

**CARLISLE COUNTY SCHOOL DISTRICT**



FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

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## Independent Auditor's Report

Kentucky State Committee for School  
District Audits  
Members of the Board  
Carlisle County School District  
Bardwell, 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 Carlisle County School 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; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## **Opinions**

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

## **Emphasis of Matter**

As described in Notes 16 and 17 to the financial statements, in fiscal year 2013, the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The District also adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 35 and 36 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 Carlisle County School District's basic financial statements. The additional information shown on pages 37 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013 on our consideration of Carlisle County 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 Carlisle County School District's internal control over financial reporting and compliance.

*Williams, Williams + Lentz, LLP*

Paducah, Kentucky  
November 5, 2013

**REQUIRED SUPPLEMENTARY INFORMATION**

**CARLISLE COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2013**

As management of the Carlisle County Board of Education, we offer readers of the District's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- On July 1, 2012, the beginning cash balance, including investments for all District funds, was \$3,005,905. This total does not include agency or activity funds held at the school level.
- On June 30, 2013, the ending cash balance, including investments for all District funds, was \$1,694,095, a decrease of \$1,311,810. This decrease is due to bond proceeds from the cafeteria project received in the prior year being expended during the 2012-2013 year.
- Total revenues for the District General Fund were \$6,461,435. The primary source of these revenues was the state SEEK program and local taxes.
- Total expenditures for the District General Fund were \$6,466,518. Of these expenses, 38.03% were instructional salary costs, which were raised by \$100 for certified employees and \$.50 per hour for classified employees.
- The ending balance for the District General Fund was \$808,121, a decrease from the prior year of \$5,083. This decrease is due to declining funding from the Kentucky Department of Education.
- Ending carryover balance for the District General Fund was \$778,130. This includes contingency in the amount of \$403,000 and Unassigned Funds of \$375,130.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements and notes to those statements. The District's basic financial statements are comprised of three components:

1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information.

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

The *statement of net position* provides information concerning the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with net position being the remaining balance. A long-term trend of increasing or decreasing net position may be an indicator of District financial stability. However, one must take into consideration that the primary purpose of a school district is to provide quality educational services to all students, not to generate profits. Many factors over which the District has no control have a significant influence on the financial position of the District. Some of these include: property tax wealth, state and federal tax laws, restricted educational program funding, and others.

The *statement of activities* provides a more detailed explanation of the change in net position over the fiscal year. Revenues and Expenses are recorded when incurred, not when received or paid. Governmental activities are those supported by property taxes and intergovernmental revenues. These activities include: instruction, support services, plant operations and maintenance, transportation, community services, facility acquisition and construction, and interest on long-term debt.

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

**Fund financial statements:** A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS accounting software. All of the District's funds can be divided into 3 types: governmental, proprietary, and fiduciary. Food Service is our only proprietary fund. Fiduciary funds are held as trust funds established by benefactors to aide in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 18 of this report.

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

The notes to the financial statements can be found on pages 19 through 34 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As previously discussed, net position may be a long-term indicator of a District's financial position. For the fiscal year ended June 30, 2013, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by 2.25 million. The largest portion (1.7 million) of these assets are capital assets less related debt and funds restricted for capital projects, allocations to Site-Based Council funds required by statute, debt service, and sick leave payable.

#### Net Position for the Years Ended June 30

	<u>2013</u>	<u>2012</u>
Current assets	\$ 2,065,513	\$ 3,444,227
Non-current assets	<u>10,511,157</u>	<u>10,170,385</u>
Total assets	<u>12,576,670</u>	<u>13,614,612</u>
Deferred outflows of resources	<u>105,255</u>	<u>117,445</u>
Current liabilities	698,728	1,355,583
Non-current liabilities	<u>9,731,998</u>	<u>9,700,792</u>
Total liabilities	<u>10,430,726</u>	<u>11,056,375</u>
Net investment in capital assets	890,211	685,177
Restricted	809,194	1,223,464
Unrestricted	<u>551,794</u>	<u>767,041</u>
TOTAL NET POSITION	<u>\$ 2,251,199</u>	<u>\$ 2,675,682</u>

As a comparison for the year ended June 30, 2013, total net assets have decreased by \$424,483.

The following is a summary of revenues and expenses for the year ended June 30, 2013, for selected funds.

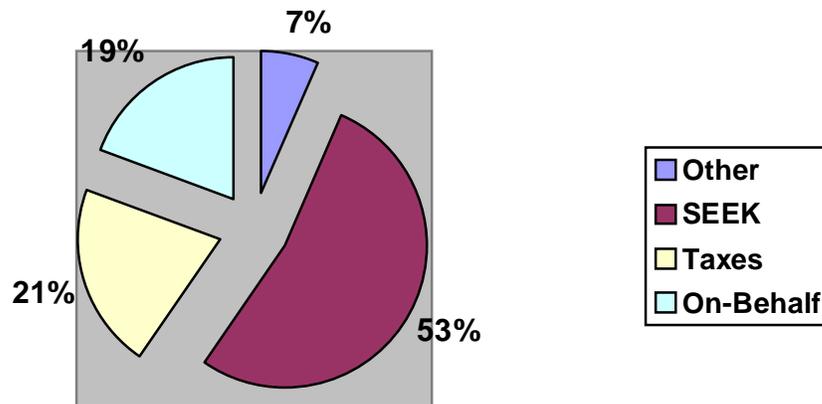
<b>Revenues:</b>	<u>2013</u>	<u>2012</u>
Operating grants and contributions	\$ 1,413,732	\$ 1,680,690
Capital grants and contributions	543,889	493,593
Charges for services	139,242	157,816
Taxes	1,656,127	1,515,589
State aid	5,031,189	4,616,900
Investment earnings	22,292	25,611
Other	11,555	94,359
Loss on sale of equipment	<u>22,310</u>	<u>(1,117)</u>
Total revenues	<u>8,840,336</u>	<u>8,583,441</u>

<b>Expenses:</b>	<u>2013</u>	<u>2012</u>
Instruction	\$ 4,722,991	\$ 4,759,364
Student support services	320,600	286,237
Instructional staff support	310,857	195,005
District administration	509,526	389,939
School administration	382,590	374,705
Business	273,285	274,346
Plant operations and maintenance	831,288	955,098
Student transportation	595,047	582,968
Community service	74,314	79,263
Facility acquisition and construction	54,796	94,009
Interest on long-term debt	389,083	375,180
Food services	<u>473,749</u>	<u>476,358</u>
 Total expenses	 <u>8,938,126</u>	 <u>8,842,472</u>
 CHANGE IN NET POSITION	 <u>\$ (97,790)</u>	 <u>\$ (259,031)</u>

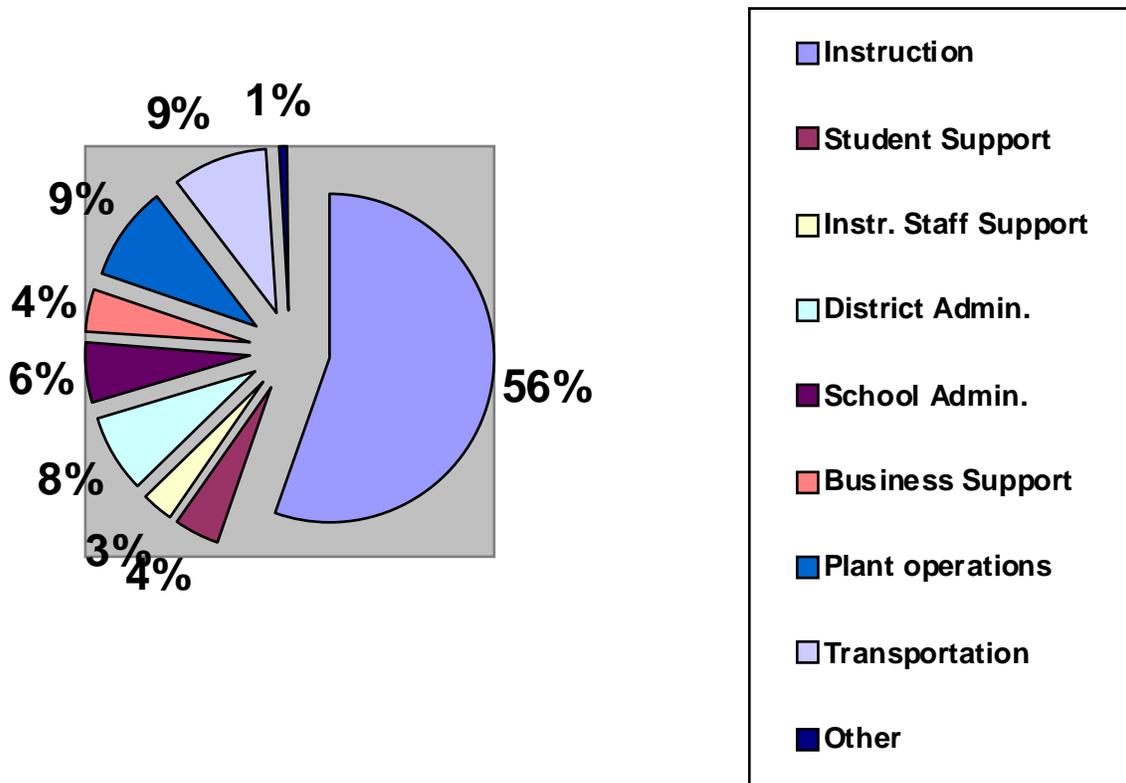
### Overview of Fund Activities and Budgets

#### General Fund

By statute, the District's general fund budget is a three-stage process. The draft budget is prepared in January for the next fiscal year. It is further revised in May as a tentative budget and finalized in September as the working budget. The budget consists of management's best efforts to predict revenues and expenditures for the year. The District's two major sources of revenue come from the state's SEEK program and local tax dollars. The SEEK amounts are set by the Kentucky Legislature based on a per pupil amount. Tax rates are set by the Board of Education in September. Below is an illustration of actual revenues for the period ending June 30, 2013. Total general fund revenues for 2012-2013 are \$6,461,435.



The primary expenditure category for the District is instruction. This is made up of teachers' salaries and benefits, as well as monies allocated to the site-based councils for instructional supplies. All other general fund expenditures fall into the support services category. These include Student support, instructional staff support, District administration, school administration, business support, plant operations and maintenance, and transportation. Total general fund expenditures for 2012-2013 were \$6,466,518. Below is an illustration of the distribution of general fund expenditures.



### Comments on Budget Comparison

Excluding on-behalf payments of \$1,254,964 and including beginning balances, the General Fund budget compared to actual revenue varied slightly with the ending balance being 7.7% or \$430,041 more than budgeted. This is largely due to an increase of \$98,948 in taxes collected over the budgeted amount, as well as a capital funds transfer of \$215,576 for the purpose of paying insurances/lease payments. A conservative estimate of all revenues are used to offset any decrease in funding from the state during the school year.

General Fund Expenditures, net of on-behalf payments of \$1,254,964, compared to budgeted expenditures, net of contingency allotments of \$357,108 were \$10,372 less than budgeted. Salary costs were \$15,247 less than budgeted, due to unpaid medical leaves.

### RESTRICTED FUNDS

The Special Revenue fund is made up of state and federal grants. These grants are for specific purposes, such as the various Title programs, Extended School Services, Family Resource and Youth Services Center, Safe Schools, Gifted and Talented, and others. The ending balance in this fund will always be zero.

The Capital Outlay Fund is a state appropriation given for the purpose of new construction and site improvements, as well as debt service payments, and may not be used for the general operating expenses of the District. Due to increased flexibility granted by the General Assembly, districts were given the authorization to use capital outlay funds to offset various General Fund expenditures following approval from the Department of Education, utilizing a capital funds request transfer. During the 2012-2013 year, \$71,829 of capital outlay funds was transferred to the General Fund.

The FSPK, or Building Fund, is funded through a percentage of local property taxes as well as monies appropriated by the state. The primary expense of this fund is to pay bond principal and interest on long-term debt. FSPK Funds may also be used for new construction and site improvements. During the 2012-2013 school year, \$385,841 was paid out for debt retirement. The remaining \$143,747 in the Building Fund was transferred to the General Fund by means of a capital funds request transfer.

The Fiscal Agent Fund is treated as a “pass-through” account. The Board was designated as fiscal agent for the KY-ASAP grant in the amount of \$245,769 to date plus reimbursements from another school district for their shared use of the coordinator.

The Food Service fund is a proprietary fund that is self-sufficient. Its revenues consist of state reimbursements and receipts from the sale of breakfast and lunch.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

As of June 30, 2013, the District’s net investment in capital assets totaled \$890,211. The increase of \$205,034 is largely due to the construction of a new cafeteria.

Principal and interest debt payments for 2012-2013 totaled \$529,231, excluding payments made by SFCC. There are currently seven outstanding bond issues, one of which is totally funded by SFCC payments and four capital leases as of June 30, 2013. The total principal to be paid by the School District, exclusive of payments made by the SFCC are as follows:

<u>Project</u>	<u>Amount</u>	<u>Maturity</u>
2007 - Qualified Zone Academy Revenue Bond	\$ 500,000	2022
2008 - Improvements/HVAC High/Middle School	1,550,481	2028
2009 - High School Roof/Grinder/Paving	171,555	2029
2009Ref - Refinancing of 1994 and 1996 Issues	21,435	2017
KISTA - Bus Lease	152,649	2019
2010Ref - Refinancing of 2001 Issue	1,300,000	2021
Musco Lighting Lease	121,270	2021
2011 - Qualified Zone Academy Bond	1,796,370	2029
2012 KISTA - Bus Lease	82,416	2022
2013 KISTA – Bus Lease	84,800	2023

See Notes 5 and 6 on pages 27 through 30 for additional detail.

**FUTURE BUDGETARY IMPLICATIONS**

The fiscal year for all public schools in Kentucky is July 1 - June 30. Many of the grant programs operate on a different calendar, but are reflected in the District’s overall budget.

As state funding to public schools has decreased, the District’s general fund budget, as well as many grant programs, have become much tighter. When coupled with increasing salary costs, as well as the rising costs of utilities and fuel and increased maintenance costs due to the aging of our facilities, the District has been forced to make difficult decisions concerning the most efficient ways of doing business. The District has made HVAC and electrical improvements in two of our schools. Renovations have been made to the interiors of both the middle and high schools. A grinder has been installed in our sewage treatment facility, the high school has received a new roof, and all parking lots have been paved. A new District-wide cafeteria was completed in August 2013. A renovation to the middle school gymnasium and conversion of the old cafeteria to new classroom space is planned for the 2013-2014 year. All of these projects should help to extend the useful life of our current campus.

By law, districts must maintain at least a 2% contingency in the general fund. For fiscal year 2013-2014, the Board has approved a 5.3% contingency in the working budget. No salary increase was given for the 2013-2014 school year.

We continue to strive to find the most cost-effective ways to spend our resources, while still offering the highest quality of education possible to the students of this District.

Any questions concerning this report can be directed to Superintendent Jay Simmons (270-628-3800) or Finance Officer Rachel Bowles (270-628-3800 ext. 7006).

## **BASIC FINANCIAL STATEMENTS**

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$ 1,123,525	\$ 45,726	\$ 1,169,251
Accounts receivable:			
Taxes	21,809	-	21,809
Delinquent taxes, net of allowance of \$295,000	133,914	-	133,914
Accounts	41,386	-	41,386
Interest	129	23	152
Intergovernmental - federal	135,063	23,356	158,419
Investments - prefunded escrow	524,844	-	524,844
Inventories	-	15,738	15,738
Nondepreciated capital assets:			
Land	10,500	-	10,500
Depreciated capital assets:			
Land improvements	162,619	-	162,619
Buildings	12,756,990	-	12,756,990
Furniture and equipment	3,329,333	208,633	3,537,966
Less: accumulated depreciation	<u>(5,814,390)</u>	<u>(142,528)</u>	<u>(5,956,918)</u>
<b>Total assets</b>	<u>12,425,722</u>	<u>150,948</u>	<u>12,576,670</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred bond discounts	<u>105,255</u>	<u>-</u>	<u>105,255</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	88,431	7,966	96,397
Overdraft	86,566	-	86,566
Accrued payroll and related expenses	2,409	-	2,409
Advanced revenues	62,636	-	62,636
Long-term obligations:			
Due within one year:			
Bond and lease obligations	372,129	-	372,129
Interest payable	78,591	-	78,591
Due beyond one year:			
Bond and lease obligations	9,379,005	-	9,379,005
Accrued sick leave payable	26,300	-	26,300
KSBIT assessment	<u>326,693</u>	<u>-</u>	<u>326,693</u>
<b>Total liabilities</b>	<u>10,422,760</u>	<u>7,966</u>	<u>10,430,726</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	824,106	66,105	890,211
Restricted for:			
Sick leave	10,600	-	10,600
Debt service	525,020	-	525,020
Future construction contracts	273,574	-	273,574
Unrestricted	<u>474,917</u>	<u>76,877</u>	<u>551,794</u>
<b>TOTAL NET POSITION</b>	<u>\$ 2,108,217</u>	<u>\$142,982</u>	<u>\$ 2,251,199</u>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<u><b>FUNCTIONS/PROGRAMS</b></u>	<b>Program Revenues</b>			
<b>Governmental Activities:</b>	<u><b>Expenses</b></u>	<u><b>Charges for Services</b></u>	<u><b>Operating Grants and Contributions</b></u>	<u><b>Capital Grants and Contributions</b></u>
Instruction	\$4,722,991	\$ 21,042	\$ 905,784	\$ -
Support services:				
Student	320,600	-	57,100	-
Instructional staff	310,857	-	92,405	-
District administration	509,526	-	-	-
School administration	382,590	-	-	-
Business	273,285	-	-	-
Plant operations and maintenance	831,288	-	(10,294)	-
Student transportation	595,047	-	-	-
Community service	74,314	-	73,394	-
Facility acquisition and construction	54,796	-	-	359,359
Interest on long-term debt	389,083	-	-	184,530
Total governmental activities	<u>8,464,377</u>	<u>21,042</u>	<u>1,118,389</u>	<u>543,889</u>
<b>Business-type Activities:</b>				
Food services	<u>473,749</u>	<u>118,200</u>	<u>295,343</u>	<u>-</u>
<b>TOTAL SCHOOL DISTRICT</b>	<u><u>\$8,938,126</u></u>	<u><u>\$139,242</u></u>	<u><u>\$1,413,732</u></u>	<u><u>\$543,889</u></u>

General revenue and receipts:

Taxes:

Property  
Motor vehicle  
Utility  
In lieu  
Telecommunication  
Other

State aid

State aid - on-behalf  
Investment earnings

Other

Special items:

Proceeds from sale of equipment  
Transfers

Total general revenue and special items

Change in net position

Net position, July 1, 2012, as previously stated  
Adjustments to net position, see notes 16 and 17

Net position, July 1, 2012, as restated

**NET POSITION, JUNE 30, 2013**

See notes to financial statements.

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$(3,796,165)	\$ -	\$ (3,796,165)
(263,500)	-	(263,500)
(218,452)	-	(218,452)
(509,526)	-	(509,526)
(382,590)	-	(382,590)
(273,285)	-	(273,285)
(841,582)	-	(841,582)
(595,047)	-	(595,047)
(920)	-	(920)
304,563	-	304,563
(204,553)	-	(204,553)
<u>(6,781,057)</u>	<u>-</u>	<u>(6,781,057)</u>
-	(60,206)	(60,206)
<u>(6,781,057)</u>	<u>(60,206)</u>	<u>(6,841,263)</u>
1,031,036	-	1,031,036
254,588	-	254,588
279,428	-	279,428
77,563	-	77,563
13,179	-	13,179
333	-	333
3,461,205	-	3,461,205
1,527,147	42,837	1,569,984
21,938	354	22,292
11,555	-	11,555
22,310	-	22,310
19,096	(19,096)	-
<u>6,719,378</u>	<u>24,095</u>	<u>6,743,473</u>
(61,679)	(36,111)	(97,790)
2,608,124	179,093	2,787,217
(438,228)	-	(438,228)
<u>2,169,896</u>	<u>-</u>	<u>2,348,989</u>
<u>\$ 2,108,217</u>	<u>\$142,982</u>	<u>\$ 2,251,199</u>

**CARLISLE COUNTY SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2013**

<u><b>ASSETS</b></u>	<u><b>General Fund</b></u>	<u><b>Special Revenue (Grant) Fund</b></u>	<u><b>Construction Fund</b></u>	<u><b>Nonmajor Funds</b></u>	<u><b>Total Governmental Funds</b></u>
Cash and cash equivalents	\$844,649	\$ -	\$129,266	\$149,610	\$ 1,123,525
Accounts receivable:					
Taxes	21,809	-	-	-	21,809
Accounts	7,997	33,389	-	-	41,386
Interest	129	-	-	-	129
Intergovernmental - federal	-	135,063	-	-	135,063
<b>TOTAL ASSETS</b>	<u><u>\$874,584</u></u>	<u><u>\$168,452</u></u>	<u><u>\$129,266</u></u>	<u><u>\$149,610</u></u>	<u><u>\$ 1,321,912</u></u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities:</b>					
Accounts payable	\$ 64,054	\$ 19,250	\$ -	\$ 5,127	\$ 88,431
Overdraft	-	86,566	-	-	86,566
Accrued payroll and related expenses	2,409	-	-	-	2,409
Advanced revenues	-	62,636	-	-	62,636
<b>Total liabilities</b>	<u><u>66,463</u></u>	<u><u>168,452</u></u>	<u><u>-</u></u>	<u><u>5,127</u></u>	<u><u>240,042</u></u>
<b>Fund Balances:</b>					
Restricted for:					
Sick leave	10,600	-	-	-	10,600
Debt service	-	-	-	175	175
Future construction contracts	-	-	129,266	144,308	273,574
Committed for:					
Contingency	403,000	-	-	-	403,000
Assigned for:					
Debt service	-	-	-	-	-
Site based carry forward SBDM	19,391	-	-	-	19,391
Unassigned	375,130	-	-	-	375,130
<b>Total fund balances</b>	<u><u>808,121</u></u>	<u><u>-</u></u>	<u><u>129,266</u></u>	<u><u>144,483</u></u>	<u><u>1,081,870</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$874,584</u></u>	<u><u>\$168,452</u></u>	<u><u>\$129,266</u></u>	<u><u>\$149,610</u></u>	<u><u>\$ 1,321,912</u></u>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

Total fund balances per fund financial statement \$ 1,081,870

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

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

Cost	\$16,259,442	
Accumulated depreciation	<u>(5,814,390)</u>	10,445,052

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

Delinquent taxes	133,914	
Investments - prefunded escrow	<u>524,844</u>	658,758

Deferred charges including debt issuance costs are amortized in the governmental activities, but were recognized in full in the governmental funds. 105,255

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

Interest payable	<u>(78,591)</u>	(78,591)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund statements. Long-term liabilities at year end consist of:

Bond and lease obligations	(9,751,134)	
Accrued sick leave payable	<u>(26,300)</u>	(9,777,434)

The Kentucky Schools Boards Insurance Trust liability related to the deficit in the worker's compensation and liability pools is not due and payable in the current period and, therefore, not reported as liabilities in the fund statements. (326,693)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ 2,108,217**

Note: Nonmajor funds consist of the Capital Outlay, FSPK, and Debt Service.

See notes to financial statements.

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

	<b>General Fund</b>	<b>Special Revenue (Grant) Fund</b>	<b>Construction Fund</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Taxes	\$1,360,948	\$ -	\$ -	\$ 233,226	\$ 1,594,174
Earnings on investments	5,801	-	-	1	5,802
Intergovernmental - state	3,474,385	440,982	-	359,359	4,274,726
Intergovernmental - on-behalf	1,254,964	-	-	272,182	1,527,146
Intergovernmental - federal	-	573,225	-	184,530	757,755
Other	23,555	113,224	-	-	136,779
<b>Total revenues</b>	<b>6,119,653</b>	<b>1,127,431</b>	<b>-</b>	<b>1,049,298</b>	<b>8,296,382</b>
<b>Expenditures:</b>					
Current:					
Instruction	3,579,801	926,263	-	-	4,506,064
Support services:					
Student	259,392	57,100	-	-	316,492
Instructional staff	209,755	92,405	-	-	302,160
District administration	496,431	-	-	-	496,431
School administration	381,174	-	-	-	381,174
Business	272,966	-	-	-	272,966
Plant operations and maintenance	583,769	(10,294)	-	-	573,475
Student transportation	607,195	-	-	-	607,195
Community service	-	73,394	-	-	73,394
Facility acquisition and construction	-	-	1,009,371	44	1,009,415
Debt service:					
Principal	46,161	-	-	483,154	529,315
Interest and other charges	18,437	-	-	359,330	377,767
<b>Total expenditures</b>	<b>6,455,081</b>	<b>1,138,868</b>	<b>1,009,371</b>	<b>842,528</b>	<b>9,445,848</b>
Excess (deficit) of revenues over expenditures	<u>(335,428)</u>	<u>(11,437)</u>	<u>(1,009,371)</u>	<u>206,770</u>	<u>(1,149,466)</u>
<b>Other Financing Sources (Uses):</b>					
Increase in capital lease obligations	84,800	-	-	-	84,800
Proceeds from sale of assets	22,310	-	-	-	22,310
Operating transfers in	234,672	11,437	-	385,841	631,950
Operating transfers out	(11,437)	-	-	(601,417)	(612,854)
<b>Total other financing sources (uses)</b>	<b>330,345</b>	<b>11,437</b>	<b>-</b>	<b>(215,576)</b>	<b>126,206</b>
<b>Net change in fund balances</b>	<b>(5,083)</b>	<b>-</b>	<b>(1,009,371)</b>	<b>(8,806)</b>	<b>(1,023,260)</b>
Fund balances, July 1, 2012	813,204	-	1,138,637	153,289	2,105,130
<b>FUND BALANCES, JUNE 30, 2013</b>	<b>\$ 808,121</b>	<b>\$ -</b>	<b>\$ 129,266</b>	<b>\$ 144,483</b>	<b>\$ 1,081,870</b>

See notes to financial statements.

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

Net change in fund balances \$ (1,023,260)

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

Depreciation expense	\$ (599,962)	
Capital outlays	<u>955,024</u>	355,062

Payment of construction retainage payable is recognized on the fund statements since it requires the use of current financial resources. The expense was recognized in the prior year when incurred in the statement of activities.

Construction retainage		104,609
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Increases in capital lease obligations are reported as financing sources in governmental funds and, thus, contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities.

(84,800)

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

Prefund escrow payment	178,154	
Capital lease paid	46,161	
Principal paid	<u>305,000</u>	529,315

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

Amortization of bond discounts		(12,190)
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Generally, revenue is recognized in this fund financial statement when it becomes both measurable and available to finance expenditures of the current period.

Delinquent taxes	48,775	
Interest earned on prefunded escrow	<u>16,136</u>	64,911

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred. These net differences are as follows:

Accrued sick leave	3,800	
Accrued interest expense	<u>874</u>	<u>4,674</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ (61,679)</u></u>
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See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2013**

<u><b>ASSETS</b></u>	<u><b>Enterprise Fund Food Services</b></u>
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 45,726
Interest receivable	23
Intergovernmental receivable - federal	23,356
Inventories	15,738
Total current assets	84,843
<b>Noncurrent Assets:</b>	
Furniture and equipment	208,633
Less accumulated depreciation	(142,528)
Total noncurrent assets	66,105
<b>TOTAL ASSETS</b>	150,948
 <u><b>LIABILITIES</b></u>  	
<b>Current Liabilities:</b>	
Accounts payable	7,966
 <u><b>NET POSITION</b></u>  	
Invested in capital assets	66,105
Unrestricted	76,877
<b>TOTAL NET POSITION</b>	\$ 142,982

See notes to financial statements.

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

	<u><b>Enterprise Fund Food Services</b></u>
<b>Operating Revenues:</b>	
Lunchroom sales	\$ 118,200
<b>Operating Expenses:</b>	
Salaries and wages	222,432
In-kind commodities	24,187
Materials and supplies	205,867
Depreciation	14,291
Other operating expenses	6,972
Total operating expenses	<u>473,749</u>
Operating income (loss)	<u>(355,549)</u>
<b>Nonoperating Revenues:</b>	
Federal grants	266,825
Federal grants - in-kind commodities	24,187
State grants	4,331
State grants - on-behalf	42,837
Interest income	354
Total nonoperating revenues	<u>338,534</u>
<b>Operating Transfers:</b>	
Transfer out	<u>(19,096)</u>
Change in net position	(36,111)
Net position, July 1, 2012	<u>179,093</u>
NET POSITION, JUNE 30, 2013	<u><u>\$ 142,982</u></u>

See notes to financial statements.

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

	<u><b>Enterprise Fund Food Services</b></u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from:	
Lunchroom sales	\$ 118,200
Cash paid to/for:	
Employees	(222,432)
Supplies	(192,249)
Other activities	(6,972)
	<u>(303,453)</u>
Net cash used by operating activities	<u>(303,453)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Transfer to general fund	(19,096)
Government grants	291,940
	<u>272,844</u>
Net cash provided by noncapital financing activities	<u>272,844</u>
<b>Cash Flows from Investing Activities:</b>	
Receipt of interest income	677
	<u>677</u>
Net cash provided by investing activities	<u>677</u>
Net decrease in cash and cash equivalents	(29,932)
Cash and cash equivalents, July 1, 2012	<u>75,658</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2013</b>	<u><u>\$ 45,726</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (355,549)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	14,291
Commodities used	24,187
Change in assets and liabilities:	
Inventory	9,480
Accounts payable	4,138
	<u>4,138</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><u>\$ (303,453)</u></u>
<b>Schedule of Noncash Transactions:</b>	
Donated commodities received from federal government	<u><u>\$ 24,187</u></u>

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2013**

	<b>Agency Funds</b>
<b>Assets:</b>	
Cash and cash equivalents	\$225,214
<b>Liabilities:</b>	
Accounts payable	45,861
Due to student groups	89,411
Due to students in general	86,745
Due to teachers	3,197
Total liabilities	225,214
<b>NET POSITION</b>	\$ -

See notes to financial statements.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2013

**Note 1 - Reporting Entity:**

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

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

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

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

**Carlisle County School Board Finance Corporation** - In 1988, the Carlisle County, Kentucky School District resolved to authorize the establishment of the Carlisle County School Board Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Carlisle County School District also comprise the Corporation's Board of Directors.

**Note 2 - Summary of Significant Accounting Policies:**

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

**Basis of Presentation**

*Government-Wide Financial Statements*

The statement of net position and the statement of activities display information about the District as a whole. These statements include all financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2013

**Note 2 - Summary of Significant Accounting Policies:**

**Basis of Presentation**

*Government-Wide Financial Statements*

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

*Fund Financial Statements*

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and fund balances, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenue and other financing resources) and uses (i.e., expenditures and other uses) of current financial resources.

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

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

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2013

**Note 2 - Summary of Significant Accounting Policies:**

**Fund Accounting**

The District has the following funds:

a. Governmental Fund Types

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

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

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

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

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

b. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$24,187 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund for the District.

c. Fiduciary Fund Types

Agency Funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The Agency 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*.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2013

**Note 2 - Summary of Significant Accounting Policies:**

**Basis of Accounting**

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

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

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

Advanced Revenue - Advanced revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as advanced revenue.

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

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

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

**Property Taxes**

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

The property tax rates assessed for the year ended June 30, 2013, to finance operations were \$.519 per \$100 valuation for real property, \$.519 per \$100 valuation for business personal property, and \$.478 per \$100 valuation for motor vehicles.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2013

**Note 2 - Summary of Significant Accounting Policies:**

**Property Taxes**

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

**Budgetary Process**

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

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

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

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

**Cash and Cash Equivalents**

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

**Inventories**

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

**Debt Discounts**

Unamortized debt discounts of \$105,255 are included in the government-wide statements as deferred outflows of resources. Debt discounts are amortized over the lives of the related debt issues using the effective interest method.

**Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Technology assets acquired through E-rate are capitalized at full cost with the portion paid by E-rate being treated as donated assets.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 2 - Summary of Significant Accounting Policies:**

**Capital Assets**

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

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

**Accumulated Unpaid Sick Leave Benefits**

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

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

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

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

**Accrued Liabilities and Long-Term Obligations**

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

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

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 2 - Summary of Significant Accounting Policies:**

**Fund Balance Classifications**

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

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

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

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

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

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

**Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net position reports \$809,194 of restricted net position, of which \$10,600 is restricted by enabling legislation.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
JUNE 30, 2013

**Note 2 - Summary of Significant Accounting Policies:**

**Operating Revenues and Expenses**

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

**Use of Restricted Sources**

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

**Interfund Activity**

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

**Subsequent Events**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 5, 2013, the date the financial statements were available to be issued.

**Note 3 - Estimates:**

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

**Note 4 - Cash and Cash Equivalents:**

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

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

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 4 - Cash and Cash Equivalents:**

At year end, the carrying amount of the District's cash and cash equivalents was \$1,394,465 and the bank balance was \$1,705,038. Deposits were held in two financial institutions located within Carlisle County. Of the bank balance, \$435,716 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. This remaining balance of \$1,269,322 was uninsured and collateralized with securities held by the pledging bank's agent, not in the District's name.

**Note 5 - Capital Assets:**

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

<b>Governmental Activities:</b>	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
Land	\$ 10,500	\$ -	\$ -	\$ 10,500
Construction in progress	2,831,113	(2,831,113)	-	-
Land improvements	162,619	-	-	162,619
Buildings and improvements	9,059,234	3,697,756	-	12,756,990
Technology equipment	579,792	5,995	-	585,787
General equipment	1,612,963	-	-	1,612,963
Vehicles	<u>1,094,889</u>	<u>82,386</u>	<u>46,692</u>	<u>1,130,583</u>
Totals at historical cost	<u>15,351,110</u>	<u>955,024</u>	<u>46,692</u>	<u>16,259,442</u>
Less accumulated depreciation:				
Land improvements	135,729	6,104	-	141,833
Buildings and improvements	3,231,398	320,995	-	3,552,393
Technology equipment	528,793	35,839	-	564,632
General equipment	652,916	157,566	-	810,482
Vehicles	<u>712,284</u>	<u>79,458</u>	<u>46,692</u>	<u>745,050</u>
Total accumulated depreciation	<u>5,261,120</u>	<u>599,962</u>	<u>46,692</u>	<u>5,814,390</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET</b>	<b><u>\$10,089,990</u></b>	<b><u>\$ 355,062</u></b>	<b><u>\$ -</u></b>	<b><u>\$10,445,052</u></b>
Business-type Activities:				
Food service equipment	\$ 231,569	\$ -	\$ 51,759	\$ 179,810
Technology equipment	<u>28,823</u>	<u>-</u>	<u>-</u>	<u>28,823</u>
Totals at historical cost	<u>260,392</u>	<u>-</u>	<u>51,759</u>	<u>208,633</u>
Less accumulated depreciation:				
Food service equipment	152,330	14,039	51,759	114,610
Technology equipment	<u>27,666</u>	<u>252</u>	<u>-</u>	<u>27,918</u>
Total accumulated depreciation	<u>179,996</u>	<u>14,291</u>	<u>51,759</u>	<u>142,528</u>
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS - NET</b>	<b><u>\$ 80,396</u></b>	<b><u>\$ (14,291)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 66,105</u></b>

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2013

**Note 5 - Capital Assets:**

Depreciation was charged to governmental functions as follows:

Instruction	\$216,928
Support services:	
Student	4,107
Instructional staff	8,697
District administration	19,890
School administration	4,417
Business	318
Plant operations and management	274,446
Student transportation	70,238
Community services	<u>921</u>
 TOTAL DEPRECIATION EXPENSE	 <u>\$599,962</u>

**Note 6 - Bond and Lease Obligations:**

The amount shown in the accompanying government-wide financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Carlisle County and the Carlisle County School Board Finance Corporation. These amounts are not reflected on the fund financial statements.

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

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

The MUSCO Master Equipment Lease Purchase Agreement provides for the title of equipment (lighting project) and all additions, repairs, replacements or modifications shall vest in the District. If nonrenewal or default occurs, the title will revert to MUSCO. The Master Equipment Lease Purchase Agreement is for a term of 10 years with the option to renew at the end of the original term or any renewal term for an additional renewal term. Principal and interest payments are to be paid annually beginning June 1, 2012.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 6 - Bond and Lease Obligations:**

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
August 1, 2007	\$ 565,000	3.70% - 4.125%
September 6, 2007 (QZAB)	500,000	5.860%
May 1, 2008	2,560,000	2.30% - 4.000%
January 1, 2009 (KISTA)	255,609	2.00% - 3.900%
June 1, 2009	735,000	4.150%
July 1, 2009 (Refinancing)	325,000	1.00% - 3.000%
October 1, 2010 (Refinancing)	1,610,000	.800% - 3.000%
April 15, 2011 (MUSCO)	144,200	5.450%
October 1, 2011 (QZAB)	4,010,000	4.60%
January 1, 2012 (KISTA)	92,474	2.00% - 2.625%
March 1, 2013(KISTA)	84,800	2.00%

The October 2011 bond issue is a \$4,010,000 Qualified Zone Academy Revenue Bond which is a tax credit bond. The District received \$4,010,000, less the issuance cost of \$64,700, to deposit into its construction fund. The District and the Kentucky School Facility Construction Commission are required to make equal annual sinking fund payments to The Bank of New York Mellon Trust Company, an escrow agent, in the amount of \$105,669 and \$72,485, respectively, commencing October 1, 2012 and such amounts shall be held and invested by the escrow agent for payment of principal of \$4,010,000 at the bonds maturity on October 1, 2029. Sinking fund payments of \$178,154 were made in fiscal year ending June 30, 2013. One hundred percent of the interest subsidy is eligible to be paid by the United States Treasury directly to the issuer, or its designee paying agent, and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Beginning July 1, 2013, the federal government will only pay 92.8% of the eligible interest subsidy due to budget cuts.

In October 2010, the District issued bonds to redeem its outstanding November 1, 2001 revenue bonds. The liability for the defeased bond is not included in the District's financial statements. On June 30, 2012, \$1,525,000 of bonds outstanding is considered defeased. In the statement of net position, the net discounts associated with the early debt retirement of the issue are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$17,775. The amortization for the year was \$2,335 and is included as a component of interest expense.

In July 2009, the District issued bonds to redeem its outstanding June 1, 1994, September 1, 1996, and November 1, 1996 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2012, \$305,000 of bonds outstanding is considered defeased. In the statement of net position, the net discounts associated with the early debt retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$1,865. The amortization for the year was \$265 and is included as a component of interest expense.

The September 2007 bond issue is a \$500,000 Qualified Zone Academy Revenue Bond which is a tax credit bond. The District received \$500,000, less the issuance costs of \$15,435, to deposit into its construction fund. The District was required to make a one-time payment of \$272,000 into an escrow account to be held by the purchaser of the bonds. The purchaser of the bonds receives a tax credit for purchasing them and guarantees the \$272,000 in escrow plus the compounded interest earned on it over the life of the bonds will equal exactly \$500,000 at September 5, 2022, which is the maturity date. At maturity, the escrow will be transferred back to the District's bond accounts to pay the bonds in full.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 JUNE 30, 2013

**Note 6 - Bond and Lease Obligations:**

In 2007, 2008, and 2009, the District entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amounts remains with the District, and as such, the total principal outstanding has been recorded in the financial statements.

All bonds may be called prior to maturity at dates and redemption premiums specified in each bond issue. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the District including amounts to be paid by the Commission, at June 30, 2013, for debt service (principal and interest) are as follows:

<b>Fiscal Year</b>	<b>Carlisle County School District</b>		<b>US Treasury Interest Subsidy</b>	<b>Kentucky School Facilities Construction Commission</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2013-2014	\$ 239,616	\$ 310,334	\$ (171,179)	\$ 132,513	\$ 67,186	\$ 578,470
2014-2015	239,780	295,188	(171,179)	102,373	63,188	529,350
2015-2016	251,347	288,725	(171,179)	106,088	59,480	534,461
2016-2017	254,870	281,957	(171,179)	104,515	55,721	525,884
2017-2018	256,508	275,068	(171,179)	95,064	52,001	507,462
2018-2023	1,663,587	1,253,205	(855,894)	534,874	200,457	2,796,229
2023-2028	1,057,510	1,056,661	(855,894)	642,490	84,053	1,984,820
2028-2030	<u>4,031,387</u>	<u>277,578</u>	<u>(256,769)</u>	<u>38,612</u>	<u>1,602</u>	<u>4,092,410</u>
<b>TOTALS</b>	<b><u>\$7,994,605</u></b>	<b><u>\$4,038,716</u></b>	<b><u>\$(2,824,452)</u></b>	<b><u>\$1,756,529</u></b>	<b><u>\$583,688</u></b>	<b><u>\$11,549,086</u></b>

A summary of the lease principal balance activity is as follows:

	<b>Balance July 1, 2012</b>	<b>Issued</b>	<b>Retired</b>	<b>Deferred Cost Reduction</b>	<b>Balance June 30, 2013</b>
District	\$8,111,183	\$84,800	\$(222,726)	\$21,348	\$7,994,605
Commission	<u>1,884,964</u>	<u>-</u>	<u>(128,435)</u>	<u>-</u>	<u>1,756,529</u>
<b>TOTALS</b>	<b><u>\$9,996,147</u></b>	<b><u>\$84,800</u></b>	<b><u>\$(351,161)</u></b>	<b><u>\$21,348</u></b>	<b><u>\$9,751,134</u></b>

**Note 7 - Operating Leases:**

On August 12, 1993, the District signed an agreement with the Murray Board of Education to lease physical facilities of the District to conduct Head Start programs. This agreement is renewable for twenty-nine one-year periods.

On March 15, 2012, the District signed a three year lease with an interest rate of 6.91% for sixty iPads from Apple, Inc. The District’s capitalization threshold is \$5,000. If the iPads had been purchased and not leased, these would be expensed in the year of purchase. For this reason, this lease is treated as an operating lease. Total payments on the lease were \$9,798 in fiscal year ended June 30, 2013. The future minimum rental payments are as follows:

2014	\$9,798
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(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 8 - Retirement Plans:**

**Plan Descriptions**

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

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

**Plan Descriptions**

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

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

**Funding Policies**

Contribution rates are established by the Kentucky Revised Statutes. Plan members of KTRS are required to contribute 10.855% of their annual covered salary, and the State provides a contribution of 14.105%, except for federal programs. The 14.105% matching contribution for covered salaries of federal programs are paid by those programs. Beginning July 1, 2012, the District contributes an additional 1.00% for employee medical insurance. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education. Plan members of CERS are required to contribute 5.000% of their annual covered salary, and the Carlisle County School District provides a contribution of 19.55% of that salary. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed by employees to a health insurance account. The District's total payroll for the year was \$4,746,716. The payroll for employees covered under KTRS was \$3,738,778. For the year ended June 30, 2013, the Commonwealth contributed \$450,261 to KTRS for the benefit of participating employees. The District's contribution to KTRS for the year ended June 30, 2013, was \$50,592, which relates to those employees covered by federal programs. The District's contribution to Retiree Medical Insurance fund for the year ended June 30, 2013, was \$33,791. The contribution requirements and the amounts contributed to CERS were \$229,590, \$216,444, and \$199,528, respectively, for the years ended June 30, 2013, 2012, and 2011.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2013:

Contributions to Kentucky Teachers' Retirement System	\$ 450,261
Technology	58,107
Debt Service	272,183
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	<u>789,433</u>
<b>TOTAL</b>	<b><u>\$1,569,984</u></b>

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

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

Instruction	\$ 915,845
Support services:	
Student	20,352
District administration	65,112
School administration	91,584
Business	88,635
Plant operations and management	6,120
Student transportation	67,316
Food services	42,837
Debt Service	<u>272,183</u>
<b>TOTAL ON-BEHALF CONTRIBUTIONS</b>	<b><u>\$1,569,984</u></b>

**Note 10 - Contingencies:**

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

The District is currently a defendant in three separate legal proceedings stemming from a May 16, 2011 bus crash. The District's insurance carrier has hired an attorney to handle the cases. In one of these proceedings, a demand was made for \$4.2 million with a counteroffer of a structured settlement by the District that would cost the insurance carrier \$1.6 million. There have been no demands or offers made in the other two cases. As the result of a guilty verdict against the bus driver, it is apparent that the District will be required to pay out some funds to settle these law suits. However, the District does not anticipate reaching the demand previously made without going to trial. The effect on the financial position, changes in financial position or cash flows of the District is still unknown at this time.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 11 - Insurance and Related Activities:**

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

**Note 12 - 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 Funds. 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. If at any time, the premiums paid by participating members are insufficient to meet the needs of the members, the District may incur additional prorated liabilities as explained in note 17. 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 members 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, including the coverage listed on page 44 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 13 - COBRA:**

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

**Note 14 - Excess of Expenditures Over Appropriations:**

The District has no fund with a deficit fund balance. The general and special revenue funds had excess current year expenditures over current year appropriations totaling \$887,485 and \$201,409, respectively. If on-behalf expenditures had been budgeted, current year expenditures would not have exceeded appropriations for the general fund.

(Continued)

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 15 - Transfer of Funds:**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	001	002	Match	\$ 11,437
Operating	510	001	Indirect cost	19,096
Operating	320	400	Debt service	385,841
Operating	320	001	Capital funds request	143,747
Operating	310	001	Capital funds request	71,829

**Note 16 - Change in Accounting Standards:**

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position (formerly the statement of net assets) and is effective for Carlisle County School District for the fiscal year beginning July 1, 2012.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes guidance for properly classifying certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, or recognize certain items that were previously reported as assets and liabilities as expenditures or revenues. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. However, the District has elected to early adopt the provisions of this statement effective for fiscal year ended June 30, 2013.

The effects of these two statements on the financial statements is the reclassification of deferred bond issue costs from an asset on the statement of net position to an expense in the year incurred and decreasing the net position balance as shown in Note 17. These statements reclassified deferred bond discounts as deferred outflows of resources.

**Note 17 - Restatement of Beginning Net Position:**

The Kentucky School Boards Insurance Trust (KSBIT) has notified Kentucky School Districts of deficit balances in the workers' compensation and liability pools. The members, past and present, will have to bear the cost of the deficits. The Districts are required to book a long-term liability on the government-wide statement of net position for governmental activities to reflect the individual District's portion of total deficit. The KSBIT Board of Directors has issued preliminary assessments as of June 2013. The District has elected to book the liability equal to KSBIT's June 2013 assessment. Beginning net position at July 1, 2012 has been adjusted to reflect this.

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. According to this statement, issuance costs related to bond issues must be expensed in the year incurred rather than amortized over the life of the debt. Unamortized debt issuance costs at June 30, 2012, totaled \$111,535. Beginning net position at July 1, 2012, has been adjusted to reflect this.

Net position July 1, 2012, as previously stated		\$2,608,124
Reduction for KSBIT assessment	\$(326,693)	
Reduction for bond issuance costs	<u>(111,535)</u>	
Adjustments to net position		<u>(438,228)</u>
<b>NET POSITION JULY 1, 2012, AS RESTATED</b>		<b><u>\$2,169,896</u></b>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
From local sources:				
Taxes	\$1,170,000	\$1,262,000	\$1,360,948	\$ 98,948
Other	17,000	17,000	29,356	12,356
Intergovernmental - state	3,434,700	3,476,433	3,474,385	(2,048)
Intergovernmental - on-behalf	-	-	1,254,964	1,254,964
Other sources	21,500	18,600	341,782	323,182
<b>Total revenues</b>	<b>4,643,200</b>	<b>4,774,033</b>	<b>6,461,435</b>	<b>1,687,402</b>
<b>Expenditures:</b>				
Instruction	2,745,108	2,761,273	3,579,801	(818,528)
Support services:				
Student	239,305	241,402	259,392	(17,990)
Instructional staff	147,044	150,570	209,755	(59,185)
District administration	345,701	460,663	496,431	(35,768)
School administration	293,580	293,841	381,174	(87,333)
Business	184,175	184,175	272,966	(88,791)
Plant operations and maintenance	604,385	604,285	602,981	1,304
Student transportation	494,025	513,716	607,195	(93,479)
Other	314,877	369,108	56,823	312,285
<b>Total expenditures</b>	<b>5,368,200</b>	<b>5,579,033</b>	<b>6,466,518</b>	<b>(887,485)</b>
Net change in fund balances	(725,000)	(805,000)	(5,083)	799,917
Fund balances, July 1, 2012	725,000	805,000	813,204	8,204
<b>FUND BALANCES, JUNE 30, 2013</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 808,121</b>	<b>\$ 808,121</b>

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

The budget presented above does not include on-behalf payments provided by the Kentucky State Department of Education. If on-behalf payments had been included, budgetary total revenues would equal \$6,028,997 and budgetary total expenditures would equal \$6,833,997.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
From local sources	\$ 79,107	\$ 79,107	\$ 113,224	\$ 34,117
Intergovernmental - state	382,838	397,878	440,982	43,104
Intergovernmental - federal	431,959	448,474	573,225	124,751
Other sources	12,000	12,000	11,437	(563)
<b>Total revenues</b>	<b>905,904</b>	<b>937,459</b>	<b>1,138,868</b>	<b>201,409</b>
<b>Expenditures:</b>				
Instruction	741,588	719,577	926,263	(206,686)
Support services:				
Student	23,874	38,550	57,100	(18,550)
Instructional staff	60,649	99,539	92,405	7,134
Plant operations and maintenance	-	-	(10,294)	10,294
Community service	79,793	79,793	73,394	6,399
<b>Total expenditures</b>	<b>905,904</b>	<b>937,459</b>	<b>1,138,868</b>	<b>(201,409)</b>
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2012	-	-	-	-
<b>FUND BALANCES, JUNE 30, 2013</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION**

**CARLISLE COUNTY SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2013**

<u><b>ASSETS</b></u>	<u><b>SEEK Capital Outlay Fund</b></u>	<u><b>FSPK Fund</b></u>	<u><b>Debt Service Fund</b></u>	<u><b>Total Nonmajor Governmental Funds</b></u>
Cash and cash equivalents	<u>\$15,676</u>	<u>\$128,632</u>	<u>\$5,302</u>	<u>\$149,610</u>
<b>TOTAL ASSETS</b>	<u><u>\$15,676</u></u>	<u><u>\$128,632</u></u>	<u><u>\$5,302</u></u>	<u><u>\$149,610</u></u>
<u><b>LIABILITIES AND FUND BALANCES</b></u>				
<b>Liabilities:</b>				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,127</u>	<u>\$ 5,127</u>
<b>Fund Balances:</b>				
Restricted for:				
Debt service	-	-	175	175
Future construction contracts	15,676	128,632	-	144,308
Assigned for:				
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>15,676</u>	<u>128,632</u>	<u>175</u>	<u>144,483</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$15,676</u></u>	<u><u>\$128,632</u></u>	<u><u>\$5,302</u></u>	<u><u>\$149,610</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>SEEK Capital Outlay Fund</b>	<b>FSPK Fund</b>	<b>Debt Service Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues:</b>				
Taxes	\$ -	\$233,226	\$ -	\$ 233,226
Earnings on investments	-	-	1	1
Intergovernmental - state	71,829	287,530	-	359,359
Intergovernmental - on-behalf	-	-	272,182	272,182
Intergovernmental - federal	-	-	184,530	184,530
Other	-	-	-	-
	<u>71,829</u>	<u>520,756</u>	<u>456,713</u>	<u>1,049,298</u>
<b>Expenditures:</b>				
Facilities acquisition and construction	44	-	-	44
Debt service:				
Principal	-	-	483,154	483,154
Interest and other charges	-	-	359,330	359,330
	<u>44</u>	<u>-</u>	<u>842,484</u>	<u>842,528</u>
Excess (deficit) of revenues over expenditures	<u>71,785</u>	<u>520,756</u>	<u>(385,771)</u>	<u>206,770</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers in (out)	<u>(71,829)</u>	<u>(529,588)</u>	<u>385,841</u>	<u>(215,576)</u>
Net change in fund balances	(44)	(8,832)	70	(8,806)
Fund balances, July 1, 2012	<u>15,720</u>	<u>137,464</u>	<u>105</u>	<u>153,289</u>
FUND BALANCES, JUNE 30, 2013	<u><u>\$15,676</u></u>	<u><u>\$128,632</u></u>	<u><u>\$ 175</u></u>	<u><u>\$ 144,483</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO**  
**STUDENT GROUPS AND OTHERS**  
**AGENCY FUNDS**  
**CARLISLE COUNTY HIGH SCHOOL ACTIVITY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Due to Student Groups and Others July 1, 2012</b>	<b>Revenues Actual (1)</b>	<b>Expenditures Actual (1)</b>	<b>Due to Student Groups and Others June 30, 2013</b>
General Fund	\$ 2,287	\$ 22,558	\$ 23,944	\$ 901
Arts Guild Fund	35	2,455	2,438	52
Athletic Fund	9,012	121,856	120,248	10,620
Annual Fund	4,447	-	-	4,447
Beta Club Fund	1,571	240	165	1,646
Business Media Fund	31	-	-	31
Cheerleaders' Fund	1,054	13,908	14,741	221
Drama Club Fund	-	120	-	120
FBLA Fund	241	13,312	12,498	1,055
FCC Fund	202	-	62	140
FFA Alumni Fund	523	1,950	1,450	1,023
FFA Fund	3,754	30,013	29,797	3,970
FFA Regional Fund	-	9,423	-	9,423
FCCLA Fund	593	1,261	924	930
Four Rivers Fees	-	-	-	-
Four Rivers Scholarship Program	174	17,500	17,674	-
Greenhouse	2,974	5,759	289	8,444
Home Economics Fund	626	1,586	1,835	377
Junior and Senior Prom Fund	5,189	5,746	6,990	3,945
Military Club Fund	-	272	262	10
Moon Buggy	720	932	531	1,121
Pep Club Fund	634	970	899	705
Recycling Fund	-	1,162	809	353
Shop Fund	134	-	-	134
Stars Fund	32	110	54	88
Student Council Fund	90	-	-	90
Teachers' Lounge Fund	278	2,849	3,101	26
Project Graduation Fund	1,387	19,293	19,683	997
Yearbook Fund	-	14,889	10,137	4,752
Vending	42	499	538	3
<b>TOTALS</b>	<b><u>\$36,030</u></b>	<b><u>\$288,663</u></b>	<b><u>\$269,069</u></b>	<b><u>\$55,624</u></b>

(1) Included in revenues and expenditures are interfund transfers totaling \$3,362.

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO**  
**STUDENT GROUPS AND OTHERS**  
**AGENCY FUNDS**  
**CARLISLE MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Middle School</b>	<b>Elementary School</b>	<b>Totals</b>
Due to student groups and others, July 1, 2012	\$ 20,681	\$ 69,103	\$ 89,784
<b>Revenues:</b>			
Student activities (1)	104,929	107,234	212,163
<b>Expenditures:</b>			
Student activities (1)	99,433	78,785	178,218
<b>DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2013</b>	<b>\$ 26,177</b>	<b>\$ 97,552</b>	<b>\$123,729</b>

(1) Included in revenues and expenditures for the Middle School are interfund transfers totaling \$1,968.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**DUE TO OTHERS**  
**AGENCY FUND**  
**FISCAL AGENT FUND**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Fiscal Agent Fund</b>
Due to others, July 1, 2012	<u>\$ -</u>
<b>Revenues:</b>	
Student activities	<u>10,875</u>
<b>Expenditures:</b>	
Student activities	<u>10,875</u>
DUE TO OTHERS, JUNE 30, 2013	<u><u>\$ -</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT DIFFERENCES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the District has recorded medicaid reimbursements received under the federal medicaid reimbursement code in the District's AFR as specified by the Kentucky Department of Education. These reimbursements are state funds and not federal. Therefore, they are reported as intergovernmental revenue from the state in the financial statements. The following is a reconciliation of the receipts reported in the District's AFR with that shown in the financial statements and the supplemental schedules.

**General Fund**

Federal medicaid reimbursement reported to the Department of Education	\$ 2,056
Reclassification to intergovernmental state revenue state funds required to be coded to a federal code	<u>(2,056)</u>
Amount per supplemental schedule	<u><u>\$ -</u></u>
Revenue from state sources reported to the Department of Education	\$ 4,727,293
On-behalf/state sources	(1,254,964)
Reclassification from federal medicaid reimbursement	<u>2,056</u>
Amount per supplemental schedule	<u><u>\$ 3,474,385</u></u>

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF ACCOUNTS RECEIVABLE**  
JUNE 30, 2013

**General Fund:**

Accounts receivable reported in District's annual financial report to the State Department of Education, Division of Finance

\$ 8,126

Additional accounts receivable recorded subsequent to the annual financial report:

Kentucky Department of Revenue - Utility Tax

21,809

**TOTAL ACCOUNTS RECEIVABLE**

\$29,935

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF ACCOUNTS PAYABLE**  
**JUNE 30, 2013**

**General Fund:**

Accounts payable reported in District's annual financial  
report to the State Department of Education,  
Division of Finance

\$64,054

TOTAL ACCOUNTS PAYABLE

\$64,054

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF INSURANCE COVERAGE**  
**JUNE 30, 2013**

	<u>Expires</u>	<u>Building</u>	<u>Contents</u>
<b>Fire and Extended Coverage - 90% Co-Insurance:</b>			
Carlisle County Middle School	July 1, 2013	\$ 6,766,539	\$1,120,537
Carlisle County Elementary School	July 1, 2013	5,656,419	797,117
Carlisle County High School	July 1, 2013	7,391,809	972,217
New kitchen/cafeteria building	July 1, 2013	3,366,780	-
Agriculture and Industrial building	July 1, 2013	1,648,004	241,818
Custodian's house	July 1, 2013	168,383	-
Portable building #2	July 1, 2013	325,728	-
Board office	July 1, 2013	393,922	76,885
Bus garage	July 1, 2013	460,062	-
Central storage building	July 1, 2013	431,438	35,921
Guard shack	July 1, 2013	5,753	-
Metal storage building	July 1, 2013	28,763	-
Property in the open	July 1, 2013	452,317	-
<b>TOTALS</b>		<u>\$27,095,917</u>	<u>\$3,244,495</u>
<b>Collision, Comprehensive, and Property Damage:</b>			
School buses and other vehicles:		<u>Amount of Coverage</u>	
Property damage	July 1, 2013		\$6,000,000
Comprehensive			ACV
Uninsured and underinsured motorist		\$ 500,000	500,000
<b>General Liability:</b>			
Carlisle County School District, Superintendent and employees	July 1, 2013		6,000,000
Educators' legal liability (errors and omissions)	July 1, 2013		6,000,000
Workmen's compensation			Statutory
Performance bond	July 1, 2013		150,000
Crime Policy	July 1, 2013		100,000
<b>Depository Bond:</b>			
Citizens Deposit Bank of Arlington	June 30, 2014		103% of Current Daily Balances

See auditor's report on pages 1-3.

**MEMBERS OF THE CARLISLE COUNTY BOARD OF EDUCATION  
AS OF JUNE 30, 2013**

<u>Name</u>	<u>Address</u>	<u>Date Elected</u>	<u>Term Expires</u>
Brian Grogan, Chairman	284 CR 1202 Arlington, Kentucky	November, 2012	January, 2017
Kevin O'Neill, Vice-Chairman	P.O. Box 95 Bardwell, Kentucky	November, 2012	January, 2017
Steven Draper	489 CR 1127 Arlington, Kentucky	November, 2010	January, 2015
Tiffany Wildharber	P.O. Box 606 Bardwell, Kentucky	November, 2012	January, 2017
John Matt Fourshee	P.O. Box 562 Cunningham, Kentucky	November, 2010	January, 2015

**Other Officials:**

Randy McCallon, Superintendent

Rachel Bowles, Treasurer and Secretary of the Board

See auditor's report on pages 1-3.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Education:</b>			
Passed-through Kentucky Department of Education:			
Special Education - Grants to States (IDEA, Part B)	84.027	3810002 12	\$153,672
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002 12	<u>13,935</u>
Special Education Cluster Sub-Total			<u>167,607</u>
Title I Grants to Local Educational Agencies (LEAs)	84.010	3100002 11 3100002 12	213,842
Title I Migrant Education Grant	84.011	2013	1,083
Education Technology State Grants	84.318X	3210002 10	1,533
Improving Teacher Quality State Grants	84.367	3230002 12	35,952
Twenty-First Century Community Learning Centers	84.287	3400002 10	130,645
Rural Education	84.358	3140002 11 3140002 12	13,048
EduJobs	84.410	EJOB00 10	6,734
Passed-through West Kentucky Educational Cooperative:			
Career and Technical Education - Basic Grants to States	84.048	4621332 13	<u>6,126</u>
Total U.S. Department of Education			<u>576,570</u>
<b>U.S. Department of Agriculture:</b>			
Passed-through Kentucky Department of Agriculture:			
National School Lunch Program	10.555	7750002 12 7750002 13	263,777
National School Lunch Program Commodities (1)	10.555	2013	24,187
School Breakfast Program	10.553	7760005 12 7760005 13	1,835
Summer Food Service Program for Children	10.559	7690024 12 7740023 12	<u>1,213</u>
Child Nutrition Cluster Sub-Total			<u>291,012</u>
Total U.S. Department of Agriculture			<u>291,012</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$867,582</u></u>

See notes to the schedule of expenditures of federal awards on page 48.

**CARLISLE COUNTY SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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

**Note 1 - Basis of Presentation:**

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

**Note 2 - Federal Awards Reconciliation:**

In October 2012, the Carlisle County School District issued Qualified Zone Academy Revenue Bonds. The United States Treasury will pay the semi-annual interest on these bonds directly to the issuer or its designee paying agent and be applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Interest subsidy payments are reported as intergovernmental federal revenues and interest expense on the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, they are not required to be reported on the Schedule of Expenditures of Federal Awards. The School Energy Managers Project grant was overspent in fiscal year 2012. No further grant proceeds will be received on this grant; therefore, excess expenditures were moved to the general fund.

Federal revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds	\$ 757,755
Federal grants as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	266,825
Federal grants – in-kind commodities as reported on the Statement of Revenues, Expenses, and Changes in fund Net Position Proprietary Fund	<u>24,187</u>
Total federal expenditures	1,048,767
Excess grant expenditures moved to general fund	3,345
Less federal interest subsidy	<u>(184,530)</u>
<b>TOTAL FEDERAL AWARDS</b>	<b><u>\$ 867,582</u></b>

See auditor's report on pages 1-3.

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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  
Carlisle County School District  
Bardwell, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carlisle County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Carlisle County School District's basic financial statements, and have issued our report thereon dated November 5, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Carlisle County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Carlisle County School District in a separate report letter dated November 5, 2013.

### Purpose of this Report

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

*Williams, Williams + Lentz, LLP*

Paducah, Kentucky  
November 5, 2013

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

Kentucky State Committee for  
Audits of School Districts  
Members of the Board of Education  
Carlisle County School District  
Bardwell, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Carlisle County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Carlisle County School District's major federal programs for the year ended June 30, 2013. Carlisle County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Carlisle County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carlisle County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, Carlisle County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

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

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

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

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

*Williams, Williams + Lentz, LLP*

Paducah, Kentucky  
November 5, 2013

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2013**

**Summary of Audit Results**

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

<b>Name</b>	<b>CFDA</b>
National School Lunch Program	10.555
National School Lunch Program Commodities	10.555
School Breakfast Program	10.553
Summer Food Service Program for Children	10.559

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

**Findings - Financial Statements Audit**

None

**Findings and Questioned Costs - Major Federal Awards Programs Audit**

None

**CARLISLE COUNTY SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2013**

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

**CARLISLE COUNTY SCHOOL DISTRICT**



MANAGEMENT LETTER  
YEAR ENDED JUNE 30, 2013

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Carlisle County Board of Education  
Bardwell, Kentucky

In planning and performing our audit of the financial statements of Carlisle County School 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 Carlisle County School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. This letter does not affect our report dated November 5, 2013 on the financial statements of Carlisle County School District.

**SEGREGATION OF DUTIES**

*Finding:* As stated in prior years, the proper segregation of duties does not exist.

*Criteria:* This District is small and it is not feasible to hire additional staff necessary to provide the proper segregation of duties.

*Cause:* The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

*Effect:* Weaknesses in internal controls can create the possibility for the misappropriation of asset and/or fraudulent financial reporting.

*Recommendation:* Lack of proper segregation of duties dictates that the board continues to be involved in the financial affairs of the District to provide oversight and independent review functions. The Superintendent needs to continue to review journal entries in addition to the year-to-date budget reports received each month.

*Management's Response:* The Superintendent will continue to review journal entries as well as other reports.

**DISBURSEMENTS**

*Finding:* Purchase orders (P.O.'s) are dated after the purchase is made or open purchase orders are used and not updated by subtracting invoices as they are paid from the purchase order amount.

*Criteria:* Purchase requests are approved and provided to the accounts payable clerk who prepares the purchase orders. If the accounts payable clerk is not available and a purchase needs to be made immediately, the approved purchase request is used to make the purchase. The purchase order is completed after the purchase.

*Cause:* Only one individual prepares purchase orders.

*Effect:* Purchase orders are being prepared after purchases are made. Verbal approval is given in some cases temporarily until the written approval can be obtained. There is a reasonable explanation for most of these, but the reason is not always noted on the purchase order.

*Recommendation:* In an effort to avoid situations requiring the purchase order to be dated after the purchase and this becoming the normal routine, we would suggest not limiting the preparation of purchase orders to a single individual. Even if only one person enters them in MUNIS, a printed form could be used in situations where the P.O. can't be created in MUNIS in advance of the purchase. In this case, both P.O.'s should be included in the documentation supporting the disbursement. Another suggestion is to adopt a board policy authorizing the Principal to approve up to a specified dollar amount without further approval and complete a printed purchase order form. Open purchase orders should be copied and attached to all disbursements to which it applies. The disbursements should be subtracted from the remaining P.O. balance.

*Management's Response:* The Board is reviewing their purchasing procedures to decide the best course of action to prevent this from occurring.

*Finding:* Supporting documentation could not be located on one disbursement selected for testing.

*Criteria:* Supporting documentation for disbursements should include the invoice or receipt, purchase order/requisition, package slip (if applicable), and cancelled check.

*Cause:* The documentation was most likely misfiled or attached by mistake to something else.

*Effect:* There was no invoice to agree payment information to. There is no proof of payment by cancelling the invoice or proof of authorization of payment. Since the payment was to the middle school, we were able to view the receipt and check copy from the middle school's records.

*Recommendation:* Supporting documentation should be maintained for all disbursements. Be careful when filing to make sure documentation is filed in the correct location.

*Management's Response:* More care will be taken in the filing of disbursements.

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

## ACTIVITY FUNDS

### **Carlisle County Elementary School**

*Finding:* Although a budget was prepared, the beginning balances should equal the prior year actual ending balances. The field trip account did not agree.

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

*Cause:* This could be due to a simple keying error or a lack of understanding the budgeting process.

*Effect:* The budget is not useful in determining the funds remaining in the field trip account to spend since the budget numbers are not accurate.

*Recommendation:* The beginning balances should equal the ending actual balances from the prior year.

*Management's Response:* More care will be taken at the District level to insure that the budgets are created properly.

*Finding:* When teachers/sponsors turn money into the school treasurer, receipts are being written to the club or activity fund and not to the individual teacher. Multiple collections, some from multiple teachers, are included in one receipt.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," all money collected by a teacher/sponsor shall be given to the school treasurer on the day collected or the next business day if collected after school hours. A pre-numbered receipt shall be issued to the payer immediately any time money is received. A copy of the Multiple Receipt Form shall be retained by the teacher/sponsor and the original given to the school treasurer.

*Cause:* A break down in internal controls over secondary and primary receipts.

*Effect:* When the primary receipt is made out to the club or activity fund, the teacher/sponsors have no record indicating name of the individual turning the money in. This control protects the teacher in the event a shortage of funds occurs and the treasurer tries to say the teacher never turned the money in.

*Recommendation:* A separate receipt should be made out to each individual teacher/sponsor turning in money collected. Since collections are to be turned in daily, there should not be primary receipts for multiple collections.

*Management's Response:* The school secretaries have been trained in the proper way to receipt funds.

*Finding:* Purchase orders are being completed by the school treasurer rather than the teacher/sponsor and being turned into the school treasurer before the actual purchase.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," a purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated. The purchase order is turned into the school treasurer after the order is placed.

*Cause:* In some cases, a purchase requisition is being used in place of a purchase order. When this is done, both the purchase requisition and purchase order should be included in the disbursement documentation. This is a break down in internal controls over activity fund disbursements.

*Effect:* Purchase orders serve as an approval mechanism for management. Incomplete or missing purchase orders, as well as purchase orders prepared by the school treasurer and after items are ordered, are not serving their purpose. The purpose is to help deter the misappropriation of funds.

*Recommendation:* The teacher/sponsor should complete the purchase order for an approximate amount of their purchase. The appropriate level of management should sign it for approval prior to the purchase. Once the purchase is made, the purchase order should be turned into the school treasurer who should compare it to the shipping documents and invoice before payment.

*Management's Response:* The recommendations are now being followed at the school level.

*Finding:* Some items purchased with activity fund monies such as purchases for teachers, such as professional development and office furnishings, were not for allowable cost items.

*Criteria:* According to "Accounting Procedures for Kentucky School Activity Funds," school activity fund money generated by students shall not be used to pay for basic routine operating expenses, renovations or maintenance of school facilities or buildings. Although the 2013 rules specifically identify some of these items, while the 2008 version did not, the rule has not changed.

*Cause:* The 2008 version of the "Accounting Procedures for Kentucky School Activity Funds," left several gray areas as to what specifically could and could not be purchased with activity fund money.

*Effect:* Items that technically were not allowed to be paid from activity fund money were being paid from activity fund money even if it was being reimbursed by Site-based funds or the District.

*Recommendation:* Be very careful when spending activity fund money to make sure the expenditure is for the direct benefit of the students. Any expenditure not for the direct benefit of the students should be paid from site-based money and not from activity funds and subsequently reimbursed.

*Management's Response:* All bookkeepers are now aware of the items that can and cannot be purchased from activity funds and it is being monitored at the District level as well.

## **Carlisle County Middle School**

*Finding:* Although a budget was prepared, the beginning balances should equal the prior year actual ending balances. The flower account did not agree.

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

*Cause:* This could be due to a simple keying error or a lack of understanding the budgeting process.

*Effect:* The budget is not useful in determining the funds remaining in the flower account to spend since the budget numbers are not accurate.

*Recommendation:* The beginning balances should equal the ending actual balances from the prior year.

*Management’s Response:* More care will be taken at the District level to insure that the budgets are created properly.

*Finding:* Purchase orders are being completed by the school treasurer rather than the teacher/sponsor and being turned into the school treasurer before the actual purchase.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” a purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated. The purchase order is turned into the school treasurer after the order is placed.

*Cause:* In some cases, a purchase requisition is being used in place of a purchase order. When this is done, both the purchase requisition and purchase order should be included in the disbursement documentation. This is a break down in internal controls over activity fund disbursements.

*Effect:* Purchase orders serve as an approval mechanism for management. Incomplete or missing purchase orders, as well as purchase orders prepared by the school treasurer and after items are ordered, are not serving their purpose. The purpose is to help deter the misappropriation of funds.

*Recommendation:* The teacher/sponsor should complete the purchase order for an approximate amount of their purchase. The appropriate level of management should sign it for approval prior to the purchase. Once the purchase is made, the purchase order should be turned into the school treasurer who should compare it to the shipping documents and invoice before payment.

*Management’s Response:* The recommendations are now being followed at the school level.

*Finding:* Some items purchased with activity fund monies such as purchases for teachers, such as professional development, and office supplies such as copier and printer ink, were not for allowable cost items.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” school activity fund money generated by students shall not be used to pay for basic routine operating expenses, renovations or maintenance of school facilities or buildings. Although the 2013 rules specifically identify some of these items, while the 2008 version did not, the rule has not changed.

*Cause:* The 2008 version of the “Accounting Procedures for Kentucky School Activity Funds,” left several gray areas as to what specifically could and could not be purchased with activity fund money.

*Effect:* Items that technically were not allowed to be paid from activity fund money were being paid from activity fund money even if it was being reimbursed by Site-based funds or the District.

*Recommendation:* Be very careful when spending activity fund money to make sure the expenditure is for the direct benefit of the students. Any expenditure not for the direct benefit of the students should be paid from site-based money and not from activity funds and subsequently reimbursed.

*Management’s Response:* All bookkeepers are now aware of the items that can and cannot be purchased from activity funds and it is being monitored at the District level as well.

## Carlisle County High School

*Finding:* A proper budget was not available. Although a budget was prepared, no totals were included. The beginning balances should equal the prior year actual ending balances. This is a repeat comment from the prior year.

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

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

*Effect:* The budget in its current format is not useful in determining the funds each activity fund has remaining to spend nor very useful in identifying discrepancies.

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

*Management’s Response:* More care will be taken at the District level to insure that the budgets are created properly.

*Finding:* Purchase orders are not being completed by the teacher/sponsor for game officials or gate money. This is a repeat comment.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” a purchase order shall be prepared and approved by the sponsor and principal on all purchases before the payment is obligated. The purchase order is turned into the school treasurer after the order is placed.

*Cause:* This is a break down in internal controls over activity fund disbursements.

*Effect:* Purchase orders serve as an approval mechanism for management. Incomplete or missing purchase orders, as well as purchase orders prepared by the school treasurer and after items are ordered, are not serving their purpose. The purpose is to help deter the misappropriation of funds.

*Recommendation:* The teacher/sponsor should complete the purchase order for an approximate amount of their purchase. The appropriate level of management should sign it for approval prior to the purchase. For officials, either a generic purchase order or a blanket purchase order with an approximate total for the season can be used if it is reduced each time an official is paid and a copy attached with the supporting documentation.

*Management’s Response:* The recommendations are now being followed at the school level.

*Finding:* Some items purchased with activity fund monies such as purchases for teachers, such as professional development, and office supplies such as copier and printer ink, were not for allowable cost items.

*Criteria:* According to “Accounting Procedures for Kentucky School Activity Funds,” school activity fund money generated by students shall not be used to pay for basic routine operating expenses, renovations or maintenance of school facilities or buildings. Although the 2013 rules specifically identify some of these items, while the 2008 version did not, the rule has not changed.

*Cause:* The 2008 version of the “Accounting Procedures for Kentucky School Activity Funds,” left several gray areas as to what specifically could and could not be purchased with activity fund money.

*Effect:* Items that technically were not allowed to be paid from activity fund money were being paid from activity fund money even if it was being reimbursed by Site-based funds or the District.

*Recommendation:* Be very careful when spending activity fund money to make sure the expenditure is for the direct benefit of the students. Any expenditure not for the direct benefit of the students should be paid from site-based money and not from activity funds and subsequently reimbursed.

*Management’s Response:* All bookkeepers are now aware of the items that can and cannot be purchased from activity funds and it is being monitored at the District level as well.

\* \* \* \* \*

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

*Williams, Williams + Lentz, LLP*

November 5, 2013