

We continue to offer all day preschool and have 3 preschool classrooms for 2015-2016 with a current enrollment of 57 students. While this program is only funded for half days by the state, funding for 2015-2016 increased 52%, the funds were supplied by the Tobacco Buyout. It is unclear whether this is a onetime increase or will continue next year. It is expected that early intervention for at risk students will help cut costs in the long run and give our children a better opportunity to succeed.

The KSBIT assessment was announced in August 2014. Caverna's Property & Liability portion was \$37,956. Forty percent or \$15,182 was paid with the remainder being paid over the next two years with payments of \$11,387 each September. Worker's Compensation was \$53,383 with a 25% payment made and 6 annual payments being each August of \$6,682. No interest is being charged on these payments.

Our College Career Readiness number for 2015 graduates was 80.6% a decrease of .8% . However these numbers can be misleading, we had 29 students college ready and 7 students both college and career ready. That is actually 36 of our 49 students CCR or 73%, but we get extra points for students who are both college and career ready bringing our average to 80.6%. As stated before, the high school exited Priority status in June 2014. They along with the other schools continue to struggle to increase test scores. The leadership teams have worked at increasing the rigor in the classrooms and aligning curriculum, along with analyzing student data to determine the areas on which we need to focus.

HVAC was installed in the high/middle school building during the summer of 2014 at a cost of \$2,103,340. It has had many issues. We have had to replace the compressor 3 times, pipes froze in the locker room due to lack of heat creating a \$52,000 insurance claim, and many other issues. We have contacted other schools with the same system and the continuing maintenance costs are a huge expense for those districts. Craig Thomas at RBS is working with us to get the issues solved and the system working as it supposed to do. The warranty was extended to February 2016. The new system involves much more time from our custodians, so we shuffled the custodial staff adding 120 days of custodian time in the process. Another major concern with the new HVAC is utility costs. Electricity has increased by \$40,000 at the building while gas has only dropped by \$11,000.

Our current bonding capacity is \$2,300,000. Our current Capital Outlay funding is \$63,932 and Building Fund Local portion is \$168,219 with state funding at \$71,208, totaling \$303,359. Our bond payments for 2015-2016 are \$92,623 and interest is \$31,652, leaving \$181,523 to apply for a waiver to use for Fund 1 expenses. The state figures are based on ADA while the local is a nickel of each tax dollar.

A new boiler and chiller was installed at the elementary in the fall of 2014. This should eliminate some of the repair costs at the elementary this year.

Interfund transfers were made from the general fund to the technology fund for \$28,032. This amount is required to get the state matching portion of technology funds. Indirect costs were also transferred from Food Service to the General Fund for \$15,577. Indirect costs are the food services portion of utilities, building maintenance and other overhead.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing MUNIS administrative software. The district uses fund accounting to ensure 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. Caverna Board of Education currently has no fiduciary funds. The only proprietary fund is the food service operations. All other activities of the district are included in the governmental funds.

The governmental fund financial statements can be found on pages 14-21 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-43 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. Caverna's assets and deferred outflows exceeded liabilities and deferred inflows by \$5,6 million as of June 30, 2015.

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

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

Net Position for the period ending June 30, 2015 and June 30, 2014

Net position increased by \$498,348 over last year. This is due to an increase in pension support for KTRS from the State of Kentucky.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 2,071,731	\$ 3,151,342	\$ 141,005	\$ 63,892	\$ 2,212,736	\$ 3,215,234
Capital Assets	5,630,057	4,818,635	5,031	7,022	5,635,088	4,825,657
Total Assets	7,701,788	7,969,977	146,036	70,914	7,847,824	8,040,891
Deferred Outflows	138,042	-	83,882	-	221,924	-
Long-term Debt	4,540,565	3,569,039	245,242	-	4,785,807	3,569,039
Other Liabilities	292,314	688,115	-	1,370	292,314	689,485
Total Liabilities	4,832,879	4,257,154	245,242	1,370	5,078,121	4,258,524
Deferred Inflows	124,711	-	27,289	-	152,000	-
Net Position						
Net investment in capital assets	2,355,126	1,361,818	5,031	7,022	2,360,157	1,368,840
Restricted	36,133	1,235,210	-	-	36,133	1,235,210
Unrestricted	490,981	1,115,795	(101,320)	62,522	389,661	1,178,317
Total Net Position	\$ 2,882,243	\$ 3,712,823	\$ (96,289)	\$ 69,544	\$ 2,785,951	\$ 3,782,367

The following table presents a summary of revenues and expenses for the years ended June 30, 2015 and 2014.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
REVENUES:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 18,779	\$ 44,021	\$ 18,779	\$ 44,021
Operating grants and contributions	3,725,839	2,618,510	658,350	550,842	4,384,189	3,169,352
Capital grants and contributions	205,013	163,657	-	-	205,013	163,657
General revenues:						
Property taxes	2,030,360	2,070,981	-	-	2,030,360	2,070,981
Motor vehicle taxes	153,258	133,836	-	-	153,258	133,836
Revenue in lieu of taxes	216,960	216,389	-	-	216,960	216,389
Gain on disposal of capital assets	931	-	-	-	931	-
Investment earnings	9,050	12,430	238	160	9,288	12,590
State and formula grants	2,776,319	2,665,847	-	-	2,776,319	2,665,847
Miscellaneous	3,793	48,422	-	-	3,793	48,422
Total revenues	9,121,523	7,930,072	677,367	595,023	9,798,890	8,525,095
EXPENSES						
Program Activities						
Instruction	5,627,417	4,885,783	-	-	5,627,417	4,885,783
Student support	256,940	233,097	-	-	256,940	233,097
Instructional staff support	410,576	444,011	-	-	410,576	444,011
District administrative support	603,591	502,368	-	-	603,591	502,368
School administrative support	704,870	590,906	-	-	704,870	590,906
Business support	76,273	76,037	-	-	76,273	76,037
Plant operation and maintenance	521,073	479,520	-	-	521,073	479,520
Student transportation	439,104	354,359	-	-	439,104	354,359
Community service activities	74,419	81,066	-	-	74,419	81,066
Other	6,700	-	-	-	6,700	-
Interest costs	67,728	32,813	-	-	67,728	32,813
Business-type Activities:						
Food service	-	-	574,662	595,588	574,662	595,588
Total expenses	8,788,691	7,679,960	574,662	595,588	9,363,353	8,275,548
Excess before transfers	332,832	250,112	102,705	(565)	435,537	249,547
Extraordinary item - KSBIT	62,811	-	-	-	62,811	-
Transfers	15,577	-	(15,577)	-	-	-
Increase (decrease) in net position	\$ 411,220	\$ 250,112	\$ 87,128	\$ (565)	\$ 498,348	\$ 249,547

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)

	Governmental Activities Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Instruction	\$ 5,627,417	\$ 4,885,783	\$ 2,835,229	\$ 2,103,617
Support Services	3,012,427	2,680,297	2,156,644	2,407,186
Community Services & Other	81,119	81,066	3,251	1,296
Facilities acquisition and construction	-	-	(135,140)	(133,400)
Interest costs	67,728	32,813	(2,145)	2,556
Total expenses	\$ 8,788,691	\$ 7,679,959	\$ 4,857,839	\$ 4,381,255

Business-Type Activities

The business-type activities include the food service operation. This program had total revenues of \$677,367 and expenses of \$574,662 for fiscal year 2015. Of the revenues, \$18,779 was charges for services, \$658,350 was from State and Federal grants and \$238 was from investment earnings. The program also transferred \$15,577 to the general fund for indirect costs. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for these activities.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$8.9 million and expenditures and other financing uses of \$9.5 million.

BUDGET IMPLICATIONS

Caverna Schools are depending more and more on local funds. State funding has increased for 2015-2016, but that is not expected to continue as the state has not yet dealt with the enormous pension liabilities it faces, and federal sequestration will result in 10% lost grant revenues each year until it addressed. We structured our new bond with payments in February and August to avoid the cash flow issue of large bond payments on December 1 before tax revenues were collected. Although our financial position is good, we must remain diligent with our staffing in order to remain viable. Staffing has been cut to align us closer to state guidelines. The cuts in federal grants will hurt the elementary resulting in fewer teachers at a time when the state is requiring more and more. The unfunded state mandates take funds from the classroom where the actual learning takes place. We will continue looking at all programs and expenses to continue to serve all students.

With the addition of new HVAC at the high/middle school comes increased maintenance for the system and higher utility bills. Some estimates are the maintenance will be up to \$60,000 a year, while the utility bills are currently running \$15,000 more than last year. This is disappointing as we were told the only increased cost would be to calibrate the fresh air system at \$2,500 per year.

In particular the 21st grant was cut from \$112,500 to \$75,000 for 2015-2016. This, along with early dismissal, resulted in eliminating Fridays from the program. The grant is up for renewal this spring, if granted we will get \$100,000 each year for three years. The Race to the Top grant will end in 2016-2017. This will decrease our professional development funds by \$7,500, software by \$6,000, kidfriendly by \$5,730, communities of practice by \$6,000 and eliminate the College and career Ready Coach at the high school unless \$70,000 can be funded from the general fund.

Preschool funding is also an issue. It was increased this year with funds from the tobacco payout, however it has not been addressed for next year. While KDE repeatedly claims less than 30% of our students are ready for kindergarten, they still fund only half day kindergarten and half day preschool.

A new focus has been placed on facilities resulting in increased costs for this area. A balance must be found to address the well maintained facilities and costs. In previous audits we were commended on our well maintained buildings, however with personnel changes the high/middle building has not been maintained as expected. We must address the issue of teachers and students taking pride in the facilities and working to maintain them along with the custodial staff.

With our ending balance up by \$255,859 this year from last, we have repaved the elementary entrance and parking lot, sealed all other paved surfaces in the district and purchased a new phone system. High school and middle school staffing has been decreased to align closer with their ADA. The addition of the Director of Curriculum and Director of District Wide Programs should help streamline some areas and allow the staff to focus on their areas of expertise.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015 the School District had \$5.6 million invested in land, buildings, vehicles, equipment and construction in progress and \$5.6 million in governmental activities. Table 4 shows fiscal year 2015 and 2014 balances.

(Table 4)
Capital Assets at June 30, 2015 and 2014
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land and land improvements	\$ 159,892	\$ 172,006	\$ -	\$ -	\$ 159,892	\$ 172,006
Buildings and improvements	5,000,714	2,897,598	-	-	5,000,714	2,897,598
Technology	202,436	300,612	-	-	202,436	300,612
Vehicles	240,628	302,299	-	-	240,628	302,299
General equipment	26,387	32,314	5,031	7,022	31,418	39,336
Total	5,630,057	3,704,829	5,031	7,022	5,635,088	3,711,851
Construction in progress	-	1,113,806	-	-	-	1,113,806
Total	<u>\$ 5,630,057</u>	<u>\$ 4,818,635</u>	<u>\$ 5,031</u>	<u>\$ 7,022</u>	<u>\$ 5,635,088</u>	<u>\$ 4,825,657</u>

Table 5 shows changes in capital assets for the years ended June 30, 2015 and 2014.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Beginning balance	\$ 4,818,635	\$ 3,797,507	\$ 7,022	\$ 9,237	\$ 4,825,657	\$ 3,806,744
Additions	3,315,965	1,371,300	-	-	3,315,965	1,371,300
Retirements	(2,106,800)	(2,908)	-	-	(2,106,800)	(2,908)
Depreciation	(397,643)	(347,264)	(1,991)	(2,215)	(399,634)	(349,479)
Ending balance	<u>\$ 5,630,157</u>	<u>\$ 4,818,635</u>	<u>\$ 5,031</u>	<u>\$ 7,022</u>	<u>\$ 5,635,188</u>	<u>\$ 4,825,657</u>

Debt

At June 30, 2015, the School District had \$3.1 million in bonds outstanding, of this amount \$935 thousand is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$150 thousand is due within one year.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2015-16 with a \$1,000,000 contingency which is more than the 2%. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact the Director of Finance, 1102 N. Dixie Highway, Cave City, Kentucky, 42701, (270) 773-2530.

BASIC FINANCIAL STATEMENTS

CAVERNA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash, cash equivalents and investments	\$ 1,978,661	\$ 111,508	\$ 2,090,169
Inventory		21,233	21,233
Receivables:			
Taxes-current	20,402		20,402
Taxes-delinquent	14,771		14,771
Intergovernmental-Indirect Federal	57,897	8,264	66,161
Total Current Assets	2,071,731	141,005	2,212,736
<u>Noncurrent Assets</u>			
Non-depreciable capital assets	121,636		121,636
Depreciable capital assets, net of accumulated depreciation	5,508,421	5,031	5,513,452
Total Noncurrent Assets	5,630,057	5,031	5,635,088
Total Assets	7,701,788	146,036	7,847,824
<u>Deferred Outflows of Resources</u>			
CERS pension contributions	138,042	30,206	168,248
Total Deferred Outflows of Resources	138,042	30,206	168,248
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	16,028		16,028
Unearned revenue	19,165		19,165
Bond obligations	150,000		150,000
Capital leases	42,282		42,282
KSBIT	18,060		18,060
Compensated absences	36,133		36,133
Interest payable	10,646		10,646
Total Current Liabilities	292,314	-	292,314
<u>Noncurrent Liabilities</u>			
Bond obligations	2,942,244		2,942,244
Capital leases	140,405		140,405
KSBIT	44,751		44,751
Net pension liability - CERS	1,120,758	245,242	1,366,000
Compensated absences	292,407		292,407
Total Noncurrent Liabilities	4,540,565	245,242	4,785,807
Total Liabilities	4,832,879	245,242	5,078,121
<u>Deferred Inflows of Resources</u>			
CERS net investment difference	124,711	27,289	152,000
Total Deferred Inflows of Resources	124,711	27,289	152,000
<u>Net Position</u>			
Net investment in capital assets	2,355,126	5,031	2,360,157
Restricted	36,133		36,133
Unrestricted	490,981	(101,320)	389,661
Total Net Position	\$ 2,882,240	\$ (96,289)	\$ 2,785,951

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

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 5,627,417	\$ -	\$ 2,792,188	\$ -	\$ (2,835,229)	\$ -	\$ (2,835,229)
Support services:							
Student	256,940		124,811		(132,129)		(132,129)
Instruction staff	410,576		269,956		(140,620)		(140,620)
District administrative	603,591		141,205		(462,386)		(462,386)
School administrative	704,870		200,687		(504,183)		(504,183)
Business	76,273				(76,273)		(76,273)
Plant operation and maintenance	521,073		47,891		(473,182)		(473,182)
Student transportation	439,104		71,233		(367,871)		(367,871)
Community service activities	74,419		77,868		3,449		3,449
Facility acquisition and construction				135,140	135,140		135,140
Other	6,700				(6,700)		(6,700)
Interest on long-term debt	67,728			69,873	2,145		2,145
Total Governmental Activities	8,788,691	-	3,725,839	205,013	(4,857,839)	-	(4,857,839)
Business-Type Activities:							
Food service	574,662	18,779	658,350			102,467	102,467
Total Business-Type Activities	574,662	18,779	658,350	-	-	102,467	102,467
Total Primary Government	\$ 9,363,353	\$ 18,779	\$ 4,384,189	\$ 205,013	(4,857,839)	102,467	(4,755,372)
General Revenues:							
Taxes:							
					2,030,360		2,030,360
					153,258		153,258
					216,960		216,960
					931		931
					9,050	238	9,288
					2,776,319		2,776,319
					3,793		3,793
					15,577	(15,577)	-
					62,811		62,811
					5,269,059	(15,339)	5,253,720
					411,220	87,128	498,348
					3,712,823	69,544	3,782,367
					(85,764)		(85,764)
					(1,156,039)	(252,961)	(1,409,000)
					2,471,020	(183,417)	2,287,603
					\$ 2,882,240	\$ (96,289)	\$ 2,785,951

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

FUND FINANCIAL STATEMENTS

CAVERNA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 1,806,654	\$ 9,463	\$ 161,656	\$ 888	\$ 1,978,661
Receivables:					
Taxes - current	20,402				20,402
Taxes - delinquent	14,771				14,771
Intergovernmental - Indirect Federal		57,897			57,897
Total Assets	<u>\$ 1,841,827</u>	<u>\$ 67,360</u>	<u>\$ 161,656</u>	<u>\$ 888</u>	<u>\$ 2,071,731</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 10,732	\$ 5,296	\$ -	\$ -	\$ 16,028
KSBIT	62,811				62,811
Unearned revenue		19,165			19,165
Total Liabilities	73,543	24,461	-	-	98,004
Fund Balances					
Restricted	36,133	42,899	161,656	888	241,576
Committed	137,094				137,094
Unassigned	1,595,057				1,595,057
Total Fund Balances	<u>1,768,284</u>	<u>42,899</u>	<u>161,656</u>	<u>888</u>	<u>1,973,727</u>
Total Liabilities and Fund Balances	<u>\$ 1,841,827</u>	<u>\$ 67,360</u>	<u>\$ 161,656</u>	<u>\$ 888</u>	<u>\$ 2,071,731</u>

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

CAVERNA INDEPENDENT SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION**

June 30, 2015

Total fund balance per fund financial statements	\$ 1,973,727
Amounts reported for governmental activities in the statement of net position are different because:	
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.	5,630,057
Governmental funds do not record deferred outflows of resources for pension contributions after the measurement date but those are reported on the statement of net position as deferred outflows of resources.	138,042
Governmental funds do not record deferred inflows of resources for changes in the net investment difference but those are reported on the statement of net position as deferred inflows of resources.	(124,711)
Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:	
Bonds payable (net of discounts/premiums)	(3,092,244)
Capital leases payable	(182,687)
Interest payable	(10,646)
Compensated absences	(328,540)
Net pension liability - CERS	<u>(1,120,758)</u>
Net position for governmental activities	<u><u>\$ 2,882,240</u></u>

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

CAVERNA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2015

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 2,030,360	\$ -	\$ -	\$ 168,219	\$ 2,198,579
Motor vehicle	153,258				153,258
Earnings on investments	9,050		1,844		10,894
Other local revenues	3,793	76,206			79,999
Revenue in lieu of taxes	216,960				216,960
Intergovernmental - State	4,147,486	367,287		204,113	4,718,886
Intergovernmental - Indirect Federal	42,662	1,129,570			1,172,232
Total Revenues	6,603,569	1,573,063	1,844	372,332	8,550,808
Expenditures:					
Instruction	3,477,887	1,167,108			4,644,995
Support services:					
Student	190,766	67,469			258,235
Instruction staff	190,967	224,774			415,741
District administrative	607,458				607,458
School administrative	712,502				712,502
Business	76,273				76,273
Plant operation and maintenance	716,755	8,263			725,018
Student transportation	445,617				445,617
Community service activities		77,868			77,868
Other non-instruction	55,757				55,757
Facilities acquisition and construction					
			989,634		989,634
Debt service:					
Principal				145,000	145,000
Interest				44,921	44,921
Total Expenditures	6,473,982	1,545,482	989,634	189,921	9,199,019
Excess (Deficit) of Revenues over Expenditures	129,587	27,581	(987,790)	182,411	(648,211)
Other Financing Sources (Uses):					
Proceeds from sale of capital assets	7,300				7,300
Transfers in	197,100	28,032		120,948	346,080
Transfers out	(15,317)	(12,715)		(302,471)	(330,503)
Total Other Financing Sources (Uses)	189,083	15,317	-	(181,523)	22,877
Extraordinary item - KSBIT	(62,811)				(62,811)
Net Change in Fund Balances	255,859	42,898	(987,790)	888	(688,145)
Fund Balance, July 1, 2014	1,512,425	-	1,149,446	-	2,661,871
Fund Balance, June 30, 2015	\$ 1,768,284	\$ 42,898	\$ 161,656	\$ 888	\$ 1,973,726

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

CAVERNA 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, 2015

Net change in total fund balances per fund financial statements	\$ (688,145)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	814,792
Bond 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.	145,000
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.	49,057
The difference between actuarial pension contributions to CERS and actual contributions made are recorded as adjustments in the statement of activities.	48,611
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(3,369)
Estimated claims that are not mature are not reported in this fund financial statement, but those that are probable and reasonably estimable This item is recorded as extraordinary item in the statement of activities as it is unusual in nature and infrequent in occurrence.	62,811
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.	<u>(17,537)</u>
Change in net position of governmental activities	<u><u>\$ 411,220</u></u>

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

CAVERNA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2015

	Food Service Fund
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 111,508
Intergovernmental - Indirect Federal	8,264
Inventory	21,233
Total Current Assets	<u>141,005</u>
<u>Noncurrent Assets</u>	
Depreciable capital assets, net of accumulated depreciation	5,031
Total Noncurrent Assets	<u>5,031</u>
Total Assets	<u>146,036</u>
Deferred Outflows of Resources	
CERS pension contributions	30,206
Total Deferred Outflows of Resources	<u>30,206</u>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	-
Total Current Liabilities	<u>-</u>
<u>Noncurrent Liabilities</u>	
Net pension liability - CERS	245,242
Total Noncurrent Liabilities	<u>245,242</u>
Total Liabilities	<u>245,242</u>
Deferred Inflows of Resources	
CERS net investment difference	27,289
Total Deferred Inflows of Resources	<u>27,289</u>
<u>Net Position</u>	
Net investment in capital assets	5,031
Unrestricted	(101,320)
Total Net Position	<u>\$ (96,289)</u>

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

CAVERNA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2015

	Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 18,779
Total Operating Revenues	<u>18,779</u>
Operating Expenses:	
Salaries and wages	296,760
Materials and supplies	267,805
Depreciation	1,991
Other operating expenses	8,106
Total Operating Expenses	<u>574,662</u>
Operating loss	(555,883)
Non-Operating Revenues (Expenses):	
Federal grants	537,108
Donated commodities	27,188
State on-behalf payments	89,341
State grants	4,713
Interest income	238
Total Non-Operating Revenues (Expenses) before transfers	<u>658,588</u>
Transfers out	<u>(15,577)</u>
Changes in net position	<u>87,128</u>
Net Position, July 1, 2014, as previously reported	69,544
Restatement for adoption of GASB 68	<u>(252,961)</u>
Net Position, July 1, 2014, as restated	<u>(183,417)</u>
Net Position June 30, 2015	<u><u>\$ (96,289)</u></u>

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

CAVERNA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2015

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 18,779
Cash paid to/for:	
Employees	218,056
Supplies	244,000
Other activities	8,106
	<hr/>
Net Cash Used by Operating Activities	(451,383)
Cash flows from Non-Capital Financing Activities	
Federal grants	528,845
State grants	4,713
Transfers out	(15,577)
	<hr/>
Net Cash Provided by Non-Capital Financing Activities	517,981
Receipt of interest income	238
	<hr/>
Net Cash Provided by Investing Financing Activities	238
Net increase in cash and cash equivalents	66,836
Balances, beginning of year	44,672
	<hr/>
Balances, end of year	<u>\$ 111,508</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (555,883)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,991
State on-behalf payments	89,341
Donated commodities	27,188
GASB 68 pension expense	(10,637)
Change in assets and liabilities:	
Inventory	(2,013)
Accounts payable	(1,370)
	<hr/>
Net cash used by operating activities	<u>\$ (451,383)</u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u>\$ 27,188</u>
State on-behalf payments	<u>\$ 89,341</u>
CERS Pensions	<u>\$ 19,569</u>

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

CAVERNA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2015

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 77,258
Receivables	
	<hr/>
Total Assets	<u>\$ 77,258</u>
Liabilities	
Accounts payable	\$ -
Due to student groups	77,258
	<hr/>
Total Liabilities	<u>\$ 77,258</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Caverna Independent School District (the "District") have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The Caverna 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 Caverna Independent School District. 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.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, District management has determined that the component unit reportable within the accompanying financial statements is the Caverna Independent School District Finance Corporation, (the "Corporation"). The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Boosters, Parent-Teacher Associations, etc.

Blended Component Unit - Caverna Independent School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Caverna Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT 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.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

The government-wide statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. 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 Governmental Funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Funds are accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Funds and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District's Governmental Funds:

- (A) 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 a major fund of the District.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs; and for the payment of interest on notes payable, as required by Kentucky Law.

Proprietary Funds

Proprietary Funds are used to account for ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Operating expenses include salaries, benefits, supplies and other items. All items not meeting this definition are reported as nonoperating revenues and expenses. The District has one Proprietary Fund.

The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and for on-behalf payments for retirement and health insurance paid by the State of Kentucky. This is a major fund of the District.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

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 the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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.

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due/paid.

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as unearned revenue.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

State Revenue Sources - Revenues from State sources for current operations are primarily from the Support Education Excellence in Kentucky ("SEEK"), administered by the Kentucky Department of Education ("KDE"). The District files reports on average daily attendance ("ADA") student membership with the KDE. The KDE accumulates information from these reports and calculates the allocation of SEEK funds to the District. After review and verification of ADA reports and supporting documentation, the KDE may adjust subsequent fiscal period allocations of SEEK funding. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

Property Taxes - On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

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

C. BUDGETARY POLICIES

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are considered to be demand deposits, money market funds, and other investments with an original maturity of 90 days or less.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

F. INVENTORIES

Inventories are valued at cost, which approximates market. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method.

G. PREPAID ITEMS

Expenditures for insurance and similar services extending over more than one accounting period are allocated between or among accounting periods in the governmental funds.

H. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. All capital assets greater than \$5,000 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 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

I. LONG-TERM DEBT

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Bond premiums/discounts are amortized over the life of the bonds while deferred loss on advance refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the new bonds both in a systematic and rational method, which approximates the effective-interest method.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. COMPENSATED ABSENCES

Compensated absences are payments to certified employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. These employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

K. ACCOUNTING ESTIMATES

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

L. RESTATEMENTS

The following restatements were made during the fiscal year:
Governmental Activities

Beginning net position, July 1, 2014	\$ 3,712,823
Restatement for adoption of GASB 68 - net pension liability	(1,267,623)
Restatement for adoption of GASB 68 - deferred inflows	111,584
Restatement for correction of compensated absences	<u>(85,764)</u>
Beginning net position, July 1, 2014, restated	<u>\$ 2,471,020</u>
Business-type activities (food service fund)	
Beginning net position, July 1, 2014	\$ 69,544
Restatement for adoption of GASB 68 - net pension liability	(277,378)
Restatement for adoption of GASB 68 - deferred inflows	<u>24,417</u>
Beginning net position, July 1, 2014, restated	<u>\$ (183,417)</u>

M. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68, as amended by GASB 71 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement was adopted during the fiscal year ended June 30, 2015 and required a restatement to net position for governmental activities and the food service fund.

In March 2014, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was adopted during the fiscal year ended June 30, 2015 and did not have an impact on the District's financial statements.

Recently Issued Accounting Pronouncements

In January 2014, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. GASB 69 establishes accounting and financial reporting standards related to fair value measurements. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 2 – PROPERTY TAXES

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2015, to finance operations were \$.700 per \$100 valuation for real property, \$.700 per \$100 valuation for business personal property and \$.627 per \$100 valuation for motor vehicles.

NOTE 3 – DEPOSITS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2015, \$1,670,933 of the District's bank balance of \$1,920,933 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

NOTE 4 – INTERFUND ACTIVITIES

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Technology Match	\$ 15,317
Special Revenue	Special Revenue	Internal	12,715
Nonmajor Governmental	General	CFR	181,523
Nonmajor Governmental	Nonmajor Governmental	Debt Service	120,948
Food Service	General	Indirect Costs	15,577

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

Governmental Activities	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Capital Assets Not Being Depreciated:				
Land	\$ 121,636	\$ -	\$ -	\$ 121,636
Construction in progress	1,113,806	989,624	(2,103,430)	-
Total Capital Assets Not Being Depreciated	1,235,442	989,624	(2,103,430)	121,636
Capital Assets Being Depreciated:				
Land improvements	779,870			779,870
Buildings and improvements	6,404,170	2,300,518		8,704,688
Technology equipment	829,425	25,723	(66,572)	788,576
Vehicles	1,061,767		(168,573)	893,194
General equipment	204,482		(1,400)	203,082
Total Capital Assets Being Depreciated at Historical Cost	9,279,714	2,326,241	(236,545)	11,369,410
Less Accumulated Depreciation For:				
Land improvements	729,500	12,114		741,614
Buildings and improvements	3,506,572	197,402		3,703,974
Technology equipment	528,813	120,529	(63,202)	586,140
Vehicles	759,468	61,671	(168,573)	652,566
General equipment	172,168	5,927	(1,400)	176,695
Total accumulated depreciation	5,696,521	397,643	(233,175)	5,860,989
Total Other Capital Assets, net	3,583,193	1,928,598	(3,370)	5,508,421
Governmental Activities Capital Assets - Net	\$ 4,818,635	\$ 2,918,222	\$ (2,106,800)	\$ 5,630,057
Business-Type Activities				
Capital Assets Being Depreciated:				
Technology equipment	\$ 4,397	\$ -	\$ -	\$ 4,397
Food service equipment	77,491			77,491
Totals at historical cost	81,888	-	-	81,888
Less Accumulated Depreciation For:				
Technology equipment	4,397			4,397
Food service equipment	70,469	1,991		72,460
Total accumulated depreciation	74,866	1,991	-	76,857
Business-Type Activities Capital Assets - Net	\$ 7,022	\$ (1,991)	\$ -	\$ 5,031

Depreciation was charged to governmental functions as follows:

Instruction	\$ 392,184
District administration	3,736
Transportation	1,723
Total	\$ 397,643

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 6 – RISK MANAGEMENT

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

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

NOTE 7 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2015, is as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
Revenue bonds	\$ 3,280,000	\$ -	\$ 145,000	\$ 3,135,000	\$ 150,000
Capital leases	231,744	-	49,057	182,687	42,282
	3,511,744	-	194,057	3,317,687	192,282
Less Discounts and Premiums	(45,790)		3,034	(42,756)	-
Total Bonds and Leases Payable	3,465,954	-	197,091	3,274,931	192,282
Other Liabilities:					
KSBIT	91,339		28,528	62,811	18,060
Net pension liability - CERS	-	1,120,758	-	1,120,758	-
Compensated absences	333,819	50,692	55,971	328,540	36,133
Total Other Liabilities	425,158	1,171,450	84,499	1,512,109	54,193
Total Governmental Activities Long-Term Liabilities	<u>\$ 3,891,112</u>	<u>\$ 1,171,450</u>	<u>\$ 281,590</u>	<u>\$ 4,787,040</u>	<u>\$ 246,475</u>
	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
Business-Type Activities:					
Net pension liability - CERS	<u>\$ -</u>	<u>\$ 245,242</u>	<u>\$ -</u>	<u>\$ 245,242</u>	<u>\$ -</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying compensated absences and KSBIT. The general fund and food service fund are primarily responsible for paying the net pension liability.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

Bond Liabilities

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rate</u>
2004	\$ 1,715,000	1.75% - 4.90%
2012	1,185,000	1.10% - 6.25%
2014 QZAB	2,150,000	1.00%

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

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

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>KSFCC Participation</u>	<u>District's Portion</u>
2016	\$ 150,000	\$ 43,246	\$ 68,971	\$ 124,275
2017	150,000	41,221	68,971	122,250
2018	155,000	39,196	68,971	125,225
2019	155,000	36,546	68,972	122,574
2020	160,000	33,786	68,971	124,815
2021-2025	845,000	120,745	314,604	651,141
2026-2030	935,000	57,450	193,581	798,869
2031-2033	585,000	11,700	116,149	480,551
	<u>\$ 3,135,000</u>	<u>\$ 383,890</u>	<u>\$ 969,190</u>	<u>\$ 2,549,700</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

Capital Lease Liabilities

The following is an analysis of the leased property under capital lease by class. These assets are included in capital assets and are depreciated:

<u>Classes of Property</u>	
Buses	
Gross amount of assets	\$ 218,963

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, 2015:

2016	47,527
2017	36,840
2018	29,525
2019	20,565
2020	19,244
2021-2024	<u>47,936</u>
Total minimum lease payments	201,637
Less: Amount representing interest	<u>(18,950)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 182,687</u>

NOTE 8 – PENSION PLANS

Plan Descriptions

The Caverna Independent School District participates in the Teachers' Retirement System of the State of Kentucky (KTRS), a component unit of the Commonwealth of Kentucky which includes certified employees and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. KTRS, which qualifies as a special funding situation under GASB 68, and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial reports that include financial statements and required supplementary information. KTRS' report may be obtained at www.ktrs.ky.gov. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

For Members Before July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 8 – PENSION PLANS – CONTINUED

Non-university members receive monthly payments equal to two percent (2%) (service prior to July 1, 1983) and two and one-half percent (2.5%) (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002 will receive monthly benefits equal to two percent (2%) of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002 who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one-half percent (2.5%) of their final average salary for each year of service, including the first ten (10) years. In addition, non-university members who retire July 1, 2004 and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one-half percent (2.5%) to three percent (3%) to be used in their benefit calculation.

University employees receive monthly benefits equal to two percent (2%) of their final average salary for each year of credited service.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

For Members On or After July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service, or
- 3.) Attain age fifty-five (55) and complete ten (10) years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years.

The annual retirement allowance for university members is equal to: (a) one and one-half percent (1.5%) of final average salary for each year of credited service if their service is 10 years or less; (b) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) one and eighty five hundredths percent (1.85%) of final average salary for each year of credited service if their service is greater than 20 years but less than 27 years; (d) two percent (2.0%) of final average salary for each year of credited service if their service is greater than or equal to 27 years.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 8 – PENSION PLANS – CONTINUED

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

Other Benefits:

The System provides post-employment medical benefits to retirees. The System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members. Cost of living increases are one and one-half percent (1.5%) annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions

Contribution rates are established by Kentucky Revised Statutes. The State contributes 100 percent of school districts' contractually required contributions, which are actuarially determined. Employees are required to contribute 12.105 percent of their annual salary. The school districts' contractually required contribution rate for the year ended June 30, 2015, was 13.105 percent of salaries for members in the plan before July 1, 2008 and 14.105 percent of salaries for members who started their account after June 30, 2008. The District made no contributions to the pension plan for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was \$24,752,021.

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2014, the District's proportion was 0 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$1,212,899 and revenue of \$1,212,899 for support provided by the State. At June 30, 2015, the District reported no deferred outflows of resources and no deferred inflows of resources related to KTRS.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 8 – PENSION PLANS – CONTINUED

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50 percent
Salary increases	4.00 – 8.20 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a set back of 1 year for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45%	6.4%
Non U.S. Equity	17%	6.5%
Fixed Income	24%	1.6%
High Yield Bonds	4%	3.1%
Real Estate	4%	5.8%
Alternatives	4%	6.8%
Cash	2%	1.5%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 5.23%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed that Plan member contributions will be made at the current contribution rates and that Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent interest rate (SEIR). On the Prior Measurement Date, the long-term expected rate of return of 7.50% on Plan investments was applied to periods before 2036 and the Municipal Bond Index Rate of 4.27% was applied to periods on or after 2036, resulting in an SEIR of 5.16%. There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 5.23% was calculated using the Municipal Bond Index Rate as of the Measurement Date (4.35%). This change in the discount rate is considered a change in actuarial assumptions under GASB 68.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 8 – PENSION PLANS – CONTINUED

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report.

CERS

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2015, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

Contributions

For the fiscal year ended June 30, 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2015, was 17.67 percent of annual creditable compensation. Contributions to the pension plan from the District were \$168,248

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability of \$1,366,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District's proportion was 0.042089 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$109,000. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (1) Deferred outflows of resources for District contributions subsequent to the measurement date of \$168,248 and (2) Deferred inflows of resources for differences between expected and actual experience of \$152,000. The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$168,248 will be recognized as a reduction of the net pension liability in the year ending June 30, 2016.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 8 – PENSION PLANS – CONTINUED

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

The long-term expected return on pension plan investments is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a lognormal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non-US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	<u>100%</u>	

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 8 – PENSION PLANS – CONTINUED

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	1,797,000	1,366,000	984,300

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities on these financial statements.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 9 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2015, there were no nonspendable fund balances.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2015, the District had \$36,133 restricted for compensated absences in the General Fund, \$42,899 restricted for grants in the special revenue fund, \$888 restricted for capital projects in the FSPK Fund and \$161,656 restricted for capital projects in the Construction Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments at June 30, 2015 in the General Fund - \$50,000 for one-half of a bus, \$45,810 for paving and sealing and \$41,284 for telephones.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The District had \$557,151 of assignments related to encumbrances recorded in the General Fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The District had the no additional assignments at June 30, 2015.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

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

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 10 – COMMITMENTS AND CONTINGENCIES – CONTINUED

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

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of the cases presently in progress. 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.

The District also has construction commitments for on-going projects at June 30, 2015.

On January 14, 2013 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members. On June 26, 2013, members were notified that the KSBIT board voted on June 24, 2013 to submit a plan for the assessment to the Kentucky Department of Insurance in favor of a novation option, under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount.

In August 2014, the District received an invoice for \$91,339 which was the amount expected to satisfy the claim. The District paid \$28,528 in August 2014 will pay \$18,060 in FY 2015 and FY 16, \$6,668 in FY 18, 19 and 20 and \$6,687 in FY21. The item is also an extraordinary item in the Statement of Activities because the item is unusual in nature and infrequent in occurrence The assessment was recorded as an extraordinary item in the general fund for FY 2015 and the remaining liability of \$62,811 was recorded in the general fund. The amount recorded as a current liability in the Statement of Net Position is \$18,060 and the long-term portion is \$44,751. There was an adjustment in the Statement of Activities to reflect the change in the total assessment of \$62,811 that was previously expensed.

NOTE 11 – DEFICIT OPERATING BALANCES

The Food Service Fund had a deficit net position at June 30, 2015 in the amount of \$96,289. The deficit net position is a result of the recording of the net pension liability for CERS as part of the adoption of GASB Statement 68. The following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net position:

Construction Fund	\$ 987,781
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CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE 12 – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amounts received and funds where these items were recorded for the fiscal year ended June 30, 2015 were as follows:

Health	\$	868,498
Life		1,422
Admin		9,789
HRA		27,562
KTRS		583,291
Technology		56,970
Debt Service		68,973
Less: Federal Reimbursement		<u>(87,024)</u>
Total on-behalf	\$	<u>1,529,481</u>

Recorded as follows:

General Fund	\$	1,371,167
Food Service Fund		89,341
Debt Service Fund		<u>68,973</u>
	\$	<u>1,529,481</u>

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The District made an adjustment of (\$85,764) to the beginning net position of governmental activities to reflect the current portion of compensated absences as of June 30, 2014. This adjustment had no impact on revenues or expenses.

REQUIRED SUPPLEMENTARY INFORMATION

CAVERNA INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

GENERAL FUND

Year Ended June 30, 2015

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 1,715,000	\$ 1,919,000	\$ 2,030,360
Motor vehicle	110,000	130,000	153,258
Revenue in lieu of taxes	113,000	213,000	216,960
Earnings on investments	7,000	7,000	9,050
Other local revenues	5,464	5,464	3,793
Intergovernmental - State	2,743,394	2,749,394	4,147,486
Intergovernmental - Indirect Federal	4,000	20,000	42,662
Total Revenues	<u>4,697,858</u>	<u>5,043,858</u>	<u>6,603,569</u>
Expenditures:			
Instruction	2,813,399	2,918,051	3,477,887
Support services:			
Student	158,480	136,454	190,766
Instruction staff	230,808	228,815	190,967
District administrative	823,848	1,278,016	607,458
School administrative	494,321	494,023	712,502
Business	51,205	14,043	76,273
Plant operation and maintenance	560,763	867,787	716,755
Student transportation	529,471	529,586	445,617
Community service activities	5,232	5,232	
Other	42,000	90,815	55,757
Total Expenditures	<u>5,709,527</u>	<u>6,562,822</u>	<u>6,473,982</u>
Excess (Deficit) of Revenues over Expenditures	(1,011,669)	(1,518,964)	129,587
Other Financing Sources (Uses):			
Proceeds from sale of capital assets			7,300
Transfers in	21,630	203,153	197,100
Transfers out	(10,381)	(10,850)	(15,317)
Total Other Financing Sources (Uses)	<u>11,249</u>	<u>192,303</u>	<u>189,083</u>
Extraordinary item - KSBIT			<u>(62,811)</u>
Net Change in Fund Balance	(1,000,420)	(1,326,661)	255,859
Fund Balance, July 1, 2014	<u>1,000,420</u>	<u>1,326,661</u>	<u>1,549,939</u>
Fund Balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,805,798</u>

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$1,371,167.

CAVERNA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL

SPECIAL REVENUE FUND

Year Ended June 30, 2015

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Other local revenues	\$ -	\$ 12,480	\$ 76,206
Intergovernmental - State	352,225	367,287	367,287
Intergovernmental - Indirect Federal	684,252	940,361	1,129,570
Total Revenues	<u>1,036,477</u>	<u>1,320,128</u>	<u>1,573,063</u>
Expenditures:			
Instruction	750,644	922,270	1,167,108
Support services:			
Student	51,938	76,803	67,469
Instruction staff	166,574	253,504	224,774
Plant operation and maintenance		5,000	8,263
Community service activities	77,702	77,868	77,868
Total Expenditures	<u>1,046,858</u>	<u>1,335,445</u>	<u>1,545,482</u>
Excess (Deficit) of Revenues over Expenditures	(10,381)	(15,317)	27,581
Other Financing Sources (Uses):			
Transfers in	10,381	28,030	28,032
Transfers out		(12,713)	(12,715)
Total Other Financing Sources (Uses)	<u>10,381</u>	<u>15,317</u>	<u>15,317</u>
Net Change in Fund Balance	-	-	42,898
Fund Balance, July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,898</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

June 30, 2015

Last 10 Years *

	<u>2015</u>
Proportion of the net pension liability	0.042089%
Proportionate share of the net pension liability	\$ 1,366,000
Covered - employee payroll	\$ 987,074
Proportionate share of the net pension liability as percentage of covered payroll	138.4%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

* Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

CAVERNA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS

June 30, 2015

Last 10 Years *

	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 168,248
Contribution in relation to the actuarially determined contributions	<u>168,248</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 952,168
Contributions as a percentage of covered employee payroll	17.67%

* Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions. There were no changes in assumptions.

SUPPLEMENTARY INFORMATION

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2015

	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ -	\$ 888	\$ -	\$ 888
Total Assets	<u>\$ -</u>	<u>\$ 888</u>	<u>\$ -</u>	<u>\$ 888</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted		888		888
Total Fund Balances	<u>-</u>	<u>888</u>	<u>-</u>	<u>888</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 888</u>	<u>\$ -</u>	<u>\$ 888</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2015

	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources:				
Property taxes	\$ -	\$ 168,219	\$ -	\$ 168,219
Intergovernmental - State	63,932	71,208	68,973	204,113
Total Revenues	63,932	239,427	68,973	372,332
Expenditures				
Debt service:				
Principal			145,000	145,000
Interest			44,921	44,921
Total Expenditures	-	-	189,921	189,921
Excess (Deficit) of Revenues over Expenditures	63,932	239,427	(120,948)	182,411
Other Financing Sources (Uses)				
Transfers in			120,948	120,948
Transfers out	(63,932)	(238,539)		(302,471)
Total Other Financing Sources (Uses)	(63,932)	(238,539)	120,948	(181,523)
Net Change in Fund Balances	-	888	-	888
Fund balance, July 1, 2014	-	-	-	-
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ 888</u>	<u>\$ -</u>	<u>\$ 888</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

AGENCY FUNDS

June 30, 2015

	Caverna Elementary School	Caverna Middle School	Caverna High School	Total Agency Fund
Assets				
Cash and cash equivalents	\$ 15,590	\$ 36,962	\$ 24,706	\$ 77,258
Receivables				-
Total Assets	<u>\$ 15,590</u>	<u>\$ 36,962</u>	<u>\$ 24,706</u>	<u>\$ 77,258</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to student groups	15,590	36,962	24,706	77,258
Total Liabilities	<u>\$ 15,590</u>	<u>\$ 36,962</u>	<u>\$ 24,706</u>	<u>\$ 77,258</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES

AGENCY FUNDS

YEAR ENDED JUNE 30, 2015

SCHOOL	CASH BALANCES July 1, 2014	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2015	RECEIVABLES June 30, 2015	ACCOUNTS PAYABLE June 30, 2015	DUE TO STUDENT GROUPS June 30, 2015
Caverna Elementary	\$ 22,327	\$ 23,875	\$ 30,612	\$ 15,590	\$ -	\$ -	\$ 15,590
Caverna Middle	38,353	20,285	21,676	36,962	-	-	36,962
Caverna High	19,890	137,283	132,467	24,706	-	-	24,706
	<u>\$ 80,570</u>	<u>\$ 181,443</u>	<u>\$ 184,755</u>	<u>\$ 77,258</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,258</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES

CAVERNA HIGH SCHOOL

YEAR ENDED JUNE 30, 2015

NAME OF ACTIVITY	CASH BALANCES July 1, 2014	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2015	RECEIVABLES June 30, 2015	ACCOUNTS PAYABLE June 30, 2015	DUE TO STUDENT GROUPS June 30, 2015
General	\$ 1,058	\$ 6,606	\$ 6,012	\$ 1,652	\$ -	\$ -	\$ 1,652
Lockers	-	-	-	-	-	-	-
Faculty and Staff	123	3,054	2,837	340	-	-	340
School Concessions	1,327	1,772	2,680	419	-	-	419
Athletic Concessions	907	4,173	4,864	216	-	-	216
Athletic Boosters	-	3,388	3,385	3	-	-	3
Academic Team	86	-	-	86	-	-	86
Class of 2013	31	-	-	31	-	-	31
Class of 2014	-	-	-	-	-	-	-
Class of 2015	-	10,589	8,293	2,296	-	-	2,296
Prom	100	7,802	6,648	1,254	-	-	1,254
Art	1,024	2,420	2,176	1,268	-	-	1,268
Student YMCA-KYA	-	708	707	1	-	-	1
Chemistry	670	235	137	768	-	-	768
BCA	13	-	-	13	-	-	13
Athletics (All Accounts)	11,104	40,479	46,616	4,967	-	-	4,967
Baseball	-	5,332	4,422	910	-	-	910
Boys Basketball	-	14,664	14,660	4	-	-	4
Girls Basketball	-	8,725	8,681	44	-	-	44
Football	-	3,661	2,526	1,135	-	-	1,135
Golf	-	873	100	773	-	-	773
Softball	-	7,051	5,586	1,465	-	-	1,465
Boys Tennis	-	125	124	1	-	-	1
Girls Tennis	-	2,698	2,687	11	-	-	11
Track	-	892	-	892	-	-	892
Volleyball	-	908	-	908	-	-	908
Cross Country	-	762	-	762	-	-	762
Bowling	-	3,238	3,105	133	-	-	133
Band	334	2,176	2,084	426	-	-	426
Library	50	1,830	1,776	104	-	-	104
Cheerleaders	178	3,291	3,469	-	-	-	-
Beta Club	167	1,644	1,259	552	-	-	552
Chess Club	30	-	-	30	-	-	30
Foreign Language Club	1	-	-	1	-	-	1
Caverna Humanitarian Club	-	256	17	239	-	-	239
Broadcasting Club	-	250	-	250	-	-	250
Pep Club	52	-	-	52	-	-	52
SADD	206	760	750	216	-	-	216
Coffee Club	29	-	-	29	-	-	29
PTSO	943	4,236	4,882	297	-	-	297
Yearbook	40	1,245	600	685	-	-	685
FFA	1,328	799	743	1,384	-	-	1,384
Science	89	-	-	89	-	-	89
Sub Total	19,890	146,642	141,826	24,706	-	-	24,706
Interfund Transfers	-	9,359	9,359	-	-	-	-
TOTAL	\$ 19,890	\$ 137,283	\$ 132,467	\$ 24,706	\$ -	\$ -	\$ 24,706

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CAVERNA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED June 30, 2015

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Passed Through State Department of Education:			
National School Lunch	10.555	7750002-14	\$ 81,120
		7750002-15	276,194
School Breakfast Program	10.553	7760005-14	33,484
		7760005-15	114,228
Summer Food Service Program for Children	10.559	7690024-14	465
		7740023-14	4,510
		7740023-15	8,264
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	057502-02	27,188
TOTAL CHILD NUTRITION CLUSTER			<u>545,453</u>
Passed Through State Department of Education:			
Fresh Fruits and Vegetables	10.582	7720012-14	3,477
		7720012-15	15,364
			<u>18,841</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>564,294</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster -			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3373	33
		337A	194,076
			<u>194,109</u>
Special Education - Preschool Grants	84.173	3434	2,421
		343A	20,397
			<u>22,818</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>216,927</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	3104	68,033
		3104D	1,375
		310A	365,893
		310AD	777
			<u>436,078</u>
Migrant Education, State Grant Program	84.011	3113	987
		3114	27,119
		311A	38,719
			<u>66,825</u>
Vocational Education - Basic Grants to States	84.048	348A	11,118
Twenty-first Century Community Learning Centers	84.287	5503	67,208
		5503J	1,000
		5504	106,688
			<u>174,896</u>

The accompanying notes are an integral part of this schedule.

CAVERNA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED June 30, 2015

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Rural Education	84.358	3504 350A	1,115 <u>14,840</u> <u>15,955</u>
Improving Teacher Quality - State Grants	84.367	4014 401A	2,165 <u>56,779</u> <u>58,944</u>
School Improvement Grants, Recovery Act	84.388	5600C	<u>57,145</u>
Race to the Top	84.413A	4521	<u>47</u>
Passed Through Green River Regional Educational Cooperative ARRA - Race to the Top	84.416	4364 436A 436AC 436AD 436AK 436AS	8,217 67,782 2,385 4,993 2,528 5,730 <u>91,635</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,129,570</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,693,864</u>

The accompanying notes are an integral part of this schedule.

CAVERNA INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Caverna Independent School District under programs of the federal government for the year ended June 30, 2015. 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*. Because the schedule presents only a selected portion of the operations of Caverna Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Caverna Independent School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

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

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CAVERNA INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? yes none reported
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Section I-Summary of Auditor's Results - Continued

Identification of major programs:

CFDA Number	Federal Program or Cluster
DEPARTMENT OF AGRICULTURE	
10.555	National School Lunch Program
10.553	School Breakfast Program
10.559	Summer Food Service Program for Children
DEPARTMENT OF EDUCATION	
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

Section II – Financial Statement Findings

MATERIAL WEAKNESSES

REFERENCE NUMBER 2015-001 RESTATEMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions.

Condition: As part of the audit we proposed material restatement adjustments to the financial statements for compensated absences.

Cause: The District did not identify items to be corrected.

Effect: The design of the internal controls identifying adjustments did not prevent material adjustments.

Recommendation: We recommend District management and financial personnel review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items.

Management Response: Management has addressed and corrected as of the audit report date.

REFERENCE NUMBER 2015-002 SEGREGATION OF DUTIES

Criteria: The District's management is responsible for establishing and maintaining internal controls over the processing of transactions.

Condition: As part of the audit we noted that the controls over payroll were not properly designed.

Cause: The District did not design appropriate controls over payroll.

Effect: Payroll transactions were not properly segregated among employees.

Recommendation: We recommend District management and financial personnel review the procedures and processes involved over payroll and design and implement procedures to ensure segregation of duties.

Management Response: Management will review the procedures and processes involved over payroll and design and implement procedures to ensure segregation of duties by October 31, 2015.

Section III – Federal Award Findings and Questioned Costs

No matters

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

CAVERNA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2015

There were no prior year federal audit findings.

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

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Caverna Independent School District
Cave City, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Caverna Independent School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Caverna Independent School District's basic financial statements, and have issued our report thereon dated August 25, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Caverna Independent School District in a separate letter dated August 25, 2015.

Caverna Independent School District's Response to Findings

Caverna Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Caverna Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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.



Certified Public Accountants
Elizabethtown, Kentucky
August 25, 2015

**INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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INDEPENDENT AUDITOR'S REPORT

MEMBER
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Members of the Board of Education
Caverna Independent School District
Cave City, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Caverna 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 Caverna Independent School District's major federal programs for the year ended June 30, 2015. Caverna 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 Caverna 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*. 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 Caverna 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 Caverna Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Caverna Independent School District complied, in all material respects, with the 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, 2015.

Report on Internal Control Over Compliance

Management of Caverna 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 Caverna 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 in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major 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 Caverna 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 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.


Certified Public Accountants
Elizabethtown, Kentucky
August 25, 2015

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Caverna Independent School District
Cave City, Kentucky

In planning and performing our audit of the basic financial statements of Caverna Independent School District for the year ended June 30, 2015, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated August 25, 2015, contains our report on the District's internal control. This letter does not affect our report dated August 25, 2015, on the financial statements of the Caverna Independent School District.

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

This report is intended solely for the information and use of management, the members of the Caverna Independent Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stiles, Carter & Associates".

Certified Public Accountants
Elizabethtown, Kentucky
August 25, 2015

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMMENTS

June 30, 2015

CAVERNA ELEMENTARY SCHOOL

SEGREGATION OF DUTIES

SCA noted during the review of the Internal Control Questionnaire, completed by the school's treasurer, that the treasurer is performing the following duties: enters invoices into the accounting system, prints checks, and matches invoices to checks. Redbook requires that these duties be segregated.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

FUNDRAISERS

We noted that the World's Finest Chocolate Fundraiser did not have a properly completed Fundraiser Worksheet (form F-SA-2B). A Fundraiser Worksheet was attached with a note that stated "See Attached". However, there were no forms attached that had the information and signatures that Fundraiser Worksheet requires. Redbook requires that fundraisers that sell purchased merchandise, must complete Fundraiser Worksheet.

During the review of receipts, we noted that a Scholastic Bookfair was held from September 8-12, 2014. However, there were no Sales Collection Forms or Fundraiser Worksheets on file. According to Redbook, a Scholastic Bookfair fundraiser should have a Sales Collection Form (form F-SA-17) and a Fundraiser Worksheet (form F-SA-2B) completed.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

TICKET SALES

We noted that the Requisition and Report of Ticket Sales Form (form F-SA-1) that was completed for the dance held on 12/16/2014 did not have the next available ticket attached. Redbook requires the beginning and ending ticket to be attached to the form to verify the actual number of tickets sold for the event.

We noted that the proceeds from the Christmas Program, held on 12/16/2014, in the amount of \$523.00, were not deposited until 12/22/2014. Redbook requires deposits that are greater than \$100.00 be made the next business day.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

RECEIPTS

We noted that Receipt #1832, made on 09/23/2014 in the amount of \$3,715.53, did not have the payer listed on the deposit ticket or copies of checks deposited attached. We also noted Receipt #1832 did not have receipt numbers included on the deposit slip. Redbook requires payer(s) and amount(s) to be listed or copies of checks retained. Redbook also requires receipt number(s) to be included on deposit slip(s).

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2015

CAVERNA MIDDLE SCHOOL

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

We noted that the treasurer does not use the Redbook form for Accounts Receivable and Accounts Payable (form F-SA-15B) when completing monthly or annual reports.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

SEGREGATION OF DUTIES

We noted during the review of the Internal Control Questionnaire completed by the school's treasurer that the treasurer performs the following duties: (1) opens the mail, photocopies the checks, and records revenue into the accounting system, and (2) enters invoices into the accounting system, prints checks, and matches invoices to checks. The school's principal is opening the bank statement and reviewing the bank reconciliation. According to Redbook requirements, these duties should be segregated.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CREDIT CARD SIGN-IN/OUT LOG

We noted that there was a credit card on file, however there was no Credit Card Sign-In/Out Log (form F-SA-13) present. Per a conversation with the school's treasurer, there was no activity on the card during fiscal year 2014-2015. However, during the review of disbursements, we noted checks that were written to Wal-Mart and copies of the Wal-Mart Credit Card Statement attached to the check.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

RECEIPT NUMBERS

We noted that the deposits dated 8/15/2014, 2/24/2015, and 3/12/2015 did not include receipt numbers on the deposit slip.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

MULTIPLE RECEIPT FORM

We noted that the deposit dated 3/12/2015 in the amount of \$175.30 included a Multiple Receipt Form (form F-SA-6) that was completed by the treasurer, noting just the total amount of monies collected from students. The Multiple Receipt Form should list each individual student and amount of money paid.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2015

CAVERNA MIDDLE SCHOOL – CONTINUED

PROPER ACCOUNT

We noted that the deposit dated 3/12/2015 in the amount of \$175.30 was for a fundraiser that did not include any fundraiser forms in the treasurer's documents. As a result, it cannot be determined if the monies collected from students were deposited in the proper account.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

COACHES CARDS

We noted that the school purchased five coaches cards, one of these cards was purchased for the mayor. Redbook states that coaches cards can only be purchased for individuals who are either head coaches or assistant coaches.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

UNALLOWED PURCHASES

We noted that check #2175, dated 09/02/2014, written in the amount of \$83.94 to Wal-Mart Community from the Miscellaneous Fund, was for the purchase of ink for the fax machine. Redbook disallows the purchase of operational or maintenance items from student activity funds. This check had a Purchase Order Form (form F-SA-7) that was dated 09/02/2014 and a receipt that was dated 08/01/2014. Redbook requires that Purchase Order Forms be completed and submitted for approval on either the same day or the day before the purchase is made.

We noted that check #2189, dated 09/16/2014, written in the amount of \$55.00 to Ident-A-Kid from the Caverna Youth Leadership Fund, was for the purchase of photo badges for the staff. Redbook disallows the purchase of operational or maintenance items from student activity funds. This check had a Purchase Order Form (form F-SA-7) that was dated 09/16/2014 and an invoice that was dated 09/10/2014. Redbook requires that Purchase Order Forms be completed and submitted on either the same day or before the purchase is made.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2015

CAVERNA MIDDLE SCHOOL - CONTINUED

PURCHASE ORDER FORMS

We noted that all the Purchase Order Forms (form F-SA-7) that were attached to the disbursements that were selected for testwork, were not signed by the sponsor requesting the funds. Redbook requires that purchase orders be prepared and approved by the sponsor before the payments are obligated.

We noted that check #2167, dated 08/17/2014, written in the amount of \$30.00 to Kentucky HS Coaches Association from the Athletics Fund, had an attached Purchase Order Form (form F-SA-7) that was dated 08/14/2014 and an invoice that was dated 08/12/2014. Redbook requires that Purchase Order Forms be completed and submitted on either the same day or before the purchase is made.

We noted that check #2226, dated 01/06/2015, written in the amount of \$50.00 Mike Moritz from the Athletic Fund, had an attached Purchase Order Form (form F-SA-7) that was dated 01/06/2015 and an invoice that was dated 12/30/2014. Redbook requires that Purchase Order Forms be completed and submitted on either the same day or before the purchase is made.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

FUNDRAISER FORMS

We noted several fundraisers including the Beta Club, bake sale, yearbook, Pennies for Patients, concessions, and Gunnar Eaton's medical expenses occurred during the school year, but the treasurer indicated that no fundraiser forms were completed for the year.

We noted that the Beta Club fundraiser involved a sale of items to raise funds for the Beta Convention, as indicated by the treasurer in the client's internal control questionnaire. The sale requires the Fundraiser Approval Form (form F-SA-2A), the Fundraiser Worksheet (form F-SA-2B), and the Sales Collection Form (form F-SA-17). The deposit dated 11/25/2014 included a Multiple Receipt Form (form F-SA-6) indicating the amounts of collections from each student, but none of the required fundraiser forms were included. As a result, it cannot be determined what items were sold or the date of approval.

We noted that the deposit dated 3/12/2015 from the Bake Sale requires the Fundraiser Approval Form (form F-SA-2A), Inventory Control Worksheet (form F-SA-5), and Sales Collection Form (form F-SA-17). Multiple Receipt Form (form F-SA-6) was included for the 3/12/2015 deposit, but none of the required fundraiser forms were included. As a result, the proper activity account and date of approval cannot be determined.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2015

CAVERNA HIGH SCHOOL

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

We noted that the treasurer does not use the Redbook form for Accounts Receivable and Accounts Payable Form (form F-SA-15B) when completing monthly or annual reports.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

SEGREGATION OF DUTIES

We noted during the review of the Internal Control Questionnaire, completed by the school's treasurer, that the treasurer is performing the following duties: enters invoices into the accounting system, prints checks, matches invoices to checks, and mails the checks. According to Redbook requirements, these duties should be segregated.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

DONATION ACCEPTANCE FORM

We noted during review of receipts that the deposit dated 7/31/2014 in the amount of \$300.00 was deposited to School Concessions and was a donation. The treasurer did not maintain Donation Acceptance Form (form F-SA-18), so it cannot be determined if the donation was posted to the proper account.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

RECEIPT NUMBERS

We noted during review of receipts that the deposits dated 7/31/2014, 9/16/2014, 4/21/2015, and 5/13/2015 did not include receipt numbers on the deposit slip.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

MULTIPLE RECEIPT FORM

We noted during review of receipts that the deposit dated 4/21/2015 included a Multiple Receipt Form (form F-SA-6) that appeared to be completed by one person. The Redbook states that students in third grade and above should sign their own names and amounts on the Multiple Receipt Form.

We noted during review of receipts that the deposit dated 5/13/2015 included a Multiple Receipt Form (form F-SA-6) that only indicated the amount of money collected. The Redbook indicates that persons remitting money should be listed singly, with the amount and method of payment listed as well.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2015

CAVERNA HIGH SCHOOL - CONTINUED

IMPROPER ACCOUNT

We noted that the school maintains a Faculty and Staff fund where Staff Coke Machine proceeds are deposited. We also noted that the deposit dated 9/16/2014 indicated that \$250.15 was collected from the Student Coke Machine, and only 70% was deposited to the School Concessions fund. The other 30% was deposited to the Faculty and Staff fund. The Redbook indicates that student-generated funds should be fully deposited to student-generated accounts. There is no way to decipher how much money paid to the student coke machine was generated by staff.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

INVENTORY CONTROL

We noted that Inventory Control Worksheet (form F-SA-5) should have been maintained for T-shirt sales, concessions, and the Subway card fundraiser. We noted no inventory control worksheets on file for these fundraisers.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CREDIT CARD SIGN IN/OUT FORM

We noted that the Credit Card Sign In/Out Form (form F-SA-13) was not properly completed. We noted one instance on 10/30/2014 where the Wal-Mart Credit Card was signed out by the treasurer and witnessed being returned by the treasurer. The employee returning the card should be witnessed by a second individual.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

TICKET SALES

We noted during review of ticket sales that Requisition and Report of Ticket Sales (form F-SA-1) was not properly completed for the volleyball game held on 08/28/2014 and the baseball/softball game held on 03/16/2015. The form used was an out-of-date copy of the Redbook form, and only indicated that one individual was responsible for ticket sales, rather than the required two people responsible for selling and taking tickets.

We noted during the review of disbursements, that check #38282, dated 01/27/2015, in the amount of \$1,368.00 was for the purchase of tickets to be sold to students to attend a basketball tournament. The invoice indicated that the school received 350 total tickets and returned 179 after only selling 171 total tickets. We noted that there was not a Requisition and Report of Ticket Sales Form (form F-SA-1) on file for the sale of these tickets.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2015

CAVERNA HIGH SCHOOL - CONTINUED

FUNDRAISING

We noted that the Fundraiser Approval Form for the Coke Sales fundraiser did not have the activity account listed. Redbook requires the Fundraiser Approval Form to be fully completed.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

DOCUMENTATION ORGANIZATION

We noted that for each check that was written, the copy of the check was kept separate from the corresponding F-SA forms and other documentation.

We noted each deposit made, did not clearly contain the receipts and proper F-SA forms connected to that deposit. There were many items listed in a handwritten receipt book where money was received for various reasons, however we could not locate any F-SA forms for many of those items.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

PURCHASE ORDER FORMS

We noted that check #38071, dated 07/23/2014, written in the amount of \$2,547.35 to Riddell All American from the Football and Athletics Funds, had an attached Purchase Order Form (form F-SA-7) that was dated 03/06/2014 and an invoice that was dated 07/01/2014. We noted that the Purchase Order Form was originally dated 08/23/2014, but had been altered to reflect that it was submitted on 03/06/2014. Redbook requires that Purchase Order Forms be completed and submitted on either the same day or before the purchase is made.

We noted that check #38357, dated 03/11/2015, written in the amount of \$119.00 to EPES Software from the General Fund, had an attached Purchase Order Form (form F-SA-7) that was dated 03/10/2015 and an invoice that was dated 02/26/2015. Redbook requires that Purchase Order Forms be completed and submitted on either the same day or before the purchase is made.

We noted that check #38398, dated 04/06/2015, written in the amount of \$1,368.00 to Tenbarga Seed from the Baseball Fund, had an attached Purchase Order Form (form F-SA-7) that was dated 04/03/2015 and an invoice that was dated 03/16/2015. Redbook requires that Purchase Order Forms be completed and submitted on either the same day or before the purchase is made.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.

CAVERNA INDEPENDENT SCHOOL DISTRICT

COMMENTS – CONTINUED

June 30, 2015

CAVERNA HIGH SCHOOL - CONTINUED

UNALLOWED PURCHASES

We noted that check #38082, dated 08/14/2014, written in the amount of \$67.50 to Kenny's Signs from the General Fund, was for the purchase of signs for the teachers' doors. Redbook disallows the purchase of operational or maintenance items from student activity funds.

We noted that check #38357, dated 03/11/2015, written in the amount of \$119.00 to EPES Software from the General Fund, was for the payment of software renewal fees. According to the invoice, this was a renewal for a site-based and web-based activity accounting software. Redbook disallows the purchase of operational or maintenance items from student activity funds.

MANAGEMENT RESPONSE

Management has discussed the item with school personnel and will implement corrective action by October 31, 2015.