

**AUGUSTA INDEPENDENT
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Augusta Independent School District
Augusta, 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 Augusta Independent School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Augusta Independent School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 5 through 7 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 Augusta Independent School District's basic financial statements. The combining and individual non-major fund financials are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of Augusta Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley, Callaway & Company, PC

November 8, 2013

Augusta Independent School District - Augusta, KY
Managements Discussion and Analysis (MD&A)
Year Ended June 30, 2013

As management of the Augusta Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, was approximately \$179,853 and the ending balance was approximately \$301,267, an increase of \$121,414 for the year.
- The General Fund had \$2,239,193 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$2,295,016 in General Fund expenditures.
- The majority of the District's General Fund revenues were derived from state sources (78%) and local taxes (21%). Regular instruction, student support services, and school administration accounts for 66% of the District's General Fund expenditures. Central support service expenditures were pupil transportation 6%, maintenance and operations 6% and business functions 4%, with central office support, facilities acquisitions, and fund transfers making up 18%.
- The District replaced the board office front porch.
- The District installed a portable air conditioner unit in the library server room.
- The District replaced a fire alarm system panel in the new addition.
- The District repaired the cafeteria walk-in freezer.
- The District joined an Energy Management Partnership and hired an Energy Manager.
- The District acquired eStub software for paperless direct deposit of all employees.
- The District reached a non-resident settlement agreement with Bracken County School District.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements 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 of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our vending and food service operations. All other activities of the District are included in the governmental funds. The basic fund financial statements can be found on pages 10-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$770,073 for Governmental Activities, and \$151,342 for Business Type Activities as of June 30, 2013.

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

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

Net Position for the period ending June 30, 2013 as compared to June 30, 2012

	<u>June 30, 2013</u>	<u>June 30, 2012</u> (as restated)
Current Assets	\$ 735,188	\$ 404,614
Noncurrent Assets	<u>4,917,789</u>	<u>5,161,813</u>
Total Assets	<u>5,652,977</u>	<u>5,566,427</u>
Current Liabilities	713,490	342,707
Noncurrent Liabilities	<u>4,018,072</u>	<u>4,245,945</u>
Total Liabilities	<u>4,731,562</u>	<u>4,588,652</u>
Net Position		
Investment in capital assets (net of debt)	600,111	631,033
Restricted	20,345	6,287
Assigned	-	14,606
Committed	-	7,744
Unrestricted	<u>300,959</u>	<u>318,105</u>
Total Net Position	<u>\$ 921,415</u>	<u>\$ 977,775</u>

The following table presents a summary of revenue and expense on a government-wide basis for the fiscal years ended June 30, 2013 and 2012, respectively.

	2013 Amount	2012 Amount
Revenues:		
Local Revenue Sources	\$ 570,039	\$ 541,468
State Revenue Sources	2,334,084	2,209,129
Federal Sources	383,230	356,428
Interest Income	913	829
Other Sources	21,024	26,516
Total revenues	<u>3,309,290</u>	<u>3,134,370</u>
Expenses:		
Instruction	1,692,482	2,173,857
Student Support Services	95,092	105,424
Instructional Support	470	58
District Administration	409,799	407,579
School Administration	160,619	162,187
Business Support	84,955	53,908
Plant Operations	346,392	155,957
Student Transportation	132,106	132,922
Community Services	36,030	37,377
Food Service Operations	245,379	186,204
Interest	141,550	42,658
Total expenses before KSBIT	<u>3,344,874</u>	<u>3,458,131</u>
Extraordinary item - KSBIT	<u>20,776</u>	<u>-</u>
Total expenses	<u>3,365,650</u>	<u>3,458,131</u>
Revenue over (under) expenses	<u>\$ (56,360)</u>	<u>\$ (323,761)</u>

FUND FINANCIAL ANALYSIS

- The District's total revenues for the governmental funds for the fiscal year ended June 30, 2013 and 2012, net of interfund transfers and bond proceeds, was approximately \$3,088,000 and 2,714,000, respectively.
- The total costs of all programs and services for the governmental funds was approximately \$2,736,000 and \$2,734,000, net of debt service and facilities acquisition and construction, for the fiscal years ended June 30, 2013 and 2012, respectively.

Comments on Budget Comparisons

- The General Fund budget compared to actual revenue varied slightly from line item to line item with ending actual revenue being \$10,748 or 0.61% less than budgeted.
- Actual General Fund expenditures (excluding transfers) compared to budget expenditures, net of contingency allotments, varied slightly from line item to line item with expenditures being \$6,025 or 0.33% less than budgeted.

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2013 - 2014 with \$170,875 or 5.43% contingency. Significant Board action that impacts the finances includes mandated pay increases, and in depth examination of all expense categories, which would include staffing patterns, and any facility repairs outside of bonded building and renovation projects.

Questions regarding this report should be directed to Superintendent Lisa McCane or to Mary Alice Thornbury, Finance Director at 606-756-2545 or by mail at 307 Bracken Street, Augusta, KY 41002.

AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 422,920	\$ -	\$ 422,920
Receivables (net of allowances for uncollectibles):			
Property taxes	29,319	-	29,319
Other	-	-	-
Intergovernmental - state	266,026	-	266,026
Intergovernmental - federal	-	13,720	13,720
Inventories	-	3,203	3,203
Bond issue costs, net of amortization	52,527	-	52,527
Capital assets, not being depreciated	5,198	-	5,198
Capital assets, being depreciated, net	4,717,043	143,021	4,860,064
Total assets	<u>5,493,033</u>	<u>159,944</u>	<u>5,652,977</u>
Liabilities			
Accounts payable	49,258	3,003	52,261
Overdraft payable	194,651	5,599	200,250
Deferred revenue	32,787	-	32,787
Accrued salaries and benefits payable	135,563	-	135,563
Accrued interest payable	8,379	-	8,379
Portion due or payable within one year:			
Accrued sick leave	7,744	-	7,744
Debt obligations	276,506	-	276,506
Portion due or payable after one year:			
Accrued sick leave	8,651	-	8,651
KSBIT Payable	20,776	-	20,776
Debt obligations	3,988,645	-	3,988,645
Total liabilities	<u>4,722,960</u>	<u>8,602</u>	<u>4,731,562</u>
Net Position			
Invested in capital assets, net of related debt	457,090	143,021	600,111
Restricted for:			
Capital projects	12,010	-	12,010
Other purposes	14	8,321	8,335
Unrestricted	300,959	-	300,959
Total net position	<u>\$ 770,073</u>	<u>\$ 151,342</u>	<u>\$ 921,415</u>

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

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 1,692,482	\$ 17,860	\$ 388,031	\$ -	\$ (1,286,591)	\$ -	\$ (1,286,591)
Support services:							
Students	95,092	-	-	-	(95,092)	-	(95,092)
Instructional staff	470	-	-	-	(470)	-	(470)
District administration	409,799	-	-	-	(409,799)	-	(409,799)
School administration	160,619	-	-	-	(160,619)	-	(160,619)
Business and other support services	84,955	-	-	-	(84,955)	-	(84,955)
Operation and maintenance of plant	346,392	-	-	-	(346,392)	-	(346,392)
Student transportation	132,106	5,876	-	-	(126,230)	-	(126,230)
Community services	36,030	1,987	-	-	(34,043)	-	(34,043)
Interest	141,550	-	-	94,475	(47,075)	-	(47,075)
Total governmental activities	<u>3,099,495</u>	<u>25,723</u>	<u>388,031</u>	<u>94,475</u>	<u>(2,591,266)</u>	<u>-</u>	<u>(2,591,266)</u>
Business-type activities:							
Food service	245,379	51,084	175,457	-	-	(18,838)	(18,838)
Total business-type activities	<u>245,379</u>	<u>51,084</u>	<u>175,457</u>	<u>-</u>	<u>-</u>	<u>(18,838)</u>	<u>(18,838)</u>
Total primary government	<u>\$ 3,344,874</u>	<u>\$ 76,807</u>	<u>\$ 563,488</u>	<u>\$ 94,475</u>	<u>\$ (2,591,266)</u>	<u>\$ (18,838)</u>	<u>\$ (2,610,104)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 318,250	\$ -	\$ 318,250
Motor vehicle					26,267	-	26,267
Utilities					148,715	-	148,715
Intergovernmental revenues:							
State					2,059,351	-	2,059,351
Investment earnings					913	-	913
Gain (Loss) on disposal of assets					27	(5,180)	(5,153)
Other local revenues					26,177	-	26,177
Total general revenues and transfers					<u>2,579,700</u>	<u>(5,180)</u>	<u>2,574,520</u>
Extraordinary item - KSBIT assessment					(20,776)	-	(20,776)
Change in net position					<u>(32,342)</u>	<u>(24,018)</u>	<u>(56,360)</u>
Net position, June 30, 2012, as restated					<u>802,415</u>	<u>175,360</u>	<u>977,775</u>
Net position, June 30, 2013					<u>\$ 770,073</u>	<u>\$ 151,342</u>	<u>\$ 921,415</u>

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

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 410,896	\$ -	\$ 14	\$ 12,010	\$ 422,920
Receivables (net of allowances for uncollectibles):					
Taxes	29,319	-	-	-	29,319
Intergovernmental - state	-	266,026	-	-	266,026
Intergovernmental - federal	-	-	-	-	-
Total assets	<u>\$ 440,215</u>	<u>\$ 266,026</u>	<u>\$ 14</u>	<u>\$ 12,010</u>	<u>\$ 718,265</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 10,670	\$ 38,588	\$ -	\$ -	\$ 49,258
Accrued salaries and benefits payable	135,563	-	-	-	135,563
Overdraft	-	194,651	-	-	194,651
Deferred revenue	-	32,787	-	-	32,787
Total liabilities	<u>146,233</u>	<u>266,026</u>	<u>-</u>	<u>-</u>	<u>412,259</u>
Fund balances:					
Restricted for accrued sick leave	7,744	-	-	-	7,744
Restricted for SFCC escrow	-	-	-	12,010	12,010
Restricted for construction escrow	-	-	-	-	-
Restricted for debt service	-	-	14	-	14
Unassigned	286,238	-	-	-	286,238
Total fund balances	<u>293,982</u>	<u>-</u>	<u>14</u>	<u>12,010</u>	<u>306,006</u>
Total liabilities and fund balances	<u>\$ 440,215</u>	<u>\$ 266,026</u>	<u>\$ 14</u>	<u>\$ 12,010</u>	<u>\$ 718,265</u>

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

AUGUSTA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET POSITION
JUNE 30, 2013

Fund balances—total governmental funds	\$ 306,006
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,722,241
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities Statement of Net Position	52,527
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(4,310,701)</u>
Net position of governmental activities	<u>\$ 770,073</u>

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

AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	\$ 292,415	\$ -	\$ -	\$ 25,835	\$ 318,250
Motor vehicles	26,267	-	-	-	26,267
Utilities	148,715	-	-	-	148,715
Tuition from individuals	17,860	-	-	-	17,860
Transportation fees	5,876	-	-	-	5,876
Interest income	556	-	357	-	913
Community services	1,987	-	-	-	1,987
Other local revenues	2,056	24,121	-	-	26,177
Intergovernmental - State	1,742,020	174,382	286,068	94,475	2,296,945
Intergovernmental - Indirect federal	-	243,471	-	-	243,471
Intergovernmental - Direct federal	1,441	-	-	-	1,441
Total revenues	<u>2,239,193</u>	<u>441,974</u>	<u>286,425</u>	<u>120,310</u>	<u>3,087,902</u>
Expenditures:					
Current:					
Instruction	1,285,855	412,152	-	-	1,698,007
Support services:					
Students	78,137	-	-	-	78,137
Instructional staff	-	-	-	-	-
District administration	407,724	-	-	-	407,724
School administration	160,619	-	-	-	160,619
Business and other support services	84,955	-	-	-	84,955
Operation and maintenance of plant	143,933	-	-	-	143,933
Student transportation	126,191	-	-	-	126,191
Community services	-	36,030	-	-	36,030
Facilities acquisition and construction	-	-	-	-	-
Debt service	7,602	-	393,961	750	402,313
Total expenditures	<u>2,295,016</u>	<u>448,182</u>	<u>393,961</u>	<u>750</u>	<u>3,137,909</u>
Excess (deficiency) of revenues over expenditures	<u>(55,823)</u>	<u>(6,208)</u>	<u>(107,536)</u>	<u>119,560</u>	<u>(50,007)</u>
Other financing sources (uses):					
Transfers in	-	6,208	107,550	-	113,758
Transfers out	(6,208)	-	-	(107,550)	(113,758)
Total other financing sources (uses)	<u>(6,208)</u>	<u>6,208</u>	<u>107,550</u>	<u>(107,550)</u>	<u>-</u>
Net change in fund balances	(62,031)	-	14	12,010	(50,007)
Fund balances, June 30, 2012	<u>356,013</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,013</u>
Fund balances, June 30, 2013	<u>\$ 293,982</u>	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ 12,010</u>	<u>\$ 306,006</u>

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

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances—total governmental funds \$ (50,007)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Loss on disposal of assets	27	
Capital outlay	39,165	
Depreciation expense	<u>(260,607)</u>	(221,415)

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following.

Long-term portion of accrued sick leave	(907)
Bond issuance costs, net of amortization	(3,965)
Interest Payable	(901)
KISBIT payable	(20,776)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.

Bond and capital lease payments	<u>265,629</u>	
Change in net position of governmental activities		<u><u>\$ (32,342)</u></u>

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

AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	<u>Food Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ -
Accounts receivable	13,720
Inventories	3,203
Total current assets	<u>16,923</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>143,021</u>
Total noncurrent assets	<u>143,021</u>
Total assets	<u><u>\$ 159,944</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 3,003
Overdraft	5,599
Total current liabilities	<u>8,602</u>
Total liabilities	<u>8,602</u>
Net Position	
Invested in capital assets	143,021
Restricted	8,321
Total net position	<u>151,342</u>
Total liabilities and net position	<u><u>\$ 159,944</u></u>

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

AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 50,691
Other operating revenues	393
Total operating revenues	<u>51,084</u>
Operating expenses:	
Salaries and wages	67,113
Employee benefits	42,651
Materials and supplies	120,300
Depreciation	13,464
Other operating expenses	1,851
Total operating expenses	<u>245,379</u>
Operating loss	<u>(194,295)</u>
Nonoperating revenues (expenses):	
Federal grants	138,318
Loss on disposal of assets	(5,180)
Investment income	-
Donated commodities	10,279
State grants	26,860
Total nonoperating revenue (expense)	<u>170,277</u>
Decrease in net position	(24,018)
Net position, June 30, 2012	<u>175,360</u>
Net position, June 30, 2013	<u>\$ 151,342</u>

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

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 50,691
Other operating revenues	393
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(105,537)
Payments to employees	(84,773)
Other payments	(1,851)
Net cash used for operating activities	<u>(141,077)</u>
Cash flows from noncapital financing activities:	
Government grants	<u>131,377</u>
Net cash provided by noncapital and related financing activities	<u>131,377</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>-</u>
Net cash provided by (used for) capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest received on investments	<u>-</u>
Net cash provided by (used for) investing activities	<u>-</u>
Net decrease in cash and cash equivalents	(9,700)
Cash and cash equivalents, June 30, 2012	<u>4,101</u>
Cash and cash equivalents (overdraft), June 30, 2013	<u>\$ (5,599)</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (194,295)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	13,464
Donated commodities	10,279
On-behalf payments	24,991
Change in assets and liabilities:	
Inventory	4,205
Accounts payable	279
Net cash used for operating activities	<u>\$ (141,077)</u>
Non-cash items:	
Donated commodities	\$ 10,279
On-behalf payments	24,991

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

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	<u>Trust Funds</u>	<u>Activity Funds</u>
Assets		
Cash and cash equivalents	\$ 58,925	\$ 19,672
Accounts receivable	-	-
Total assets	<u>58,925</u>	<u>19,672</u>
Liabilities		
Accounts payable	-	13,308
Due to students	-	6,364
Total liabilities	<u>-</u>	<u>19,672</u>
Net position held in trust	<u><u>\$ 58,925</u></u>	<u><u>\$ -</u></u>

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

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Trust Funds
Additions -	
Interest income	\$ -
Deductions -	
Benefits paid	-
Change in net position	-
Net position, June 30, 2012	58,925
Net position, June 30, 2013	\$ 58,925

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

AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes -				
Property	\$ 293,000	\$ 294,220	\$ 292,415	\$ (1,805)
Motor vehicles	30,000	26,000	26,267	267
Utilities	150,000	140,000	148,715	8,715
Tuition and fees	12,000	15,000	17,860	2,860
Transportation fees	10,000	10,000	5,876	(4,124)
Interest income	2,000	830	556	(274)
Community services	2,500	2,000	1,987	(13)
Other local revenues	14,300	9,064	2,056	(7,008)
Intergovernmental - State	1,266,981	1,261,862	1,257,055	(4,807)
Intergovernmental - Direct federal	4,000	6,000	1,441	(4,559)
Other sources	-	-	-	-
Total revenues	<u>1,784,781</u>	<u>1,764,976</u>	<u>1,754,228</u>	<u>(10,748)</u>
Expenditures:				
Current:				
Instruction	948,914	950,994	925,848	25,146
Support services:				
Students	96,046	90,368	60,981	29,387
District administration	409,227	349,363	381,194	(31,831)
School administration	136,369	134,510	132,465	2,045
Business and other support services	44,633	41,070	78,721	(37,651)
Operation and maintenance of plant	137,763	128,712	117,349	11,363
Student transportation	157,128	112,459	105,891	6,568
Community services	1,000	1,000	-	1,000
Debt service	8,821	7,600	7,602	(2)
Contingency	247,510	332,294	-	332,294
Total expenditures	<u>2,187,411</u>	<u>2,148,370</u>	<u>1,810,051</u>	<u>338,319</u>
Excess (deficiency) of revenues over expenditures	<u>(402,630)</u>	<u>(383,394)</u>	<u>(55,823)</u>	<u>327,571</u>
Other financing sources (uses):				
Sale of equipment	340	300	-	(300)
Transfers in	5,644	5,644	-	(5,644)
Transfers out	(3,354)	(5,000)	(6,208)	(1,208)
Total other financing sources (uses)	<u>2,630</u>	<u>944</u>	<u>(6,208)</u>	<u>(7,152)</u>
Net change in fund balances	<u>(400,000)</u>	<u>(382,450)</u>	<u>(62,031)</u>	<u>320,419</u>
Fund balances, June 30, 2012	<u>400,000</u>	<u>382,450</u>	<u>356,013</u>	<u>(26,437)</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293,982</u>	<u>\$ 293,982</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			484,965	
On-behalf payments:				
Instruction			(360,007)	
Support services:				
Students			(17,156)	
District administration			(26,530)	
School administration			(28,154)	
Business and other support services			(6,234)	
Operation and maintenance of plant			(26,584)	
Student transportation			(20,300)	
Fund balance, June 30, 2013 (GAAP basis)			<u>\$ 293,982</u>	

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

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest income	\$ -	\$ -	\$ -	\$ -
Other local revenues	2,000	30,998	24,121	(6,877)
Intergovernmental - State	143,300	189,780	174,382	(15,398)
Intergovernmental - Indirect federal	321,841	225,625	243,471	17,846
Intergovernmental - Direct federal	-	-	-	-
Total revenues	<u>467,141</u>	<u>446,403</u>	<u>441,974</u>	<u>(4,429)</u>
Expenditures:				
Current:				
Instruction	430,844	413,758	412,152	1,606
Support services:				
Students	-	-	-	-
Instructional staff	-	-	-	-
Operation and maintenance of plant	-	-	-	-
Student transportation	-	-	-	-
Community services	39,651	42,981	36,030	6,951
Operation of non-instructional services	-	-	-	-
Total expenditures	<u>470,495</u>	<u>456,739</u>	<u>448,182</u>	<u>8,557</u>
Excess (deficiency) of revenues over expenditures	<u>(3,354)</u>	<u>(10,336)</u>	<u>(6,208)</u>	<u>4,128</u>
Other financing sources:				
Transfers in	3,354	4,140	6,208	2,068
Total other financing sources	<u>3,354</u>	<u>4,140</u>	<u>6,208</u>	<u>2,068</u>
Net change in fund balances	-	(6,196)	-	6,196
Fund balances, June 30, 2012	-	-	-	-
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ (6,196)</u>	<u>\$ -</u>	<u>\$ 6,196</u>

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

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(1) REPORTING ENTITY

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

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

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

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements.

Augusta Independent School District Finance Corporation - The Board authorized the establishment of the Augusta 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) as an agency of the District for financing the costs of school building facilities. The members of the Board of Education also comprise the Corporation's Board of Directors.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Augusta Independent School District substantially comply with generally accepted accounting principles and the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

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

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (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 specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. 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) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds,

where applicable. Funds may be used for projects identified in the District's facility plan.

3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

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

II. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (includes Agency and Trust Funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*

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. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

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

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

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

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Fund, which records inventory at cost, on the first-in, first-out basis, using the accrual method of accounting.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. 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 are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. 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 with the exception of land. 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>Estimated Lives</u>
Buildings and improvements	25-50 years
Infrastructure	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	5-12 years
Other general	7-10 years

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem tax is levied prior to June 30, of each year on the assessed value listed as of the prior January 1, for all real and business personal property located in the District. The assessed value of property upon which the levy for the 2013 fiscal year was based was \$48,566,207.

The tax rates assessed for the year ended June 30, 2013 to finance general fund operations were \$.616 on real estate, \$.616 on personal property, and \$.576 on motor vehicles per \$100 valuation.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2013 were approximately 87.60% of the tax levy.

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The District also receives commodities from USDA. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

Interfund Balances

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

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 difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See note (12) for these amounts which were not known by the District at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination

benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance - amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

Net Position

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Interfund Activity

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

Estimates

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

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the District was not required to change the reporting of current or past transactions.

The Governmental Accounting Standards Board (GASB) issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position".

The Governmental Accounting Standards Board (GASB) issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District has not completed the process of the evaluation of GASB No. 65; however, the District does expect it to have an impact on its future financial statements.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015.

(3) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as debt obligations represents the District's future obligations to make lease payments relating to bonds issued in the original amount of \$5,530,000.

Bonds

The General Fund, Facilities Support Program (FSPK) Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide among other things, (1) for

rentals sufficient to satisfy debt service requirements on bonds issued by the Augusta Independent School District Finance Corporation to construct school facilities and (2) the Board with the option to purchase the properties under leases at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of present outstanding issues, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Issue of 4-1-96	\$ 810,000	4.30% to 5.25%
Issue of 6-1-04	390,000	4.65%
Issue of 12-1-06	395,000	3.95%
Issue of 1-1-08	3,395,000	3.25% to 3.875%
Issue of 5-1-11	540,000	2.50% to 4.60%
	<u>\$ 5,530,000</u>	

The bonds may be called prior to maturity at dates and redemption premiums specified in the issues.

KSBIT Payable

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$20,776. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. The District has recorded this estimated amount in their long-term obligations since ultimate payment is probable and is included as an extraordinary item on the Statement of Activities.

A summary of long-term debt and other long-term liabilities is as follows:

<u>Description</u>	<u>Balance at June 30, 2012 (as restated)</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2013</u>
General obligation bonds - \$5,530,000 originally issued with interest rates ranging from 2.50% to 5.25%	\$ 4,285,000	\$ -	\$ 230,000	\$ 4,055,000
KISTA	245,780	-	35,629	210,151
KSBIT Payable	-	20,766	-	20,766
Accumulated unpaid sick leave	15,488	907	-	16,395
	<u>\$ 4,546,268</u>	<u>\$ 21,673</u>	<u>\$ 265,629</u>	<u>\$ 4,302,312</u>

In connection with the bond issues of 1996, 2004, 2006, 2008, and 2011, the Board entered into a participation agreement with the Kentucky School Facilities Construction Commission,

whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the Board notice of its intention not to participate within sixty days prior to the expiration of the two year period.

Assuming no issues are called prior to scheduled maturity and that the Kentucky School Facilities Construction Commission continues to renew its agreement, the minimum obligations at June 30, 2013 for debt service (principal and interest) are as follows:

June 30,	Kentucky School Facilities Construction Commission's Portion		District's Portion		Total
	Interest	Principal	Interest	Principal	
2014	\$ 121,481	\$ 199,091	\$ 39,236	\$ 77,415	\$ 437,223
2015	115,052	205,521	35,428	80,765	436,766
2016	108,275	212,297	32,401	60,113	413,086
2017	101,319	210,660	30,375	56,598	398,952
2018	94,023	217,957	28,277	55,326	395,583
2019-2023	356,075	1,055,889	107,622	303,519	1,823,105
2024-2028	146,730	1,146,536	44,323	278,464	1,616,053
2029-2032	5,377	56,407	4,283	48,593	114,660
	<u>\$ 1,048,332</u>	<u>\$ 3,304,358</u>	<u>\$ 321,945</u>	<u>\$ 960,793</u>	<u>\$ 5,635,428</u>

(4) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2013, this amount totaled \$16,395. The District follows a policy of funding up to one-half of the total amount accrued as a reservation of the General Fund balance.

(5) RETIREMENT PLANS

Kentucky Retirement System

The District contributes to the Teachers Retirement System of Kentucky ("KTRS"), a cost sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring a four (4) year college degree or certification by Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS,

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). The KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS. Members hired after July 1, 2008, contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky contributes matching contributions at the rate of 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% for members hired after July 1, 2008. The Federal program for any salaries paid by that program pays the matching contributions.

The District's total payroll for the year was \$1,436,326. The payroll for employees covered under KTRS was \$1,297,456. For the years ended June 30, 2013, 2012, and 2011, the Commonwealth of Kentucky contributed \$156,237, \$157,586, and \$167,613, respectively, to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ended June 30, 2013, 2012, and 2011 were \$18,946, \$24,140, and \$25,401, respectively, which represents those employees covered by Federal Programs.

Medical Insurance Plan

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

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

Funding policy - In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at 0.75% of members' gross salaries. Member contributions are 1.75% of salary. Also, premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, the District pays 1.0% of members' salary.

County Employees Retirement System

Substantially all other employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or from the KRS website at <https://kyret.ky.gov>.

Funding for CERS is provided by members who contribute 5% of their salary through payroll deductions and by employers of members who contribute 19.55% of the member's salary. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the years ending June 30, 2013, 2012, and 2011 were \$75,385, \$72,760, and \$72,979, respectively, equal to the required contributions for the year.

(6) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2013, the carrying amount of the Board's cash and cash equivalents was \$301,267 and the related bank balances totaled \$390,545. Of these total bank balances, \$250,014 was insured by the Bank Insurance Fund and \$140,531 was secured by collateral held by the pledging bank in the District's name.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Special Revenue (Grant Funds), Debt Service Fund, School Construction Fund, School Food Service Funds, and School Activity Funds.

(7) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	June 30, 2012	Additions	(Deductions) Reclassification	June 30, 2013
<u>Governmental Activities</u>				
Land and land improvements	\$ 95,270	\$ -	\$ (26,352)	\$ 68,918
Buildings and improvements	6,558,218	-	26,352	6,584,570
Technology equipment	457,471	39,165	(1,239)	495,397
Vehicles	207,614	-	-	207,614
General	231,278	-	-	231,278
Totals at historical cost	<u>7,549,851</u>	<u>39,165</u>	<u>(1,239)</u>	<u>7,587,777</u>
Less: accumulated depreciation --				
Land improvements	(40,213)	-	(27)	(40,186)
Buildings and improvements	(1,804,514)	(204,694)	-	(2,009,208)
Technology equipment	(401,336)	(39,010)	(1,239)	(439,107)
Vehicles	(181,529)	(6,604)	-	(188,133)
General	(178,603)	(10,299)	-	(188,902)
Total accumulated depreciation	<u>(2,606,195)</u>	<u>(260,607)</u>	<u>(1,266)</u>	<u>(2,865,536)</u>
Governmental Activities Capital Assets - Net	<u>\$ 4,943,656</u>	<u>\$ (221,442)</u>	<u>\$ 27</u>	<u>\$ 4,722,241</u>
<u>Business-Type Activities</u>				
Buildings and improvements	\$ 427,600	\$ -	\$ -	\$ 427,600
General	102,277	-	(5,190)	97,087
Technology equipment	1,985	-	-	1,985
Totals at historical cost	<u>531,862</u>	<u>-</u>	<u>-</u>	<u>526,672</u>
Less: accumulated depreciation				
Buildings and improvements	(325,725)	(11,095)	-	(336,820)
General	(42,477)	(2,369)	-	(44,846)
Technology equipment	(1,995)	-	(10)	(1,985)
Total accumulated depreciation	<u>(370,197)</u>	<u>(13,464)</u>	<u>-</u>	<u>(383,651)</u>
Business-Type Activities Capital Assets - Net	<u>\$ 161,656</u>	<u>\$ (13,464)</u>	<u>\$ (5,180)</u>	<u>\$ 143,021</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 32,733
Student support services	16,955
Instructional staff support	470
District administration	2,075
School administration	-
Business support services	-
Plant operation & maintenance	202,459
Student transportation	5,915
	<u>\$ 260,607</u>

(8) OPERATING LEASES

The District has operating lease agreements for use of equipment and various parcels of real estate cancelable annually with the option to renew. The District recognizes the expenditures related to those obligations in the General Fund as lease payments are made. Total rent expenditures under operating type leases were approximately \$12,961.

(9) 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 on 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 Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District's liability would be \$20,776. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014.

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

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

(11) COBRA

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

(12) ON-BEHALF PAYMENTS

For fiscal year 2013, the Commonwealth of Kentucky contributed estimated payments on behalf of the Augusta Independent School District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 156,237
Health & Life Insurance Plan	312,389
Technology	41,330
Debt Service	286,068

These amounts are included in the financial statements as state revenue and in the appropriate expense category. Retirement contributions are allocated to the different functions in the same proportion as full-time employees.

(13) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 6,208
Debt Service	SEEK Building Fund	Debt Service	Debt Service	95,098
Debt Service	SEEK Capital Outlay	Debt Service	Debt Service	12,452

(14) PRIOR PERIOD ADJUSTMENTS

The District included \$219,285 for the 2009 KISTA lease in the value of capital leases and in the value of bonds payable at June 30, 2012, thus double recording the liability.

Beginning net position has been restated as follows:

Statement of Net Position	<u>Governmental Activities</u>	
	<u>As Previously Reported</u>	<u>As Restated</u>
Total Assets	\$ 5,388,343	\$ 5,388,343
Total liabilities	4,805,213	4,585,928
Net Position:		
Invested in capital assets, Net of related debt	250,083	469,368
Nonspendable purchase obligations	7,198	7,198
Committal accrued sick leave	7,744	7,744
Unassigned	318,105	318,105
	<u>\$ 583,130</u>	<u>\$ 802,415</u>

SUPPLEMENTAL INFORMATION

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013**

	Non-Major Capital Project Funds	Total Non-Major Governmental Funds
ASSETS:		
Cash and cash equivalents	\$ 12,010	\$ 12,010
Accounts receivable	-	-
Total assets	\$ 12,010	\$ 12,010
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
Fund Balances:		
Restricted for SFCC escrow	12,010	12,010
Restricted for debt service	-	-
Total fund balance	12,010	12,010
Total liabilities and fund balances	\$ 12,010	\$ 12,010

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Non-Major Capital Project Funds</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES:		
From local sources -		
Property taxes	\$ 25,835	\$ 25,835
Earnings on investments	-	-
Intergovernmental - Direct Federal subsidy	-	-
Intergovernmental - State	94,475	94,475
Total revenues	<u>120,310</u>	<u>120,310</u>
EXPENDITURES:		
Current -		
Debt service	750	750
Total expenditures	<u>750</u>	<u>750</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>119,560</u>	<u>119,560</u>
OTHER FINANCING USES:		
Operating transfers in	-	-
Operating transfers out	(107,550)	(107,550)
Total other financing uses	<u>(107,550)</u>	<u>(107,550)</u>
NET CHANGE IN FUND BALANCE	12,010	12,010
FUND BALANCE JUNE 30, 2012	<u>-</u>	<u>-</u>
FUND BALANCE JUNE 30, 2013	<u>\$ 12,010</u>	<u>\$ 12,010</u>

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR CAPITAL PROJECT FUNDS
 JUNE 30, 2013**

	FSPK Fund	SEEK Fund	Construction Fund	Total Non-Major Capital Project Funds
ASSETS:				
Cash and cash equivalents	\$ -	\$ 12,010	\$ -	\$ 12,010
Accounts receivable	-	-	-	-
Total assets	\$ -	\$ 12,010	\$ -	\$ 12,010
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balances:				
Restricted for SFCC escrow	-	12,010	-	12,010
Total fund balance	-	12,010	-	12,010
Total liabilities and fund balances	\$ -	\$ 12,010	\$ -	\$ 12,010

AUGUSTA INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR CAPITAL PROJECT FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	FSPK Fund	SEEK Fund	Construction Fund	Total Non-major Capital Project Funds
REVENUES:				
From local sources -				
Property taxes	\$ 25,835	\$ -	\$ -	\$ 25,835
Intergovernmental - State	69,263	25,212	-	94,475
Interest income	-	-	-	-
Total revenues	<u>95,098</u>	<u>25,212</u>	<u>-</u>	<u>120,310</u>
EXPENDITURES:				
Current -				
Facilities acquisition and construction	-	-	-	-
Debt service	-	750	-	750
Total expenditures	<u>-</u>	<u>750</u>	<u>-</u>	<u>750</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>95,098</u>	<u>24,462</u>	<u>-</u>	<u>119,560</u>
OTHER FINANCING USES:				
Operating transfers out	(95,098)	(12,452)	-	(107,550)
Total other financing uses	<u>(95,098)</u>	<u>(12,452)</u>	<u>-</u>	<u>(107,550)</u>
NET CHANGE IN FUND BALANCE	-	12,010	-	12,010
FUND BALANCE JUNE 30, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE JUNE 30, 2013	<u>\$ -</u>	<u>\$ 12,010</u>	<u>\$ -</u>	<u>\$ 12,010</u>

AUGUSTA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 DEBT SERVICE FUNDS
 JUNE 30, 2013

	1996 Bond Fund	2004 Bond Fund	2006 Bond Fund	2008 Bond Fund	2011 Bond Fund	Totals Debt Service Funds
ASSETS:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ 14
Accounts receivable	-	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 14</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:						
Restricted for debt service	-	-	-	14	-	14
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>-</u>	<u>14</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 14</u>

AUGUSTA INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	1996 Bond Fund	2004 Bond Fund	2006 Bond Fund	2008 Bond Fund	2011 Bond Fund	Totals Debt Service Funds
REVENUES:						
Intergovernmental - State	\$ 8,594	\$ 13,215	\$ 23,644	\$ 219,239	\$ 21,376	\$ 286,068
Intergovernmental - Direct Federal	-	-	-	-	-	-
Interest income	255	88	-	14	-	357
Total revenues	<u>8,849</u>	<u>13,303</u>	<u>23,644</u>	<u>219,253</u>	<u>21,376</u>	<u>286,425</u>
EXPENDITURES:						
Debt service	64,568	29,183	27,343	236,822	36,045	393,961
Total expenditures	<u>64,568</u>	<u>29,183</u>	<u>27,343</u>	<u>236,822</u>	<u>36,045</u>	<u>393,961</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(55,719)</u>	<u>(15,880)</u>	<u>(3,699)</u>	<u>(17,569)</u>	<u>(14,669)</u>	<u>(107,536)</u>
OTHER FINANCING SOURCES:						
Bond proceeds	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-
Operating transfers in	55,719	15,880	3,699	17,583	14,669	107,550
Total other financing sources	<u>55,719</u>	<u>15,880</u>	<u>3,699</u>	<u>17,583</u>	<u>14,669</u>	<u>107,550</u>
NET CHANGE IN FUND BALANCE	-	-	-	14	-	14
FUND BALANCE JUNE 30, 2012	-	-	-	-	-	-
FUND BALANCE JUNE 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 14</u>

**AUGUSTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance June 30, 2012	Receipts	Disburse- ments	Cash Balance June 30, 2013	Accounts Payable	Deposits Held in Custody for Students June 30, 2013
Athletics	\$ 8,155	\$ 122,901	\$ 117,748	\$ 13,308	\$ (13,308)	\$ -
Band	182	4,972	4,149	1,005	-	1,005
Beta Club	-	60	60	-	-	-
CD Interest	2,629	-	2,629	-	-	-
Champions	1,280	1,000	1,860	420	-	420
Class of 2013	6,407	6,692	10,328	2,771	-	2,771
Class of 2014	3,951	4,585	5,188	3,348	-	3,348
Class of 2015	1,133	1,892	2,067	958	-	958
Class of 2016	581	539	1,053	67	-	67
Class of 2017	99	764	267	596	-	596
Class of 2018	-	2,849	1,698	1,151	-	1,151
Culinary Arts	238	358	358	238	-	238
Drama Club	550	-	-	550	-	550
Faculty Enhancement	2,607	3,622	15,887	(9,658)	-	(9,658)
FBLA	139	1,908	1,848	199	-	199
FCCLA	761	3,493	3,600	654	-	654
Fitness Center	-	44	9	35	-	35
Future Educators	161	-	-	161	-	161
Gifted and Talented	-	1,564	1,555	9	-	9
High School Art	310	-	24	286	-	286
Library	30	2,319	2,144	205	-	205
Ohio River Valley	2,398	-	2,397	1	-	1
Senior Trip Deposit	-	3,550	3,550	-	-	-
Special Education Fund	1,389	66	850	605	-	605
Student Enhancement	3,958	11,411	14,468	901	-	901
Yearbook/Newspaper	3,034	1,572	2,744	1,862	-	1,862
	<u>\$ 39,992</u>	<u>\$ 176,161</u>	<u>\$ 196,481</u>	<u>\$ 19,672</u>	<u>\$ (13,308)</u>	<u>\$ 6,364</u>



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Augusta Independent School District (the "District") as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 8, 2013. 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 *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

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

Kelley, Gallaway + Company, PSC

November 8, 2013



Kelley,
Galloway &
Company, PSC

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

In planning and performing our audit of the financial statements of Augusta Independent School District (the "District") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 8, 2013, on the financial statements of the District.

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

Kelley, Galloway & Company, PSC

November 8, 2013

AUGUSTA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2013

AUDIT ADJUSTMENTS

Condition: During our audit of the annual financial report (AFR) provided by the District, we noted several account balances that required adjustments. These adjustments included the following:

- Commodities received from the USDA
- Value of food inventory on hand
- Additional accounts payable
- Additional accounts receivable
- On-behalf contributions

Furthermore we noted that the finance officer had not properly processed fixed assets at year end.

Criteria: All required adjusting entries should be posted to the balance sheet and the AFR as part of the annual closing process.

Cause: Historically, the District has not recorded the identified adjustments and has relied upon the audit to identify and correct the balances. As a result, the Finance officer had not made some of the year-end adjustments correctly.

Effect: Several account balances were misstated.

Recommendation: We recommend that the District implement controls to ensure that all adjustments are properly recorded during the year-end closing. In implementing these controls, the District may need to provide more training to current staff or hire additional staff to help in the financial process.

Management's Response: The District will hire and train additional staff and reorganize financial duties to help ensure adjustments are properly recorded, controls implemented and financial processes completed.

ACTIVITY FUNDS

Dual Signature

Condition: We noted that check number 5393 did not contain the second, required signature of the principal or superintendent.

Criteria: The District requires dual signatures on activity fund checks.

Cause: Apparent oversight.

Effect: The District violated their internal procedures over activity fund disbursements.

Recommendation: We recommend that more care be taken to ensure that all activity fund checks contain dual signatures.

Management's Response: The bookkeeper and principal will review the activity fund disbursement procedures and properly sign all activity fund checks.

Supporting Documentation

Condition: We noted that check numbers 5666 and 5357 to K's IGA did not have detailed receipts of the items purchased to support the disbursement. We noted that checks 5346 (Maysville Roller Rink), 5379 (Snappy Tomato), 5384 (Newport Central), 5487 (Lonnie Gregg - Referee), and 5724 (Joe Kielman - Referee) did not have invoices to support the disbursements.

Criteria: All activity fund disbursements should be properly supported with proper documentation.

Cause: Controls are not in place to ensure that the information is properly obtained and maintained.

Effect: Proper supporting documentation is not present for disbursements.

Recommendation: We recommend that more care be taken to ensure that all activity fund checks contain proper supporting documentation for the disbursements.

Management's Response: All activity fund checks will have invoices as supporting documentation for the disbursements.

Proper Authorization

Condition: We noted that the standard invoice for check 5393 was not signed by the principal.

Criteria: All standard invoices should be signed by the principal to show proper authorization.

Cause: Oversight.

Effect: The standard invoice does not show proper authorization for the disbursement.

Recommendation: We recommend that more care be taken to ensure that all standard invoices are properly signed by the principal to document authorization.

Management's Response: All standard invoices will be properly signed by the principal.

Accounts Payable

Condition: We noted that accounts payable is not being monitored for the activity fund by the principal or bookkeeper.

Criteria: The activity fund bookkeeper and principal should follow proper accounting standards and KDE Redbook guidelines and properly monitor and record accounts payable items.

Cause: The activity fund bookkeeper and principal did not have an understanding of accounts payable and they had never tracked or recorded accounts payable items in the past.

Effect: The activity fund bookkeeper and principal thought that they had more funds available than what was actually present.

Recommendation: We recommend that the activity fund bookkeeper and principal implement proper controls to monitor and record accounts payable.

Management's Response: The bookkeeper and principal will review KDE's Redbook guidelines to properly monitor and record accounts payable.

Activity Account with a Negative Balance

Condition: We noted that the Faculty Enhancement activity account ended the year with a negative balance of \$9,658.

Criteria: The KDE Redbook guidelines state that no activity accounts are to end the year with a negative balance.

Cause: This occurred due to the fact that the activity fund was improperly carrying a certificate of deposit on their books in the amount of \$10,821. Testing showed that this C.D. was cashed out over seven years ago. As a result, the activity fund recorded the \$10,821 as a disbursement in the current year. Transfers could have been recorded between the activity funds to clear the deficit. The activity fund bookkeeper and principal, along with the superintendent, felt that it would be best for the activity fund as a whole if they did not perform the transfers and reported the amount as negative with the KDE Redbook violation.

Effect: Violation of KDE Redbook requirement. By not properly reconciling the cash accounts and keeping up with the C.D. the activity fund bookkeeper and principal discovered that they have substantially less funds available than they were reporting.

Recommendation: We recommend that the activity fund implement proper controls over spending and make every effort possible to bring the negative balance to zero.

Management's Response: The proper controls over spending will be implemented and fundraising efforts are underway to bring the negative balance of the activity account to zero.

Stale Checks

Condition: We noted that the activity fund had two checks outstanding written prior to June 30, 2010 (checks 3718 and 4074). The activity fund bookkeeper has not taken steps to escheat these funds to the State of Kentucky.

Criteria: The State of Kentucky escheatment criteria call for checks that are greater than three years old to be escheated to the State.

Cause: The activity fund bookkeeper was not familiar with Kentucky's escheatment criteria.

Effect: Violation of State of Kentucky's escheatment policy.

Recommendation: We recommend that the activity fund bookkeeper and principal implement proper controls to escheat the stale checks to the State of Kentucky.

Management's Response: The bookkeeper and principal will receive training to properly escheat checks greater than three-years-old.

DISTRICT DISBURSEMENTS

Proper Cancelling of Invoices

Condition: We noted one check (number 19491) out of 40 tested where the documentation was not properly cancelled with either a PAID stamp or otherwise noted at the bottom of the standard invoice.

Criteria: Items should be properly cancelled to prevent duplicate payment.

Cause: Oversight.

Effect: The invoice could potentially get paid twice.

Recommendation: We recommend that more care be taken to ensure that all invoices are properly cancelled.

Management's Response: Invoices will be properly canceled with a PAID stamp.

Supporting Documentation

Condition: We noted one check (19259) out of 40 tested where the supporting documentation could not be located. The disbursement was in the amount of \$94.31 to KSBIT.

Criteria: Disbursements should be properly supported with proper documentation.

Cause: Oversight.

Effect: Supporting documentation was not present for the disbursement.

Recommendation: We recommend that more care be taken to ensure that all disbursements are accompanied with supporting documentation.

Management's Response: All checks will have proper invoices as supporting documentation for the disbursements.

Disbursements in Excess of Approved Purchase Orders (P.O.)

Condition: We noted two checks out of 40 tested where the approved P.O's were less than the actual expenditures. A P.O. for Pearson Education (check 19062) was approved for \$500; however, the actual amount paid was \$2,419.13. A P.O. for Gordon Food Service, Inc. (check 19351) was approved for \$6,779.36; however, the actual amount paid was \$8,450.47.

Criteria: P.O's should be used to properly support disbursements and if the amount of the invoice exceeds the P.O. then a new P.O. should be generated and approved.

Cause: The District does not have proper controls in place during the review process to note when disbursements exceed the P.O. amounts.

Effect: Disbursements are not properly supported by approved P.O's.

Recommendation: We recommend that more care be taken to ensure that P.O's properly support disbursements for the correct amounts.

Management's Response: The finance officer will request a new purchase order if the invoice does not reflect the same amounts before disbursement.

Expenditure Account Coding

Condition: We noted two checks out of 40 tested where the approved disbursement was improperly expensed to the wrong account. Check 19323 in the amount of \$110.25 was paid to School Nutrition Association for membership dues and the expenditure was charged to the Travel. Check 19412 in the amount of \$4,150.06 was paid to KSBIT for fourth quarter unemployment but the amount was posted to the Other Professional Services.

Criteria: Disbursements should be recorded in the proper expenditure account code.

Cause: The District has not expanded the expenditure accounts to reflect all accounts needed.

Effect: Charging expenditures to the incorrect account can have a negative impact on the budgeting process due to the fact that items are not being charged to the correct account.

Recommendation: We recommend that more care be taken to ensure that expenditures are posted to the correct account.

Management's Response: The finance officer will correct and add expenditure account codes to properly code expenditures.

PAYROLL

Proper Documentation

Condition: We noted three instances where employees' previous years work experience was not documented in the personnel file. We also noted that the file of the director of the Family Resource Center was not updated to reflect the new salary level until the 2013-2014 school year, rather than 2012 -2013.

Criteria: Salaries and years of experience should be properly documented.

Cause: The District has never seen a need to document these items in the past.

Effect: We were unable to verify the employees' number of years of experience because there was not documentation in the file to support the employee previous work experience. For the Family Resource Center Director, we were unable to verify the salary to the approved salary schedule.

Recommendation: We recommend that more care be taken to ensure that proper documentation is maintained in the employee files.

Management's Response: All salaries will be reflected on the district's salary schedules and properly documented in the employee's file.

Substitute Teacher Pay

Condition: We noted that a substitute (advice number 773) was paid for 4.5 days at \$77 a day; however, according to the sign-in sheets and certification, she should have only been paid 3.5 days at a Rank 4 (\$72 a day). We also noted a substitute was paid as a Rank 1 (\$87 a day) when she should have been paid \$82 a day as a Rank 2.

Criteria: Substitute teachers should be paid for the correct number of days at the appropriate rate.

Cause: The District does not have adequate controls in place to ensure that substitutes are paid the correct amount for the correct time worked.

Effect: Substitutes were over paid for the services performed.

Recommendation: We recommend that more care be taken to ensure substitutes are paid the correct rate and for the correct number of days.

Management's Response: Payroll controls will be implemented to ensure substitute teachers are paid the correct rate and number of days.

Deductions Support

Condition: We noted that an employee's American Fidelity form could not be located to support the payroll deduction. We also noted that his cafeteria deduction form had been thrown away, along with the cafeteria report used to obtain the amount owed to the cafeteria.

Criteria: Support for payroll deductions should be properly maintained.

Cause: The District has never seen a reason to maintain the supporting reports in the past.

Effect: We were unable to verify the accuracy of payroll deductions.

Recommendation: Since employees are able to sign-up for coverage directly through American Fidelity, a standard form should be utilized to document the employee's authorization. Also, all cafeteria deduction forms and cafeteria reports should be maintained to support the amount withheld from the employee's paycheck.

Management's Response: All American Fidelity, Cafeteria deduction forms and reports will be maintained to properly support the amount withheld from the employee's paycheck.

PUBLICATION OF ANNUAL FINANCIAL STATEMENTS

Condition: We noted that the district did not publish a notice in the newspaper stating the availability of the District's annual financial statements.

Criteria: Per the State Compliance Requirements from KDE, District's should publish in the newspaper the availability of the annual financial statements.

Cause: Unfamiliarity with the compliance requirement.

Effect: Failure to follow compliance requirement.

Recommendation: We recommend that the District publish the notice of availability in the newspaper.

Management Response: The District will publish a notice in the newspaper stating the availability of the District's annual financial statements.

SPECIAL REVENUE BUDGET

Condition: We noted that the final budget for the Special Revenue Fund reflected a deficit of \$6,196 for the year.

Criteria: District's should prepare their Special Revenue Fund budget so that it does not contain a deficit at year end.

Cause: Oversight.

Effect: The District budgeted a deficit for the year.

Recommendation: We recommend the Board take more care to properly review and approve the budget.

Management Response: The District will prepare an appropriate special revenue fund budget for future fiscal years.

Follow-up on Prior Year Recommendations

None of the conditions listed above are repeat findings from the prior year. All other prior year conditions have been implemented and corrected. Ms. Lisa McCane, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.