

**GARRARD COUNTY SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2013**

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September 30, 2013

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

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 Garrard County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Garrard County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 4 through 10 and 17 and 18 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 Garrard County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2013, on our consideration of Garrard County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garrard County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

GARRARD COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2013

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

FINANCIAL HIGHLIGHTS

- The beginning General Fund's fund balance was \$2.93 million. The ending fund balance was \$2.53 million. General fund revenues showed an increase of \$25,148 and expenditures showed an increase of \$974,441, as compared with the prior year.
- The General Fund transferred \$35,701 to the Special Revenue Fund for the technology grant match, \$30,920 to the Debt Service Fund for KISTA debt service payments on prior bus purchases, and \$527,968 to the Construction Fund. This amount consisted mainly of insurance proceeds for roofing repairs to hail damaged roofs on district buildings.
- The District had \$25.8 million in revenue and \$25.6 million in expenses.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Total debt service payments, including principal and interest, for fiscal year 2013 were \$2.4 million.
- The District's total net position increased \$221,976 to \$13,953,450. Current assets decreased \$823,845, non-current assets decreased \$653,351 and total liabilities decreased \$1,699,172.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The district-wide financial statements can be found on pages 11 - 12 of this report.

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

The basic governmental fund financial statements can be found on pages 13 - 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 38 of this report.

DISTRICT-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 \$13,953,450 as of June 30, 2013.

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

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

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

A comparison of June 30, 2013 and June 30, 2012 government wide net assets is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 3,941,444	\$ 4,736,516	\$ 114,731	\$ 143,504	\$ 4,056,175	\$ 4,880,020
Capital Assets	<u>39,679,730</u>	<u>40,327,237</u>	<u>24,837</u>	<u>30,681</u>	<u>39,704,567</u>	<u>40,357,918</u>
Total Assets	<u>43,621,174</u>	<u>45,063,753</u>	<u>139,568</u>	<u>174,185</u>	<u>43,760,742</u>	<u>45,237,938</u>
Current Liabilities	2,067,768	2,530,213	5,112	-	2,072,880	2,530,213
Non-Current Liabilities	<u>27,734,412</u>	<u>28,976,251</u>	<u>-</u>	<u>-</u>	<u>27,734,412</u>	<u>28,976,251</u>
Total Liabilities	<u>29,802,180</u>	<u>31,506,464</u>	<u>5,112</u>	<u>-</u>	<u>29,807,292</u>	<u>31,506,464</u>
Net Assets						
Investment in capital assets (net of related debt)	11,412,461	10,679,368	24,837	30,681	11,437,298	10,710,049
Restricted	521,230	369,358	109,619	143,504	630,849	512,862
Unrestricted	<u>1,885,303</u>	<u>2,508,563</u>	<u>-</u>	<u>-</u>	<u>1,885,303</u>	<u>2,508,563</u>
Total Net Assets	<u>\$ 13,818,994</u>	<u>\$ 13,557,289</u>	<u>\$ 134,456</u>	<u>\$ 174,185</u>	<u>\$ 13,953,450</u>	<u>\$ 13,731,474</u>

The District's total net position increased \$221,976. Current assets decreased \$823,845, while non-current assets increased \$24,837 and total liabilities decreased \$1,699,172.

The following table presents a comparison of revenues, expenses and changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
REVENUES						
Program revenues						
Charges for services	\$ 823	\$ 50,830	\$ 415,215	\$ 449,648	\$ 416,038	\$ 500,478
Operating grants and contributions	2,510,794	3,035,638	1,077,411	1,022,801	3,588,205	4,058,439
Capital grants	993,930	945,170			993,930	945,170
General revenues						
Property taxes	4,616,045	4,672,264			4,616,045	4,672,264
Motor vehicle taxes	717,271	578,750			717,271	578,750
Utility Taxes	708,083	779,571			708,083	779,571
Other taxes	93,286	21,322			93,286	21,322
Investment earnings	59,885	26,472	1,162	1,004	61,047	27,476
State and formula grants	13,886,835	13,970,512			13,886,835	13,970,512
Miscellaneous	767,290	210,379			767,290	210,379
Total revenues	<u>24,354,242</u>	<u>24,290,908</u>	<u>1,493,788</u>	<u>1,473,453</u>	<u>25,848,030</u>	<u>25,764,361</u>
EXPENSES						
Program Activities						
Instructional	14,939,055	14,641,692			14,939,055	14,641,692
Student support	882,101	804,889			882,101	804,889
Instructional staff Support	623,011	858,790			623,011	858,790
District administrative support	872,071	921,417			872,071	921,417
School administrative support	1,081,616	922,527			1,081,616	922,527
Business support	526,841	278,196			526,841	278,196
Plant operations and maintenance	1,841,805	1,781,967			1,841,805	1,781,967
Student transportation	2,060,752	2,004,597			2,060,752	2,004,597
Community service activities	160,834	161,824			160,834	161,824
Other	3,782	7,667			3,782	7,667
Interest costs	1,100,669	1,138,805			1,100,669	1,138,805
Business-type Activities						
Food service			1,523,251	1,430,278	1,523,251	1,430,278
Adult education			10,266	9,231	10,266	9,231
Total expenses	<u>24,092,537</u>	<u>25,522,371</u>	<u>1,533,517</u>	<u>1,439,509</u>	<u>25,626,054</u>	<u>24,961,880</u>
Increase in net position	<u>\$ 261,705</u>	<u>\$ 768,537</u>	<u>\$ (39,729)</u>	<u>\$ 33,944</u>	<u>\$ 221,976</u>	<u>\$ 802,481</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2013 and 2012 were \$3,922,876 and \$3,761,752, respectively.

Changes in net position decreased from \$802,481 in the prior year to \$221,976 for the current year.

Governmental Activities

For the governmental program expenses instructional expenses comprise 62% of total expenses, support services equate to 33%, and interest and other expenses make up the remaining 5% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of Activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (state entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Instructional	\$ 14,939,055	\$ 14,641,692	\$ 12,668,474	\$ 12,061,570
Support Services	7,888,197	7,572,383	7,647,161	7,235,137
Other	164,616	169,491	(829,314)	391
Interest Costs	<u>1,100,669</u>	<u>1,138,805</u>	<u>1,100,669</u>	<u>1,138,805</u>
Total Expenses	<u>\$ 24,092,537</u>	<u>\$ 23,522,371</u>	<u>\$ 20,586,990</u>	<u>\$ 20,435,903</u>

Business-Type Activities

The business type activities at the District are food service and adult education. These programs had total revenues of \$1,493,788 and expenses of \$1,533,517 for fiscal year 2013. These revenues were made up of \$415,215 charges for services \$1,077,411 federal and state operating grants and \$1,162 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenues for all governmental funds for 2013 were \$23,751,491 and expenditures were \$24,614,993. The most significant net change in fund balance was in the General Fund with a decrease of \$400,304, which is primarily due to a reduction the intergovernmental state revenues, along with an increase in expenditures and facilities improvements due to necessary roofing repairs.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$15,170,510 with actual results being \$19,371,522. Budgeted expenditures were \$17,319,884 compared to actual expenditures of \$19,771,826. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$3,608,044, which are not budgeted; however, beginning with the 2013-2014 fiscal year, on-behalf payments will be included in the annual budget.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2012-2013 with a 2% contingency. The District has adopted a budget for 2013-2014 with a 2% contingency.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees increased for FY 2013 from 18.96% to 19.55%. The Kentucky Teachers Retirement mandated an increase contribution from .50% to 1.00% on all employees while the federal grants matching percentage remained at 14.105%.

The SEEK guaranteed base funding has decreased from \$3,833 in FY 2012-2013 to \$3,827 per pupil in FY 2013-2014 and total SEEK funding per pupil has decreased from \$4,554 to \$4,547 for the same period. Federal sequestration estimates for FY 2013-2014 are expected to impact the school district by as much as 8 to 10%, reducing the federal funding for programs such as Title I, Migrant Program, Teacher Quality (Title II) and possibly our Preschool and Special Education programs. The reduction of these funds will put a financial strain on the General Fund and other funding sources to continue these programs. The Kentucky Department of Education has notified the school districts of possible additional funding cuts for the FY 2013-2014 school year which will put additional strain on the General Fund to fund programs at the current level.

Currently the district is funding building roofing replacements due to hail storm damage for the excess cost above the costs covered by insurance. Also, in FY 2013-2014 the district has initiated a sealcoating rotation for all parking lots in the district to be sealed and striped within a five year cycle. Additionally, federal school improvement grant funding from the federal government will end in early FY 2013-2014, and, as such, the General Funds will be closely monitored to support the district staffing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2013 fiscal year, the District had invested \$39,704,567 in a broad range of capital assets, net of accumulated depreciation, including equipment, buses, buildings, and land. This amount represents a net decrease of \$653,351. Depreciation expense for the year was \$1,534,311 and capital additions were \$833,065.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2013 and 2012.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 608,830	\$ 608,830	\$ -	\$ -	\$ 608,830	\$ 608,830
Land Improvements	86,028	119,858	-	-	86,028	119,858
Buildings and Improvement	36,672,270	37,298,034	-	-	36,672,270	37,298,034
Technology	338,450	524,906	3,881	5,474	342,331	530,380
Vehicles	1,439,669	1,286,087	-	-	1,439,669	1,286,087
General Equipment	450,458	489,522	20,956	25,207	471,414	514,729
Construction in Progress	84,025	-	-	-	84,025	-
Total	\$ 39,679,730	\$ 40,327,237	\$ 24,837	\$ 30,681	\$ 39,704,567	\$ 40,357,918

The table below shows the changes in capital assets for fiscal years ended June 30, 2013 and 2012.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 40,327,237	\$ 41,373,575	\$ 30,681	\$ 33,088	\$ 40,357,918	\$ 41,406,662
Additions	883,065	523,987	-	3,525	883,065	527,512
Retirements	(2,104)	(5,723)	-	-	(2,104)	(5,723)
Depreciation	(1,528,467)	(1,564,602)	(5,844)	(5,932)	(1,534,311)	(1,570,533)
Ending Balance	\$ 39,679,731	\$ 40,327,237	\$ 24,837	\$ 30,681	\$ 39,704,568	\$ 40,357,918

Long-Term Debt

At year-end the School District had \$28,110,978 in bonds outstanding and \$156,291 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2013 was \$1,355,694 and capital lease obligation principal paid was \$24,906. A total of \$1,421,598 is due within one year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	3,038,778	86,728	3,125,506
Accounts Receivable:			
Taxes - Current	117,954		117,954
Taxes - Delinquent	24,934		24,934
Accounts	14,787		14,787
Intergovernmental - State	17,638		17,638
Intergovernmental - Federal	268,781	13,339	282,120
Bond Issue Costs	458,572		458,572
Inventories for Consumption		14,664	14,664
Total Current Assets	3,941,444	114,731	4,056,175
Noncurrent Assets - Note F			
Land	608,830		608,830
Buildings & Improvements	48,087,149		48,087,149
Furniture & Equipment	6,001,948	400,411	6,402,359
Construction In Progress	84,025		84,025
Less: Accumulated Depreciation	(15,102,222)	(375,574)	(15,477,796)
Total Noncurrent Assets	39,679,730	24,837	39,704,567
TOTAL ASSETS	43,621,174	139,568	43,760,742
LIABILITIES:			
Current Liabilities:			
Accounts Payable	81,763	5,112	86,875
Accrued Salaries & Sick Leave - Note A	344,056		344,056
Advances from Grantors	87,387		87,387
Bond Obligations - Note D	1,396,016		1,396,016
Capital Lease Obligation - Note E	25,582		25,582
Accrued Interest Payable	132,964		132,964
Total Current Liabilities	2,067,768	5,112	2,072,880
Noncurrent Liabilities:			
Bond Obligations - Note D	26,714,962		26,714,962
Capital Lease Obligation - Note E	130,709		130,709
KSBIT Assessment - Note R	185,243		185,243
Accrued Sick Leave - Note A	703,498		703,498
Total Noncurrent Liabilities	27,734,412		27,734,412
TOTAL LIABILITIES	29,802,180	5,112	29,807,292
NET POSITION:			
Net Investment in Capital Assets	11,412,461	24,837	11,437,298
Restricted for:			
Capital Projects	433,403		433,403
Encumbrances	85,219		85,219
Other Purposes	2,608	109,619	112,227
Unrestricted	1,885,303		1,885,303
TOTAL NET POSITION	13,818,994	134,456	13,953,450
TOTAL LIABILITIES AND NET POSITION	43,621,174	139,568	43,760,742

See independent auditor's report and accompanying notes to financial statements.

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

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	14,939,055	823	2,269,758		(12,668,474)		(12,668,474)
Support Services:							
Student Support Services	882,101		33,518		(848,583)		(848,583)
Staff Support Services	623,011		47,705		(575,306)		(575,306)
District Administration	872,071				(872,071)		(872,071)
School Administration	1,081,616				(1,081,616)		(1,081,616)
Business Support Services	526,841				(526,841)		(526,841)
Plant Operation & Maintenance	1,841,805		2,150		(1,839,655)		(1,839,655)
Student Transportation	2,060,752		157,663		(1,903,089)		(1,903,089)
Community Service Operations	160,834				(160,834)		(160,834)
Facilities Acquisition & Construction	3,782			993,930	990,148		990,148
Interest on Long-Term Debt	1,100,669				(1,100,669)		(1,100,669)
TOTAL GOVERNMENTAL ACTIVITIES	24,092,537	823	2,510,794	993,930	(20,586,990)		(20,586,990)
BUSINESS-TYPE ACTIVITIES:							
Adult Education	10,266	11,576	0			1,310	1,310
Food Service	1,503,434	403,639	1,077,411			(22,384)	(22,384)
TOTAL BUSINESS-TYPE ACTIVITIES	1,513,700	415,215	1,077,411	0	0	(21,074)	(21,074)
TOTAL SCHOOL DISTRICT	25,606,237	416,038	3,588,205	993,930	(20,586,990)	(21,074)	(20,608,064)
GENERAL REVENUES:							
Taxes					6,134,685		6,134,685
State Aid - Formula Grants					13,886,835		13,886,835
Investment Earnings					59,885	1,162	61,047
Miscellaneous					162,544		162,544
SPECIAL ITEMS:							
Indirect Cost Transfer (Expense)					19,817	(19,817)	0
Gain(Loss) Sale of Assets					15,489		15,489
Loss Compensation					569,440		569,440
TOTAL GENERAL & SPECIAL					20,848,695	(18,655)	20,830,040
CHANGE IN NET POSITION					261,705	(39,729)	221,976
NET POSITION - BEGINNING					13,557,289	174,185	13,731,474
NET POSITION - ENDING					13,818,994	134,456	13,953,450

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	2,785,797	(192,328)	2,608	442,701	3,038,778
Accounts Receivable:					
Taxes - Current	117,954				117,954
Taxes - Delinquent	24,934				24,934
Accounts	14,787				14,787
Intergovernmental - State		17,638			17,638
Intergovernmental - Federal		268,781			268,781
TOTAL ASSETS	<u>2,943,472</u>	<u>94,091</u>	<u>2,608</u>	<u>442,701</u>	<u>3,482,872</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	65,761	6,704		9,298	81,763
Accrued Salaries & Sick Leave	344,056				344,056
Deferred Revenues		87,387			87,387
Total Liabilities	<u>409,817</u>	<u>94,091</u>	<u>0</u>	<u>9,298</u>	<u>513,206</u>
Fund Balance:					
Restricted for:					
Capital Projects				433,403	433,403
Debt Service			2,608		2,608
Committed for:					
Accrued Sick Leave	703,498				703,498
Assigned:					
Purchase Obligations	85,219				85,219
Unassigned	1,744,938				1,744,938
Total Fund Balance	<u>2,533,655</u>	<u>0</u>	<u>2,608</u>	<u>433,403</u>	<u>2,969,666</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>2,943,472</u>	<u>94,091</u>	<u>2,608</u>	<u>442,701</u>	<u>3,482,872</u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

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

TOTAL GOVERNMENTAL FUND BALANCE		2,969,666
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	54,781,952	
Accumulated Depreciation	<u>(15,102,222)</u>	39,679,730
Bond Issuance Costs		458,572
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(28,110,978)	
KSBIT Assessment	(185,243)	
Capital Lease Obligation	(156,291)	
Accrued Interest on Bonds	(132,964)	
Accrued Sick Leave	<u>(703,498)</u>	<u>(29,288,974)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>13,818,994</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	4,864,371			1,270,314	6,134,685
Earnings on Investments	55,936	167		3,782	59,885
Intergovernmental - State	13,656,137	654,930	230,698	993,930	15,535,695
Intergovernmental - Federal	31,601	1,824,263			1,855,864
Other Sources	156,627	8,735			165,362
TOTAL REVENUES	18,764,672	2,488,095	230,698	2,268,026	23,751,491
EXPENDITURES:					
Instructional	11,400,622	2,279,041			13,679,663
Support Services:					
Student Support Services	826,460	33,665			860,125
Staff Support Services	556,135	48,104			604,239
District Administration	869,777				869,777
School Administration	1,080,656				1,080,656
Business Support Services	337,774				337,774
Plant Operation & Maintenance	1,841,481	2,159			1,843,640
Student Transportation	2,264,325				2,264,325
Community Service Operations	7	160,827			160,834
Facilities Acquisition & Construction				467,670	467,670
Debt Service:					
Principal			1,380,600		1,380,600
Interest			1,067,690		1,067,690
TOTAL EXPENDITURES	19,177,237	2,523,796	2,448,290	467,670	24,616,993
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(412,565)	(35,701)	(2,217,592)	1,800,356	(865,502)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds					0
Proceeds from Sale of Assets	17,593				17,593
Loss Compensation	569,440				569,440
Operating Transfers In - Note N	19,817	35,701	2,220,200	676,132	2,951,850
Operating Transfers Out - Note N	(594,589)			(2,337,444)	(2,932,033)
TOTAL OTHER FINANCING SOURCES	12,261	35,701	2,220,200	(1,661,312)	606,850
NET CHANGE IN FUND BALANCES	(400,304)	0	2,608	139,044	(258,652)
FUND BALANCES - BEGINNING	2,933,959	0	0	294,359	3,228,318
FUND BALANCES - ENDING	2,533,655	0	2,608	433,403	2,969,666

See independent auditor's report and accompanying notes to financial statements.

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

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

NET CHANGES - GOVERNMENTAL FUNDS		(258,652)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,528,467)	
Capital Outlays	883,065	(645,402)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid		1,380,600
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Bond Issuance Costs	(34,926)	
Accrued Interest Payable	1,948	
KSBIT Assessment	(185,243)	
Accrued Sick Leave	5,484	(212,737)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.</p>		
Gain Adjustment - Sale of Assets		(2,104)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		261,705

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	4,216,451	4,930,913	4,864,371	(66,542)
Other Local Sources	95,000	109,000	55,936	(53,064)
State Sources	9,766,736	10,028,597	13,656,137	3,627,540
Federal Sources	10,000	10,000	31,601	21,601
Other Sources	35,000	92,000	763,477	671,477
TOTAL REVENUES	<u>14,123,187</u>	<u>15,170,510</u>	<u>19,371,522</u>	<u>4,201,012</u>
EXPENDITURES:				
Instructional	7,795,551	8,971,987	11,400,622	(2,428,635)
Student Support Services	714,747	701,785	826,460	(124,675)
Staff Support Services	499,954	456,556	556,135	(99,579)
District Administration	988,352	1,181,352	869,777	311,575
School Administration	853,572	877,988	1,080,656	(202,668)
Business Support Services	216,088	359,326	337,774	21,552
Plant Operation & Maintenance	2,073,428	1,978,184	1,841,481	136,703
Student Transportation	2,182,695	2,294,444	2,264,325	30,119
Central Office			7	(7)
Food Service Operations				0
Community Service Operations				0
Facility Acquisition & Construction				0
Other	523,874	498,262	594,589	(96,327)
TOTAL EXPENDITURES	<u>15,848,261</u>	<u>17,319,884</u>	<u>19,771,826</u>	<u>(2,451,942)</u>
NET CHANGE IN FUND BALANCE	(1,725,074)	(2,149,374)	(400,304)	1,749,070
FUND BALANCES - BEGINNING	<u>1,725,074</u>	<u>2,149,374</u>	<u>2,933,959</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>2,533,655</u></u>	<u><u>1,749,070</u></u>

On-behalf payments totaling \$3,608,044 are not budgeted by the Garrard County School District.

See independent auditor's report and accompanying notes to financial statements.

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes				
Other Local Sources			35,868	35,868
State Sources	729,075	729,075	654,930	(74,145)
Federal Sources	1,572,063	1,572,063	1,824,263	252,200
Other Sources			8,735	8,735
TOTAL REVENUES	<u>2,301,138</u>	<u>2,301,138</u>	<u>2,523,796</u>	<u>222,658</u>
EXPENDITURES:				
Instructional	1,874,751	1,874,751	2,279,041	(404,290)
Student Support Services	18,000	18,000	33,665	(15,665)
Staff Support Services	241,912	241,912	48,104	193,808
District Administration				0
School Administration				0
Business Support Services				0
Plant Operation & Maintenance			2,159	(2,159)
Student Transportation				0
Central Office				0
Community Service Operations	157,275	157,275	160,827	(3,552)
Facility Acquisition & Construction				0
Other	9,200	9,200		9,200
TOTAL EXPENDITURES	<u>2,301,138</u>	<u>2,301,138</u>	<u>2,523,796</u>	<u>(222,658)</u>
NET CHANGE IN FUND BALANCE	0	0	0	(445,316)
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>(445,316)</u></u>

See accompanying auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	81,925	4,803	86,728
Accounts Receivable	13,339		13,339
Inventories for Consumption	14,664		14,664
Total Current Assets	109,928	4,803	114,731
Noncurrent Assets:			
Furniture & Equipment	400,411		400,411
Less: Accumulated Depreciation	(375,574)		(375,574)
Total Noncurrent Assets	24,837	0	24,837
TOTAL ASSETS	134,765	4,803	139,568
LIABILITIES:			
Current Liabilities:			
Account Payable	5,112		5,112
Total Current Liabilities	5,112	0	5,112
Net Position:			
Net Investment in Capital Assets	24,837		24,837
Restricted	104,816	4,803	109,619
Total Net Position	129,653	4,803	134,456
TOTAL LIABILITIES AND NET POSITION	134,765	4,803	139,568

See independent auditor's report and accompanying notes to financial statements.

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	403,639		403,639
Other Operating Revenues		11,576	11,576
TOTAL OPERATING REVENUES	403,639	11,576	415,215
OPERATING EXPENSES:			
Salaries & Benefits	640,848	3,379	644,227
Contract Services	32,312	6,887	39,199
Materials & Supplies	820,011		820,011
Depreciation - Note F	5,844		5,844
Other Operating Expenses	4,419		4,419
TOTAL OPERATING EXPENSES	1,503,434	10,266	1,513,700
OPERATING INCOME(LOSS)	(1,099,795)	1,310	(1,098,485)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	914,507		914,507
State Grants	97,715		97,715
Donated Commodities	65,189		65,189
Interest Income	1,162		1,162
Transfers Out	(19,817)		(19,817)
TOTAL NONOPERATING REVENUE	1,058,756	0	1,058,756
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(41,039)	1,310	(39,729)
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSTION	(41,039)	1,310	(39,729)
TOTAL NET POSITION - BEGINNING	170,692	3,493	174,185
TOTAL NET POSITION - ENDING	129,653	4,803	134,456

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>FOOD SERVICE</u>	<u>ADULT EDUCATION FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Operating Revenue	403,639	11,576
Cash Paid to/for:		
Employees	(556,714)	(3,379)
Supplies	(738,744)	
Other Activities	<u>(36,731)</u>	<u>(6,887)</u>
Net Cash Provided (Used) by Operating Activities	(928,550)	1,310
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Transfer to General Fund	(19,817)	
Federal Grants	909,273	0
State Grants	<u>13,581</u>	<u>0</u>
Net Cash Provided by Non-Capital and Related Financing Activities	903,037	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	-	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of Interest Income	<u>1,162</u>	<u>0</u>
Net Increase in Cash and Cash Equivalents	(24,351)	1,310
Balances, Beginning of Year	<u>106,276</u>	<u>3,493</u>
Balances, End of Year	<u><u>81,925</u></u>	<u><u>4,803</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	(1,099,795)	1,310
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	5,844	
State On-Behalf Payments	84,134	
Donated Commodities	65,189	
Change in Assets and Liabilities:		
Inventory	10,966	
Accounts Payable	<u>5,112</u>	
Net Cash Provided (Used) by Operating Activities	<u><u>(928,550)</u></u>	<u><u>1,310</u></u>
Schedule of Non-Cash Transactions:		
Donated Commodities	65,189	0
State On-Behalf Payments	84,134	0

See independent auditor's report and accompanying notes to financial statements.

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

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	282,268
Accounts Receivable	
Investment Income Receivable	
Loans Receivable	
TOTAL ASSETS	<u>282,268</u>
LIABILITIES:	
Accounts Payable	
Due to Other	88,878
Due to Student Groups	193,390
TOTAL LIABILITIES	<u>282,268</u>
NET POSITION IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Garrard County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Garrard County Board of Education (“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 which may influence operations, and primary accountability for fiscal matters.

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

The financial statements of the 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 organizations are included in the accompanying financial statements:

Garrard County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Garrard County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified on Pages 43 and 44 in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

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

II. Proprietary Fund Types (Enterprise Fund)

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

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Deferred Revenue – 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 on the fund financial statement and advances from grantors on the government wide financial statements.

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 assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as advances from grantors.

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 costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$0.64 per \$100 valuation for real property, \$0.64 per \$100 valuation for business personal property, and \$0.551 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 county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received 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.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as committed fund balance.

Budgetary Process

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

Cash and Cash Equivalents

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

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	703,498	Long-Term Sick Leave Commitment

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

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 their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

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

Contributions of Capital

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

Effective for the fiscal year ending June 30, 2013, the Board adopted GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989, FASB and AICPA Pronouncements*, which codifies all applicable GASB, Financial Accounting Standards Board (“FASB”), and Accounting Principles Board opinions dated according to the title of the statement. Additionally, for fiscal year ending June 30, 2013, the Board has implemented GASB Statement 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$3,407,774. Of the total cash balance, \$335,289 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

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

	Bank Balance	Book Balance
Whitaker Bank	82,684	82,684
Farmers National Bank	3,993,087	3,322,482
Bank of New York	2,500	2,500
US Bank	<u>108</u>	<u>108</u>
Total Cash and Cash Equivalents	<u>4,078,379</u>	<u>3,407,774</u>

Breakdown per financial statements:

Governmental Funds	3,038,778
Proprietary Funds	<u>86,728</u>
Subtotal	3,125,506
Agency Funds	<u>282,268</u>
Total Cash and Cash Equivalents – All Funds	<u>3,407,774</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – BONDED DEBT AND LEASE OBLIGATIONS

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 Garrard County School District Finance Corporation aggregating \$33,314,134.

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

2003	3,225,000	2.00% - 3.30%
2004	935,000	2.20% - 4.70%
2005	880,000	3.90% - 4.10%
2007A	9,975,000	3.40% - 3.80%
2007B	9,975,000	2.00% - 4.00%
2009	4,300,000	3.40% - 4.10%
2009R	194,134	1.00% - 3.00%
2010	3,830,000	1.00% - 3.00%

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

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice if its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2013-14	1,396,016	1,018,472	230,759	2,183,729
2014-15	1,441,530	980,031	238,477	2,183,084
2015-16	1,479,616	925,578	216,540	2,188,655
2016-17	1,529,135	874,680	215,832	2,187,983
2017-18	1,574,681	826,773	215,870	2,185,585
2018-19	1,600,000	775,936	190,223	2,185,708
2019-20	1,655,000	720,242	190,008	2,185,236
2020-21	1,715,000	661,824	189,985	2,186,839
2021-22	1,730,000	589,036	102,285	2,216,751
2022-23	1,800,000	520,448	102,285	2,218,163
2023-24	1,875,000	448,510	102,285	2,221,225
2024-25	1,950,000	373,463	102,286	2,221,176
2025-26	2,015,000	295,561	92,156	2,218,405
2026-27	2,060,000	215,880	53,948	2,221,932
2027-28	2,135,000	133,886	46,691	2,222,195
2028-29	<u>2,155,000</u>	<u>88,354</u>	<u>19,659</u>	<u>2,223,696</u>
	<u>28,110,978</u>	<u>9,448,675</u>	<u>2,309,290</u>	<u>35,250,363</u>

Long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bond Payable	29,466,672	0	1,355,694	28,110,978	1,396,016
Capital Lease Obligations	181,197	0	24,906	156,291	25,582
Accrued Sick Leave	<u>1,099,555</u>	<u>30,469</u>	<u>121,812</u>	<u>1,008,212</u>	<u>304,714</u>
Governmental Activities Long-Term Liabilities	<u>30,747,424</u>	<u>30,469</u>	<u>1,502,412</u>	<u>29,275,481</u>	<u>1,726,312</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2019. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2013.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2013</u>
Buses	261,708
Accumulated Amortization	(121,632)
	<u>140,076</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2014	30,912
2015	31,013
2016	30,965
2017	30,936
2018	25,898
Thereafter	<u>25,877</u>
Net minimum lease payments	175,601
Amount representing interest	<u>(19,310)</u>
Present value of net minimum lease payments	<u>156,291</u>

Interest rates on capitalized leases vary from 2.00% to 3.90%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

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

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	608,830			608,830
Construction In Progress	-0-	84,025		84,025
Depreciable Assets:				
Land Improvements	1,004,265			1,004,265
Buildings & Building Improvements	46,703,021	379,863		47,082,884
Technology Equipment	1,783,496		96,084	1,687,412
Vehicles	4,250,671	394,222	1,174,060	3,470,833
General Equipment	854,521	24,955	35,773	843,703
TOTAL AT HISTORICAL COST	55,204,804	883,065	1,305,917	54,781,952
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	884,407	33,830		918,237
Buildings & Building Improvements	9,404,988	1,005,626		10,410,614
Technology Equipment	1,258,590	185,082	94,710	1,348,962
Vehicles	2,964,584	240,640	1,174,060	2,031,164
General Equipment	364,999	63,289	35,043	393,245
TOTAL ACCUMULATED DEPRECIATION	14,877,568	1,528,467	1,303,813	15,102,222
GOVERNMENTAL ACTIVITIES CAPITAL NET	40,327,238	(645,402)	2,104	39,679,730
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	6,293			6,293
Vehicles	13,345			13,345
Food Service Equipment	380,773			380,773
TOTALS AT HISTORICAL COST	400,411	0	0	400,411
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	819	1,593		2,412
Vehicles	13,345			13,345
Food Service Equipment	355,566	4,251		359,817
TOTAL ACCUMULATED DEPRECIATION	369,730	5,844	0	375,574
PROPRIETARY ACTIVITIES CAPITAL NET	30,681	(5,844)	0	24,837
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,264,876
Student Support Services				21,976
Staff Support Services				18,772
District Administration				2,294
School Administration				961
Business Support Services				3,824
Plant Operation & Maintenance				23,120
Student Transportation				192,644
TOTAL				1,528,467

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

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

<u>Year Ending</u>	
June 30, 2014	45,465
June 30, 2015	45,465
June 30, 2016	45,465
June 30, 2015	<u>45,465</u>
Total Lease Commitment	<u>181,860</u>

NOTE H – RETIREMENT PLANS

Certified employees are covered under 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 public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 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.

Contribution rates are established by KRS. Members hired before July 1, 2008, are required to contribute 10.355% of their salaries and for members hired after July 1, 2008, to contribute 10.855% to KTRS. The Commonwealth of Kentucky is required to contribute 13.605% and 14.105% of salaries respectively. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 19.55% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$13,309,310. The payroll for employees covered under KTRS was \$10,261,110 and for CERS was \$3,048,200.

For the years ended June 30, 2013, 2012 and 2011, the Commonwealth contributed \$1,275,750, \$1,151,226 and \$1,213,421 respectively to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the years ending June 30, 2013, 2012 and 2011 were \$187,124, \$154,244 and \$178,038 respectively which represent those employees covered by federal programs.

The contribution requirements for CERS for the years ended June 30, 2013, 2012 and 2011 were \$757,505, \$771,124 and 701,876 respectively which consisted of \$595,631, \$604,265 and \$536,643 from the Board and \$161,874, \$166,859 and \$165,233 respectively from the employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

	KTRS	CERS
	June 30, 2012	June 30, 2012
Assets available for benefits, at fair value	14,691,371,000	5,547,235,599
Pension benefit obligation	<u>(26,973,854,000)</u>	<u>(9,139,567,695)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(12,282,483,000)</u>	<u>(3,592,332,096)</u>

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

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

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

NOTE I – CONTINGENCIES

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

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

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

During 2013, the Kentucky School Boards Insurance Trust ceased to operate. The District's insurance coverage continued through June 30, 2013. (See also Note R.) However, as of July 1, 2013, the District was required to obtain insurance coverage from a commercial insurance company; the District's Board selected Linville Insurance Agency, Inc. to be their insurance broker. Coverage was obtained from Ohio Casualty.

NOTE L – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	412,464
Special Revenue Fund	35,701
Debt Service	2,217,581

NOTE M – COBRA

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	35,701
Operating	Capital Outlay	Building	Operations	148,164
Operating	Building	Debt Service	Debt Service	2,189,280
Operating	General	Debt Service	Debt Service	30,920
Operating	General	Construction	Construction	<u>527,968</u>
		Subtotal Governmental Fund Transfers		2,932,033
Operating	Food Service	General	Indirect Cost Transfer	<u>19,817</u>
		Total Transferred Funds		<u><u>2,951,850</u></u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2013.

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent events through September 30, 2013, and there are no other material subsequent events requiring disclosure.

NOTE Q – ON-BEHALF PAYMENT

For the year ended June 30, 2013 \$3,922,876 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	3,608,044
Food Service Fund	84,134
Debt Service Fund	<u>230,698</u>
Total	<u><u>3,922,876</u></u>

NOTE R– KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2013, Garrard County School District's assessment is expected to range between \$185,243 and \$237,022. \$185,243 has been recorded as a long-term liability on the government-wide financial statements, which is the best estimate available. It is anticipated that no payments will be required to be made until after the year end June 30, 2014.

GARRARD COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	74,964	18,229	349,508	442,701
Accounts Receivable:				
Taxes				
Accounts				
TOTAL ASSETS	74,964	18,229	349,508	442,701
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable			9,298	
Accrued Sick Leave				
Deferred Revenues				
Total Liabilities	0	0	9,298	9,298
Fund Balance:				
Restricted for:				
Capital Projects	74,964	18,229	340,210	433,403
Debt Service				
Committed for:				
Accrued Sick Leave				
Assigned:				
Purchase Obligations				
Unassigned				
Total Fund Balance	74,964	18,229	340,210	433,403
TOTAL LIABILITIES AND FUND BALANCES	74,964	18,229	349,508	442,701

See independent auditor's report and accompanying notes to financial statements.

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

	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes		1,270,314		1,270,314
Earnings from Investments			3,782	3,782
Intergovernmental - State	223,128	770,802		993,930
Intergovernmental - Federal				0
Other Sources				0
TOTAL REVENUES	<u>223,128</u>	<u>2,041,116</u>	<u>3,782</u>	<u>2,268,026</u>
EXPENDITURES:				
Instructional				0
Student Support Services				0
Staff Support Services				0
District Administration				0
School Administration				0
Business Support Services				0
Plant Operations & Maintenance				0
Student Transportation				0
Central Office				0
Community Service Operations				0
Facilities Acquisition & Construction			467,670	467,670
Debt Service:				0
Principal				0
Interest				0
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>467,670</u>	<u>467,670</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	223,128	2,041,116	(463,888)	1,800,356
OTHER FINANCING SOURCES(USES):				
Proceeds from Sale of Bonds				0
Proceeds from Sale of Assets				0
Operating Transfers In		148,164	527,968	676,132
Operating Transfers Out	(148,164)	(2,189,280)		(2,337,444)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(148,164)</u>	<u>(2,041,116)</u>	<u>527,968</u>	<u>(1,661,312)</u>
NET CHANGE IN FUND BALANCES	<u>74,964</u>	<u>0</u>	<u>64,080</u>	<u>139,044</u>
FUND BALANCES - BEGINNING	<u>0</u>	<u>18,229</u>	<u>276,130</u>	<u>294,359</u>
FUND BALANCES - ENDING	<u><u>74,964</u></u>	<u><u>18,229</u></u>	<u><u>340,210</u></u>	<u><u>433,403</u></u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	FUND BALANCE JULY 1, 2012	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2013
Garrard County High School	89,542	367,152	366,615	90,079
Garrard County Middle School	61,067	60,668	59,918	61,817
Camp Dick Robinson Elementary	47,355	93,905	125,357	15,903
Lancaster Elementary	16,174	31,438	34,441	13,171
Paint Lick Elementary	11,832	28,433	27,845	12,420
Total Due to Student Groups	225,970	581,596	614,176	193,390
Other Agency Funds	90,350	3,028	4,500	88,878
Total Activity Funds	316,320	584,624	618,676	282,268

See independent accountant's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2013

	CASH BALANCE <u>JULY 1, 2012</u>	RECEIPTS	DISBURSEMENTS	CASH BALANCE <u>JUNE 30, 2013</u>	ACCOUNTS RECEIVABLE <u>JUNE 30, 2013</u>	ACCOUNTS PAYABLE <u>JUNE 30, 2013</u>	FUND BALANCE <u>JUNE 30, 2013</u>
Academic Team	2	198	0	200			200
Advanced Foods	400	411	508	303			303
AG Shop	39	0	38	1			1
Art	8	299	303	4			4
Band	7,164	42,293	48,715	742			742
Baseball	2,385	23,456	16,443	9,398			9,398
Beta Club	625	165	165	625			625
Boys Basketball	4,667	9,418	13,347	738			738
Boys Golf	2,421	2,550	2,211	2,760			2,760
Boys Soccer	1,572	1,995	842	2,725			2,725
Boys Tennis	1,601	1,327	1,860	1,068			1,068
Cheerleaders	31	3,798	1,733	2,096			2,096
Choir	445	3,349	3,794	0			0
District Tourney	0	1,685	1,685	0			0
Drama Society	991	2,446	1,151	2,286			2,286
Fashion	19	50	55	14			14
FBLA	799	1,156	1,242	713			713
FCA	113	850	642	321			321
FCCLA	43	6,720	6,309	454			454
FEA	116	313	223	206			206
FFA	293	13,581	13,713	161			161
FMD	69	0	0	69			69
Floral Design	0	1,612	1,483	129			129
Foods Lab	0	740	0	740			740
Football	8,797	36,559	44,841	515			515
French Club	47	204	225	26			26
GCHS Athletic Director	588	0	0	588			588
Ghost Out	172	0	0	172			172
Girls Basketball	126	5,975	6,101	0			0
Girls Golf	3	0	0	3			3
Girls Soccer	175	2,543	972	1,746			1,746
Girls Tennis	151	318	7	462			462
GMS Baseball	944	5,291	6,198	37			37
GMS Boys Basketball	987	10,389	10,794	582			582
GMS Boys Golf	239	100	96	243			243
GMS Boys Soccer	94	33	75	52			52
GMS Cheer	823	3,360	2,746	1,437			1,437
GMS Football	363	10,620	9,731	1,252			1,252

GMS Girls Basketball	680	1,324	2,004	0			0
GMS Girls Soccer	405	54	75	384			384
GMS Softball	2,557	10,883	12,164	1,276			1,276
GMS Ticket Revenue	12,206	24,757	23,656	13,307			13,307
Golden Pride Bank	50	48	0	98			98
Graduation	696	2,971	2,900	767			767
Greenhouse	2,121	705	849	1,977			1,977
Guidance	377	7,291	6,706	962			962
ID Badges	237	734	726	245			245
Instructional	1,171	18,421	19,174	418			418
Library	551	1,874	2,122	303			303
National Honor Society	789	599	725	663			663
Newspaper	810	0	0	810			810
Office	29	91,091	89,872	1,248			1,248
Parking	607	280	347	540			540
Project Graduation	458	16,035	16,019	474			474
Prom	0	9,524	7,078	2,446			2,446
Science Club	52	0	0	52			52
Shop	106	432	313	225			225
Softball	2,993	13,904	13,686	3,211			3,211
Spanish Club	1	1,007	947	61			61
Student Council	6,372	1,517	5,205	2,684			2,684
Student Funds	479	816	355	940			940
Teacher Vending	49	730	740	39			39
Ticket Revenue	7,580	58,759	50,069	16,270			16,270
Track	203	1,366	1,485	84			84
Volleyball	1,391	3,621	5,011	1			1
Watershed Grant	554	0	0	554			554
Yearbook	8,669	6,693	8,325	7,037			7,037
Young Dems/Reps	135	0	0	135			135
Total All Funds	89,640	469,240	468,801	90,079	0	0	90,079
Interfund Transfers	(98)	(102,088)	(102,186)	0	0	0	0
Total	89,542	367,152	366,615	90,079	0	0	90,079

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

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - School Improvement Grant	84.010	3202	9,829
Title I - School Improvement Grant - ARRA	84.389	5600A	15,445
Title I - School Improvement Grant - ARRA	84.389	5600B	1,318
Title I - School Improvement Grant - ARRA	84.389	5600C	33,472
Title I - Grants to Local Educational Agencies	84.010	3102	150,645
Title I - Grants to Local Educational Agencies	84.010	3103	525,509
Title I - Professional Development	84.010	3101D	1,312
Title I - Parent Involvement	84.010	3103M	1,927
Title I - Tier 3 Assist Team	84.010	3102T	313
Title I - Parent Involvement	84.010	3101M	913
Title I - Parent Involvement	84.010	3102M	5,198
Title I Cluster			745,881 *
Career & Technical Education	84.048	3482	2,615
Career & Technical Education	84.048	3483	22,529
Career & Technical Education Total			25,144
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4013	57,515
Federal Ed Tech - Basic	84.318	4251	322
Migrant Education - State Grant Program	84.011	3112	26,813
Migrant Education - State Grant Program	84.011	3113	54,978
Migrant Education - State Grant Program Total			81,791
IDEA - Special Education - Grants to State	84.027	3371	240
IDEA - Special Education - Grants to State	84.027	3372	172,659
IDEA - Special Education - Grants to State	84.027	3373	274,771
IDEA - Special Education - Preschool Grants	84.173	3431	1,748
IDEA - Special Education - Preschool Grants	84.173	3432	19,952
IDEA - Special Education - Preschool Grants	84.173	3433	11,945
Special Education Cluster			481,315
21st CCLC - Garrard Middle Summer School	84.287	5502	66,794
21st CCLC - Garrard Middle School	84.287	5503S	5,000
21st CCLC - Garrard Middle School	84.287	5501	44,561
21st CCLC - Garrard Middle School	84.287	5501J	1,192
21st CCLC Total			117,547
Rural and Low Income Schools	84.358	3502	43,984
Rural and Low Income Schools	84.358	3503	6,134
Rural and Low Income Schools Total			50,118
Education Jobs Funding- ARRA	84.410	4411	4,190
Gear Up Grant	84.334A	3792G	30,698
Gear Up Grant	84.334A	3793G	213,689
			244,387 *
KY Hybrid Electric School Bus Program - ARRA	81.086	6200D	1,995
Homeless Children & Youth - ARRA	84.387	3219	2,183
Race to the Top	84.413A	4521	6,549
Total U.S. Department of Education			1,818,937
<u>U.S. Department of Transportation</u>			
KY AHED Grant	23.001	6882	72
KY AHED Grant	23.001	6883	4,992
KY AHED Grant Total			5,064
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-12	139,174
National School Lunchroom	10.555	7750002-13	515,703
School Breakfast Program	10.553	7760005-12	47,876
School Breakfast Program	10.553	7760005-13	186,309
Summer Meal Program	10.559	7690024-12	1,894
Summer Meal Program	10.559	7740023-12	31,655
Child Nutrition Cluster			922,611
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	65,189
Total U.S. Department of Agriculture			987,800
Total Federal Financial Assistance			2,811,801

* Tested as major program

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

NOTE B – FOOD DISTRIBUTION

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

GARRARD COUNTY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010/84.389 84.334A	Title I Cluster Gear Up

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

GARRARD COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2013

There were no prior year audit findings.

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Charles M. White, CPA

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September 30, 2013

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

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

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, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Garrard County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Garrard County School District's basic financial statements, and have issued our report thereon dated September 30, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Garrard County School District in a separate letter dated September 30, 2013.

Purpose of this Report

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

Sincerely,

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
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Charles M. White, CPA

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September 30, 2013

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

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Charles M. White, CPA

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September 30, 2013

MANAGEMENT LETTER

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

In planning and performing our audit of the financial statements of Garrard County School District for the year ended June 30, 2013, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Current Year Recommendation:

During the course of the audit, we noted an instance where the amount approved on the purchase order was less than the actual amount of the order. Upon further review, it was noted that the amount requested on the purchase order and quote from the company did not include the shipping charges. We suggest that for all purchases the requestors ensure that all costs of the items to be purchased are included on the purchase orders.

Management Response:

We will communicate to district employees that they are to ensure that the purchase orders are complete with the total amount of the purchase prior to submitting them for review and approval.

Current Year Recommendation:

During the course of the audit, we noted that disbursements were made for maintenance without properly approved purchase orders. Upon further review, it was noted that there were charges not related to an emergency maintenance situation. We recommend that purchase orders be completed and approved prior to contracting the services for non-emergency maintenance. Further, we recommend that for emergency maintenance that a standard invoice be completed with the relevant information as to why the purchase constituted an emergency.

Management Response:

We will ensure that in the future non-emergency maintenance purchases of services will have a properly completed purchase order and approval prior to contracting with the outside provider for the service. Additionally, we will require that a standard invoice be completed for emergency maintenance purchases to support the lack of an approved purchase order.

Current Year Recommendation:

During the course of the audit, we noted that a check was written to a teacher in the amount of \$13,300 from the Garrard County High School Activity Fund – Project Graduation. The check was then cashed in order to give each student fully participating \$100 at the end of the night. Although there was documentation with the students’ signatures that the funds were handed out to students, the RedBook states that cash awards, gift cards, or prepaid credit cards are disallowed expenditures. We recommend that all school treasurers and sponsors be provided a copy of the RedBook and advised to reference it prior to making unusual transactions. Additionally, we advise that the school treasurers seek guidance from the District Finance Officer when there is a doubt as to whether expenditure is allowable.

Management Response:

We will ensure that the school treasurers have a copy of the latest RedBook and advise them to reference it when requested to make unusual disbursements and to consult with the District’s Finance Officer if there is any doubt as to whether the request is an allowable expenditure.

Current Year Recommendation:

During the course of the audit, we noted that the amount of an invoice and the amount disbursed from the Garrard County High School Activity Fund exceeded the amount approved on the purchase order. We recommend that purchases be only for the amount approved on the purchase order and not include additional items beyond the items approved.

Management Response:

We will communicate to teacher sponsors that they are to only purchase the amount approved on the purchase order, and if additional items are needed they must get prior approval using a new purchase order before making the purchase.

Current Year Recommendation:

During the course of the audit, we noted that a check was issued from the Garrard County High School Activity Fund for an athletic event official. The required documentation for this type of disbursement is a standard invoice signed by the official being paid. We recommend that no payments be made without proper documentation, in this instance a signed standard invoice.

Management Response:

We will communicate to the school treasurers that they must have proper documentation prior to disbursing funds.

Current Year Recommendation:

During the course of the audit, we noted that blanket purchase orders for the school year were issued for various purchases for Garrard County High School Activity Fund. Examples of purchases using the blanket purchase orders include Godfather’s Pizza and Wal-Mart. The RedBook states that each disbursement be documented by a completed purchase order and an original vendor invoice. We recommend that the high school cease using blanket purchase orders and prepare a purchase order for each purchase made throughout the year.

Management Response:

We will communicate to the school treasurers that there must be a purchase order completed and approved for each purchase made during the year and that they are to no longer to issue blanket purchase orders for the year.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
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Charles M. White, CPA

Email cmwcpa@windstream.net

September 30, 2013

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Garrard County School District for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 5, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Garrard County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Garrard County School District and management of Garrard County School District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants