

CAVERNA INDEPENDENT SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS
For the Year Ended June 30, 2013**

CAVERNA INDEPENDENT SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Caverna Independent School District
Horse Cave - Cave City, Kentucky 42127

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 Caverna Independent 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Caverna Independent 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-8 and 37-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The 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 October 9, 2013, on our consideration of the Caverna Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Caverna Independent School District's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

Glasgow, Kentucky

October 9, 2013

**CAVERNS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2013**

With state funding decreasing each year and federal sequestration looming, the financial position of the Caverna Board of Education although positive has some cause for concern. The cash balance decreased 10% last year due to the cuts in funding and increased expenses. I anticipate a drop in cash this year due to increased expenses and a drop in ADA. ADA decreased to 626 from 648 in 2011-2012 from 660 in 2010-2011. The largest problem with ADA is at the High School with it running at 87% dropping from 92% in 2011-2012 while the Elementary increased 1% to 96% and the Middle School dropped from 94% to 92%. This year we will see a drop in enrollment at the middle school due to small class sizes and a slight increase at the high school. The elementary will remain steady at 350 for K-5. Even though the Commissioner of Education has repeatedly stated only 30% of Kentucky students are ready to enter kindergarten at age five, Kentucky still only funds half-day Kindergarten, we use some Title I funds to provide all day Kindergarten. If the state funded all day, we would be able to reduce class sizes at the elementary.

Caverna Board of Education continues to make a concerted effort to keep our staffing in line with the state mandated figures. This is becoming increasingly difficult with the drop in enrollment at the middle school and high school. However, it is the only way we can remain financially valid. The elementary is within state guidelines, while the middle school is over by 2.75 teachers including the shared teachers. The high school is over 2.9 teachers with shared teachers. All small schools face over staffing in order to offer the necessary courses and some electives. We have maintained one teacher at both the high and middle school after the EDUJOBS funds ran out in 2010-2011. We will most likely have to cut those positions at the end of this year unless new funding is found.

To avoid cuts at the school level, we eliminated 1.5 positions at the central office this year. The .5 accounts payable position was eliminated with Stacey Bradbury (Dr. Dicks administrative assistant) picking up those responsibilities. The Assistant Superintendent for Curriculum position which Ms. Lindsey held was eliminated when the SIG grant funding ran out. While not saving general funds, it did help by not increasing expenses for 2013-2014. We also eliminated bus monitors except on preschool and special needs routes.

We continue to offer all day preschool and have 3 preschool classrooms for 2013-2014 with a current enrollment of 54 students. While this program is only funded for half days by the state, our aim is early intervention. It is expected that early intervention for at risk students will help cut costs in the long run and give our children a better opportunity to succeed. However, preschool has been cut each year by the state. These cuts may force us to go back to half days in the future. I urge all concerned parties to contact their representatives and encourage them to fund all day preschool for all children.

The third year of the School Improvement Grant (SIG) is complete. The state did allow us to carryover funding for the Math Interventionist for 2013-2014. This position has proven to be successful. Caverna High School has the highest scores in our region and the 5th highest in the state. College Career Readiness numbers increased from 1% to 47%. We purchased iPads for all high school students to use this year. They are allowed to take them home and use them for all four years they are at Caverna High School. With most grant funds spent the SAM and Reading Interventionist positions were eliminated. Neither of the two positions were proven to increase student achievement.

Our focus in facilities continues to be on new HVAC for all schools. Our current bonding capacity is \$3,630,000. We currently have a bond which will be paid off on December 1, 2024. The bond was for adding the middle school office and science lab along with new restrooms in all buildings and some sports complex work with payments running around \$130,000 per year. Our current Capital Outlay funding is \$64,880 and Building Fund Local portion is \$165,182 with state funding at \$70,008, totaling \$300,007 for building and bond payments in 2013-2014.

The state figures are based on ADA while the local is a nickel of each tax dollar. We have started the process of getting new HVAC at the High/Middle building. The cost will be around \$2,519,946 with \$2,350,000 coming for a Qualified Zone Academy Bond and the remainder from building and capital outlay funds. The plans are currently at the state for approval. The estimated bid date is mid-November with bonds sold in early December if the cost is within our parameters.

Interfund transfers were made from the general fund to the technology fund for \$10,381. This amount is required to get the state matching portion of technology funds. Indirect costs were also transferred from Food Service to the General Fund for \$19,820. Indirect costs are the food services portion of utilities, building maintenance and other overhead.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing MUNIS administrative software. The district uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: Governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. Caverna Board of Education currently has no fiduciary funds. The only proprietary fund is the food service operations. All other activities of the district are included in the governmental funds.

The governmental fund financial statements can be found on pages 11-14 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. Caverna's assets exceeded liabilities by \$3,532,820 as of June 30, 2013.

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

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

Net position for the period ending June 30, 2013 and June 30, 2012

Net position had decreased by \$172,674 over last year. This is due to a decrease in cash and fixed assets, mostly due to replacing computers with lower cost ones. We also had decrease in liabilities due to a bond being paid off. Unreserved Fund Balance has increased due to unrestricting \$100,000 used to pay the staff paid by Edujobs funds last year. Two of these positions were kept this year but will most likely have to be cut at the end of this year. We have restricted funds to cover the KSBIT assessment and any cuts caused by the state or federal sequestration.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Current Assets	\$ 1,676,258	\$ 1,745,726
Noncurrent Assets	3,818,935	4,101,168
Total Assets	<u>\$ 5,495,193</u>	<u>\$ 5,846,894</u>
Current Liabilities	\$ 357,144	\$ 413,329
Noncurrent Liabilities	1,605,229	1,728,071
Total Liabilities	<u>\$ 1,962,373</u>	<u>\$ 2,141,400</u>
Net Position		
Investment in capital assets (net of debt)	\$ 1,413,229	\$ 1,699,197
Restricted	700,876	784,188
Unreserved Fund Balance	<u>1,418,715</u>	<u>1,222,109</u>
Total Net Position	<u>\$ 3,532,820</u>	<u>\$ 3,705,494</u>

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2013 and June 30, 2012.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Revenues:		
Local revenue sources	\$ 2,242,877	\$ 2,033,804
State revenue sources	4,244,403	3,661,387
Federal revenues	1,535,900	1,529,034
Investments	9,532	11,442
Proceeds from Bonds	-	1,185,000
Other sources	41,546	55,716
	<u>8,074,258</u>	<u>8,476,383</u>
Expenses:		
Instruction	4,724,120	4,779,897
Student support services	235,585	234,550
Instructional support	554,588	476,887
District support	497,615	497,654
School administration	651,030	630,484
Business support	98,420	103,471
Plant operations	525,596	486,849
Student transportation	492,872	440,487
Community support	82,607	93,198
Other	368,033	574,816
Total expenses	<u>8,230,466</u>	<u>8,318,293</u>
Excess (Deficit) of Revenues over Expenses	<u>\$ (156,208)</u>	<u>\$ 158,090</u>

COMPARISON OF PRIOR YEAR

2013 was a difficult year with threats of sequestration and cuts from the state looming over the district. While the state claims to have not cut the base SEEK they continue to cut other funding. In actuality by not increasing the per student SEEK amount the state has cut the schools purchasing power. Expenses such as utilities and benefits continue to go up forcing schools to make cuts to staff to maintain other expenses. In 2013, the special education amount per student was cut by over \$243 for Caverna. We have taken the 4% tax increase in 2012 and 2013, however this amount alone will not cover increased expenses. We have made cuts to central office staff even while the state requires more reports and establishes new initiatives. The principals counted over 25 new programs required by the Department of Education in the past 2 years. Our administrators are being asked to do more and more with less creating an environment of frustration and uncertainty. The state has moved from local control of schools as required under KERA to a uniform model all across the state regardless of school size and dynamics.

Expenses remain up due to the School Improvement Grant at the high school. The SIG grant has been extended to June 30, 2014 allowing us to keep our Math Interventionist and some programs for another year. The 21st Century Grant for an afterschool program continues at the elementary. This grant runs for through June 30, 2014 at \$150,000 each year and is renewable at lesser amounts for two additional years. The elementary will be applying for the additional two years if the federal government funds it.

State required posting of On Behalf expenses results in \$1,295,636 being added to our expenses which do not require any cash outlay making the financial statements misleading to the average person. For example, Business Support increased by \$59,764 from last year due to the posting of Technology on behalf. A new requirement last year. We also post on behalf expenses for Kentucky Teachers' Retirement, Health insurance and School Facilities Bond payments made on our behalf by the state.

Plant operations were up last year due to the costs of maintaining the old heating system at the High/Middle School. Electric costs have increased school by over \$8,000 so far this year. Student Transportation expenses were up due to increased fuel costs and an increase in on-behalf costs. Bus service and repairs were about the same as the previous year. We have seen a drop in fuel costs for the first 4 months of 2013-2014.

BUDGET COMPARISONS

The total revenues for fiscal year 2012-2013 were \$8,664,962 per the Annual Financial Report. This can be misleading due to the transfers required by the state from fund to fund. General Fund revenues were down \$557,818. Taxes were up \$184,400 while SEEK was down \$391,121 mostly due to a cut to the per special needs student amount of \$243 per student. We are currently showing a trend toward local revenues increasing while SEEK funds decrease. This could create cash flow problems in the future since almost all tax revenue is not received until December 10. This year the Assessment in Hart County decreased causing the 4% rate to be a larger increase than usual, however our board voted 3-2 to take the 4%. SEEK for 2013-2014 is forecasted at \$2,632,757 close to the same amount as last year however ADA is down so this will probably decrease.

We have the plans at the state for approval and plan to bid the HVAC project in December. We have been approved for Qualified Zone Academy Bonds for this project which allows for an almost interest free loan with a match of 10% of the value with volunteer hours. This will be about \$25,000 worth of volunteer hours at the high and middle school over the 20 year span of the loan.

The majority of General Fund Revenue was derived from state revenue (SEEK) 37% down from 48% last year and 56% the previous year. Local funding makes up 29% of revenue down from 31% last year. On Behalf for this year accounts for 16%. Instruction accounts for 80% of expenditures; Central Office and Administration makes up 8%; Maintenance is 6% and Transportation is 6%.

LONG - TERM DEBT

The 1992/Refinanced 2002 bond was paid off on December with a final payments of \$113,736.15 and interest of \$1,956.15. Principal payments for the Middle School improvements bond 2004/Refinanced 2012 were \$83,258 for 2012-2013. Interest on the this bond was \$22,853. We will be issuing an QZAB for HVAC at the High/Middle School for \$2,350,000 this year if bids are in line with our expectations.

NET POSITION

Current governmental capital assets for 12-13 were \$3,797,567 and \$4,089,494 for 11-12. This decrease is due to inability to replace all computers as they age due to lack of funding and the fact that the cost of replacing computers has gone down. While not ideal we are determined to keep staff even at the expense of having older technology.

Current business capital assets, which is food service, totaled \$9,237 for 12-13 and were \$11,674 for 11-12. All these assets are equipment and technology.

BUDGET IMPLICATIONS

As discussed previously, Caverna Schools are depending more and more on local funds. State funding has decreased and federal sequestration will result in lost grant revenues. This will create a cash flow problem during the fall, as almost all tax revenues are collected in December. To remain viable, some hard choices will have to made. The cuts in federal grants will hurt the elementary resulting in fewer teachers at a time when the state is requiring more and more. The initiatives the state is requiring could not be at a worst time. The unfunded mandates take funds from the classroom where the actual learning takes place. We will be looking at all programs and expenses to continue to serve all students.

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
For the Year Ended June 30, 2013

	Governmental Activities	Business Type Activities	Total
Assets:			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 1,490,301	\$ 21,533	\$ 1,511,834
Inventory	-	18,186	18,186
Accounts receivable	11,841	21,153	32,994
Intergovernmental - state	113,244	-	113,244
Total current assets	<u>1,615,386</u>	<u>60,872</u>	<u>1,676,258</u>
<u>Noncurrent Assets:</u>			
Capital assets	9,205,403	83,196	9,288,599
Less: accumulated depreciation	<u>(5,407,896)</u>	<u>(73,959)</u>	<u>(5,481,855)</u>
Total noncurrent assets	<u>3,797,507</u>	<u>9,237</u>	<u>3,806,744</u>
<u>Deferred Outflows of resources:</u>			
Unamortized discount on bonds	12,191	-	12,191
Total deferred outflows of resources	<u>12,191</u>	<u>-</u>	<u>12,191</u>
 Total assets	 <u>\$ 5,425,084</u>	 <u>\$ 70,109</u>	 <u>\$ 5,495,193</u>
Liabilities:			
<u>Current Liabilities:</u>			
Accounts payable	\$ 138,153	\$ -	\$ 138,153
Deferred revenue	77,106	-	77,106
Current portion of bond obligations	100,000	-	100,000
Current portion of capital lease obligations	39,530	-	39,530
Interest payable	2,355	-	2,355
Total current liabilities	<u>357,144</u>	<u>-</u>	<u>357,144</u>
<u>Noncurrent Liabilities:</u>			
Noncurrent portion of bond obligations	1,130,000	-	1,130,000
Noncurrent portion of capital lease obligations	144,298	-	144,298
Noncurrent portion of accrued sick leave	330,931	-	330,931
Total noncurrent liabilities	<u>1,605,229</u>	<u>-</u>	<u>1,605,229</u>
Total liabilities	<u>1,962,373</u>	<u>-</u>	<u>1,962,373</u>
<u>Net Position:</u>			
Invested in capital assets, net of related debt	1,403,992	9,237	1,413,229
Restricted for:			
Accrued Sick Leave	89,964	-	89,964
Capital projects	169,945	-	169,945
Committed:			
Other Contingency	200,000	-	200,000
Unassigned	1,598,810	60,872	1,659,682
Total net position	<u>\$ 3,462,711</u>	<u>\$ 70,109</u>	<u>\$ 3,532,820</u>

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business - Type Activities	Total
Governmental Activities:							
Instruction	\$ 4,724,120	\$ -	\$ 1,974,508	\$ -	\$ (2,749,612)	\$ -	\$ (2,749,612)
Support Services							
Student	235,585	-	-	-	(235,585)	-	(235,585)
Instructional staff	554,588	-	-	-	(554,588)	-	(554,588)
District administrative	497,615	-	-	-	(497,615)	-	(497,615)
School administrative	651,030	-	-	-	(651,030)	-	(651,030)
Business	98,420	-	-	-	(98,420)	-	(98,420)
Plant operations and maintenance	525,596	-	-	-	(525,596)	-	(525,596)
Student Transportation	492,872	-	-	-	(492,872)	-	(492,872)
Community service activities	82,607	-	-	-	(82,607)	-	(82,607)
Interest on long-term debt	32,812	-	-	-	(32,812)	-	(32,812)
Depreciation (unallocated)	335,221	-	-	-	(335,221)	-	(335,221)
Total governmental activities	<u>8,230,466</u>	<u>-</u>	<u>1,974,508</u>	<u>-</u>	<u>(6,255,958)</u>	<u>-</u>	<u>(6,255,958)</u>
Business-Type Activities:							
Food Service	607,170	52,710	537,771	-	-	(16,689)	(16,689)
Total business-type activities	<u>607,170</u>	<u>52,710</u>	<u>537,771</u>	<u>-</u>	<u>-</u>	<u>(16,689)</u>	<u>(16,689)</u>
Total primary government	<u>8,837,636</u>	<u>52,710</u>	<u>2,512,279</u>	<u>-</u>	<u>(6,255,958)</u>	<u>(16,689)</u>	<u>(6,272,647)</u>
General Revenues:							
Taxes:							
Property taxes					2,004,953	-	2,004,953
Motor vehicle taxes					126,822	-	126,822
Other					111,102	-	111,102
Investments earnings					9,532	223	9,755
State and formula grants					3,805,795	-	3,805,795
Miscellaneous					41,546	-	41,546
Total general revenues					<u>6,099,750</u>	<u>223</u>	<u>6,099,973</u>
Change in net position					(156,208)	(16,466)	(172,674)
Net position - beginning					3,618,919	86,575	3,705,494
Net position - ending					<u>\$ 3,462,711</u>	<u>\$ 70,109</u>	<u>\$ 3,532,820</u>

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2013**

	General Fund	Special Revenue	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets and resources:					
Cash and cash equivalents	\$ 1,244,534	\$ 75,822	\$ -	\$ 169,945	\$ 1,490,301
Accounts receivable:					
Accounts receivable	11,841	-	-	-	11,841
Intergovernmental-state	<u>-</u>	<u>113,244</u>	<u>-</u>	<u>-</u>	<u>113,244</u>
Total assets and resources	<u>\$ 1,256,375</u>	<u>\$ 189,066</u>	<u>\$ -</u>	<u>\$ 169,945</u>	<u>\$ 1,615,386</u>
Liabilities and fund balance:					
Liabilities:					
Accounts payable	\$ 26,193	\$ 111,960	\$ -	\$ -	\$ 138,153
Deferred revenues	<u>-</u>	<u>77,106</u>	<u>-</u>	<u>-</u>	<u>77,106</u>
Total liabilities	<u>26,193</u>	<u>189,066</u>	<u>-</u>	<u>-</u>	<u>215,259</u>
Fund balances:					
Nonspendable:					
Restricted:					
Accrued Sick Leave	89,964	-	-	-	89,964
Capital Projects	-	-	-	169,945	169,945
Committed:					
Other Contingency	200,000	-	-	-	200,000
Assigned:	-	-	-	-	-
Unassigned:	<u>940,218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>940,218</u>
Total fund balances	<u>1,230,182</u>	<u>-</u>	<u>-</u>	<u>169,945</u>	<u>1,400,127</u>
Total liabilities and fund balances	<u>\$ 1,256,375</u>	<u>\$ 189,066</u>	<u>\$ -</u>	<u>\$ 169,945</u>	<u>\$ 1,615,386</u>

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
June 30, 2013**

Total fund balance per fund financial statements \$ 1,400,127

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

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position. 3,797,507

Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) 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. (1,734,923)

Net position for governmental activities \$ 3,462,711

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General Fund	Special Revenue	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 1,838,771	\$ -	\$ -	\$ 166,182	\$ 2,004,953
Motor vehicle	126,822	-	-	-	126,822
Other	111,102	-	-	-	111,102
Earnings on investments	9,532	-	-	-	9,532
Other local revenues	5,005	8,227	-	-	13,232
Intergovernmental-state	3,805,795	304,698	38,620	133,910	4,283,023
Intergovernmental-indirect federal	-	1,530,138	-	-	1,530,138
Intergovernmental-direct federal	5,762	-	-	-	5,762
Total revenues	<u>5,902,789</u>	<u>1,843,063</u>	<u>38,620</u>	<u>300,092</u>	<u>8,084,564</u>
Expenditures:					
Instruction	3,383,146	1,428,792	-	-	4,811,938
Support services:					
Student	193,752	41,833	-	-	235,585
Instructional staff	262,361	292,227	-	-	554,588
District administration	497,615	-	-	-	497,615
School administration	639,123	11,907	-	-	651,030
Business	98,420	-	-	-	98,420
Plant operations and maintenance	525,596	-	-	-	525,596
Student transportation	539,522	-	-	-	539,522
Community service activities	3,922	78,685	-	-	82,607
Other	-	-	247,041	-	247,041
Total expenditures	<u>6,143,457</u>	<u>1,853,444</u>	<u>247,041</u>	<u>-</u>	<u>8,243,942</u>
Excess (deficit) of revenues over expenditures	<u>(240,668)</u>	<u>(10,381)</u>	<u>(208,421)</u>	<u>300,092</u>	<u>(159,378)</u>
Other financing sources (uses):					
Proceeds from sale of fixed assets	8,494	-	-	-	8,494
Operating transfers in	111,491	10,381	208,421	-	330,293
Operating transfers out	(10,381)	-	-	(300,092)	(310,473)
Total other financing sources (uses)	<u>109,604</u>	<u>10,381</u>	<u>208,421</u>	<u>(300,092)</u>	<u>28,314</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(131,064)	-	-	-	(131,064)
Fund balance, July 1, 2012	1,361,246	-	-	169,945	1,531,191
Fund balance, June 30, 2013	<u>\$ 1,230,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,945</u>	<u>\$ 1,400,127</u>

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

Net changes in total fund balances per fund financial statements \$ 131,064

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

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense. (287,884)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position. 290,649

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. (290,037)

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2013

	Food Service Fund	Total
Assets		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 21,533	\$ 21,533
Accounts receivable	21,153	21,153
Inventory	18,186	18,186
Total current assets	60,872	60,872
<u>Noncurrent Assets</u>		
Capital assets	83,196	83,196
Less: accumulated depreciation	(73,959)	(73,959)
Total noncurrent assets	9,237	9,237
Total assets	\$ 70,109	\$ 70,109
Liabilities		
Total liabilities	\$ -	\$ -
Net Position		
Invested in capital assets net of related debt	9,237	9,237
Unrestricted	60,872	60,872
Total net position	\$ 70,109	\$ 70,109

See accompanying notes to basic financial statements.

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Food Service Fund	Totals
Operating Revenues:		
Lunchroom sales	\$ 52,710	\$ 52,710
Total operating revenues	52,710	52,710
Operating Expenses:		
Salaries and wages	325,433	325,433
Material and supplies	248,665	248,665
Depreciation	2,437	2,437
Other operating expenses	10,815	10,815
Total operating expenses	587,350	587,350
Operating loss	(534,640)	(534,640)
Non-Operating Revenues (Expenses):		
Federal grants	415,433	415,433
Donated commodities	29,477	29,477
State grants	92,861	92,861
Other income	223	223
Fund transfers	(19,820)	(19,820)
Total non-operating revenues	518,174	518,174
Change in net position	(16,466)	(16,466)
Net position, July 1, 2012	86,575	86,575
Net position, June 30, 2013	\$ 70,109	\$ 70,109

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For the Year Ended June 30, 2013**

Cash Flows From Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 52,710
Cash paid to/for:	
Employees	(237,327)
Supplies	(216,601)
Other activities	<u>(10,815)</u>
Net cash provided (used) by operating activities	<u>(412,033)</u>
Cash Flows from Non Capital Financing Activities:	
Cash received for operating grants	<u>374,265</u>
Net decrease in cash and cash equivalents	(37,768)
Balances, beginning of year	<u>59,301</u>
Balances, end of year	<u>\$ 21,533</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating loss	\$ (534,640)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	2,437
On-behalf revenues	88,106
Donated commodities used in operations	29,477
Change in assets and liabilities	
Inventory	<u>2,587</u>
Net cash provided (used) by operating activities	<u>\$ (412,033)</u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u>\$ 25,333</u>
On Behalf payments	<u>\$ 60,148</u>

See accompanying notes to basic financial statements.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
June 30, 2013**

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	\$ <u>83,863</u>
Total assets	\$ <u><u>83,863</u></u>
Liabilities:	
Accounts payable	\$ 1,997
Due to student groups	<u>81,866</u>
Total liabilities	<u>83,863</u>
Net Position Held in Trust	\$ <u><u>-</u></u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

1. Summary of Significant Accounting Policies and Description of Funds:

Reporting Entity:

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Caverna Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of these 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.

Management has evaluated subsequent events through October 9, 2013, the date which the financial statements were available to be issued.

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

Caverna Independent School District Finance Corporation - On August 30, 1989, the Caverna Board of Education resolved to authorize the establishment of the Caverna Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Caverna Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation:

District-wide Financial Statements . The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the district, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The district-wide statements are prepared using the economic resources measurement focus. This focus is the same approach used in the preparation of the propriety 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 district-wide statements and the statements for governmental funds.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

The district-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 service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District. The district allocates certain indirect costs to be included in the program expenses reported for individual functions and activities in the District-Wide Statement of Activities.

In the District-wide Financial Statement of Net Position and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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

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

The District has the following funds:

I. Governmental Fund Types:

- a. The General Fund is the primary operating fund of the District and is always classified as a major fund. 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. Reservations have been placed on the fund balance for accrued sick leave and other contingencies.
- b. The Special Revenue (Grant) Funds account 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.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund to always be classified as a major fund.

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

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

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

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

d. Debt Service Fund:

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

II. Proprietary Funds (Enterprise Fund):

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund. The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with other contradict GASB pronouncements.

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

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

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

District-Wide Financial Statements

Net position is displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position- Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations, or 2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Position- All other net position that does not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements

Under GASB Statement 54, fund balance is separated into five categories, as follows:

- Nonspendable-Permanently nonspendable by decree of the donor, such as endowment, or items which may not be used for another purpose, such as amounts used to prepay future expenses or already purchased inventory on hand.
- Restricted-Legally restricted under federal or state law, bond authority, or grantor contract
- Committed-Commitments passed by the Board
- Assigned-Funds assigned to management priority including issued encumbrances
- Unassigned-Funds available for future operations

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Basis of Accounting

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

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

1. Summary of Significant Accounting Policies, Continued

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

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

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

In order to present the Special Revenue Fund on the accrual basis of accounting, and because the awards are not yet available as assets, cash awards received in advance for the 2012-2013 school year have been classified as deferred revenues. Likewise, all awards requested as a result of the 2012-2013 expenditures have been classified as receivables. Revenues of the Special Revenue Fund are considered earned when reimbursable expenditures are made or obligations are incurred, and of an equal amount.

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

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 government funds.

Property Taxes

Property Tax Revenues . Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 60 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited onto the General Fund and then transferred to the appropriate fund.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013**

1. Summary of Significant Accounting Policies, Continued:

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.646 per \$100 valuation for real property, \$.646 per \$100 valuation for business personal property and \$.627 per \$100 valuation for motor vehicles.

Capital Assets

General capital assets are those 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 the 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 capitalized threshold of one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an assets life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
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	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave and has no maximum accumulation.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

1. Summary of Significant Accounting Policies, Continued:

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 is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

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

Budgetary Process

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 an original maturity of 90 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 donated and purchased foods held for resale and are expensed when used. Purchased food is valued at cost (first-in, first-out method) and U.S. Government donated commodities value is determined by the U.S. Department of Agriculture.

Prepaid Assets

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

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

1. Summary of Significant Accounting Policies, Continued:

Investments

The private purpose trust funds record investments at their quoted market price. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net position.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Position. All realized gains and losses and changes in fair market value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

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

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

Operating Revenues and Expenses

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

On-Behalf Payments

During the year ended June 30, 2013, the Kentucky Division of Finance made payments on behalf of Caverna Independent School District in amount of \$1,246,340. These payments were paid for fringe benefits for the District personnel. These payments have been included in both revenue and expenditures on the District's financial statements for the year ended June 30, 2013.

Contributions of Capital

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

Donated Commodities

The fair value of donated commodities received during the year is reported in the Proprietary Fund Statement of Revenues, Expenditures, and Changes in Net Position as an expense and as donated commodities revenue (nonoperating revenue).

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

1. Summary of Significant Accounting Policies, Concluded:

Interfund Activity

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

2. Estimates:

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

3. Deferred Outflows/Inflows of Resources:

The District adopted GASB No. 63 during the year, and in addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has unamortized discounts on bonds that qualify for reporting in this category in the amount of \$12,191.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no item that qualifies for reporting in this category.

4. Cash and Cash Equivalents:

At year-end, the carrying amount of the District's cash and cash equivalents was \$1,595,697. Of the total cash balance, \$337,756 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013**

4. Cash and Cash Equivalents, Concluded:

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Kentucky Banking Center	<u>\$ 1,883,282</u>	<u>\$ 1,595,697</u>
Breakdown per financial statements:		

Governmental funds	\$	1,490,301
Proprietary funds		21,533
Agency funds		<u>83,863</u>
		<u>\$ 1,595,697</u>

All deposits are in financial institutions and brokerage accounts. The District's bank deposits are categorized below to give an indication of the custodial credit risk assumed by the District at June 30, 2013.

Category 1 . Insured by FDIC or collateralized with securities held by the District or by its agent in its name.

Category 2 . Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 . Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no writer or approved collateral agent.

	Category			Total Bank Balance	Carrying Amount
	One	Two	Three		
Deposits with Financial Institutions	\$ 337,756	\$ 1,545,526	\$ -	\$ 1,883,282	\$ 1,595,697

Interest Rate Risk

The District invests in certificates of deposits with numerous financial institutions. The District purchases and sells their investments as interest rate fluctuate in order to manage their exposure to fair value losses arising from increasing interest rates.

Currently, Certificates of Deposits maturity dates range from 30 days to 90 days with an interest rate of .74%.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

5. Capital Assets:

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

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
<u>Governmental Activities:</u>				
Capital Assets, not being Depreciated:				
Land	\$ 121,636	\$ -	\$ -	\$ 121,636
Total Capital, not being Depreciated	<u>121,636</u>	<u>-</u>	<u>-</u>	<u>121,636</u>
Land and improvements	779,870	-	-	779,870
Buildings and improvements	6,404,170	-	-	6,404,170
Technology equipment	734,569	47,337	(62,814)	719,092
Vehicles	971,303	-	-	971,303
General equipment	215,249	-	(5,917)	209,332
Total at historical cost	<u>9,105,161</u>	<u>47,337</u>	<u>(68,731)</u>	<u>9,083,767</u>
Less: accumulated depreciation for:				
Land and improvements	(705,118)	(12,268)	-	(717,386)
Buildings and improvements	(3,188,915)	(159,304)	-	(3,348,219)
Technology	(436,097)	(95,747)	60,045	(471,799)
Vehicles	(639,000)	(61,263)	-	(700,263)
General equipment	(168,173)	(6,639)	4,583	(170,229)
Total accumulated depreciation	<u>(5,137,303)</u>	<u>(335,221)</u>	<u>64,628</u>	<u>(5,407,896)</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 4,089,494</u>	<u>\$ (287,884)</u>	<u>\$ (4,103)</u>	<u>\$ 3,797,507</u>
 <u>Business - Type Activities:</u>				
Food service and equipment	\$ 77,491	\$ -	\$ -	\$ 77,491
Technology equipment	5,705	-	-	5,705
Total at historical cost	<u>83,196</u>	<u>-</u>	<u>-</u>	<u>83,196</u>
Less: accumulated depreciation for:				
Food service and equipment	(65,817)	(2,437)	-	(68,254)
Technology equipment	(5,705)	-	-	(5,705)
Total accumulated depreciation	<u>(71,522)</u>	<u>(2,437)</u>	<u>-</u>	<u>(73,959)</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 11,674</u>	<u>\$ (2,437)</u>	<u>\$ -</u>	<u>\$ 9,237</u>

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

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013**

6. Bonded Debt and Lease Obligations:

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>	<u>Maturity Date</u>
Issue of 2009R	\$ 85,000	1.00% - 2.00%	12/1/2012
Issue of 2002 (Refunding of 1992)	\$ 1,170,000	1.30% - 3.50%	12/1/2012
Issue of 2004	\$ 1,715,000	1.75% - 4.90%	6/1/2024
Issue of 2012	\$ 1,185,000	1.10% - 6.25%	6/1/2024

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

In connection with the school revenue bonds issued after May 1, 1996 the District entered into participation agreements with the 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 amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

Long-term debt activities for the year ended June 30, 2013, are as follows:

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Debt Payments and Reductions</u>	<u>Balance June 30, 2013</u>	<u>Amount Due Within One Year</u>
Series 2009R	\$ 29,000	\$ -	\$ (29,000)	\$ -	\$ -
Series 2002	120,000	-	(120,000)	-	-
Series 2004	155,000	-	(75,000)	80,000	80,000
Series 2012	<u>1,170,000</u>	<u>-</u>	<u>(20,000)</u>	<u>1,150,000</u>	<u>20,000</u>
	<u>\$ 1,474,000</u>	<u>\$ -</u>	<u>\$ (244,000)</u>	<u>\$ 1,230,000</u>	<u>\$ 100,000</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

6. Bonded Debt and Lease Obligations, Continued:

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2013-14	\$ 100,000	\$ 26,722	\$ 30,257	\$ 96,465
2014-15	105,000	23,302	30,257	98,045
2015-16	105,000	22,146	30,257	96,889
2016-17	105,000	20,572	30,257	95,315
2017-18	110,000	18,996	30,256	98,740
2018-19	110,000	16,796	30,255	96,541
2019-20	115,000	14,486	30,255	99,231
2020-21	115,000	12,072	30,257	96,815
2021-22	120,000	9,312	30,257	99,055
2022-23	120,000	6,432	30,256	96,176
2023-24	125,000	3,282	30,256	98,026
	<u>\$ 1,230,000</u>	<u>\$ 174,118</u>	<u>\$ 332,820</u>	<u>\$ 1,071,298</u>

7. Capital Lease Payable:

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

<u>Classes of Property</u>	<u>Book Value as of June 30, 2013</u>
Buses	\$ <u>170,247</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2021:

<u>Year Ended June 30</u>	<u>Capital Lease Payable</u>
2014	\$ 51,714
2015	43,580
2016	35,318
2017	26,304
2018	18,996
Thereafter	<u>27,669</u>
Total minimum lease payments	203,581
Less: Amount representing interest	<u>(19,753)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 183,828</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013**

8. Commitments Under Noncapitalized Leases:

Commitments under operating lease agreements for office equipment provide for minimum future rental payments as of June 30, 2013 as follows:

Year ending June 30:		
2014	\$	2,658
2015		2,658
2016		2,658
2017		2,658
2018		2,658
Total Minimum Rentals	\$	13,290

9. Retirement Plans:

The Caverna Independent School District contributes to the Teachers Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained online at <http://ktrs.ky.gov> or by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KTRS. Members are required to contribute 9.855% of their salaries to KTRS. Effective July 1, 2008 new members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries to those hired before July 1, 2008 and 14.105% of salaries to those hired after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. KRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, and public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 18.89% of the employee's total compensation subject to contribution. Effective September 1, 2008 new members were required to contribute 6% of their salaries.

The District's total payroll for the year was \$4,914,560. The payroll for employees covered under KTRS was \$3,857,007 and for CERS was \$1,057,553. For the year ended June 30, 2013, the Commonwealth contributed \$550,950 for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2013 were \$118,972 which represents those employees covered by federal programs and the 5% insurance contributions.

The contribution requirement for CERS for the year ended June 30, 2013, was \$264,383 which consisted of \$208,310 from the District and \$56,073 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

9. Retirement Plans, Continued:

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the Plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	CERS as of June 30, 2012	CERS as of June 30, 2011	CERS as of June 30, 2010
	(In Thousands)		
Assets available for benefits, at fair value	\$ 7,294,615	\$ 7,409,157	\$ 7,296,322
Pension benefit obligation	<u>12,149,560</u>	<u>11,777,126</u>	<u>11,131,174</u>
 (Under funded)/ over funded pension benefit obligations	 <u>\$ (4,854,945)</u>	 <u>\$ (4,367,969)</u>	 <u>\$ (3,834,852)</u>

The following table presents the last three years of the total of all employer contributions to the Plan and the District's contributions for the year ending June 30:

Total Plan Contributions - CERS

Fiscal Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
2012	\$ 476,185,027	\$ 447,661,027	94.01%
2011	\$ 432,414,052	\$ 435,404,150	100.69%
2010	\$ 453,055,709	\$ 382,839,930	84.50%

District's Contributions - CERS

Fiscal Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
2013	\$ 264,383	\$ 264,383	100.00%
2012	\$ 248,778	\$ 248,778	100.00%
2011	\$ 225,277	\$ 225,277	100.00%

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

9. Retirement Plans, Concluded:

	KTRS as of June 30, 2012	KTRS as of June 30, 2011	KTRS as of June 30, 2010
	(In Thousands)		
Assets available for benefits, at fair value	\$ 14,691,400	\$ 14,908,100	\$ 14,851,300
Pension benefit obligation	<u>26,973,900</u>	<u>25,968,700</u>	<u>24,344,300</u>
 (Under funded)/ over funded pension benefit obligations	 <u>\$ (12,282,500)</u>	 <u>\$ (11,060,600)</u>	 <u>\$ (9,493,000)</u>

Total Plan Contributions - KTRS

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 2012	\$ 757,822,190	\$ 557,339,552	73.54%
June 30, 2011	\$ 678,740,000	\$ 1,038,472,200	153.00%
June 30, 2010	\$ 633,900,000	\$ 481,764,000	76.00%

District's Contributions - KTRS

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 2013	\$ 427,550	\$ 427,550	100.00%
June 30, 2012	\$ 550,950	\$ 550,950	100.00%
June 30, 2011	\$ 423,477	\$ 423,477	100.00%

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2012 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. Total employee contributions to these plans were \$42,003 for the year. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

10. Medical Insurance Plan:

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

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

Funding Policy . The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, 1.5% of the gross annual payroll of all members before July 1, 2008 is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from State appropriation. Members joining the Plan after July 1, 2008 contribute an additional 1% to the medical insurance fund. Also, the premiums collected from retirees as described in the Plan description and investment interest help meet the medical expenses of the Plan.

11. Contingencies:

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the 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.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional burden to comply with a change.

12. Insurance and Related Activities:

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, 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 Worker's Compensation Insurance.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS, CONCLUDED
June 30, 2013**

13. Risk Management:

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

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

14. Deficit Operating Balances:

There are no funds of the District that currently have a deficit fund balance.

15. COBRA:

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

16. 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	Food Service	General	Indirect Cost	\$ 19,820
Operating	General	Special Revenue	Matching	\$ 10,381
Operating	Capital Outlay	General	Repairs	\$ 64,885
Operating	Building Fund	Bond Fund	Debt Service	\$ 208,421
Operating	Building Fund	General	Debt Service	\$ 26,786

SUPPLEMENTAL INFORMATION

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes:				
Property	\$ 1,692,214	\$ 1,692,214	\$ 1,838,771	\$ 146,557
Motor vehicles	90,000	90,000	126,822	36,822
Other	113,000	113,000	111,102	(1,898)
Earnings on investments	8,000	8,000	9,532	1,532
Other local revenues	5,464	5,464	5,005	(459)
Intergovernmental-state	2,669,196	2,669,196	3,805,795	1,136,599
Intergovernmental-direct federal	-	-	5,762	5,762
Total revenues	<u>4,577,874</u>	<u>4,577,874</u>	<u>5,902,789</u>	<u>1,324,915</u>
Expenditures:				
Instruction	2,759,710	2,759,710	3,383,146	(623,436)
Support services:				
Student	160,209	160,209	193,752	(33,543)
Instructional staff	204,292	204,292	262,361	(58,069)
District administration	890,516	890,516	497,615	392,901
School administration	430,597	430,597	639,123	(208,526)
Business	51,205	51,205	98,420	(47,215)
Plant operations and maintenance	597,755	597,755	525,596	72,159
Student transportation	607,170	607,170	539,522	67,648
Community service activities	3,825	3,825	3,922	(97)
Total expenditures	<u>5,705,279</u>	<u>5,705,279</u>	<u>6,143,457</u>	<u>(438,178)</u>
Excess (deficit) of revenues over expenditures	<u>(1,127,405)</u>	<u>(1,127,405)</u>	<u>(240,668)</u>	<u>886,737</u>
Other financing sources (uses):				
Proceeds from sale of fixed assets	-	-	8,494	8,494
Operating transfers in	113,301	113,301	111,491	(1,810)
Operating transfers out	(10,381)	(10,381)	(10,381)	-
Total other financing sources (uses)	<u>102,920</u>	<u>102,920</u>	<u>109,604</u>	<u>6,684</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(1,024,485)	(1,024,485)	(131,064)	893,421
Fund balance, July 1, 2012	<u>1,024,485</u>	<u>1,024,485</u>	<u>1,361,246</u>	<u>336,761</u>
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,230,182</u>	<u>\$ 1,230,182</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Other local revenues	\$ 1,949	\$ 1,949	\$ 8,227	\$ 6,278
Intergovernmental-state	304,698	304,698	304,698	-
Intergovernmental-indirect federal	1,554,788	1,554,788	1,530,138	(24,650)
Total revenues	<u>1,861,435</u>	<u>1,861,435</u>	<u>1,843,063</u>	<u>(18,372)</u>
Expenditures:				
Instruction	1,459,583	1,459,583	1,428,792	30,791
Support services:				
Student	36,453	36,453	41,833	(5,380)
Instructional staff	296,942	296,942	292,227	4,715
School administration	-	-	11,907	(11,907)
Community service activities	78,838	78,838	78,685	153
Total expenditures	<u>1,871,816</u>	<u>1,871,816</u>	<u>1,853,444</u>	<u>18,372</u>
Excess (deficit) of revenues over expenditures	<u>(10,381)</u>	<u>(10,381)</u>	<u>(10,381)</u>	<u>-</u>
Other financing sources (uses):				
Operating transfers in	10,381	10,381	10,381	-
Total other financing sources (uses)	<u>10,381</u>	<u>10,381</u>	<u>10,381</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2012	-	-	-	-
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013**

	<u>Seek Capital Outlay Fund</u>	<u>FSPK Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets and resources:			
Cash and cash equivalents	\$ 97,118	\$ 72,827	\$ 169,945
Total Assets and Resources	<u>\$ 97,118</u>	<u>\$ 72,827</u>	<u>\$ 169,945</u>
Liabilities and fund balance:			
Liabilities:			
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:			
Nonspendable:	-	-	-
Restricted:			
Capital Projects	97,118	72,827	169,945
Committed:	-	-	-
Assigned:	-	-	-
Unassigned:	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>97,118</u>	<u>72,827</u>	<u>169,945</u>
Total Liabilities and Fund Balances	<u>\$ 97,118</u>	<u>\$ 72,827</u>	<u>\$ 169,945</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES -- NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	Seek Capital Outlay Fund	FSPK Fund	Total Nonmajor Governmental Funds
Revenues:			
From local sources:			
Taxes:			
Property	\$ -	\$ 166,182	\$ 166,182
Intergovernmental-State	<u>64,885</u>	<u>69,025</u>	<u>133,910</u>
Total revenues	<u>64,885</u>	<u>235,207</u>	<u>300,092</u>
Expenditures:			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) of revenues over expenditures	<u>64,885</u>	<u>235,207</u>	<u>300,092</u>
Other financing sources (uses):			
Operating transfers out	<u>(64,885)</u>	<u>(235,207)</u>	<u>(300,092)</u>
Total other financing sources (uses)	<u>(64,885)</u>	<u>(235,207)</u>	<u>(300,092)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2012	<u>97,118</u>	<u>72,827</u>	<u>169,945</u>
Fund balance, June 30, 2013	<u>\$ 97,118</u>	<u>\$ 72,827</u>	<u>\$ 169,945</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES – CAVERNA INDEPENDENT HIGH SCHOOL ACTIVITY FUNDS
For the Year Ended June 30, 2013

	Cash Balance June 30, 2012	(1) Receipts	(1) Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2013
GENERAL	\$ 1,684	\$ 1,801	\$ 1,500	\$ 1,985	\$ -	\$ -	\$ 1,985
FLOWER	109	-	109	-	-	-	-
LOCKERS	695	1,320	434	1,581	-	-	1,581
MISCELLANEOUS	161	48	209	-	-	-	-
FACULTY AND STAFF	12	1,039	641	410	-	7	403
SOFTBALL CONCESSIONS	-	1,627	1,627	-	-	-	-
VOLLEYBALL CONCESSIONS	-	690	690	-	-	-	-
SCHOOL CONCESSIONS	2,336	2,860	3,373	1,823	-	-	1,823
BOYS BASKETBALL	-	1,338	1,338	-	-	-	-
BASKETBALL CONCESSIONS	-	4,001	4,001	-	-	-	-
ATHLETIC CONCESSIONS	-	220	-	220	-	-	220
ACADEMIC TEAM	86	-	-	86	-	-	86
CLASS OF 2012	435	-	435	-	-	-	-
CLASS OF 2013	385	5,241	5,595	31	-	-	31
CLASS OF 2014	-	5,027	5,013	14	-	-	14
ART CLUB	996	-	996	-	-	-	-
ART DEPARTMENT	441	996	-	1,437	-	-	1,437
STUDENT YMCA	374	-	-	374	-	-	374
CHEMISTRY	12	1,886	1,249	649	-	-	649
CULTURE CLIMATE COMMITTEE	1	199	200	-	-	-	-
BCA	627	1,025	1,639	13	-	-	13
BUDGET COMM FUNDRAISERS	325	-	325	-	-	-	-
ATHLETICS	8,344	85,428	84,877	8,895	-	-	8,895
BOWLING	-	383	383	-	-	-	-
BAND	139	944	1,031	52	-	-	52
CHEERLEADERS	133	11,578	7,820	3,891	-	1,990	1,901
BETA CLUB	561	280	165	676	-	-	676
FBLA	996	-	996	-	-	-	-
FHA (FCCLA)	42	-	42	-	-	-	-
FOREIGN LANGUAGE	1	-	-	1	-	-	1
PEP CLUB	40	12	-	52	-	-	52
SADD	264	250	10	504	-	-	504
COFFEE CLUB	-	72	43	29	-	-	29
PTSO	-	6,922	6,182	740	-	-	740
YEARBOOK	2,777	1,365	110	4,032	-	-	4,032
FFA	927	1,027	1,101	853	-	-	853
AP BIOLOGY	126	-	126	-	-	-	-
ANATOMY CLASS	12	77	-	89	-	-	89
FIELD TRIPS	1	-	1	-	-	-	-
ENERGY GRANT	11	-	11	-	-	-	-
	<u>\$ 23,053</u>	<u>\$ 137,656</u>	<u>\$ 132,272</u>	<u>\$ 28,437</u>	<u>\$ -</u>	<u>\$ 1,997</u>	<u>\$ 26,440</u>

(1) Included in receipts and disbursements are Inter-fund transfers in the amount of \$8,746.

CAVERNA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES – CAVERNA MIDDLE SCHOOL AND CAVERNA ELEMENTARY
SCHOOL ACTIVITY FUNDS
For the Year Ended June 30, 2013

	<u>Cash Balance June 30, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance June 30, 2013</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Due to Student Groups June 30, 2013</u>
CAVERNA MIDDLE SCHOOL (1)	\$ 35,748	\$ 31,082	\$ 37,229	\$ 29,601	\$ -	\$ -	\$ 29,601
CAVERNA ELEMENTARY (2)	<u>29,755</u>	<u>51,880</u>	<u>55,810</u>	<u>25,825</u>	<u>-</u>	<u>-</u>	<u>25,825</u>
TOTALS	<u>\$ 65,503</u>	<u>\$ 82,962</u>	<u>\$ 93,039</u>	<u>\$ 55,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,426</u>

(1) Included in receipts and disbursements are Inter-fund transfers in the amount of \$1,416.

(2) Included in receipts and disbursements are Inter-fund transfers in the amount of \$2,735.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE -
 FAMILY RESOURCE CENTER
 2012 Project
 For the Year Ended June 30, 2013**

Beginning cash, July 1, 2012		\$	-
Receipts:			
United Way	\$	2,150	
Donations		1,570	
Grant from state		<u>78,638</u>	
Total receipts			82,358
Disbursements:			
Salaries and benefits	\$	65,414	
Registration fees and other dues		210	
Program supplies		3,039	
Student activities		10,204	
Travel		1,790	
Food		497	
Award and grants		310	
Advertising		893	
Other		<u>1</u>	
Total disbursements			<u>82,358</u>
Fund balance, June 30, 2013		\$	<u>-</u>

**CAVERNA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>			
Passed-through State Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 13	\$ 272,142
National School Breakfast Program	10.553	7760005 13	113,398
National School Summer Meal Program	10.559	7690024-13	<u>6,386</u>
Total Child Nutrition Cluster:			391,926
Other Programs			
Commodity Supplemental Food Program	10.565	7750002-13	29,477
Fresh Fruit and Vegetable Program	10.582	7720012-12/13	<u>23,507</u>
Total Other Programs			52,984
Total U.S. Department of Agriculture:			<u>\$ 444,910</u>
<u>U.S. Department of Education:</u>			
Passed-through State Department of Education:			
Title I, Part A Cluster			
2012 Project	84.010	3100002-12	\$ 52,950
2013 Project	84.010	3100002-13	352,655
2011 Project D	84.010	3100002-11	<u>378</u>
Total Title I, Part A Cluster:			405,983
Special Education Cluster (IDEA)			
2012 Project - Preschool	84.173	3800002-12	210
2013 Project - Preschool	84.173	3800002-13	16,975
2012 Project - Special Education	84.027	3810002-12	2,700
2013 Project - Special Education	84.027	3810002-13	<u>207,517</u>
Total Special Education Cluster (IDEA)			227,402
School Improvement Grant Cluster			
2011 Title 1 School Improvement - ARRA	84.388	4100302-11	152,378
2012 Title 1 School Improvement - ARRA	84.388	4100302-12	<u>452,188</u>
Total School Improvement Grant Cluster			604,566
Other Programs			
Migrant - 2012	84.011	3110002-12	21,453
Migrant - 2013	84.011	3110002-13	<u>19,786</u>
			41,239
Rural and Low Income-13	84.358	3140002-13	13,532
Perkins, Title I Part C	84.048	4621032-13	12,055
Race to the Top	84.413	3960002-11	8,000
2012 Improving Teacher Quality	84.367	3230002-12	4,221
2013 Improving Teacher Quality	84.367	3230002-13	<u>51,338</u>
			55,559
2012 21st Century	84.287	3400001-12	30,516
2013 21st Century	84.287	3400001-13	<u>129,353</u>
			159,869
Education Jobs	84.410	EJOB00-10	<u>1,934</u>
Total U.S. Department of Education			<u>\$ 1,530,139</u>
Total Federal Financial Assistance			<u>\$ 1,975,049</u>

CAVERNA INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

1. Basis of Presentation:

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

2. Food Distribution:

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

**CAVERNA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial Statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>
U.S. Department of Education Passed Through Kentucky Department of Education: School Improvement Grant Cluster School Improvement Recovery Act	84.388

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

Auditee qualified as low-risk auditee? Yes No

**CAVERNA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONCLUDED
For the Year Ended June 30, 2013**

II. FINANCIAL STATEMENTS FINDINGS

A. No matters were reported.

III. FEDERAL AWARD FINDING AND QUESTIONED COSTS

A. No matters were reported.

**CAVERNA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2013**

No prior year audit findings.



Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Sammie D. Parsley, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA ▪ Adam Duvall

**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**

Members of the Board of Education
Caverna Independent School District
Horse Cave . Cave City, Kentucky 42127

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caverna Independent School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Caverna Independent School District's basic financial statements, and have issued our report thereon dated October 9, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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.

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
October 9, 2013



Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Sammie D. Parsley, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA ▪ Adam Duvall

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

Members of the Board of Education
Caverna Independent School District
Horse Cave . Cave City, Kentucky 42127

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Caverna Independent School District, complied, in all material respects, with the 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 Caverna Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Caverna Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 Caverna Independent School District's internal control over compliance.

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

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
October 9, 2013



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

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Caverna Independent School District
Horse Cave . Cave City, Kentucky 42127

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caverna Independent 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 Caverna Independent School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Caverna Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Caverna Independent School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

This communication is intended solely for the information and use of management, Caverna Independent School District, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

October 9, 2013