

MCCREARY COUNTY

SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

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## INDEPENDENT AUDITOR'S REPORT

To the McCreary County Board of Education and  
State Committee for School District Audits  
Stearns, Kentucky

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCreary County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

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

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information as listed in the table of contents 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 McCreary County School District's basic financial statements. The additional supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the McCreary County School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCreary County School District’s internal control over financial reporting and compliance.

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013

As management of the McCreary 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 audit.

**FINANCIAL HIGHLIGHTS**

- The General Fund actual beginning balance for fiscal year 2012-2013 was \$596,598.
- The District received notification in November 2011 from the Kentucky Department of Education that there would be a reduction in funding for the upcoming fiscal year 2012-2013. The total Guaranteed Based Per Pupil was reduced by \$70 in which the District budgeted a total reduction in Net General Fund SEEK of \$349,820 between the prior years final SEEK calculations and the forecasted projection for fiscal year 2012-2013. The final SEEK calculations for fiscal year 2012-2013 showed variances of \$74,919 in the Net General Fund SEEK calculation which includes a reduction in Capital Outlay funds of \$2,627. The state FSPK funding was also reduced by \$21,290 in which the state matching fund requirement was reduced by \$2,800.
- The District made bond principal and interest payments during FY2012-2013 totaling \$1,054,262. The payments consisted of transfers to the Debt Service Fund from the Capital Outlay Fund in the amount of \$103,634 and the Building Fund in the amount of \$950,628. The District transferred the remaining available balance of \$158,608 from the Capital Outlay Fund to the General Fund during fiscal year 2012-2013 to cover the cost of utility expenses.
- The District recorded \$5,584,502 in revenues and expenses for on-behalf payments during 2012-2013. The on-behalf payments are payments made on behalf of the school district by various state entities including the employer’s portion of health benefits, Kentucky Teacher Retirement System (KTRS), technology, and debt service.
- The District entered in an agreement with the Save the Children Federation, Inc. in July 2012 to initiate the Save the Children program at Pine Knot Primary School, Pine Knot Intermediate School and Whitley City Elementary School. The Save the Children grant for all schools involved was \$294,602 in which the district matched \$111,364 from the General Fund as part of the agreement. The matching funds were used to cover the additional operating cost for the program including salary, fringe and transportation.
- The District transferred \$41,958 from the General Fund to the Special Revenue Fund to match the states Kentucky Education Technology System (KETS) offers during 2012-2013. The KETS funding is used to maintain technology operating costs for the district.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial

MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013

statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

**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 vending and food service operations. All other activities of the District are included in the governmental funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
 YEAR ENDED JUNE 30, 2013

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.

The statement of net activities provides a summary of all the assets in the District from governmental and business-type activities.

The following schedule is a summary of the District’s net position for governmental activities for fiscal year 2012 and fiscal year 2013:

**COMPARATIVE STATEMENT OF NET POSITION**

	<b>June 30, 2012</b>	<b>June 30, 2013</b>
<b>ASSETS</b>		
Current Assets	\$ 3,961,052	\$ 2,932,093
Noncurrent Assets	29,258,269	27,187,605
<b>Total Assets</b>	<b>33,219,321</b>	<b>30,119,698</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Loss for the difference in reacquisition and carrying value of refunding debt	\$ -	\$ 337,325
	-	337,325
<b>LIABILITIES</b>		
Current Liabilities	\$ 3,191,415	\$ 2,495,695
Noncurrent Liabilities	18,810,000	18,445,124
<b>Total Liabilities</b>	<b>21,978,574</b>	<b>20,940,819</b>
<b>NET POSITION</b>		
Investment in capital assets (Net of related debt)	\$ 9,213,269	\$ 8,719,930
Expendable restricted for capital projects	932,150	940,289
Expendable restricted for encumbrances	15,916	38,298
Expendable restricted for food services	-	-
Unrestricted (Deficit)	1,056,571	(182,314)
	<b>\$ 11,217,907</b>	<b>\$ 9,516,204</b>

The net position of governmental activities at the end of fiscal year 2012 was \$11,217,907 and \$9,516,204 at the end of fiscal year 2013 – a decrease of \$1,701,703.

**MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2013**

The following schedule is a summary of the District’s statement of activities for fiscal year 2013 and fiscal year 2012:

**STATEMENT OF ACTIVITIES**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:				
Program Revenues:				
Charges for services	\$ 313,871	\$ 166,241	\$ 43,396	\$ 53,336
Operating grants and contributions	5,151,114	11,504,602	1,988,070	1,729,910
Capital grants and contributions	1,814,637	1,821,968		
General revenues	22,180,556	17,690,639	7,543	1,983
Total revenues	<u>29,460,178</u>	<u>31,183,450</u>	<u>2,039,009</u>	<u>1,785,229</u>
Expenses:				
Instruction	16,702,223	18,700,641		
Student	1,778,067	1,637,461		
Instructional staff	1,079,252	1,070,204		
District administration	545,184	1,067,968		
School administration	1,588,344	1,479,038		
Business	780,041	714,337		
Plant operation & maintenance	2,577,121	2,618,234		
Student transportation	1,852,490	1,778,320		
Food service operations	(42,615)	33,663	1,771,907	1,664,024
Community service operations	500,537	499,031		
Amortization	17,754	111,079		
Depreciation	2,087,845	2,360,100	39,346	40,136
Loss on retirement of assets	740	49,926	564	
Interest on long-term debt	600,497	729,605		
Total expenses	<u>30,067,480</u>	<u>32,849,606</u>	<u>1,811,817</u>	<u>1,704,160</u>
Extraordinary Item	(778,867)	-	-	-
Change in net position	(1,386,168)	(1,666,156)	227,192	81,069
Net position, beginning	11,217,907	12,711,203	413,260	332,191
Prior period adjustment	<u>(315,534)</u>	<u>172,860</u>		
Net position, ending	<u>\$ 9,516,204</u>	<u>\$ 11,217,907</u>	<u>\$ 640,452</u>	<u>\$ 413,260</u>

**MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**CAPITAL ASSETS**

At the end of fiscal 2013, the District had \$27,292,885 invested in capital assets, including land and land improvements, buildings, buses, computers and other general equipment. This amount represents a net decrease (including additions, asset retirements, and depreciation) of \$2,110,574 over fiscal year 2012.

**CAPITAL ASSETS AT YEAR-END  
(NET OF DEPRECIATION)**

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land & Land Improvements	\$ 1,415,380	1,474,063	\$		\$ 1,415,380	1,474,063
Buildings	24,196,442	25,479,190			24,196,442	25,479,190
Technology Equipment	216,158	545,467	(1,084)	(887)	215,074	544,580
Vehicles	980,289	1,206,538			980,289	1,206,538
General Equipment	378,905	552,582	106,364	146,077	485,269	698,659
Infrastructure	431	431			431	431
Construction in Progress						
Totals	\$ <u>27,187,605</u>	<u>29,258,269</u>	\$ <u>105,280</u>	<u>145,190</u>	\$ <u>27,292,885</u>	<u>29,403,460</u>

The net decrease in capital assets in the Governmental and Business-type Activities is primarily due to the depreciation expense exceeding the cost of assets.

**DEBT**

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

The District made bond principal and interest payments during fiscal year 2013 totaling \$1,054,262. The payments consisted of transfers to the Debt Service Fund from the Capital Outlay Fund in the amount of \$103,634 and the Building Fund in the amount of \$950,628.

The SFCC made bond payments on behalf of the District in the amount of \$848,776 during fiscal year 2013.

**MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**OUTSTANDING DEBT AT YEAR-END**

	Government Activities	
	2013	2012
General Obligation Bonds	\$ 18,805,000	\$ 20,045,000
Total Obligations	\$ 18,805,000	\$ 20,045,000

**COMMENTS ON BUDGET COMPARISONS**

- The on-behalf payments made by various statement entities for the employers portion of health benefits, Kentucky Teacher Retirement System, technology and debt service are required to be recorded in the District’s financials, but are not required to be budgeted. Both revenue and expenditures in the amount of \$4,735,725 were recorded, but not budgeted.
- The actual revenue received from local sources was less than the District’s budgeted amounts. The property taxes, motor vehicle taxes, unmined minerals and revenue in lieu of taxes showed unfavorable amounts in comparison to the actual amount of revenue received. On the other hand, the utility tax and telecommunication tax both had favorable variances.
- The actual revenue received from intergovernmental – state sources exceeded the budgeted amount by \$124,026. The increase in intergovernmental – state sources was the results of an increase of the Net General Fund Seek calculations presented by the Kentucky Department of Education in the final SEEK calculations for fiscal year 2012-2013.
- The District received \$20,342 less from intergovernmental – federal sources in comparison to the budgeted amount. The intergovernmental – federal revenues consists of federal reimbursements for Medicaid.
- Both revenue and expenditures budgeted amounts showed favorable balances in comparison to the actual funds received or fund expended for the fiscal year 2012-2013. The ending general fund, fund balance is \$898,292 which will be transferred to the beginning balance revenues for fiscal year 2014.

**BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District’s overall budget. By law, the budget must have a minimum 2% contingency.

**MCCREARY COUNTY SCHOOL DISTRICT – STEARNS, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2013, for selected funds:

**REVENUES & EXPENDITURES**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>
<b>Revenues:</b>					
Local Revenue	\$ 3,064,369	\$	\$ 8,176	\$	\$ 246,972
State Revenue	19,118,398	1,746,220		848,776	965,861
Federal Revenue	53,158	3,404,894			
Other	161,963	41,958		1,054,262	
Total Revenue	<u>22,397,888</u>	<u>5,193,072</u>	<u>8,176</u>	<u>1,903,038</u>	<u>1,212,833</u>
<b>Expenses:</b>					
Instruction	12,300,026	4,287,863			
Student support	1,777,907	160			
Instructional staff support	795,462	283,790			
District administration	545,184				
School administration support	1,588,344				
Business support	780,038	3			
Plant operations	2,545,420	32,701			
Student transportation	1,704,085	148,405			
Food service		(42,615)			
Community service	17,771	482,765			
Debt service				1,903,038	
Fund transfers/other	41,958				1,212,870
Total expenses	<u>22,096,195</u>	<u>5,193,072</u>	<u>-</u>	<u>1,903,038</u>	<u>1,212,870</u>
Revenue Over (Under) Expenses	<u>\$ 301,693</u>	<u>\$ -</u>	<u>\$ 8,176</u>	<u>\$ -</u>	<u>\$ (37)</u>

**FINANCIAL CONTACT INFORMATION**

Questions regarding this report should be directed to Arthur D. Wright, Superintendent or Kristi Sizemore, Accounting Manager by mail at McCreary County Board of Education, 120 Raider Way, Stearns, KY 42647.

McCreary County School District  
**Statement of Net Position**  
June 30, 2013

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,220,249	\$ 273,889	\$ 1,494,138
Restricted cash and cash equivalents	19,319		19,319
Receivables (net)	1,692,525	208,137	1,900,662
Inventories		54,934	54,934
Capital assets:			
Land, improvements, and construction in progress	814,437		814,437
Other capital assets, net of depreciation	26,373,168	105,280	26,478,449
Total capital assets	27,187,605	105,280	27,292,886
Total assets	30,119,698	642,240	30,761,938
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss for the difference in reacquisition and carrying value of refunding debt	337,325		337,325
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	185,195	1,788	186,983
Accrued interest payable	127,183		127,183
Unearned revenue	908,317		908,317
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,275,000		1,275,000
Total due within 1 year	1,275,000	-	1,275,000
Due in more than 1 year:			
Bond obligations	17,530,000		17,530,000
KSBIT payable	778,867		778,867
Sick leave	136,257		136,257
Total due in more than 1 year	18,445,124	-	18,445,124
Total liabilities	20,940,819	1,788	20,942,607
<b>NET POSITION</b>			
Net Investment in capital assets	8,719,930	105,280	8,825,211
Restricted for:			
Expendable restricted for capital projects	940,289		940,289
Expendable restricted for encumbrances	38,298		38,298
Expendable restricted for food services		535,172	535,172
Unrestricted	(182,314)		(182,314)
Total net position	\$ 9,516,204	\$ 640,452	\$ 10,156,656

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Activities**  
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 16,702,223	\$ 260,713	\$ 3,245,202	\$	\$ (13,196,308)		\$ (13,196,308)
Support Services							
Student	1,778,067	53,158	309,067		(1,415,842)		(1,415,842)
Instructional Staff	1,079,252		206,045		(873,207)		(873,207)
District Administration	545,184		103,022		(442,161)		(442,161)
School Administration	1,588,344		257,556		(1,330,789)		(1,330,789)
Business	780,041		154,533		(625,508)		(625,508)
Plant Operation & Maintenance	2,577,121		463,600	965,861	(1,147,660)		(1,147,660)
Student Transportation	1,852,490		309,067		(1,543,423)		(1,543,423)
Food Service Operations	(42,615)				42,615		42,615
Community Services Operations	500,537		103,022		(397,515)		(397,515)
Amortization	17,754				(17,754)		(17,754)
Depreciation	2,087,845				(2,087,845)		(2,087,845)
Loss on retirement of assets	740				(740)		(740)
Interest on long term debt	600,497			848,776	248,279		248,279
Total governmental activities	<u>30,067,480</u>	<u>313,871</u>	<u>5,151,114</u>	<u>1,814,637</u>	<u>(22,787,858)</u>		<u>(22,787,858)</u>
Business-type activities:							
Food service operations	1,771,907	43,396	1,988,070			\$ 259,559	259,559
Loss on retirement of assets	564					(564)	(564)
Depreciation	39,346					(39,346)	(39,346)
Total business-type activities	<u>1,811,817</u>	<u>43,396</u>	<u>1,988,070</u>	<u>-</u>	<u>-</u>	<u>219,649</u>	<u>219,649</u>
Total primary government	\$ <u>31,879,298</u>	\$ <u>357,267</u>	\$ <u>7,139,185</u>	\$ <u>1,814,637</u>	<u>(22,787,858)</u>	<u>219,649</u>	<u>(22,568,209)</u>
General revenues:							
Taxes:							
Property taxes					1,664,520		1,664,520
Motor vehicle taxes					170,190		170,190
Unmined minerals tax					3,732		3,732
Utilities					809,452		809,452
Telecommunications tax					7,654		7,654
Revenue in lieu of taxes					331,117		331,117
State and formula grants					19,118,398		19,118,398
Sale of equipment					3,355		3,355
Unrestricted investment earnings					72,138	7,543	79,681
Total general revenues					<u>22,180,556</u>	<u>7,543</u>	<u>22,188,100</u>
Extraordinary item					(778,867)		(778,867)
Total general revenues and extraordinary item					<u>21,401,689</u>	<u>7,543</u>	<u>21,409,233</u>
Change in net position					(1,386,168)	227,192	(1,158,976)
Net Position - beginning					11,217,907	413,260	11,631,167
Prior period adjustment					(315,534)		(315,534)
Restated net position - beginning					<u>10,902,372</u>	<u>413,260</u>	<u>11,315,632</u>
Net Position - ending					\$ <u>9,516,204</u>	\$ <u>640,452</u>	\$ <u>10,156,656</u>

See the accompanying notes to the financial statements.

McCreary County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2013

Governmental Funds						
	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 879,987	\$ -	\$ 849,740	\$ -	\$ 90,549	\$ 1,820,276
Restricted cash and cash equivalents	19,319					19,319
Receivables, net						
Taxes-current	59,342					59,342
Accounts	1,147					1,147
Intergovernmental-federal		1,632,035				1,632,035
Total assets	959,795	1,632,035	849,740	-	90,549	3,532,119
<b>LIABILITIES</b>						
Accounts payable	61,503	123,692				185,195
Cash shortage		600,027				600,027
Unearned revenue		908,317				908,317
Total liabilities	61,503	1,632,035	-	-	-	1,693,538
<b>FUND BALANCE</b>						
Restricted			849,740		90,549	940,289
Assigned	38,298					38,298
Unassigned	859,994					859,994
Total fund balance	\$ 898,292	\$ -	\$ 849,740	\$ -	\$ 90,549	\$ 1,838,581

See the accompanying notes to the financial statements.

McCreary County School District  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position**  
 June 30, 2013

<b>Total fund balance per fund financial statements</b>	\$	1,838,581
<p>Amounts reported for governmental activities in the statement of netposition are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		27,187,605
<p>Capitalized the bond defeasance costs of the sale/refunding bonds and amortized over the life of the bond.</p>		337,325
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
<p>Noncurrent sick leave payable</p>		(136,257)
<p>Accrued interest payable</p>		(127,183)
<p>KSBIT payable</p>		(778,867)
<p>Bond obligations</p>		<u>(18,805,000)</u>
<b>Net position of governmental activities</b>	<b>\$</b>	<b><u><u>9,516,204</u></u></b>

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 1,417,511	\$ -	\$ -	\$ -	\$ 247,009	\$ 1,664,520
Motor vehicle	170,190					170,190
Unmined minerals	3,732					3,732
Utility tax	809,452					809,452
Telecommunications tax	7,654					7,654
Revenue in lieu of taxes	331,117					331,117
Earnings on investments	64,000		8,176		(37)	72,138
Other local revenue	260,713					260,713
Intergovernmental - state	19,118,398	1,746,220		848,776	965,861	22,679,255
Intergovernmental - federal	53,158	3,404,894				3,458,052
Total revenues	<u>22,235,925</u>	<u>5,151,114</u>	<u>8,176</u>	<u>848,776</u>	<u>1,212,833</u>	<u>29,456,824</u>
<b>EXPENDITURES</b>						
Instruction	12,300,026	4,287,861				16,587,887
Support Services						
Student	1,777,907	160				1,778,067
Instructional Staff	795,462	283,790				1,079,252
District Administration	545,184					545,184
School Administration	1,588,344					1,588,344
Business	780,038	3				780,041
Plant Operation & Maintenance	2,545,420	32,701				2,578,121
Student Transportation	1,704,085	148,405				1,852,490
Food Service Operations		(42,615)				(42,615)
Community Services Operations	17,771	482,765				500,537
Debt Service				1,903,039		1,903,039
Total expenditures	<u>22,054,236</u>	<u>5,193,072</u>	<u>-</u>	<u>1,903,039</u>	<u>-</u>	<u>29,150,347</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	181,689	(41,958)	8,176	(1,054,262)	1,212,833	306,477
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of equipment	3,355					3,355
Operating transfers in	158,608	41,958		1,054,262		1,254,828
Operating transfers (out)	(41,958)				(1,212,870)	(1,254,828)
Total other financing sources and (uses)	<u>120,005</u>	<u>41,958</u>	<u>-</u>	<u>1,054,262</u>	<u>(1,212,870)</u>	<u>3,355</u>
<b>NET CHANGE IN FUND BALANCE</b>	301,694	-	8,176	-	(37)	309,832
<b>FUND BALANCE-BEGINNING</b>	<u>596,598</u>	<u>-</u>	<u>841,564</u>	<u>-</u>	<u>90,586</u>	<u>1,528,749</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 898,292</u>	<u>\$ -</u>	<u>\$ 849,740</u>	<u>\$ -</u>	<u>\$ 90,549</u>	<u>\$ 1,838,581</u>

See the accompanying notes to the financial statements.

McCreary 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

<b>Net change in total fund balances per fund financial statements</b>	\$	309,832
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(2,070,664)
<p>The difference in the refunding/sale bond issue amount and the amount for payment to escrow the amount to repay the original bonds amortized over the life of the bonds</p>		(17,754)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		1,240,000
<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>		
<p>Sick leave payable</p>		(131,257)
<p>KSBIT payable extraordinary item</p>		(778,867)
<p>Accrued interest payable</p>		<u>62,542</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u><u>(1,386,168)</u></u></b>

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 1,457,500	\$ 1,457,500	\$ 1,417,511	\$ (39,989)
Motor vehicle	180,000	180,000	170,190	(9,810)
Unmined minerals	10,200	10,200	3,732	(6,468)
Utility tax	800,000	800,000	809,452	9,452
Telecommunication tax	-	-	7,654	7,654
Revenue in lieu of taxes	385,000	385,000	331,117	(53,883)
Earnings on investments	70,000	70,000	64,000	(6,000)
Other local revenue	36,707	36,707	260,713	224,006
Intergovernmental - state	14,433,250	14,433,250	* 14,557,276	124,026
Intergovernmental - federal	73,500	73,500	53,158	(20,342)
Total revenues	<u>17,446,157</u>	<u>17,446,157</u>	<u>17,674,803</u>	<u>228,645</u>
<b>EXPENDITURES</b>				
Instruction	9,225,628	9,231,628	* 9,366,837	(135,209)
Support Services				
Student	1,201,377	1,201,377	* 1,341,625	(140,248)
Instructional Staff	699,354	699,354	* 708,707	(9,353)
District Administration	593,442	593,442	* 468,379	125,063
School Administration	1,186,596	1,186,596	* 1,219,171	(32,575)
Business	656,902	656,902	* 626,601	30,301
Plant Operation & Maintenance	2,336,025	2,330,025	* 2,294,402	35,623
Student Transportation	1,606,149	1,606,149	* 1,449,621	156,527
Community Services Operations			17,771	(17,771)
Total expenditures	<u>17,505,472</u>	<u>17,505,472</u>	<u>17,493,114</u>	<u>12,358</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(59,315)	(59,315)	181,689	241,004
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment			3,355	3,355
Operating transfers in	27,881	27,881	158,608	130,726
Operating transfers (out)	(50,000)	(50,000)	(41,958)	8,042
Total other financing sources and (uses)	<u>(22,119)</u>	<u>(22,119)</u>	<u>120,005</u>	<u>142,124</u>
<b>NET CHANGE IN FUND BALANCE</b>	(81,433)	(81,433)	301,694	383,128
<b>FUND BALANCE-BEGINNING</b>	<u>524,224</u>	<u>524,224</u>	<u>596,598</u>	<u>72,374</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 442,791</u>	<u>\$ 442,791</u>	<u>\$ 898,292</u>	<u>\$ 455,501</u>

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$4,561,122.

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Other local revenue	\$ 850	\$ 300	\$ -	\$ (300)
Intergovernmental - state	1,773,977	1,866,394	1,746,220	(120,174)
Intergovernmental - federal	1,812,121	3,505,604	3,404,894	(100,710)
Total revenues	<u>3,586,948</u>	<u>5,372,298</u>	<u>5,151,114</u>	<u>(221,183)</u>
<b>EXPENDITURES</b>				
Instruction	2,283,686	4,404,897	4,287,861	117,036
Support Services				
Student	497		160	(160)
Instructional Staff	596,533	366,673	283,790	82,883
Business		-	3	(3)
Plant Operation & Maintenance	28,609	35,689	32,701	2,988
Student Transportation	203,106	143,728	148,405	(4,677)
Food Service Operations		-	(42,615)	42,615
Community Services Operations	524,516	463,267	482,765	(19,498)
Total expenditures	<u>3,636,948</u>	<u>5,414,256</u>	<u>5,193,072</u>	<u>221,183</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(50,000)	(41,958)	(41,958)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	50,000	41,958	41,958	-
Total other financing sources and (uses)	<u>50,000</u>	<u>41,958</u>	<u>41,958</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Net Position**  
**Proprietary Funds**  
June 30, 2013

		<b>School Food Services</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$	273,889
Receivables		208,137
Inventories		54,934
Capital assets:		
Other capital assets, net of depreciation		105,280
Total assets		642,240
<b>LIABILITIES</b>		
Accounts payable and accrued expenses		1,788
Total liabilities		1,788
<b>NET POSITION</b>		
Net Investment in capital assets		105,280
Restricted for:		
Expendable Restricted for Food Service		535,172
Total net position	\$	640,452

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
Year Ended June 30, 2013

		<b>School Food Services</b>
<b>OPERATING REVENUES</b>		
Lunchroom sales	\$	43,396
Total operating revenues		<u>43,396</u>
<b>OPERATING EXPENSES</b>		
Depreciation		39,346
Loss on retirement of assets		564
Food service operations		1,771,907
Total operating expenses		<u>1,811,817</u>
Operating income (loss)		(1,768,422)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants		1,968,861
State grants		19,209
State on-behalf payments received		174,603
State on-behalf payments used		(174,603)
Commodities received		124,181
Commodities used		(124,181)
Earnings from investments		7,543
Total nonoperating revenues		<u>1,995,614</u>
<b>CHANGE IN NET POSITION</b>		227,192
<b>NET POSITION-BEGINNING</b>		<u>413,260</u>
<b>NET POSITION-ENDING</b>	\$	<u><u>640,452</u></u>

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2013

	<u>School Food Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 43,396
Payments to suppliers	(1,254,904)
Payments to employees	(723,605)
Net cash provided (used) by operating activities	<u>(1,935,113)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating grants and contributions	1,988,070
Net cash provided (used) by noncapital financing activities	<u>1,988,070</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Loss on retirement of assets capital assets	564
Net cash provided (used) by capital and related financing activities	<u>564</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	7,543
Net cash provided (used) by investing activities	<u>7,543</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	61,064
<b>CASH AND CASH EQUIVALENTS-BEGINNING</b>	<u>212,825</u>
<b>CASH AND CASH EQUIVALENTS-ENDING</b>	<u>\$ 273,889</u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>	
Operating income (loss)	\$ (1,768,422)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	39,346
Changes in assets and liabilities:	
Receivables	(208,137)
Inventory	509
Accrued liabilities	1,590
Net cash used by operating activities	<u>\$ (1,935,113)</u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$124,181 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
June 30, 2013

		<u>School Activity Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$	142,016
Accounts receivable		<u>115</u>
Total Assets		<u><u>142,130</u></u>
 <b>LIABILITIES</b>		
Due to student groups		<u>142,130</u>
Total Liabilities		<u>142,130</u>
 <b>NET POSITION HELD IN TRUST</b>	 \$	 <u><u>-</u></u>

See the accompanying notes to the financial statements.

MCCREARY COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

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

Reporting Entity

The McCreary 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 the McCreary 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 relevant to the operation of the McCreary 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 District 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 organization are included in the accompanying financial statements:

McCreary County Board of Education Finance Corporation

The Board authorized establishment of the McCreary County Board of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the McCreary County Board of Education.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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) General Fund

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

#### (B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

programs are identified in the Schedule of Expenditures of Federal Awards included in this report. KDE requires this fund to be a major fund.

### (C) Capital Project Funds

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).

#### SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

#### Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

#### Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund.

### (D) Debt Service Fund

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

## II. Proprietary Funds (Enterprise Funds)

### (A) Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### III. Fiduciary Fund Types

#### Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The schools funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

#### Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations 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.

Unearned Revenue – Unearned 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 unearned revenue.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

which the related fund liability is incurred, if measurable. Allocations of cost, 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.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.398 per \$100 valuation of real property, \$.398 per \$100 valuation for business personal property and \$.30 per \$100 valuation for motor vehicles.

### 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 government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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:

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Interfund Balances

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

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave.

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

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

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

### Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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.

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Inventories

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

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

### Prepaid Assets

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

### 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 judgment, 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 Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

### Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

### Operating and Non-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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

### 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.

### 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.

## **NOTE B – CHANGE IN ACCOUNTING POLICY**

During the fiscal year ended June 30, 2013, management adopted the Governmental Accounting Standards Board Statement No. 63. This statement created the statement of net position which replaced

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

the previous statement of net assets. The term net assets is no longer used and has been replaced with net position. The District also implemented GASB 65 early, resulting in asset and liability classifications of deferred inflows and deferred outflows. This change is preferable so the District can be better prepared for the mandatory adoption in the upcoming fiscal year. The District recorded a deferred outflow of resources for the difference in reacquisition and carrying value of refunding debt. Refer to the prior period adjustment note to see the effect on the change in net position.

**NOTE C – ESTIMATES**

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

**NOTE D – CASH AND CASH EQUIVALENTS**

The District’s cash and cash equivalents are interest bearing accounts with the local bank depository. Due to the liquidity nature of these accounts the carrying value is the fair market value. The deposits are insured with FDIC and pledged assets of the local bank. The demand accounts include a money market account. The District only maintains one money market account. Included within the cash and cash equivalents are restricted cash amounts for the “Rewards Program” totaling \$19,319.

	<u>Bank Balance</u>
<u>McCreary County Bank</u>	<u>Demand</u>
FDIC	\$250,000
Securities pledged to district	<u>4,097,025</u>
Bank balance	<u><u>\$4,347,025</u></u>
	<u>Book Balance</u>
	<u>Cash equivalents</u>
Governmental Activities	\$1,239,568
Business-type Activities	273,889
Agency funds	<u>142,016</u>
Total carrying amount	<u><u>\$1,655,473</u></u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE E – CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 814,437	\$ -	\$ -	\$ 814,437
Land improvements	1,528,787	-	-	1,528,787
Buildings	44,158,054	-	-	44,158,054
Technology equipment	3,957,435	16,921	54,017	3,920,339
Vehicles	4,466,023	-	17,318	4,448,705
General equipment	2,145,565	1,000	17,975	2,128,589
Infrastructure	-	-	-	431
Construction in progress	-	-	-	-
Total at historical cost	<u>\$ 57,070,300</u>	<u>\$ 17,921</u>	<u>\$ 89,310</u>	<u>\$ 56,999,342</u>
Less: Accumulated depreciation				
Land improvements	\$ 869,161	\$ 58,683	\$ -	\$ 927,844
Buildings	18,678,864	1,282,748	-	19,961,612
Technology equipment	3,411,968	346,544	54,331	3,704,181
Vehicles	3,259,485	226,249	17,318	3,468,416
General equipment	1,592,983	173,621	16,921	1,749,684
Total accumulated depreciation	<u>\$ 27,812,462</u>	<u>\$ 2,087,845</u>	<u>\$ 88,570</u>	<u>\$ 29,811,737</u>
Governmental Activities Capital Assets-net	<u>\$ 29,257,839</u>	<u>\$ (2,069,924)</u>	<u>\$ 740</u>	<u>\$ 27,187,605</u>
 <u>Business-Type Activities</u>				
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Buildings	\$ -	\$ -	\$ -	\$ -
Technology equipment	2,999	-	-	2,999
General equipment	1,057,065	-	1,450	1,055,615
Total at historical cost	<u>\$ 1,060,064</u>	<u>\$ -</u>	<u>\$ 1,450</u>	<u>\$ 1,058,614</u>
Less: Accumulated depreciation				
Buildings	\$ -	\$ -	\$ -	\$ -
Technology equipment	3,886	197	-	4,083
General equipment	910,988	39,149	886	949,252
Total accumulated depreciation	<u>\$ 914,874</u>	<u>\$ 39,346</u>	<u>\$ 886</u>	<u>\$ 953,334</u>
Business-Type Activities Capital Assets-net	<u>\$ 145,190</u>	<u>\$ (39,346)</u>	<u>\$ 564</u>	<u>\$ 105,280</u>

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

**NOTE F – RESTRICTED FUND BALANCES**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 849,740	Future Construction
Capital Outlay	\$ 90,549	School Facilities Construction Commission

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE G – PRIOR PERIOD ADJUSTMENT**

Due to GASB 63 and 65, bond premiums were overstated by \$85,502, bond discounts were overstated by \$162,588 and bond issue costs were overstated by \$238,448 causing an increase in beginning net position as follows:

Net Position July 1, 2012	11,217,907
Prior Period Adjustment	(315,534)
Restated Net Position July 1, 2012	<u>\$ 10,902,372</u>

**NOTE H– BONDED DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the McCreary County School District Finance Corporation aggregating \$18,805,000, and \$1,275,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, 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 McCreary 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 proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

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

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
2003R	\$ 2,700,000	8/1/2014	1.10-3.9%	\$ 210,000		\$ 65,000	\$ 145,000
2003	8,750,000	5/1/2023	2-4%	280,000		280,000	-
2003R-2nd	4,655,000	8/1/2016	2-3.4%	2,885,000		515,000	2,370,000
1998	3,595,000	10/1/2010	4.125-4.45%	6,720,000		65,000	6,655,000
2008	\$ 11,095,000	5/1/2028	3.0-4.5%	9,950,000		315,000	9,635,000
Totals				<u>\$ 20,045,000</u>	<u>\$ -</u>	<u>\$ 1,240,000</u>	<u>\$ 18,805,000</u>

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

amounts to be paid by the Commission, at June 30, 2013 for debt service, (principal and interest) are as follows:

Fiscal Year Ended <u>30-Jun</u>	<u>Principal</u>		<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
	<u>Local</u>	<u>KSFCC</u>	<u>Local</u>	<u>KSFCC</u>	<u>Total</u>	<u>Total</u>
2014	\$ 728,228	\$ 546,772	\$ 321,344	\$ 302,003	\$ 1,275,000	\$ 623,348
2015	752,647	562,353	299,582	286,424	1,315,000	586,005
2016	776,380	573,620	276,608	269,709	1,350,000	546,318
2017	796,899	573,101	251,874	251,978	1,370,000	503,853
2018	813,868	591,132	237,341	233,946	1,405,000	471,288
2019-2023	4,356,544	3,253,456	854,964	871,936	7,610,000	1,726,900
2024-2028	2,104,945	2,375,055	290,959	328,229	4,480,000	619,188
	<u>\$ 10,329,511</u>	<u>\$ 8,475,489</u>	<u>\$ 2,532,673</u>	<u>\$ 2,544,225</u>	<u>\$ 18,805,000</u>	<u>\$ 5,076,898</u>

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$778,867. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

**NOTE I – RETIREMENT PLANS**

Kentucky Teachers’ Retirement System

Plan Description – The McCreary County School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

*Funding Policy* – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.105%

### Medical Insurance Plan

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

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

*Funding policy* – In order to fund the post-retirement healthcare benefit, three and a half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one percent (1.0%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The McCreary County School System's total payroll for the year was \$17,441,569. The payroll for employees covered under KTRS was \$13,206,877. For the year ended June 30, 2013, the Commonwealth contributed \$1,479,553 KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$278,200, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$2,035,953, \$2,239,958 and \$2,340,490 respectively.

### County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 19.55% of the employee's compensation during the fiscal year ended June 30, 2013. The District contributed \$816,016 of the employee's compensation during the fiscal year ended June 30, 2013.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,033,706, \$1,084,353 and \$937,148 respectively.

### **NOTE J – COMMITMENTS**

There are no commitments of the District.

### **NOTE K - CONTINGENCIES**

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not 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 un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction the funds provided are being spent as intended and the grantors' intent to continue their program.

### **NOTE L - LITIGATION**

There is no known, threatened or pending litigation at this time.

### **NOTE M – 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, illegal acts, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include Workers' Compensation insurance.

### **NOTE N – RISK MANAGEMENT**

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

workers’ compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts 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 coverage in any of the past three fiscal years.

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer.

**NOTE O – DEFICIT OPERATING BALANCES**

The following funds had an operating deficit at the end of the fiscal year causing a reduction in the fund balance.

<u>Fund</u>	<u>Reduction in Fund Balance / Net position</u>
Capital Outlay	(\$37)
School Activity Funds	(33,016)
Governmental Activities	(1,386,168)

**NOTE P - 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).

**NOTE Q – TRANSFER OF FUNDS**

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	KETS	\$ 41,958
Capital Outlay Fund	General Fund	Operating Expenditures	158,608
Capital Outlay Fund	Debt Service Fund	Debt Payments	103,634
FSPK Fund	Debt Service Fund	Debt Payments	950,628

**NOTE R – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on – behalf of the McCreary County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and Food Service funds. The amounts recorded for both revenues and expenditures

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

(expenses) are \$4,561,122 for the General Fund, \$848,776 for the debt service fund and \$174,603 for the Food Service Fund.

### **NOTE S– CAPITAL LEASE PAYABLE**

The District has no capital leases.

### **NOTE T – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through October 21, 2013, the date of the audit report.

McCreary County School District  
**Combining Balance Sheet-Nonmajor Governmental Funds**  
 June 30, 2013

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 90,549	\$ -	\$ 90,549
Total Assets	90,549	-	90,549
<b>Fund Balances</b>			
Restricted	90,549	-	90,549
Total Fund Balances	\$ 90,549	\$ -	\$ 90,549

See the accompanying notes to the financial statements.

McCreary County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor  
Governmental Funds**

For the year ended June 30, 2013

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Revenues</b>			
From Local Sources			
Taxes			
Property	\$ -	\$ 247,009	\$ 247,009
Earnings from investments	(37)		(37)
Intergovernmental - State	262,242	703,619	965,861
Total Revenues	262,205	950,628	1,212,833
<b>Expenditures</b>			
Debt Service			-
Total Expenditures	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	262,205	950,628	1,212,833
<b>Other Financing Sources (Uses)</b>			
Operating transfers (out)	(262,242)	(950,628)	(1,212,870)
Total Other Financing Sources (Uses)	(262,242)	(950,628)	(1,212,870)
<b>Net Change in Fund Balances</b>	(37)	-	(37)
<b>Fund Balance Beginning</b>	90,586	-	90,586
<b>Fund Balance Ending</b>	\$ 90,549	\$ -	\$ 90,549

See the accompanying notes to the financial statements.

McCreary County School District  
**Combining Balance Sheet Fiduciary Fund- School Activity Funds**  
As of June 30, 2013

	<u>MCCREARY CENTRAL HIGH SCHOOL</u>	<u>MCCREARY COUNTY MIDDLE SCHOOL</u>	<u>MCCREARY COUNTY PRESCHOOL</u>	<u>PINE KNOT INTERMEDIATE</u>	<u>PINE KNOT PRIMARY</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 72,930	\$ 19,514	\$ 2,215	\$ 4,349	\$ 26,937
Accounts receivable	55	-	-	60	-
Total Assets	<u>72,985</u>	<u>19,514</u>	<u>2,215</u>	<u>4,409</u>	<u>26,937</u>
<b>FUND BALANCE</b>					
School activities	<u>\$ 72,985</u>	<u>\$ 19,514</u>	<u>\$ 2,215</u>	<u>\$ 4,409</u>	<u>\$ 26,937</u>

See the accompanying notes to the financial statements.

McCreary County School District  
**Combining Balance Sheet Fiduciary Fund- School Activity Funds**  
 As of June 30, 2013

	<b>WHITLEY CITY ELEMENTARY</b>	<b>MCCREARY CO. BD OF EDUCATION CONCESSIONS</b>	<b>MCCREARY CO. BUS GARAGE</b>	<b>SCHOOL ACTIVITY FUNDS TOTAL</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 15,389	\$ 389	\$ 292	\$ 142,016
Accounts receivable	-			115
Total Assets	15,389	389	292	142,130
<b>FUND BALANCE</b>				
School activities	\$ 15,389	\$ 389	\$ 292	\$ 142,130

See the accompanying notes to the financial statements.

McCreary County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds**  
For the period ended June 30, 2013

	<u>MCCREARY CENTRAL HIGH SCHOOL</u>	<u>MCCREARY COUNTY MIDDLE SCHOOL</u>	<u>MCCREARY COUNTY PRESCHOOL</u>	<u>PINE KNOT INTERMEDIATE</u>	<u>PINE KNOT PRIMARY</u>
<b>Revenues</b>					
Student revenues	\$ 260,517	\$ 100,734	\$ 4,059	\$ 65,931	\$ 80,178
<b>Expenses</b>					
Student activities	270,426	107,497	9,078	66,609	78,433
<b>Excess (Deficit) of Revenues Over Expenses</b>	(9,909)	(6,763)	(5,020)	(678)	1,745
<b>Fund Balance July 1, 2012</b>	<u>82,894</u>	<u>26,277</u>	<u>7,235</u>	<u>5,087</u>	<u>25,192</u>
<b>Fund Balance June 30, 2013</b>	<u>\$ 72,985</u>	<u>\$ 19,514</u>	<u>\$ 2,215</u>	<u>\$ 4,409</u>	<u>\$ 26,937</u>

See the accompanying notes to the financial statements.

McCreary County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds**  
For the period ended June 30, 2013

	<u>WHITLEY CITY ELEMENTARY</u>	<u>MCCREARY CO. BD OF EDUCATION CONCESSIONS</u>	<u>MCCREARY CO. BUS GARAGE</u>	<u>SCHOOL ACTIVITY FUND BALANCES</u>
<b>Revenues</b>				
Student revenues	\$ 22,851	\$ 532	\$ 672	\$ 535,474
<b>Expenses</b>				
Student activities	35,316	367	763	568,490
<b>Excess (Deficit) of Revenues Over Expenses</b>	(12,465)	164	(91)	(33,016)
<b>Fund Balance July 1, 2012</b>	<u>27,854</u>	<u>225</u>	<u>383</u>	<u>175,146</u>
<b>Fund Balance June 30, 2013</b>	<u>\$ 15,389</u>	<u>\$ 389</u>	<u>\$ 292</u>	<u>\$ 142,130</u>

See the accompanying notes to the financial statements.

McCreary County School District  
**Statement of Revenues, Expenses, and Changes in Fund Balance - McCreary County High School**  
For the period ended June 30, 2013

	FUND BALANCE July 1, 2012	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE June 30, 2013
GENERAL FUND	\$ 5,279	\$ 2,986	\$ 10,711	\$ 2,640	\$ 194
ATTENDANCE INCENTIVES	7,789	3,800	1,308	(100)	10,182
LOCKERS	5,959	2,430	-	(7,500)	889
PARKING	2,210	900	241	(1,600)	1,269
TEXTBOOKS	810	-	-	-	810
SPEC ED OFFICE	1,595	240	776	(252)	807
SCIENCE SUPPLIES	155	-	20	-	135
DRAMA	946	1,687	1,771	76	938
FCA	13	-	-	-	13
TECHNOLOGY STUDENT	117	-	-	-	117
STUDENT VENDING	5,680	4,816	19,777	10,524	1,243
SCHOLARSHIP FUND	27	-	-	-	27
FACULTY FUND	359	3,381	3,082	-	658
CUSTODIAL SUPPLIES	-	220	220	-	-
MCHS DANCE TEAM	363	116	10	-	469
FLOWER FUND	23	210	172	-	61
MADRIGAL CALENDAR A	1,050	1,842	2,489	-	403
GENERAL ATHLETICS	-	-	-	-	-
CROSS COUNTRY	205	2,167	2,206	252	418
BASEBALL	2,674	10,818	9,590	-	3,902
BOYS BASKETBALL	5,269	20,211	22,861	84	3,459
FOOTBALL	242	15,960	15,211	(750)	242
GIRLS BASKETBALL	1,327	12,779	14,157	663	613
BOYS/GIRLS CONCESSIONS	310	4,755	3,739	(1,325)	-
WRESTLING	1,020	2,615	2,962	-	673
GOLF	1,594	3,248	3,870	-	972
ARCHERY	-	700	700	-	-
CHEERLEADERS	253	11,431	12,159	750	275
VOLLEYBALL	3,560	8,642	9,190	-	3,011
GIRLS SOFTBALL	737	4,003	2,980	-	1,761
GIRLS SOFTBALL BOOSTERS	-	-	-	-	-
TENNIS	22	940	948	-	14
ACADEMIC TEAM	205	200	405	-	-
FBLA	-	443	-	(143)	300
UNITE (CHAMPION AGAIN	179	-	57	-	122
DECA	3,233	17,548	15,092	1,993	7,683
DECA OFFICE	255	-	-	-	255
FFA	1,516	12,576	11,791	(441)	1,860
HOSA	20	6,457	6,275	-	203
MADRIGALS	899	362	988	-	273
MATH CLUB	766	1,411	1,750	-	427
NATIONAL HONOR SOCIETY	11	-	-	-	11
SPANISH CLUB	841	1,377	1,938	-	280
SR BETA	478	127	409	-	196
STUDENT COUNCIL	160	-	-	-	160
STUDENT GOVERNMENT	70	-	-	-	70
PEER TUTORING	689	1,872	1,494	(270)	797
STUDENT HELPER ACCO	35	-	288	270	17
AUTO MECHANICS	42	288	260	-	71
SOCCER	973	2,128	2,360	-	741
BAND	-	6,090	6,333	325	81
CARPENTRY	182	100	207	-	75
CHORUS	35	7,163	5,933	325	1,590
ROTC	667	19,308	17,731	-	2,244
SKILLS USA	230	199	397	-	32
PRINTING	549	224	558	37	251
JR CLASS	4,145	17,520	11,503	(2,545)	7,617
SENIOR CLASS 2009	1,018	-	-	-	1,018
SENIOR CLASS 2010	774	-	-	-	774
SR CLASS	1,160	29,672	34,541	4,145	437
SENIOR CLASS 2011 REU	339	-	-	-	339
TRIP	1,016	-	404	(400)	212
FRESHMAN CLASS	1,990	5,512	3,512	(1,990)	2,000
SOPHMORE CLASS	564	1,005	770	1,426	2,225
ANNUAL	2,233	6,200	4,000	-	4,433
COUNSELING	551	245	280	(10)	507
LIBRARY	1,585	142	-	-	1,727
PICTURES	5,895	1,452	-	(6,940)	406
Totals	\$ 82,894	\$ 260,517	\$ 270,426	\$ -	\$ 72,985

See the accompanying notes to the financial statements.

McCREARY COUNTY SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
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 McCreary 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. At June 30, 2013, the District had received food commodities totaling \$124,181.

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

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Total Expenditures
U.S. Department of Agriculture				
Passed through State Department of Agriculture				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 13		510.4950	\$ N/A	\$ 124,181
Passed through State Department of Education				
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 13		7750002 13	N/A	922,430
Fiscal Year 12		7750002 12	N/A	214,391
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 13		7760005 13	N/A	469,169
Fiscal Year 12		7760005 12	N/A	116,867
* <b>Summer Food Program</b>	10.559			
Fiscal Year 12		7740023 12	N/A	14,207
Fiscal Year 12		7690024 12	N/A	1,480
Child Nutrition Cluster Subtotal				<u>1,738,544</u>
<b>Fresh Fruits and Vegetables</b>	10.582			
Fiscal Year 13		7720012 13	N/A	22,181
Fiscal Year 12		7720012 12	N/A	7,139
				<u>29,319</u>
Total U.S. Department of Agriculture				<u>1,892,044</u>
Passed through State Department of Education				
* <b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 13		3100002 13	2,099,877	1,721,269
Fiscal Year 13M		3100002 13	107,354	107,017
Fiscal Year 12		3100002 12	2,215,461	81,041
Fiscal Year 12M		3100002 12	107,733	3,524
Fiscal Year 11		3100002 11	1,981,589	1,909
Fiscal Year 11D		3100002 11	353,151	16,244
Fiscal Year 11M		3100002 11	110,883	842
Fiscal Year 10		3100002 10	2,304,365	616
Fiscal Year 10D		3100002 10	86,320	5,915
Fiscal Year 10M		3100002 10	104,885	176
Fiscal Year 09D		3100002 09	93,402	2,583
* <b>Title I Grants to Local Education Agencies, School Improvement (Part A)</b>	84.010A			
Fiscal Year 12		3100202 12	96,889	63,724
Fiscal Year 11		3100202 11	155,409	10,112
Fiscal Year 09		3100202 09	139,418	2,418
				<u>2,017,390</u>
<b>Title I Grants to Local Education Agencies, School Improvement (Part G)</b>	84.377A			
Fiscal Year 10A		3100302 10	332,706	50,297
Fiscal Year 10B		3100302 10	248,500	15,554
Fiscal Year 10C		3100302 10	150,000	145,145
				<u>210,995</u>
<b>Special Education Grants to State</b>	84.027A			
Fiscal Year 13		3810002 13	680,341	532,511
Fiscal Year 12		3810002 12	693,019	168,382
<b>Special Education - Preschool Grants</b>	84.173A			
Fiscal Year 12		3800002 12	57,881	57,881
Fiscal Year 11		3800002 11	57,899	213
Special Education Cluster Subtotal				<u>758,987</u>
<b>Vocation Education - Basic Grants to States (Perkins)</b>	84.048			
Fiscal Year 13		4610910 13	49,965	15,860
Fiscal Year 12		4621232 12	59,155	13,720
Fiscal Year 12A		4621232 12	2,277	2,277
				<u>31,856</u>
<b>Rural Education</b>	84.358B			
Fiscal Year 13		3140002 13	56,062	3,264
Fiscal Year 12		3140002 12	75,888	52,822
Fiscal Year 11		3140002 11	83,056	4,626
				<u>60,712</u>
<b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 13		3230002 13	327,072	293,002
Fiscal Year 12		3230002 12	332,670	39,191
Fiscal Year 11		3230002 11	393,442	8,781
				<u>340,975</u>
<b>Education Technology State Grants</b>	84.318X			
Fiscal Year 11		3210002 11	8,154	8,154
<b>Education Jobs Fund</b>	84.410			
Fiscal Year 11		EJOB00 11	865,589	6,093
<b>Race to the Top</b>	84.413A			
Fiscal Year 11		3960002 11	93,694	7,248

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

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Total Expenditures
Passed through Morehead State University <b>Appalachian Higher Education Network (KY AHED)</b>	23.011			
Fiscal Year 13		6883	2,681	2,681
Fiscal Year 12		6882	3,000	257
				<u>2,937</u>
Passed through Workforce Development Cabinet <b>Community Based Work Transition</b>	84.002			
Fiscal Year 13		3713	28,600	28,600
Total U.S. Department of Education				<u>3,473,948</u>
U.S Department of Commerce Passed through Eastern Kentucky PRIDE <b>PRIDE-Environmental Education</b>	11.420			
Fiscal Year 13		2703C	500	499
Total U.S. Department of Commerce				<u>499</u>
U.S. Department of Defense Passed directly from the U.S. Department of the Army <b>ROTC</b>	12.000			
Fiscal Year 13		5043	33,420	33,420
Fiscal Year 12		5042	48,576	183
Total U.S. Department of Defense				<u>33,602</u>
US Department of Health and Human Services Passed through the Staff Wellness Action Plan <b>Coordinated School Health</b>	93.938			
Fiscal Year 11		2000001 11	6,000	3
Passed Through Kentucky School Board Association <b>Medical Assistance Program</b>	93.778			
Fiscal Year 13		110.4810	\$ N/A	53,158
Total US Department of Health and Human Services				<u>53,161</u>
Grand Totals of All Federal Programs			\$	<u>5,453,255</u>

\* Major program

**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***

To the McCreary County Board of Education and  
State Committee for School District Audits  
Stearns, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCreary County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise McCreary County School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered McCreary 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 McCreary County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of McCreary County School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the

Kentucky Public School District's Audit Contract and Requirements or Appendices. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether McCreary 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 13-1.

### **McCreary County School District's Response to Findings**

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

### **Purpose of this Report**

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

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

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

To the McCreary County Board of Education and  
State Committee for School District Audits  
Stearns, Kentucky

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

We have audited McCreary 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 McCreary County School District's major federal programs for the year ended June 30, 2013. McCreary County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of McCreary 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*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards 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 McCreary 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 McCreary County School District's compliance.

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

In our opinion, McCreary 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 McCreary 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 McCreary 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 McCreary County School District's internal control over compliance.

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

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

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

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

MCCREARY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 YEAR ENDED June 30, 2013

**SUMMARY OF AUDITORS' RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	No
Was any material noncompliance reported (GAGAS)?	Yes
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	No
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title I [CFDA 84.010A] Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

**FINDINGS - FINANCIAL STATEMENT AUDIT**

MATERIAL NONCOMPLIANCE

**Finding 13-1**

*Statement of Condition:* The annual financial report was not published.

*Criteria for Condition:* KRS 424.220 requires local boards of education to publish annual financial statements.

*Cause of the Condition:* The Board of Education has not taken action to make the annual financial statements available to the public.

*Effect of the Condition:* The District is not in compliance with the statute.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No findings at the major federal award programs level.

MCCREARY COUNTY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED June 30, 2013

**Finding 12-1**

*Statement of Condition:* The fund financial statements were materially misstated and required several audit adjustments to accurately reflect the financial position of the district.

*Criteria for the Condition:* Audit adjustments were required to properly state the fund financial statement accounts including: cash, accounts payable, revenue, and expenditures that affect fund balance.

*Cause of the Condition:* Deficient monitoring procedures.

*Effect of the Condition:* Fund financial statements were materially misstated.

*Subsequent Review:* The finding was corrected.

**Finding 12-2**

*Statement of Condition:* The bank statements were not reconciled to the general ledger throughout the year.

*Criteria for the Condition:* The cash balances reflected on the fund financial statements were not supported by bank reconciliation statements.

*Cause of the Condition:* Bank reconciliations were not timely and accurately completed.

*Effect of the Condition:* Cash balance reflected on the financial statements was inaccurate and an important part of the district's internal control process was missing.

*Subsequent Review:* The finding was corrected in January when the Accounting Manager began performing the reconciliations.

**Finding 12-3**

*Statement of Condition:* Fiscal year 2012 transactions were posted in fiscal year 2013.

*Criteria for Condition:* Recording of transactions in the proper period.

*Cause of the Condition:* Accounts payable for expenditures in fiscal year 2012 were posted to the wrong period (year 2013) due to improper monitoring procedures.

*Effect of the Condition:* Financial statements reflected incorrect amounts for cash and accounts payable at June 30, 2012.

*Subsequent review:* The finding was corrected.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

### **Finding 12-4**

*Statement of Condition:* The Family Resource and Youth Service Centers either did not fully expend or overspent the funds they were allocated.

*Criteria for Condition:* Letter from the Kentucky Cabinet for Health and Family Services. Two of the Family Resource Youth Service Centers (FRYSC) overspent their allocation, and three of the FRYSC centers did not utilize the full amount of their allocation (Whitley City had almost 25% of their allocation remaining which was \$18,969, and the other two centers were not named).

*Cause of the Condition:* Financial oversight for the FRYSC centers was not appropriate to ensure that spending was within budgets and to ensure that funds were fully utilized.

*Effect of the Condition:* The District's general fund will be required to reimburse the FRYSC projects that overspent their allocations. The FRYSC projects that did not spend their full allocations failed to meet the needs of the students the objective of the grant.

*Subsequent Review:* The finding was corrected.

McCREARY COUNTY SCHOOL DISTRICT  
**CORRECTIVE ACTION PLAN**  
FOR THE YEAR ENDED JUNE 30, 2013

*Date:* October 21, 2013

*Oversight Agency:* Kentucky Department of Education

The *McCreary County School District* respectfully submits the following corrective action plan for the year ended June 30, 2013.

*Name and Address of Independent Public Accounting Firm:* White & Associates, PSC, 1407 Lexington Road, Richmond, Kentucky 40475.

*Audit Period:* For the year ended June 30, 2013.

The findings from the year ended June 30, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**13-1**

*Recommendation for Correction:* Management should complete this requirement as part of their year-end closing procedures to ensure compliance with the statute.

*Management Response:* An advertisement will be published in both local newspapers to inform the public the annual financial report will be available to them at two different locations after the audit report has been published. The annual financial report will be made available to the public at the local library in a paper format and electronically in PDF format in the finance section of the districts webpage.

*Implementation:* Immediate.

If the Kentucky Department of Education has questions regarding this plan, please call me at 606.376.2591.

Sincerely yours,

*Arthur Wright*

Arthur Wright, Superintendent

**MANAGEMENT LETTER**

McCreary County School District  
Stearns, Kentucky

In planning and performing our audit of the financial statements of the McCreary County School District for the year ended June 30, 2013, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated October 21, 2013. This letter does not affect our report dated October 21, 2013, on the financial statements of the McCreary County School District. The conditions observed are as follows:

WHITLEY CITY ELEMENTARY

1-13

Statement of Condition: Activity Fund account "Athletic" ended the fiscal year (June 30) with a deficit balance.

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to the Recommendation: The bookkeeper will be instructed to transfer monies to cover the deficit balance in the activity fund account "Athletic" from the activity fund account "General Fund". At any given time the activity fund account "Athletic" has a positive balance another transfer will be made to replenish the "General Fund" activity fund account. The principal will be instructed to monitor the school activity fund account balances, as well as, Fund Raiser Approval forms for the intent to make a profit before signing off on purchase orders to prevent a deficit account balance.

PINE KNOT INTERMEDIATE

2-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: The principal will distribute both the Fund Raiser Approval and Fund Raiser Worksheet to all school activity fund account sponsors along with a copy of the excerpt from the Redbook pertaining to the policy and procedures for handling fund raising events. Also, the bookkeeper will compile a list of all fund raising events into a excel spreadsheet checklist in which she will enter the corresponding dates the Fund Raiser Approval and Fund Raiser Worksheet forms were submitted. The excel spreadsheet checklist will help both the principal and the bookkeeper monitor the required documentation to be submitted for each fund raising event.

### 3-13

Statement of Condition: The Principal is not consistently dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal will be instructed to initial and date all bank statements after a complete review.

### PINE KNOT PRIMARY

#### 4-13

Statement of Condition: The Principal is not consistently dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal will be instructed to initial and date all bank statements after a complete review.

### McCREARY COUNTY MIDDLE SCHOOL

#### 5-13

Statement of Condition: Activity Fund account "Library" ended the fiscal year (June 30) with a deficit balance.

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to the Recommendation: The bookkeeper will be instructed to transfer monies to cover the deficit balance in the activity fund account “Library” from the activity fund account “General Fund”. At any given time the activity fund account “Library” has a positive balance another transfer will be made to replenish the “General Fund” activity fund account. The principal will be instructed to monitor the school activity fund account balances, as well as, Fund Raiser Approval forms for the intent to make a profit before signing off on purchase orders to prevent a deficit account balance.

#### McCREARY CENTRAL HIGH SCHOOL

##### 6-13

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: The teacher/sponsor requesting to make a purchase completes a paper purchase requisition form (F-SA-7) in which is signed by both the sponsor and the school principal. The paper purchase requisition is then submitted to the school bookkeeper to process a generated purchase order number using the EPES accounting software. Once the EPES generated purchase order is printed and signed by the school principal, the order can be placed with the vendor. All invoices must have the corresponding purchase order listed before payment is processed.

##### 7-13

Statement of Condition: The Standard Invoice is not being signed by the officials/referees for ballgames before the payment is processed.

Recommendation for Correction: After providing the service, the person must sign the Standard Invoice before the school treasurer processes the invoice for payment.

Management Response to the Recommendation: KHSAA recommends that the officials be paid at the time they perform the service. Therefore, the school bookkeeper prepares the check before the sporting event by using the information provide on the Arbiter Sports website which list the officials along with the corresponding amounts to be paid for officiating each game. The Standard Invoice is completed and signed by the official after they are finished officiating the game. Once the appropriate paperwork is completed, the official receives the check for officiating. In the event the game is cancelled or the scheduled official is not present during the sporting event, the check is voided and put on file.

##### 8-13

Statement of Condition: Paid invoices are not consistently being filed in check numerical order by month.

Recommendation for Correction: The school treasurer shall file all documents for a disbursement together by month, in check numerical order.

Management's Response to the Recommendation: The bookkeeper files all checks in numerical order each month. However, during a recent review by OEA, all purchase orders signed by the athletic director had to be pulled from the files, copied and sent to the Central Office in a short period of time. Multiple school employees assisted in the request which could explain why the checks did not get filed back properly. The bookkeeper will continue to file the checks by numerical order and verify the checks are in numerical order when preparing the audit box for the next financial audit.

#### McCREARY COUNTY PRE-SCHOOL

##### 9-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: The principal will distribute both the Fund Raiser Approval and Fund Raiser Worksheet to all school activity fund account sponsors along with a copy of the excerpt from the Redbook pertaining to the policy and procedures for handling fund raising events. Also, the bookkeeper will compile a list of all fund raising events into a excel spreadsheet checklist in which she will enter the corresponding dates the Fund Raiser Approval and Fund Raiser Worksheet forms were submitted. The excel spreadsheet checklist will help both the principal and the bookkeeper monitor the required documentation to be submitted for each fund raising event.

##### 10-13

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: The principal will notify all teachers/sponsors to submit all money collected along with the corresponding documentation to the school treasurer the same day the money is collected. The bookkeeper will notify the principal immediately of any teachers/sponsors whom continue to submit large sums of money in which she suspects could not have been collected in one day, as well as, any supporting documentation not dated or dated prior to the date the money was submitted.

##### 11-13

Statement of Condition: The Principal is not consistently dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal will be instructed to initial and date all bank statements after a complete review.

McCREARY COUNTY CENTRAL OFFICE CONCESSIONS

No conditions

McCREARY COUNTY BUS GARAGE

No conditions

We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We would like to add that we have seen a tremendous improvement from the previous year throughout all the schools in the area of internal control compliance.

All prior year conditions have been implemented and corrected. Mr. Arthur D. Wright, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
October 21, 2013