

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT**

**REPORT ON AUDIT OF COMPREHENSIVE  
ANNUAL FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

**FOR THE YEAR ENDED JUNE 30, 2013**

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
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**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cloverport Independent School District (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.

### **Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 Cloverport Independent School District as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, 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 - Unaudited on pages 4 through 10 and budgetary comparison information on pages 38 through 40 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 District's basic financial statements. The accompanying supplementary information shown on pages 41 through 43 and the Schedule of Expenditures of Federal Awards, required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information shown on pages 41 through 43 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 accompanying supplementary information shown on pages 41 through 43 and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2013 on our consideration of Cloverport Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Cloverport Independent School District's internal control over financial reporting and compliance.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

Hardinsburg, Kentucky

November 7, 2013

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2013**

The discussion and analysis of Cloverport Independent School District's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to review the school district's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the school district's financial performance.

**Financial and District Highlights**

- The district enrollment continued to increase to its largest number of students in over a decade. The district also continues to strive to maintain financial soundness in order to enhance student learning and achievements.
- In May/June 2012, the district continued its "Apples for Aces" initiative by purchasing iPads for every 5<sup>th</sup> through 12<sup>th</sup> grade student in the school district for use in the upcoming 2012-13 school year. The investment expenditure was paid in full. Certified staff members' iPads were upgraded to a newer version during this process. In May 2013, the district completed its 1:1 iPad initiative by purchasing iPads and iPad minis for grades K through 4 students. The investment expenditures were paid in full. Certified staff members' iPads were upgraded to a newer version during this process.
- The district had its very first student selected to attend the "Gatton Academy of Math and Science" at Western Kentucky University during the 2011-12 school year. The student will spend his junior and senior year studying at WKU and have two years of college completed at time of graduation. He is the first student from Cloverport and Breckinridge County to be selected. He completed his second year in this program during the 2012-13 school year.
- The district completed a new Crisis/Emergency Response Plan through an organized effort with the Green River Region Education Cooperative. All staff members were trained and a new, organized flip chart was posted in every classroom and the main office areas.
- A new district website was developed for implementation at the beginning of the 2012-13 school year.
- Volleyball was introduced as a sport for the girls' middle/high school students. The boys' and girls' high school basketball teams improved in their performance over previous years.
- Frederick Fraize High School was recognized by U.S. News and World Report as "One of America's Best High Schools". This is the third time the high school has received a bronze ranking.
- The district completed its second year of operating a 21<sup>st</sup> Century Community Learning Center (CCLC) grant, which served students from each of the three schools in afterschool enrichment and academic support programs.
- General revenues accounted for \$938,785 in revenue, or 22.2 percent of all governmental revenues. Program specific revenues in the form of grants and contributions accounted for \$3,298,073 or 77.8 percent of total governmental revenues of \$4,236,858.
- The school district had \$3,893,729 in expenses related to governmental activities; only \$3,298,073 of these expenses were offset by program specific grants and contributions. General revenues (primarily local taxes and state SEEK allocations) and fund balances carried forward were adequate to provide for these programs.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2013**

### **Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Cloverport Independent School District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The **Statement of Net Position and Statement of Activities** provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's major funds. The major funds for the Cloverport Independent School District are the General Fund, Special Revenue Fund, and Debt Service Fund.

### **Reporting the School District as a Whole**

One of the most important notes on the district is how did the district do financially during 2013. The **Statement of Net Position** and the **Statement of Activities**, which appear first in the school district's financial statements, report information on the school district as a whole and its activities in a way that helps clarify the status. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector entities. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received and paid.

These two statements report the school district's net position and changes in its net position. This change in net position is important because it tells the reader that, for the school district as a whole, the financial position of the school district either improved or diminished. However, the school district's goal is to provide services to our students, not to generate profits as a commercial entity. One must consider many other non-financial factors, such as the school district's property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs and other necessary factors.

In the Statement of Net Position and the Statements of Activities, the school district is divided into two distinct kinds of activities:

- **Governmental Activities** - most of the school district's programs and services are reported here including instruction, business support services, instructional support services, operation and maintenance of plant, pupil transportation and other activities.
- **Business-Type Activities** - these services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The school district's food service and GED programs are reported as business activities.

### **Reporting the School District's Most Significant Funds**

#### **Fund Financial Statements**

The analysis of the school district's major funds begins on page 13. Fund financial reports provide detailed information about the school district's major funds. The school district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the school district's major funds.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2013**

**Reporting the School District's Most Significant Funds – Continued**

- **Governmental Funds** - most of the school district's activities are reported in governmental funds, which focus on how money flows in and out of those funds and the resulting balances left at year end and available for spending in future periods. These funds are reported using an accounting method called accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the school district's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** - proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund have a similar format.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 37 of this report.

**(Table 1)  
Net Position**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>						
Current and Other Assets	\$959,068	\$788,206	\$20,778	\$10,667	\$979,846	\$798,873
Capital Assets	6,916,128	7,039,965	167,986	188,376	7,084,114	7,228,341
<b>Total Assets</b>	<b>\$7,875,196</b>	<b>\$7,828,171</b>	<b>\$188,764</b>	<b>\$199,043</b>	<b>\$8,063,960</b>	<b>\$8,027,214</b>
<b>Liabilities</b>						
Long-Term Liabilities	5,412,056	5,720,482	-	-	5,412,056	5,720,482
Other Liabilities	547,806	535,484	26,731	8,063	574,537	543,547
<b>Total Liabilities</b>	<b>5,959,862</b>	<b>6,255,966</b>	<b>26,731</b>	<b>8,063</b>	<b>5,986,593</b>	<b>6,264,029</b>
<b>Net Position</b>						
Net Investment in						
Capital Assets	1,125,396	901,676	167,986	188,376	1,293,382	1,090,052
Restricted	35,270	35,270	-	-	35,270	35,270
Unrestricted	754,668	635,259	(5,953)	2,604	748,715	637,863
<b>Total Net Position</b>	<b>\$1,915,334</b>	<b>\$1,572,205</b>	<b>\$162,033</b>	<b>\$190,980</b>	<b>\$2,077,367</b>	<b>\$1,763,185</b>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2013**

**Reporting the School District's Most Significant Funds – Continued**

Total assets increased \$36,746. Total net position increased by \$314,182 due to increase in capital assets and retirement of debt.

**Government-Wide Financial Analysis** - Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,915,334 for Governmental Activities and \$162,033 for Business Type Activities as of June 30, 2013.

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

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

**(Table 2)  
Change in Net Position**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues:</b>						
Operating Grants/Contribution	\$3,298,073	\$3,328,114	\$204,496	\$218,823	\$3,502,569	\$3,546,937
General Revenues:						
Taxes	375,237	388,863	-	-	375,237	388,863
State Aid-Formula Grants	416,800	416,988	-	-	416,800	416,988
Other Income	146,748	47,362	-	-	146,748	47,362
Charges for Services	-	-	55,337	53,706	55,337	53,706
<b>Total Revenues</b>	<u>4,236,858</u>	<u>4,181,327</u>	<u>259,833</u>	<u>282,879</u>	<u>4,496,691</u>	<u>4,464,206</u>
<b>Expenses:</b>						
Instruction	2,008,750	2,073,536	-	-	2,008,750	2,073,536
Support Services:						
Student	140,966	147,829	-	-	140,966	147,829
Instructional Staff	236,691	241,189	-	-	236,691	241,189
District Administration	362,168	291,637	-	-	362,168	291,637
School Administration	177,299	166,912	-	-	177,299	166,912
Business	258,065	200,654	-	-	258,065	200,654
Facility Operations/Maintenance	243,443	249,055	-	-	243,443	249,055
Student Transportation	191,056	150,002	-	-	191,056	150,002
Food Service	19,935	15,849	281,498	293,384	301,433	309,233
Community Services	39,084	38,989	7,282	7,394	46,366	46,383
Bond Costs Amortization	6,551	6,551	-	-	6,551	6,551
Interest on Long-Term Debt	209,721	220,767	-	-	209,721	220,767
<b>Total Expenses</b>	<u>3,893,729</u>	<u>3,802,970</u>	<u>288,780</u>	<u>300,778</u>	<u>4,182,509</u>	<u>4,103,748</u>
<b>Increase or (Decrease) in Net Position</b>	<u>\$ 343,129</u>	<u>\$ 378,357</u>	<u>\$(28,947)</u>	<u>\$(17,899)</u>	<u>\$ 314,182</u>	<u>\$ 360,458</u>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2013**

**Reporting the School District's Most Significant Funds – Concluded**

**Governmental Activities** - Instruction comprises 45.4% of governmental program expenditures. Support services expenses make up 35.7% of governmental expenditures. Food service, community services, capital outlay, and debt service accounts for the remaining 18.9% of the total governmental expense.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements. The total cost of services includes state on-behalf payments in the amount of \$953,489 for 2013.

**(Table 3)  
Cost of Services**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Instruction	\$2,008,750	\$2,073,536	(\$1,289,323)	(\$1,254,578)
Support Services	1,609,688	1,447,278	1,609,688	1,447,278
Food Service	19,935	15,849	19,935	15,849
Community Services	39,084	38,989	39,084	38,989
Bond Costs Amortization	6,551	6,551	6,551	6,551
Interest on Long Term Debt	<u>209,721</u>	<u>220,767</u>	<u>209,721</u>	<u>220,767</u>
<b>Total Expenses</b>	<u><b>\$3,893,729</b></u>	<u><b>\$3,802,970</b></u>	<u><b>\$595,656</b></u>	<u><b>\$474,856</b></u>

**Business-Type Activities** - The business-type activities are food service and adult education programs. These programs had revenues of \$259,833 and expenses of \$288,780 for fiscal year 2013. Of the revenues, \$55,337 was charges for services and \$204,496 was from state and federal grants. Business activities receive no support from tax revenues. The school district will continue to monitor the charges and costs of these activities. If it becomes necessary, the school district will increase the charges for these activities.

**The School District's Major Funds** - Information about the school district's major funds begins on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources and uses of \$4,239,257 and expenditures of \$4,060,877. Net changes in fund balances for the year was most significant in the General Fund totaling \$178,380.

**General Fund-Budget Highlights**

The school district's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The Kentucky Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2013**

**General Fund-Budget Highlights – Concluded**

A variance comparison is presented between the final budgeted amounts and the actual (GAAP) basis amounts. The General Fund revenues were budgeted at \$2,020,120, with actual amounts of \$2,342,256, for a favorable variance of \$322,136. Budgeted expenditures of \$2,626,257 compare with actual expenditures of \$2,197,918, for a favorable difference of \$428,339. Budgeted other financing sources and uses were (\$8,761), with actual financing sources of \$34,042. The net increase in the General Fund balance is \$178,380.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2013, the school district had \$6,644,406 invested in land, buildings, and equipment, \$6,476,420 in governmental activities, and \$167,986 in business-type activities. Table 4 shows fiscal year 2013 balances compared to 2012.

(Table 4)  
**Capital Assets at June 30  
(Net of Depreciation)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 146,550	\$ 146,550	\$ -	\$ -	\$ 146,550	\$ 146,550
Land improvements	4,675	5,525	-	-	4,675	5,525
Buildings and improvements	5,792,553	5,921,917	-	-	5,792,553	5,921,917
Technology equipment	315,020	282,171	5,235	6,666	320,255	288,837
Vehicles	135,792	160,153	-	-	135,792	160,153
General equipment	81,830	90,259	162,751	181,710	244,581	271,969
<b>Total</b>	<u>\$6,476,420</u>	<u>\$6,606,575</u>	<u>\$167,986</u>	<u>\$188,376</u>	<u>\$6,644,406</u>	<u>\$6,794,951</u>

**Debt**

At June 30, 2013, the school district had \$5,564,198 in bonds outstanding, of which \$4,509,171 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$333,057 is due within one year.

**District Challenges for the Future**

Cloverport Independent School District's financial status has improved during the last fiscal year. This improvement is the result of continued increases in both local and state funding. The District's financial status is stable, but at risk due to the potential continuing loss of state funding. This is the result of two factors: continued student growth without increased state funding for the growth; and a general decrease in the percentage of state funding for K-12 public education.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
FOR THE YEAR ENDED JUNE 30, 2013**

**District Challenges for the Future – Concluded**

The school district has experienced an annual growth in student enrollment each year for the last five years. The school district has prepared for the unexpected increase in enrollment by building a new school and renovating and adding to the existing elementary school and Sportscenter. These new facilities come with more efficient utility costs and additional personnel cost (both administrative and support staffs). These new buildings also have a cost for computers, library books, instructional materials, and other items that can only be paid from the General Fund.

In the past, the costs associated with growth due to increased student enrollment have been offset by additional state funding, and continued increases in business and residential property subject to taxation within the school district. Our property tax base continues to grow; however our school district, like all Kentucky school districts, is limited to a 4% annual growth in property tax revenue on existing property.

Another factor facing our school district is that of inadequate state funding. In recent years, the state has placed percentage salary increase mandates on Kentucky school districts, yet adequate funding for those mandates has not been provided. This practice can, over time, place a severe strain on the District's resources without adequate state funding. The district maintains a contingency plan to deal with state funding shortfalls, but this will only be effective for the short-term. A long-term solution at the state level must be determined and enacted by the state legislature to ensure adequate funding for Kentucky's public school districts.

With careful planning and monitoring of our finances, the goal of the Cloverport Independent School District is to continue to provide a quality education for our students and a secure financial future for the school district.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the school district's finances and to show the school district's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Stephen Clark, Finance Officer, at Cloverport Independent Public Schools, 214 West Main Street, P.O. Box 37, Cloverport, KY 40111, or email at [Stephen.Clark@cloverport.kyschools.us](mailto:Stephen.Clark@cloverport.kyschools.us).

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 773,360	\$ 1,928	\$ 775,288
Accounts receivable	164,500	18,850	183,350
Due from other funds	21,208	-	21,208
<b>Total Current Assets</b>	<u>959,068</u>	<u>20,778</u>	<u>979,846</u>
<b>Noncurrent Assets</b>			
Restricted assets	337,229	-	337,229
Unamortized bond discount	102,479	-	102,479
Capital assets	8,904,183	291,568	9,195,751
Less: accumulated depreciation	<u>(2,427,763)</u>	<u>(123,582)</u>	<u>(2,551,345)</u>
<b>Total Noncurrent Assets</b>	<u>6,916,128</u>	<u>167,986</u>	<u>7,084,114</u>
<b>Total Assets</b>	<u><u>\$ 7,875,196</u></u>	<u><u>\$ 188,764</u></u>	<u><u>\$ 8,063,960</u></u>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 20,490	\$ 5,523	\$ 26,013
Accrued salaries and wages payable	100,373	-	100,373
Accrued interest payable	71,689	-	71,689
Due to other funds	-	21,208	21,208
Deferred revenues	5,625	-	5,625
Current portion of bond obligations	333,057	-	333,057
Current portion of capital lease payable	16,572	-	16,572
<b>Total Current Liabilities</b>	<u>547,806</u>	<u>26,731</u>	<u>574,537</u>
<b>Noncurrent Liabilities</b>			
Noncurrent portion of bond obligations	5,231,141	-	5,231,141
Noncurrent portion of capital lease payable	103,311	-	103,311
Noncurrent portion of accrued sick leave	8,506	-	8,506
Other noncurrent liabilities	69,098	-	69,098
<b>Total Noncurrent Liabilities</b>	<u>5,412,056</u>	<u>-</u>	<u>5,412,056</u>
<b>Total Liabilities</b>	<u>5,959,862</u>	<u>26,731</u>	<u>5,986,593</u>
<b><u>Net Position</u></b>			
Net investment in capital assets	1,125,396	167,986	1,293,382
Restricted for compensated absences	357,866	-	357,866
Restricted for capital projects	14,633	-	14,633
Unrestricted (deficit)	<u>417,439</u>	<u>(5,953)</u>	<u>411,486</u>
<b>Total Net Position</b>	<u><u>\$ 1,915,334</u></u>	<u><u>\$ 162,033</u></u>	<u><u>\$ 2,077,367</u></u>

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

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities</b>						
Instruction	\$ 2,008,750	\$ -	\$ 3,298,073	\$ 1,289,323	\$ -	\$ 1,289,323
Support Services:						
Student	140,966	-	-	(140,966)	-	(140,966)
Instructional staff	236,691	-	-	(236,691)	-	(236,691)
District administration	362,168	-	-	(362,168)	-	(362,168)
School administration	177,299	-	-	(177,299)	-	(177,299)
Business	258,065	-	-	(258,065)	-	(258,065)
Plant operations and maintenance	243,443	-	-	(243,443)	-	(243,443)
Student transportation	191,056	-	-	(191,056)	-	(191,056)
Food service	19,935	-	-	(19,935)	-	(19,935)
Community services	39,084	-	-	(39,084)	-	(39,084)
Bond costs amortization	6,551	-	-	(6,551)	-	(6,551)
Interest on long-term debt	209,721	-	-	(209,721)	-	(209,721)
<b>Total Governmental Activities</b>	<b>3,893,729</b>	<b>-</b>	<b>3,298,073</b>	<b>(595,656)</b>	<b>-</b>	<b>(595,656)</b>
<b>Business-type Activities</b>						
Food services	281,498	47,447	204,496	-	(29,555)	(29,555)
Community services	7,282	7,890	-	-	608	608
<b>Total Business-type Activities</b>	<b>288,780</b>	<b>55,337</b>	<b>204,496</b>	<b>-</b>	<b>(28,947)</b>	<b>(28,947)</b>
<b>Total Primary Government</b>	<b>\$ 4,182,509</b>	<b>\$ 55,337</b>	<b>\$ 3,502,569</b>	<b>\$ (595,656)</b>	<b>\$ (28,947)</b>	<b>\$ (624,603)</b>
			<b>General Revenues</b>			
			Taxes:			
			Property	186,137	-	186,137
			Motor vehicle	50,734	-	50,734
			Utility	56,042	-	56,042
			Other	82,324	-	82,324
			State aid - formula grants	416,800	-	416,800
			Other income	146,748	-	146,748
			<b>Total General Revenues</b>	<b>938,785</b>	<b>-</b>	<b>938,785</b>
			<b>Changes in Net Position</b>	<b>343,129</b>	<b>(28,947)</b>	<b>314,182</b>
			<b>Net Position-July 1, 2012</b>	<b>1,572,205</b>	<b>190,980</b>	<b>1,763,185</b>
			<b>Net Position-June 30, 2013</b>	<b>\$ 1,915,334</b>	<b>\$ 162,033</b>	<b>\$ 2,077,367</b>

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and cash equivalents	\$ 758,727	\$ -	\$ -	\$ 14,633	\$ 773,360
Investments	337,229	-	-	-	337,229
Due from other funds	171,093	-	-	-	171,093
Accounts receivable	2,132	162,368	-	-	164,500
<b>Total Assets</b>	<b>\$ 1,269,181</b>	<b>\$ 162,368</b>	<b>\$ -</b>	<b>\$ 14,633</b>	<b>\$ 1,446,182</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b><u>Liabilities</u></b>					
Accounts payable	\$ 13,632	\$ 6,858	\$ -	\$ -	\$ 20,490
Due to other funds	-	149,885	-	-	149,885
Accrued payroll and liabilities	100,373	-	-	-	100,373
Deferred revenues	-	5,625	-	-	5,625
<b>Total Liabilities</b>	<b>114,005</b>	<b>162,368</b>	<b>-</b>	<b>-</b>	<b>276,373</b>
<b><u>Fund Balances</u></b>					
Restricted	357,866	-	-	14,633	372,499
Assigned	80,040	-	-	-	80,040
Unassigned	717,270	-	-	-	717,270
<b>Total Fund Balances</b>	<b>1,155,176</b>	<b>-</b>	<b>-</b>	<b>14,633</b>	<b>1,169,809</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,269,181</b>	<b>\$ 162,368</b>	<b>\$ -</b>	<b>\$ 14,633</b>	<b>\$ 1,446,182</b>

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

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

<b>Total Governmental Fund Balances</b>	\$ 1,169,809
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	6,476,420
Bond discounts and issue costs are financial uses and are reported as expenditures in governmental funds. This amount is capitalized in the district-wide financial statements and expensed over the life of the bond.	102,479
Certain liabilities, such as bond obligations, capital leases, accrued sick leave, and interest payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(5,833,374)</u>
<b>Total Net Position of Governmental Activities</b>	<u><u>\$ 1,915,334</u></u>

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
From local sources:					
Taxes:					
Property	\$ 167,892	\$ -	\$ -	\$ 18,245	\$ 186,137
Motor vehicle	50,734	-	-	-	50,734
Utility	56,042	-	-	-	56,042
Other	-	82,324	-	-	82,324
Earnings on investments	28,568	-	-	-	28,568
Donations	350	-	-	-	350
Other local revenue	120,229	-	-	-	120,229
Intergovernmental:					
State	2,428,641	204,433	416,800	139,016	3,188,890
Indirect federal	3,618	499,494	-	-	503,112
Direct federal	22,871	-	-	-	22,871
<b>Total Revenues</b>	<u>2,878,945</u>	<u>786,251</u>	<u>416,800</u>	<u>157,261</u>	<u>4,239,257</u>
<b>Expenditures</b>					
Current:					
Instruction	1,365,502	479,684	-	-	1,845,186
Support Services:					
Student	122,522	-	-	-	122,522
Instructional staff	59,610	166,936	-	-	226,546
District administration	288,652	-	-	-	288,652
School administration	169,008	-	-	-	169,008
Business	221,613	26,906	-	-	248,519
Plant operations and maintenance	224,535	3,522	-	-	228,057
Student transportation	155,191	11,503	-	-	166,694
Food service	6,343	13,592	-	-	19,935
Community services	-	38,221	-	-	38,221
Debt Service:					
Principal	17,801	-	326,606	-	344,407
Interest	4,093	-	206,894	-	210,987
Capital outlay	99,737	52,406	-	-	152,143
<b>Total Expenditures</b>	<u>2,734,607</u>	<u>792,770</u>	<u>533,500</u>	<u>-</u>	<u>4,060,877</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>144,338</u>	<u>(6,519)</u>	<u>(116,700)</u>	<u>157,261</u>	<u>178,380</u>
<b>Other Financing Sources (Uses)</b>					
Operating transfers in	40,561	6,519	116,700	-	163,780
Operating transfers out	(6,519)	-	-	(157,261)	(163,780)
<b>Total Other Financing Sources (Uses)</b>	<u>34,042</u>	<u>6,519</u>	<u>116,700</u>	<u>(157,261)</u>	<u>-</u>
<b>Net Changes in Fund Balances</b>	<u>178,380</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,380</u>
<b>Fund Balances - July 1, 2012</b>	<u>976,796</u>	<u>-</u>	<u>-</u>	<u>14,633</u>	<u>991,429</u>
<b>Fund Balances - June 30, 2013</b>	<u>\$ 1,155,176</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,633</u>	<u>\$ 1,169,809</u>

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

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

**Net Changes in Fund Balances - Total Governmental Funds** \$ 178,380

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (127,755)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 344,407

Bond discounts and issue costs are reported as financing uses in governmental funds and thus contribute to the change in fund balance. In the Statement of Activities, these costs are capitalized and amortized over the life of the respective bond. (6,551)

The loss from the book value of capital assets retired is included with other income in the Statement of Activities. (2,400)

The decreased amount of interest reported in the Statement of Activities is the result of the following:

Interest is recorded as an expenditure when due in governmental funds and as it accrues in the Statement of Activities. 1,266

In the Statement of Activities, sick leave is measured by the amount earned during the year. In governmental funds, however, expenditures for this item are measured by the amount actually paid. 24,880

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This represents an increase in noncurrent liabilities. (69,098)

**Change in Net Position of Governmental Activities** \$ 343,129

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2013**

	<b>Food Service Fund</b>	<b>GED Testing Center Fund</b>	<b>Total Proprietary Funds</b>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ -	\$ 1,928	\$ 1,928
Accounts receivable	18,310	540	18,850
<b>Total Current Assets</b>	<b>18,310</b>	<b>2,468</b>	<b>20,778</b>
<b>Noncurrent Assets</b>			
Capital assets	291,568	-	291,568
Less: accumulated depreciation	(123,582)	-	(123,582)
<b>Total Noncurrent Assets</b>	<b>167,986</b>	<b>-</b>	<b>167,986</b>
<b>Total Assets</b>	<b>\$ 186,296</b>	<b>\$ 2,468</b>	<b>\$ 188,764</b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 5,523	\$ -	\$ 5,523
Due to other funds	21,208	-	21,208
<b>Total Current Liabilities</b>	<b>26,731</b>	<b>-</b>	<b>26,731</b>
<b><u>Net Position</u></b>			
Investment in capital assets	167,986	-	167,986
Unrestricted (deficit)	(8,421)	2,468	(5,953)
<b>Total Net Position</b>	<b>\$ 159,565</b>	<b>\$ 2,468</b>	<b>\$ 162,033</b>

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

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

	<b>Food Service Fund</b>	<b>GED Testing Center Fund</b>	<b>Total Proprietary Funds</b>
<b>Operating Revenues</b>			
Lunchroom sales	\$ 47,447	\$ -	\$ 47,447
GED test fees	-	7,890	7,890
<b>Total Operating Revenues</b>	<u>47,447</u>	<u>7,890</u>	<u>55,337</u>
<b>Operating Expenses</b>			
Salaries and wages	109,432	4,467	113,899
Contract services	3,347	-	3,347
Materials and supplies	142,927	2,815	145,742
Depreciation	23,342	-	23,342
Other operating expenses	2,450	-	2,450
<b>Total Operating Expenses</b>	<u>281,498</u>	<u>7,282</u>	<u>288,780</u>
<b>Operating Income (Loss)</b>	<u>(234,051)</u>	<u>608</u>	<u>(233,443)</u>
<b>Non-operating Revenues</b>			
Federal grants	176,202	-	176,202
State grants	24,197	-	24,197
Donated commodities	2,718	-	2,718
Other non-operating revenue	1,379	-	1,379
<b>Total Non-operating Revenues</b>	<u>204,496</u>	<u>-</u>	<u>204,496</u>
<b>Changes in Net Position</b>	<u>(29,555)</u>	<u>608</u>	<u>(28,947)</u>
<b>Total Net Position - July 1, 2012</b>	<u>189,120</u>	<u>1,860</u>	<u>190,980</u>
<b>Total Net Position - June 30, 2013</b>	<u>\$ 159,565</u>	<u>\$ 2,468</u>	<u>\$ 162,033</u>

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

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

	<u>Food Service Fund</u>	<u>GED Testing Center Fund</u>	<u>Total Proprietary Funds</u>
<b>Cash Flows from Operating Activities</b>			
Cash received from user charges	\$ 47,447	\$ 11,310	\$ 58,757
Cash payments to employees for services	(109,432)	(4,467)	(113,899)
Cash payments for contract services	(3,347)	(2,100)	(5,447)
Cash payments to suppliers for materials, supplies, and other	(121,892)	(2,815)	(124,707)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(187,224)</u>	<u>1,928</u>	<u>(185,296)</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of equipment	(2,952)	-	(2,952)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Federal grants	162,112	-	162,112
State grants	24,197	-	24,197
Other non-operating revenue	1,379	-	1,379
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<u>187,688</u>	<u>-</u>	<u>187,688</u>
<b>Net Change in Cash and Cash Equivalents</b>	(2,488)	1,928	(560)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>2,488</u>	<u>-</u>	<u>2,488</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ -</u>	<u>\$ 1,928</u>	<u>\$ 1,928</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (234,051)	\$ 608	\$ (233,443)
Depreciation	23,342	-	23,342
Commodities used	2,718	-	2,718
Net changes in assets and liabilities:			
Accounts receivable	-	3,420	3,420
Accounts payable	(441)	(65)	(506)
Due to other funds	21,208	(2,035)	19,173
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (187,224)</u>	<u>\$ 1,928</u>	<u>\$ (185,296)</u>
<b>Schedule of Non-cash Transactions</b>			
Donated commodities received from federal government	<u>\$ 2,718</u>	<u>\$ -</u>	<u>\$ 2,718</u>
On-behalf payments relating to fringe benefits provided by state government	<u>\$ 21,966</u>	<u>\$ -</u>	<u>\$ 21,966</u>

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2013**

	<u>Agency Funds</u>		<u>Total</u>
	<u>School Accounts</u>	<u>Other</u>	
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 50,913	\$ 89,942	\$ 140,855
Accounts receivable	511	-	511
<b>Total Current Assets</b>	<u>51,424</u>	<u>89,942</u>	<u>141,366</u>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Accounts payable	500	-	500
Due to students and teachers	50,924	-	50,924
Due to scholarship recipients	-	89,942	89,942
<b>Total Current Liabilities</b>	<u>\$ 51,424</u>	<u>\$ 89,942</u>	<u>\$ 141,366</u>

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

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

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

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

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

Cloverport Independent School District Finance Corporation

On October 1, 1989, the Cloverport Board of Education resolved to authorize the establishment of the Cloverport Independent School District Finance Corporation (Corporation) (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency for the District for financing the costs of school building facilities. The board members of the Cloverport Board of Education also comprise the Corporation's Board of Directors.

The accounting policies of the Cloverport Independent School District Finance Corporation substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation (Continued)

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

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than fund types. Each major fund is presented in a separate 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 fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in net position presents increases and decreases in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

The District has the following funds:

I. Governmental Funds

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation (Continued)

- (B) The Special Revenue (Grant) Fund accounts for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund.
- (C) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs. This is a major fund.
- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing projects identified in the district's facility plan. This is not a major fund.
  2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is not a major fund.
  3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. For the year ended June 30, 2013, this nonmajor fund had no assets or liabilities and no activity.

II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U. S. Department of Agriculture (USDA).

The District operates an adult education program. As funding is provided through tuition and test fees, the program is a proprietary fund.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation (Concluded)

III. Fiduciary Funds (Agency Funds)

The Agency Funds account for activities of student groups and other types of activities requiring clearing accounts. The student activities are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds* (Redbook). The other agency fund is composed of assets set aside for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting

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

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

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

Operating revenues are those revenues that are generated directly from the primary activity of the Proprietary Funds. Those revenues are primarily charges for meals and related items provided by the schools and tuition fees from adult education students. Nonoperating revenues of the Proprietary Funds include grants, donations, and interest income.

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Accounting (Concluded)

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 - Proprietary Fund as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings, which are mailed by November 1, are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. A discount is offered through November 30 and a penalty is assessed after December 31. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.644 per \$100 valuation for real and business personal property and \$.569 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the school district, of telephonic communication services, cablevision services, electric power, water, and natural gas.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal, state, and local governments is limited due to the historical stability of those institutions.

Capital Assets

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital Assets (Concluded)

All capital assets are carried at historical cost. Where cost cannot be determined from the available records, estimated historical cost has been used to record the estimated value of the assets. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000; however, there is no threshold for technology items. The District does not possess any infrastructure. Improvements are capitalized, but the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	7 years
Land improvements	10-20 years
Buildings	25-50 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due to/due from other funds. These generally arise from payments made from the General Fund checking account, which may not have the legal liability for the expenditure, so a payable from the fund having the legal liability is established at such time. Unless there are net residual amounts due between governmental and business-type activities, these amounts are eliminated in the Statement of Net Position.

Accumulated Unpaid Sick Leave Benefits

The District's policies regarding sick leave permits employees to accumulate earned but unused sick leave. See Note I for additional information.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of goods or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end, if any, are included in assigned fund balance at June 30, 2013.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than accounting principles generally accepted in the United States of America (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).

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.

Payables, Accrued Liabilities, and Long-Term Obligations

Payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and in the Proprietary Fund financial statements.

In general, payables, accrued liabilities, and long-term obligations that will be paid from governmental funds are reported on the government-wide financial statements regardless of whether they will be liquidated with current resources. However, these amounts are not recognized as liabilities in the fund financial statements until due.

Net Position

The District implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2013. This standard provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The main effect of this statement was a change in terminology from "net position" to "net position."

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

Interfund Transfers

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 and expenses in proprietary funds.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

Fund Equity

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

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

The District establishes (and modifies or rescinds) fund balance commitments by passage of a board order, which is done through motions made by the board of education members. Assigned fund balance is established by the Superintendent through adoption or amendment of the budget as intended for a specific purpose. Unassigned fund balances are reduced first, unless expenditures are incurred for a specific purpose for which fund balance has been restricted, committed, or assigned.

**NOTE B - ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE C - CAPITAL ASSETS**

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

<u>Governmental Activities</u>	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Not Depreciated:				
Land	\$ 146,550	\$ -	\$ -	\$ 146,550
Depreciated:				
Land improvements	17,000	-	-	17,000
Buildings	7,287,511	67,027	3,000	7,351,538
Technology equipment	534,769	79,488	2,070	612,187
Vehicles	397,075	-	-	397,075
General equipment	374,895	5,628	690	379,833
Subtotal	<u>8,611,250</u>	<u>152,143</u>	<u>5,760</u>	<u>8,757,633</u>
Less accumulated depreciation for:				
Land improvements	11,475	850	-	12,325
Buildings	1,365,594	195,821	2,430	1,558,985
Technology equipment	252,598	44,810	240	297,168
Vehicles	236,922	24,360	-	261,282
General equipment	284,636	14,057	690	298,003
Subtotal	<u>2,151,225</u>	<u>279,898</u>	<u>3,360</u>	<u>2,427,763</u>
Capital Assets - Net	<u>\$6,606,575</u>	<u>\$ (127,755)</u>	<u>\$ 2,400</u>	<u>\$6,476,420</u>
 <u>Business-Type Activities</u>				
Depreciated:				
Technology equipment	\$ 7,483	\$ -	\$ -	\$ 7,483
General equipment	281,133	2,952	-	284,085
Subtotal	<u>288,616</u>	<u>2,952</u>	<u>-</u>	<u>291,568</u>
Less accumulated depreciation for:				
Technology equipment	817	1,431	-	2,248
General equipment	99,423	21,911	-	121,334
Subtotal	<u>100,240</u>	<u>23,342</u>	<u>-</u>	<u>123,582</u>
Capital Assets - Net	<u>\$ 188,376</u>	<u>\$ (20,390)</u>	<u>\$ -</u>	<u>\$ 167,986</u>

Depreciation expense for governmental activities was charged to functions in the Statement of Activities as follows:

Instruction	\$188,443
Support services:	
Student	18,444
Instructional staff	10,145
District administration	4,418
School administration	8,291
Business	9,546
Plant operations and maintenance	15,386
Student transportation	24,362
Community services	863
	<u>\$279,898</u>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE C - CAPITAL ASSETS (CONCLUDED)**

In 2009 and 2011 the District acquired school buses through capital leases. Amortization expense of \$16,627 is included with depreciation. The original cost of these assets was \$166,673 and the book value of these assets at year-end was \$100,854.

**NOTE D - CASH AND CASH EQUIVALENTS**

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

	Bank Balance	Book Balance
Governmental and proprietary funds	\$907,519	\$775,288
Fiduciary funds	141,736	140,855
	\$1,049,255	\$916,143

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At year-end, the deposits of the District were either insured or collateralized with securities held by the pledging financial institution.

Kentucky Revised Statutes and Board policy authorize the District to invest in direct obligations of the United States government; obligations backed by the full faith and credit of the United States government; certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations; bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities; securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency; certain mutual funds; commercial paper rated in the highest category by a nationally recognized rating agency; or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.

**NOTE E - INVESTMENTS**

The District is the only beneficiary of the Cornelia W. Fraize Charitable Trust, which has been in existence for more than 70 years. The terms of the trust require that the earnings be used to provide a science program for the school.

The principal of the trust is invested in mutual funds not held for trading purposes. Due to the number of years of activity, it is not possible to determine the cost basis. The fair value at year-end was \$337,229, estimated based on unadjusted quoted market prices for identical assets. The value at the beginning of the fiscal year was \$324,362, with current year investment gain of \$28,156. Distributions were received in the amount of \$15,289.

While such investments are not in conformity with state law or District policy, the assets are in trust, and the trustee makes all investment decisions.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE F - BOND OBLIGATIONS**

A portion of the amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Cloverport School District Finance Corporation.

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

The original amount of the bond issues, the issue dates, interest rates, and outstanding balances at June 30, 2013 are summarized below:

<u>Bond Series</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Bond Maturity</u>	<u>Original Issue</u>	<u>Outstanding Balance</u>
2004	9/1/04	1.15% to 4.4%	9/1/23	\$ 1,190,000	\$ 450,000
2008	2/1/08	3.25% to 3.85%	2/1/28	\$ 5,000,000	\$ 4,115,000
2009	12/1/09	1% to 3.25%	12/1/18	\$ 248,246	\$ 164,198
2010	6/17/10	1.8% to 4%	8/1/30	\$ 885,000	\$ 835,000

On October 1, 2004, the District entered into a loan agreement with the Kentucky School Construction Commission (Commission) to refinance bonds issued in 1989 and 1995 and to raise revenue for renovations of school properties.

On February 1, 2008, the District issued \$5,000,000 in School Building Revenue Bonds with an average interest rate of 3.55%. The proceeds were used to provide for construction of a new school building and facilities.

On December 1, 2009, the District entered a loan agreement with the Commission in the amount of \$248,246 with an average interest rate of 2.125%. The proceeds were used to refund the 1999 issue for a net present value savings of \$20,299.

On June 17, 2010, the District issued School Building Revenue Bonds in the amount of \$885,000 to be used for renovation of the Cloverport Sports Center. The average interest rate is 2.9%.

The District has "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky Legislature 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 government-wide financial statements.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE F - BOND OBLIGATIONS (CONCLUDED)**

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:

Year	DISTRICT		COMMISSION		TOTAL
	Principal	Interest	Principal	Interest	Principal
2013-14	\$ 82,946	\$ 33,294	\$ 250,111	\$ 166,640	\$ 333,057
2014-15	83,933	30,399	257,619	159,117	341,552
2015-16	85,404	27,270	264,873	151,212	350,277
2016-17	45,141	29,452	274,563	138,353	319,704
2017-18	49,065	28,823	285,031	128,115	334,096
2018-23	275,462	111,801	1,470,050	493,130	1,745,512
2023-28	327,138	53,428	1,612,862	208,610	1,940,000
2028-31	<u>105,938</u>	<u>5,883</u>	<u>94,062</u>	<u>6,117</u>	<u>200,000</u>
	<u>\$1,055,027</u>	<u>\$320,350</u>	<u>\$4,509,171</u>	<u>\$1,451,294</u>	<u>\$5,564,198</u>

**NOTE G - COMMITMENTS UNDER LEASES**

In 2009 and 2011, the District entered into capital lease agreements with Kentucky Interlocal School Transportation for the acquisition of new school buses. See note C for assets recorded under capital leases. The repayment schedule is as follows:

Year Ending	Governmental Activities
2013-14	\$ 20,320
2014-15	20,388
2015-16	20,328
2016-17	20,330
2017-21	<u>55,080</u>
Future Minimum Payments	136,446
Less Interest	<u>(16,563)</u>
Present Value of Future Minimum Payments	<u>\$119,883</u>

**NOTE H - CHANGES IN LONG-TERM DEBT**

Changes in long-term debt (including current portion) were as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due in One Year
Bond obligations	\$5,890,804	\$ -	\$ 326,606	\$5,564,198	\$333,057
Capital leases payable	137,684	-	17,801	119,883	16,572
Accrued sick leave	33,384	751	25,629	8,506	-
	<u>\$6,061,872</u>	<u>\$ 751</u>	<u>\$ 370,036</u>	<u>\$5,692,587</u>	<u>\$349,629</u>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE I - ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon retirement from the school system, a qualified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

**NOTE J - DEFERRED COMPENSATION**

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

**NOTE K - RETIREMENT PLANS**

Teachers' Retirement System of Kentucky

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

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

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 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 made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance, and the General Assembly.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE K - RETIREMENT PLANS (CONTINUED)**

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

Funding policy - 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, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1% of members' salary for the 2012-2013 fiscal year.

Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky and employers required to pay matching contribute 14.105% of salaries for members. The federal program for any salaries paid by that program pays the matching contributions.

The Cloverport Independent School District's total payroll for the year was \$2,173,956. The payroll for employees covered under KTRS was \$1,559,953. For the year ended June 30, 2013, the Commonwealth contributed \$181,291 to KTRS for the benefit of the District's participating employees. The School District's contributions to KTRS for the year ended June 30, 2013 were \$41,851, which represents those employees covered by federal programs.

Fiscal Year Ended June 30,	Total Payroll Subject to KTRS	Contributions		Total
		Employee	Employer	
2013	\$1,559,953	\$169,259	\$41,851	\$211,110
2012	\$1,571,201	\$165,474	\$39,810	\$205,284
2011	\$1,488,742	\$173,423	\$25,398	\$198,821

**County Employee's Retirement System**

Plan Description - Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a defined benefit plan sponsored by the Commonwealth of Kentucky. CERS is a cost-sharing multiple-employer public employee retirement system that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county and city, non-certified school board employees, and any additional eligible local agencies electing to participate in CERS. The Kentucky Retirement System (KRS) issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE K - RETIREMENT PLANS (CONCLUDED)**

Funding Policy - Funding for the plan is provided through payroll withholdings and participating employers are required to contribute at an actuarially determined rate. For the year ended June 30, 2013, non-hazardous plan employees who began participating with KRS prior to September 1, 2008 contributed 5% of creditable compensation to CERS. Employees who began participating with KRS on or after September 1, 2008 contributed 6%, with the additional 1% going to a health insurance account. Employer contribution rates, determined by the Board of Trustees of the Kentucky Retirement Systems, are intended to fund the CERS's normal cost on a current basis plus fund an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Participating employers contributed 19.55% of members' non-hazardous compensation for the year ended June 30, 2013.

The District's contributions to CERS for the past three years are listed below. The actual contributions were equal to the required contributions for each year.

Fiscal Year Ended June 30,	Total Payroll Subject to CERS	Contributions		
		Employee	Employer	Total
2013	\$611,423	\$31,993	\$119,533	\$151,526
2012	\$608,123	\$30,573	\$111,523	\$142,096
2011	\$794,043	\$37,027	\$122,581	\$159,608

As the District is only one of several employers participating in the plan, it is not practical 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.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. Changes made to the medical plan may be made by the Kentucky Retirement Systems' Board of Trustees and the General Assembly. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

To be eligible for medical benefits, the member must have retired either for service or disability. The amount funded by the insurance fund depends on the months of service. The insurance fund shall continue the same level of coverage for a recipient who was a member of the CERS after the age of 65 as before the age of 65, if the recipient is not eligible for Medicare coverage.

Funding policy - The post-retirement healthcare provided by CERS is financed wholly or partly from funds contributed by the recipient of a retirement allowance, by the Kentucky Retirement Systems insurance fund, or by another state-administered retirement system under a reciprocal agreement. Also, any premiums collected from retirees and investment interest help with the medical expenses of the plan.

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE L - COMMITMENTS AND CONTINGENCIES**

The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on 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 contingent upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The Kentucky School Boards Insurance Trust (KSBIT) determined its Workers' Compensation and Liability Self-Insurance Pools were running in insurmountable deficits. As part of a corrective action plan required by state law, KSBIT assessed current and past participating members to fund the deficit and transfer the liability to a qualified insurer/reinsurer. A final assessment has not been issued, but a preliminary estimate of \$69,098 was recorded as a noncurrent liability in the government-wide financial statements, as it is not expected to be due until fiscal year 2014-2015.

**NOTE M - INSURANCE AND 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, students, and guests; 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 Fund (Trust).

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund.

**NOTE N - COBRA**

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

**NOTE O - INTERFUND ACTIVITY**

Most program costs in the Special Revenue Fund must be paid for by District funds before reimbursement is requested from the Federal Government. The General Fund temporarily covered program expenditures, so an interfund balance resulted from the time lag between the dates expenditures were made and the date that grant funds were received. An advance made to the Food Service Fund had not been repaid at June 30, 2013.

Interfund receivables and payables at year-end were as follows:

From Fund	To Fund	Amount
Special Revenue	General	\$149,885
Food Service	General	21,208
Total		\$171,093

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE O - INTERFUND ACTIVITY (CONCLUDED)**

The following transfers were made during the year:

From Fund	To Fund	Amount	Purpose
General	Special Revenue	\$ 6,519	Fund local projects
Capital Outlay	General	34,002	Debt service
FSPK	General	6,559	Debt service
FSPK	Debt Service	116,700	Debt service
		<u>\$163,780</u>	

**NOTE P - FUND BALANCES**

While not having an overall deficit balance, the Food Service Fund had operations that resulted in a current year deficit of revenues over expenses and a corresponding reduction of net position. The fund balances for the Governmental Funds were classified as follows:

Fund Balances	General Fund	Nonmajor Governmental Funds
Restricted:		
Debt service	\$ -	\$14,633
Science program	337,229	-
Sick leave	20,637	-
Assigned:		
Purchase obligations	10,942	-
Workers compensation	69,098	-
Unassigned	717,270	-
Total Fund Balances	<u>\$1,155,176</u>	<u>\$14,633</u>

**NOTE Q - ON-BEHALF PAYMENTS**

For the year ended June 30, 2013, total net payments of \$536,689 were made for life insurance, health insurance, KTRS matching, and administrative fees by the Commonwealth of Kentucky on behalf of the District. These on-behalf payments were recorded as intergovernmental revenue and expenses/expenditures in the government-wide and General Fund financial statements. In addition, debt service payments made by the SFCC on behalf of the District totaled \$416,800. This amount is included as revenues in the Debt Service Fund and the Statement of Activities and the amount attributed to interest expense is included as expenditures or expenses. On-behalf payments are not budgeted and therefore are not included in the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund.

**NOTE R - SUBSEQUENT EVENTS**

Cloverport Independent School District's management has evaluated and considered the need to recognize or disclose subsequent events through November 13, 2013, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2013 have not been evaluated by management.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	<u>Budgeted Amounts</u>		<b>Actual (Budgetary Basis)</b>	<b>Variance Favorable (Unfavorable) Final to Actual</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
From local sources:				
Taxes:				
Property	\$ 159,820	\$ 159,870	\$ 167,892	\$ 8,022
Motor vehicle	40,500	40,500	50,734	10,234
Utility	48,000	48,000	56,042	8,042
Earnings (loss) on investments	10,000	10,000	28,568	18,568
Donations	800	800	350	(450)
Other local revenue	19,000	23,700	120,229	96,529
Intergovernmental:				
State	1,714,459	1,705,250	1,891,952	186,702
Indirect federal	21,000	21,000	3,618	(17,382)
Direct federal	11,000	11,000	22,871	11,871
<b>Total Revenues</b>	<u>2,024,579</u>	<u>2,020,120</u>	<u>2,342,256</u>	<u>322,136</u>
<b>Expenditures</b>				
Current:				
Instruction	1,077,771	1,173,503	981,014	192,489
Support Services:				
Student	109,307	110,422	86,908	23,514
Instructional staff	48,027	48,024	42,976	5,048
District administration	439,747	439,488	246,195	193,293
School administration	149,578	140,117	135,901	4,216
Business	145,770	150,852	197,760	(46,908)
Plant operations and maintenance	321,981	285,594	224,535	61,059
Student transportation	153,545	166,245	154,655	11,590
Food service	21,000	21,000	6,343	14,657
Debt Service:				
Principal	27,090	22,000	17,801	4,199
Interest	-	-	4,093	(4,093)
Capital outlay	-	69,012	99,737	(30,725)
<b>Total Expenditures</b>	<u>2,493,816</u>	<u>2,626,257</u>	<u>2,197,918</u>	<u>428,339</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>(469,237)</u>	<u>(606,137)</u>	<u>144,338</u>	<u>750,475</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	-	40,561	40,561
Operating transfers out	(8,761)	(7,564)	(6,519)	1,045
<b>Total Other Financing Sources (Uses)</b>	<u>(8,761)</u>	<u>(7,564)</u>	<u>34,042</u>	<u>41,606</u>
<b>Net Changes in Fund Balance</b>	<u>(477,998)</u>	<u>(613,701)</u>	<u>178,380</u>	<u>792,081</u>
<b>Fund Balance - July 1, 2012</b>	<u>477,998</u>	<u>613,701</u>	<u>976,796</u>	<u>363,095</u>
<b>Fund Balance - June 30, 2013</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,155,176</u>	<u>\$ 1,155,176</u>

See accompanying notes to required supplementary information.

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

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable) Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
From local sources:				
Other taxes	\$ 80,000	\$ 80,000	\$ 82,324	\$ 2,324
Intergovernmental:				
State	216,593	213,880	204,433	(9,447)
Indirect federal	355,571	468,288	499,494	31,206
<b>Total Revenues</b>	<u>652,164</u>	<u>762,168</u>	<u>786,251</u>	<u>24,083</u>
<b>Expenditures</b>				
Current:				
Instruction	388,989	479,204	479,684	(480)
Support Services:				
Instructional staff	179,173	179,285	166,936	12,349
Business	49,755	29,115	26,906	2,209
Plant operations and maintenance	5,128	5,128	3,522	1,606
Student transportation	-	19,909	11,503	8,406
Food service	-	-	13,592	(13,592)
Community services	37,880	38,221	38,221	-
Capital outlay	-	18,870	52,406	(33,536)
<b>Total Expenditures</b>	<u>660,925</u>	<u>769,732</u>	<u>792,770</u>	<u>(23,038)</u>
<b>Deficiency of Revenues over Expenditures</b>	(8,761)	(7,564)	(6,519)	1,045
<b>Other Financing Sources</b>				
Operating transfers in	8,761	7,564	6,519	(1,045)
<b>Net Changes in Fund Balance</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance - July 1, 2012</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance - June 30, 2013</b>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

See accompanying notes to required supplementary information.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - BASIS OF PRESENTATION**

The District's budgetary basis of accounting used for budget versus actual reporting differs from accounting principles generally accepted in the United States of America (GAAP). The budget and all transactions are presented in accordance with the District's budgetary basis in the budgetary comparison schedules for the General Fund and Special Revenue Fund to provide a meaningful comparison of actual results with the budget. The major difference between budgetary and GAAP bases for the General Fund is the exclusion of on-behalf payments in budget amounts. There are no major differences between budgetary and GAAP bases for the Special Revenue Fund.

A reconciliation of the different bases of revenue and expenditure recognition for the year ended June 30, 2013 is as follows:

	General Fund
Revenues, GAAP basis	\$2,878,945
<i>Deduct:</i>	
On-behalf payments	536,689
Revenues, budgetary basis	\$2,342,256
Expenditures, GAAP basis	\$2,734,607
<i>Deduct:</i>	
On-behalf payments	536,689
Expenditures, budgetary basis	\$2,197,918

**NOTE B - BUDGET VIOLATIONS**

During the 2013 fiscal year, the District's General Fund and Special Revenue Fund incurred line items in excess of the budget.

## **SUPPLEMENTARY INFORMATION**

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2013**

	<u>Capital Project Funds</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>FSPK Fund</u>	<u>Construction Fund</u>	<u>Capital Outlay Fund</u>	
<b><u>Assets</u></b>				
Cash and cash equivalents	<u>\$ 12,027</u>	<u>\$ -</u>	<u>\$ 2,606</u>	<u>\$ 14,633</u>
<b><u>Fund Balances</u></b>				
Restricted	<u>\$ 12,027</u>	<u>\$ -</u>	<u>\$ 2,606</u>	<u>\$ 14,633</u>

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

	<u>Capital Project Funds</u>			<b>Total Nonmajor Governmental Funds</b>
	<b>FSPK Fund</b>	<b>Construction Fund</b>	<b>Capital Outlay Fund</b>	
<b>Revenues</b>				
From local sources:				
Taxes:				
Property	\$ 18,245	\$ -	\$ -	\$ 18,245
State	105,014	-	34,002	139,016
<b>Total Revenues</b>	<u>123,259</u>	<u>-</u>	<u>34,002</u>	<u>157,261</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers out	<u>(123,259)</u>	-	<u>(34,002)</u>	<u>(157,261)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(123,259)</u>	<u>-</u>	<u>(34,002)</u>	<u>(157,261)</u>
<b>Net Changes in Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances - July 1, 2012</b>	<u>12,027</u>	<u>-</u>	<u>2,606</u>	<u>14,633</u>
<b>Fund Balances - June 30, 2013</b>	<u><u>\$ 12,027</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,606</u></u>	<u><u>\$ 14,633</u></u>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Accounts:</b>	<b>Cash</b>				<b>Cash</b>	<b>Accounts</b>	<b>Accounts</b>	<b>Fund</b>
	<b>Balances</b> July 1, 2012	<b>Receipts</b>	<b>Disbursements</b>	<b>Transfers</b> In (Out)	<b>Balances</b> June 30, 2013	<b>Receivable</b> June 30, 2013	<b>Payable</b> June 30, 2013	<b>Balances</b> June 30, 2013
Ace Academy Daily	\$ 2	\$ 3,271	\$ 2,110	\$ 1,207	\$ 2,370	\$ -	\$ -	\$ 2,370
Ace Academy Printing	-	887	308	964	1,543	-	-	1,543
Ace Snacks	-	5,194	1,947	(2,247)	1,000	-	-	1,000
Aces Items Fundraiser	-	1,909	1,909	-	-	-	-	-
ACES Organization	231	1,389	986	-	634	-	-	634
Art Fund	-	965	486	-	479	-	-	479
ASAP Grant Fund	15	2,962	1,276	(185)	1,516	-	-	1,516
Athletic Account	6,308	20,561	16,142	2,406	13,133	-	-	13,133
Backpack Food Program	1,877	768	1,182	-	1,463	-	-	1,463
Band/Music	50	1,056	911	-	195	-	-	195
Boys Will Be Boys	21	511	348	-	184	-	-	184
Business Club	-	466	-	75	541	-	-	541
Class of 2013	1,696	1,438	1,347	(471)	1,316	-	-	1,316
Class of 2014	603	2,425	1,748	-	1,280	-	-	1,280
Class of 2015	-	2,271	1,750	-	521	-	-	521
Class of 2016	-	714	714	-	-	-	-	-
Concession Stand	1,000	5,538	3,087	(2,451)	1,000	-	-	1,000
Community Involvement	-	-	360	404	44	-	-	44
Discount Card Account	-	1,420	1,420	-	-	-	-	-
Dolly Parton Imagination	-	516	358	-	158	-	-	158
Drama Club	-	1,634	427	(1,207)	-	-	-	-
Eighth Grade	58	398	117	-	339	-	-	339
Elementary Academic	143	-	65	-	78	-	-	78
Embry Room Account	-	687	713	26	-	-	-	-
Family Resource	1,927	-	1,141	383	1,169	-	-	1,169
FFHS Student Council	-	987	865	-	122	-	-	122
Fifth Grade	-	481	564	95	12	-	-	12
First Grade	108	1,050	790	66	434	-	-	434
Flower Fund	588	426	330	-	684	-	-	684
Fourth Grade	148	808	917	3	42	-	-	42
Fundraiser Account	-	20,180	20,180	-	-	-	-	-
Gifted/Talented	-	718	709	-	9	-	-	9
Girl Power	875	828	386	-	1,317	-	-	1,317
Girls Basketball	-	225	-	-	225	-	-	225
Head Start	-	360	360	-	-	-	-	-
High School Academic	14	40	-	(54)	-	-	-	-
High School Cheerleaders	888	4,637	5,091	(49)	385	-	-	385
Industrial Arts	507	168	675	-	-	-	-	-
Kindergarten	439	223	611	62	113	-	-	113
Learning Village	-	299	293	-	6	-	-	6
Library	150	4,538	4,458	11	241	-	-	241
Middle School Academic	20	105	120	-	5	-	-	5
Nature Club	-	1,121	1,121	-	-	-	-	-
Operating Account	14,825	9,904	13,503	1,980	13,206	500	500	13,206
Popham Room	-	634	678	231	187	-	-	187
Practical Living	-	527	330	-	197	-	-	197
Preschool	454	1,919	2,134	332	571	-	-	571
Project Graduation	1,722	3,505	3,623	-	1,604	-	-	1,604
Royalty	-	1,793	87	(1,706)	-	-	-	-
Second Grade	111	63	150	-	24	-	-	24
Seventh Grade	638	122	252	-	508	-	-	508
Sixth Grade	78	251	120	106	315	-	-	315
Sixth Grade B	-	135	29	(106)	-	-	-	-
Special Education	274	64	45	-	293	-	-	293
Staff Generated	451	1,437	1,642	-	246	11	-	257
Technology Club	853	-	815	(38)	-	-	-	-
Third Grade	156	638	729	83	148	-	-	148
Track	404	-	381	-	23	-	-	23
Y Club	260	2,842	3,101	-	1	-	-	1
Yearbook	-	5,027	4,075	80	1,032	-	-	1,032
	<u>\$ 37,894</u>	<u>\$ 123,035</u>	<u>\$ 110,016</u>	<u>\$ -</u>	<u>\$ 50,913</u>	<u>\$ 511</u>	<u>\$ 500</u>	<u>\$ 50,924</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cloverport Independent School District (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, and have issued our report thereon dated November 7, 2013.

### **Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

*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 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. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 13-1 to be a material weakness.

### **Compliance and Other Matters**

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

We also noted certain additional matters that we have reported to management in a separate letter dated November 7, 2013.

### **Cloverport Independent School District's Response to Findings**

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

Hardinsburg, Kentucky

November 7, 2013



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

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

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

We have audited the Cloverport Independent School District's (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditors' 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the 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*. These 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 the District's compliance with those requirements and performing 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 the District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the 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.

**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 13-2. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Management of the 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 the 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 13-2, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

Hardinsburg, Kentucky

November 7, 2013

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

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Local Code</b>	<b>Grant or Pass-Through Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Agriculture</b>				
Passed Through Kentucky Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	203X	7760005	\$ 47,805
National School Lunch Program (Cash Assistance)	10.555	205X	7750002	122,000
National School Lunch Program (Noncash Assistance)	10.555	205X	7750002	2,718
Summer Food Service Program for Children	10.559	209X	7740023	9,114
Total Child Nutrition Cluster				<u>181,637</u>
Child and Adult Care Food Program	10.558	510X	7800016	13,592
<b>Total U.S. Department of Agriculture</b>				<u>195,229</u>
<b>U.S. Department of Education</b>				
Passed Through Kentucky Department of Education:				
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA Part B)	84.027	337X	3810002	101,075
Special Education - Preschool Grants (IDEA Preschool)	84.173	343X	3800002	15,366
Total Special Education Cluster				<u>116,441</u>
Title I Grants to Local Educational Agencies	84.010	337X	3100002	97,348
Improving Teacher Quality State Grants	84.367	401X	3230002	16,780
Race to the Top	84.413	452X	3960002	1,511
Adult Education Basic Grants to States	84.002	373X	37315	69,254
21st Century Community Learning Centers	84.287	550X	3400002	157,769
Rural Education	84.358	346X	3140002	21,676
ARRA - Education Jobs Fund	84.410	441X	EJOB00	5,120
<b>Total U.S. Department of Education</b>				<u>485,899</u>
<b>Total Federal Financial Assistance Expenditures</b>				<u><u>\$ 681,128</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (schedule) includes the federal grant activity of the Cloverport Independent School District under programs of the federal government for the year ended June 30, 2013. 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*. As the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*.

**NOTE C - FOOD DONATION**

Non-monetary assistance in the form of commodities received and disbursed, which is equivalent to a fair market value of \$2,718, is included in the schedule under National School Lunch Program (CFDA 10.555).

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Section I: Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- |   |   |   |
|---|---|---|
| Any material weakness(es) identified?                     | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no                       |
| Any significant deficiency(ies) identified?               | <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> none reported |
| Any noncompliance material to financial statements noted? | <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no            |

**Federal Awards**

Internal control over major programs:

- |   |   |  |
|---|---|--|
| Any material weakness(es) identified?       | <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no |
| Any significant deficiency(ies) identified? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> none reported |

Type of auditors' report issued on compliance for major programs: Unmodified

- |  |   |                             |
|--|---|-----------------------------|
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |
|--|---|-----------------------------|

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
•Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
•Special Education Cluster (IDEA)	
Special Education – Grants to States (IDEA Part B)	84.027
Special Education – Preschool Grants (IDEA Preschool)	84.173
•21 <sup>st</sup> Century Community Learning Centers	84.287

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

- |  |                              |  |
|--|------------------------------|--|
| Auditee qualified as low-risk auditee? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

**Section II: Financial Statement Findings**

Finding 13-1.

**Section III: Federal Awards Finding**

Finding 13-2.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Finding: 13-1 (Repeat)**

<i>Condition:</i>	Certain material adjustments were required as part of the audit process.
<i>Criteria:</i>	Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.
<i>Cause:</i>	Management's accounting procedures did not consider the need to compare beginning fund balances with the corresponding ending balances from the previous year. The debits and credits for a significant adjustment in "Period 13" were made in reverse. Due to their complexity, no adjustments were made to long-term debt balances.
<i>Effect:</i>	Assets, liabilities, revenues, and expenditures were overstated or understated.
<i>Recommendation:</i>	Prior to releasing its annual financial report, the District should evaluate the ending balances in all funds and make any necessary adjustments to ensure that all account balances are complete and accurate.
<i>Management Response:</i>	<i>Internal controls are sufficient to verify that cash is correct with monthly bank reconciliations. All cash adjustments made for Period 13 of FY 13 were accounted for and reversed as needed for the correct cash balances to start FY 14. Monthly bank reconciliations are performed for each operating month throughout the year. However, some additional adjustments were found by the auditor that need to be made in addition to items so noted for long term debt in what KDE has termed Fund 9. KDE does not still require this fund to be reported. However, it is understood that information for this fund needs to be provided to the auditor for the correctness of governmental funds included in the audit report. The Finance Officer will continue to work toward making any and all adjusting entries before releasing the unaudited financial reports. All required FY 13 auditor adjustments will be entered into the accounting system and reflected in the final annual financial statements.</i>

**Finding: 13-2 (Repeat)**

**Program: 21<sup>st</sup> Century Learning Grant**

**CFDA #: 84.287**

<i>Condition:</i>	The District did not maintain complete documentation of employee time and effort for those employees working solely on a single federal program. In addition, inadequate time records were maintained for those employees who allocate time over various activities. Where time records were produced, they did not appear to be contemporaneous and payroll allocations continued to be based on budgets, rather than documented time worked.
<i>Criteria:</i>	OMB Circular A-87, Attachment B, states that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared semi-annually and signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Staff with duties covering multiple programs must allocate time based on actual time worked.
<i>Cause:</i>	There appears to be a lack of understanding of the federal requirements for the certification. While a form was designed for single program staff, its wording did not agree with the requirements of A-87.
<i>Effect:</i>	Charges to particular federal programs may have been overstated or understated.
<i>Recommendation:</i>	As the District administers nearly \$700,000 in federal funds, it is essential that it become thoroughly familiar with the cost principles and documentation requirements of OMB Circular A-87.
<i>Management Response:</i>	<i>See corrective action plan.</i>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Finding: 12-3**

*Status:* Improvement was noted for employees working in a single federal program; however, allocations for multiple-program staff were inadequately documented, and payroll distributions were not supported by the submitted time records.  
(See Finding 13-2)

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2013**

Reference Number:	Management Response:
13-2	<i>As a result of statements listed under condition, a new time record has been developed that will reflect daily, weekly, and monthly time and effort and will cover the criteria found in OMB Circular A-87. Although pursuant to the circular, a time and effort log was kept on the basis for a year of salary. This is how MUNIS is set up on non-contracted salaries to include percent of salary in the overall salary for time allocated in a specific fund. In regards to the Effect, this office finds no particular federal program that was overstated or understated, but reflected the percent of time the employee spent for the entire year in each federal program.</i>
Name of Contact Persons:	Charles N. Proffitt, Superintendent Stephen Clark, District Finance Officer
Completion Date:	November 11, 2013

## **MANAGEMENT LETTER POINTS**



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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Members of the Board of Education  
Cloverport Independent School District  
Cloverport, Kentucky

In planning and performing our audit of the basic financial statements of Cloverport Independent School District for the year ended June 30, 2013, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide an opinion on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 7, 2013 contains our report on internal control. This letter does not affect our report dated November 7, 2013 on the basic financial statements of the Cloverport Independent School District.

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

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

Hardinsburg, Kentucky

November 7, 2013

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SCHOOL ACTIVITY FUNDS**

*Prior Year*

Cash Receipts

Again, the concession item tested was supported by the correct form but was missing a signature. All forms should be reviewed to ensure that all required signatures are present. No exceptions were noted with fundraisers.

Cash Disbursements

While most disbursements were supported by a receiving report, three items were not. All payments should be accompanied by a purchase order and evidence of receipt.

Most standard invoices were marked as "paid"; however a number of vendor invoices were not marked as such. Failure to cancel an invoice could result in a duplicate payment. Accordingly, both standard and vendor invoices should be defaced in a manner to make them unavailable for processing a second time.

*Current Year*

Cash Receipts

Three tested multiple receipt forms were not signed by individual students. As this is the purpose of the form, it is essential that each student sign.

Management Response:

*All fundraising activities are monitored for the proper approvals, but more attention will be given to ensure that all required signatures are present on all required forms. In FY 13, we implemented a process where receiving documents were reviewed and a signature was required on that document by the person placing or receiving the order. More attention will be given to make sure that continues to happen for every occurrence. In some instances a standard invoice is used to ensure discounts and or rebates for timely payment of bills. District staff will work to ensure that no duplicate invoices are paid and that the vendor's invoice is marked paid. The Finance Officer in the district will work with school staff to ensure that all multiple receipts are signed by students, as required. The auditor's recommendations will continue to be implemented for accuracy on all transactions.*

**CENTRAL OFFICE**

*Prior Year*

Cash Disbursements

As in the previous year, some disbursements were made with no written receiving report. Also, in many instances, only the standard invoice was marked as paid, rather than the original vendor invoice. As noted for the school disbursements, we recommend that vendor invoices be marked "paid" to prevent possible duplicate payment.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**CENTRAL OFFICE (CONCLUDED)**

*Current Year*

Food Service Fund

For each of the past three years, the Food Service Fund has incurred increased losses. The cash position has declined to zero and Food Service ended the year owing \$21,208 to the General Fund. While the net position overall is positive, when the amount invested in capital assets is excluded, the remaining balance is a deficit of \$8,421. The District should review its revenues and cost of operations to determine if a price increase is necessary or if expenses can be reduced.

Management Response:

*The Finance Officer will work with staff to ensure that all items purchased are received with proper verification and signatures, and that no payments are made for duplicate invoices.*

*Our food service program, as with other school districts, has been under stricter food guidelines which sometimes increases the cost of food for our program. This program also paid for some much-needed technology upgrades which are one-time purchases which has caused the program to operate negatively. The Finance Officer continues to work with the Food Service Director, as well as the Food Service Manager, to continue to keep costs at a minimum and monitor monthly balance sheets to show progress to eventually have the program operating with a positive balance and be self-sufficient. Our goal is to be in the black by the end of FY 14.*