

SOUTHGATE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2014

DRAFT
Subject to Change

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 5
Basic Financial Statements	
<i>Government-wide Financial Statements</i>	
Statement of Net Position.....	6
Statement of Activities.....	7
<i>Fund Financial Statements</i>	
Balance Sheet – Governmental Funds	8
Reconciliation of Total Government Fund Balances to Net Position of Governmental Activities	9
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Net Position – Proprietary Fund	12
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	13
Statement of Cash Flows – Proprietary Fund	14
Statement of Fiduciary Net Position – Fiduciary Fund.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund.....	16
Notes to the Financial Statements.....	17 - 30
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	31
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances - Nonmajor Governmental Funds	32
Statement of Receipts and Disbursements – School Activity Fund.....	33
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters required by Government Auditing Standards	34 - 35
Schedule of Prior Findings	36
Management Letter Transmittal.....	37
Management Letter Comments	38

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southgate Independent School District (the "District") as of and for the year ended June 30, 2014, 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. 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.

Opinion

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 District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the combining and individual nonmajor fund financial statements 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 29, 2014, on our consideration of the 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 District's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky
October 29, 2014

As management of the Southgate Independent School District (the "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, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2014 are as follows:

- The beginning cash balance for all funds of the District, excluding agency funds, was \$342,130 and the ending balance was \$206,033; a decrease of \$136,097 for the year.
- The District's long-term debt decreased by \$70,000 due to principal payments made during the year.
- The General Fund had \$1,871,514 in revenues and \$1,936,547 in expenditures.

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 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 assets. Over time, increases or decreases in net assets 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, and operation of non-instructional services.

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. 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, and fiduciary funds. The only proprietary fund is the food service fund. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. 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. In the case of the District, assets exceeded liabilities by \$833,021 as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings and improvements, and equipment less any related debt used to acquire those assets). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in 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.

Net position for the period ending June 30, 2014

	2014	2013
Current assets	\$ 288,535	\$ 378,675
Non-current assets	1,977,499	2,045,979
Total assets	<u>2,266,034</u>	<u>2,424,654</u>
Current liabilities	158,013	141,729
Non-current liabilities	1,275,000	1,350,000
Total liabilities	<u>1,433,013</u>	<u>1,491,729</u>
Net investment in capital assets	777,499	765,979
Restricted	71,855	90,631
Unrestricted	<u>(16,333)</u>	<u>76,315</u>
Total net position	<u>\$ 833,021</u>	<u>\$ 932,925</u>

COMMENTS ON GENERAL FUND BUDGET COMPARISONS

The District's total general fund revenue was \$1,954,860 compared to budgeted revenue of \$1,463,744. The favorable variance is mainly due to on-behalf payments which are not budgeted.

General Fund actual expenditures were \$1,936,547 compared to budgeted expenditures of \$1,695,328. The unfavorable variance is mainly due to on-behalf payments which are not budgeted.

The following table presents a summary of revenue and expense of total governmental funds for the year ended June 30, 2014:

	2014	2013
Revenues and other sources:		
Local revenue	\$ 1,045,626	\$ 1,011,554
State/federal revenue	1,207,971	1,330,677
Investments	680	1,163
Total revenues	<u>\$ 2,254,277</u>	<u>\$ 2,343,394</u>
Expenditures:		
Instruction	\$ 1,521,742	\$ 1,690,827
Student support	29,141	29,216
Instruction staff	79,955	195,305
District administrative	227,984	215,834
School administrative	140,023	134,654
Business support	32,851	0
Plant operation and maintenance	183,912	181,565
Facilities acquisition and construction	0	37,194
Debt service	121,705	124,005
Total expenditures	<u>\$ 2,337,313</u>	<u>\$ 2,608,600</u>

General Fund Revenue

The majority of general fund revenues were derived from local taxes and state/federal funding, they made up 46% and 54% respectively.

General Fund Expenditures

The District expended approximately 65% of total expenditures for instruction. The remaining 35% was expended mainly for support services and plant operation and maintenance.

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 overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with a contingency of \$76,182 (5%). The beginning general fund cash balance for the next fiscal year is \$135,635.

Contacting the District's Financial Management

Questions about this report should be directed to Jim Palm, Superintendent, (859) 441-0743 or by mail at 6 William Blatt Avenue, Southgate, Kentucky 41071.

Southgate Independent School District
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 206,033	\$ 0	\$ 206,033
Receivables:			
Taxes	3,785	0	3,785
Accounts	0	7,565	7,565
Intergovernmental - federal	68,967	0	68,967
Inventory	0	2,185	2,185
Capital assets, net	1,939,445	38,054	1,977,499
Total assets	2,218,230	47,804	2,266,034
Liabilities:			
Accounts payable	10,610	742	11,352
Accrued salaries	(1,592)	0	(1,592)
Cash deficit balance	0	14,521	14,521
Accrued interest payable	51,706	0	51,706
Unearned revenue	7,026	0	7,026
Long-term liabilities:			
Due within one year	75,000	0	75,000
Due in more than one year	1,275,000	0	1,275,000
Total liabilities	1,417,750	15,263	1,433,013
Net position:			
Net investment in capital assets	739,445	38,054	777,499
Restricted for:			
Capital projects	71,855	0	71,855
Debt service	0	0	0
Other purposes	0	0	0
Unrestricted	(10,820)	(5,513)	(16,333)
Total net position	\$ 800,480	\$ 32,541	\$ 833,021

The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Instruction	\$ 1,596,457	\$ 0	\$ 351,012	\$ 0	\$ (1,245,445)	\$ 0	\$ (1,245,445)
Support services:							
Student	29,141	0	0	0	(29,141)	0	(29,141)
Instruction staff	79,956	0	0	0	(79,956)	0	(79,956)
District administrative	227,495	0	0	0	(227,495)	0	(227,495)
School administrative	140,023	0	0	0	(140,023)	0	(140,023)
Business support	32,851	0	0	0	(32,851)	0	(32,851)
Plant operation and maintenance	177,380	0	0	0	(177,380)	0	(177,380)
Other	0	0	0	0	0	0	0
Interest on long-term debt	51,705	0	0	35,256	(16,449)	0	(16,449)
Total governmental activities	2,335,008	0	351,012	35,256	(1,948,740)	0	(1,948,740)
Business-type activities:							
Food service	126,470	10,159	97,131	0	0	(19,180)	(19,180)
Total business-type activities	126,470	10,159	97,131	0	0	(19,180)	(19,180)
Total District	\$ 2,461,478	\$ 10,159	\$ 448,143	\$ 35,256	(1,948,740)	(19,180)	(1,967,920)
General Revenues:							
Property taxes					980,773	0	980,773
Motor vehicle taxes					54,471	0	54,471
State aid					819,207	0	819,207
Investment earnings					680	4	684
Other revenues					12,881	0	12,881
Total general revenues					1,868,012	4	1,868,016
Change in net position					(80,728)	(19,176)	(99,904)
Prior year adjustment					0	0	0
Net position - beginning of year					881,208	51,717	932,925
Net position - end of year					\$ 800,480	\$ 32,541	\$ 833,021

The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Special Revenue	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 135,635	\$ 0	\$ 71,855	\$ 53,968	\$ 261,458
Receivables:					
Taxes	3,785	0	0	0	3,785
Accounts	0	0	0	0	0
Intergovernmental - federal	0	68,967	0	0	68,967
Total assets	\$ 139,420	\$ 68,967	\$ 71,855	\$ 53,968	\$ 334,210
Liabilities:					
Accounts payable	\$ 10,610	\$ 0	\$ 0	\$ 0	\$ 10,610
Accrued salaries	(1,592)	0	0	0	(1,592)
Cash deficit balance	0	55,425	0	0	55,425
Total liabilities	9,018	55,425	0	0	64,443
Deferred inflows of resources:					
Unavailable taxes	0	0	0	0	0
Unearned revenue	0	13,542	0	0	13,542
Total deferred inflows of resources	0	13,542	0	0	13,542
Fund balances:					
Nonspendable	0	0	0	0	0
Restricted	0	0	71,855	53,968	125,823
Committed	0	0	0	0	0
Assigned	0	0	0	0	0
Unassigned	130,402	0	0	0	130,402
Total fund balances	130,402	0	71,855	53,968	256,225
Total liabilities, deferred inflows of resources, and fund balances	\$ 139,420	\$ 68,967	\$ 71,855	\$ 53,968	\$ 334,210

The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2014

Total governmental fund balances	\$	256,225
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,939,445
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Other long-term assets such as taxes receivable are not available to pay for current period expenditures and therefore are deferred inflows in the funds	6,516
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Certain liabilities such as bonds payable and accrued interest payable are not due and payable from current resources and therefore are not reported in the funds	(1,401,706)
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Net position of governmental activities	\$	<u>800,480</u>
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The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Special Revenue	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 884,850	\$ 0	\$ 54,651	\$ 0	\$ 939,501
Motor vehicle	49,371	0	5,100	0	54,471
Utilities	34,368	0	2,125	0	36,493
Earnings on investments	459	0	136	85	680
Other local revenue	5,101	10,060	0	0	15,161
Intergovernmental - State	546,353	73,217	5,661	16,981	642,212
Intergovernmental - State on behalf	351,012	0	0	35,256	386,268
Intergovernmental - Indirect federal	0	179,491	0	0	179,491
Total revenues	1,871,514	262,768	67,673	52,322	2,254,277
Expenditures:					
Instruction	1,260,276	261,466	0	0	1,521,742
Support services:					
Student	29,141	0	0	0	29,141
Instruction staff	77,898	2,057	0	0	79,955
District administrative	227,041	943	0	0	227,984
School administrative	140,023	0	0	0	140,023
Business support	32,851	0	0	0	32,851
Plant operation and maintenance	169,317	0	0	14,595	183,912
Facilities acquisition and construction	0	0	0	0	0
Debt service	0	0	0	121,705	121,705
Total expenditures	1,936,547	264,466	0	136,300	2,337,313
Excess of revenues over (under) expenditures	(65,033)	(1,698)	67,673	(83,978)	(83,036)
Other financing sources (uses):					
Transfers in	0	1,698	0	86,449	88,147
Transfers out	(1,698)	0	(86,449)	0	(88,147)
Total other financing sources (uses)	(1,698)	1,698	(86,449)	86,449	0
Net change in fund balances	(66,731)	0	(18,776)	2,471	(83,036)
Fund balances - beginning of year	197,133	0	90,631	51,497	339,261
Fund balances - end of year	\$ 130,402	\$ 0	\$ 71,855	\$ 53,968	\$ 256,225

The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$	(83,036)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense

Capital asset additions	10,904
Depreciation expense	(79,385)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	789
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Repayment of debt principal is an expenditure in the government funds, but the repayment reduces long-term liabilities in the statement of net position	70,000
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Change in net position of governmental activities	\$	<u>(80,728)</u>
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The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Statement of Net Position
Proprietary Fund
June 30, 2014

Assets:

Current assets:

Accounts receivable	\$ 7,565
Inventory	<u>2,185</u>
Total current assets	<u>9,750</u>

Noncurrent assets:

Capital assets, net	<u>38,054</u>
Total noncurrent assets	<u>38,054</u>

Total assets	<u>\$ 47,804</u>
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Liabilities:

Current liabilities:

Accounts payable	\$ 742
Cash deficit balance	<u>14,521</u>
Total current liabilities	<u>15,263</u>

Total liabilities	<u>15,263</u>
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Net position:

Net investment in capital assets	38,054
Restricted	<u>(5,513)</u>
Total net position	<u>32,541</u>

Total liabilities and net position	<u>\$ 47,804</u>
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The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2014

Operating revenues	
Lunchroom sales	\$ 10,159
Total operating revenues	10,159
Operating expenses	
Salaries and wages	47,085
Employee benefits	30,453
Materials and supplies	41,639
Depreciation	4,181
Other operating expenses	3,112
Total operating expenses	126,470
Operating loss	(116,311)
Nonoperating revenues	
Federal grants	75,540
Donated commodities	0
Intergovernmental - State	1,161
Intergovernmental - State on behalf	20,430
Interest income	4
Total nonoperating revenues	97,135
Change in net position	(19,176)
Net position - beginning of year	51,717
Net position - end of year	\$ 32,541

The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

Cash flows from operating activities:

Cash received from:

Lunchroom sales	\$ 10,159
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Cash paid for:

Employees	(77,538)
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Suppliers for goods and services	(41,970)
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Other activities	(3,112)
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Net cash used for operating activities	(112,461)
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Cash flows from noncapital financing activities:

Government grants	95,698
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Net cash provided by noncapital financing activities	95,698
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Cash flows from capital and related financing activities:

Purchases of capital assets	(3,395)
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Net cash flows used for capital and related financing activities	(3,395)
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Cash flows from investing activities:

Interest income received	4
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Net cash flows provided by investing activities	4
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Net decrease in cash and cash equivalents	(20,154)
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Cash and cash equivalents, beginning of year	5,633
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Cash and cash equivalents, end of year	\$ (14,521)
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Reconciliation of operating loss to net cash used for operating activities:

Operating loss	\$ (116,311)
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Adjustments to reconcile operating loss to net cash used for operating activities:

Depreciation	4,181
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Change in accounts payable	(332)
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Net cash used for operating activities	\$ (112,462)
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Non-cash items:

On-behalf payments	\$ 20,430
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The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Statement of Fiduciary Net Position
June 30, 2014

Assets:

Cash and cash equivalents	<u>\$ 5,586</u>
Total assets	<u><u>\$ 5,586</u></u>

Liabilities:

Due to student groups	<u>\$ 5,586</u>
Total liabilities	<u><u>\$ 5,586</u></u>

The accompanying notes are an integral part of these financial statements.

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Southgate Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
From local sources:				
Taxes:				
Property	\$ 867,742	\$ 867,742	\$ 884,850	\$ 17,108
Motor vehicle	49,646	49,646	49,371	(275)
Utilities	43,076	43,076	34,368	(8,708)
Earnings on investments	700	700	459	(241)
Other local revenue	0	0	5,101	5,101
Intergovernmental - State	546,901	546,901	546,353	(548)
Intergovernmental - State on behalf	0	0	351,012	351,012
Total revenues	<u>1,508,065</u>	<u>1,508,065</u>	<u>1,871,514</u>	<u>363,449</u>
Expenditures:				
Instruction	1,027,850	1,027,850	1,260,276	(232,426)
Support services:				
Student	29,569	29,569	29,141	428
Instruction staff	85,807	85,807	77,898	7,909
District administrative	198,044	198,044	227,041	(28,997)
School administrative	115,404	115,404	140,023	(24,619)
Business support	0	0	32,851	(32,851)
Plant operation and maintenance	162,472	162,472	169,317	(6,845)
Other (contingency)	76,182	76,182	0	76,182
Total expenditures	<u>1,695,328</u>	<u>1,695,328</u>	<u>1,936,547</u>	<u>(241,219)</u>
Excess of Revenues Over (Under) Expenditures	(187,263)	(187,263)	(65,033)	122,230
Other financing sources (uses):				
Transfer in	0	0	0	0
Transfers out	(3,000)	(3,000)	(1,698)	1,302
Total other financing sources (uses)	<u>(3,000)</u>	<u>(3,000)</u>	<u>(1,698)</u>	<u>1,302</u>
Net change in fund balances	(190,263)	(190,263)	(66,731)	123,532
Budgetary fund balance - beginning of year	<u>190,263</u>	<u>190,263</u>	<u>197,133</u>	<u>6,870</u>
Budgetary fund balance - end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 130,402</u>	<u>\$ 130,402</u>

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ACCOUNTING POLICIES

A. The Reporting Entity

The Southgate Independent Board of Education (“the Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Southgate Independent Board of Education (the “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 by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Southgate Independent Board of Education. The financial statements presented herein do not include funds of groups or organizations, which although associated with the school system, have not originated with the Board; such as Band Boosters, Parent-Teacher Associations, and others. The financial statements of the District include those 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:

Southgate Independent Board of Education Finance Corporation. – In 1992 the Board resolved to authorize the establishment of the Southgate Independent Board of Education Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Board Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

B. Basis of Presentation

The District’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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 statement of net position presents the financial condition of the governmental and business-type activities of the District at year end. The 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 – During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the proprietary funds include personnel and other expenses related to water and sewer operations. All revenues not meeting these definitions are reported as nonoperating revenues and expenses.

C. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflow, liabilities, and deferred inflows is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky. This is a major fund of the District

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

Capital Project Funds – These 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 the Proprietary 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

identified in the district's facility plan.

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

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

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

Proprietary Fund Types (Enterprise Fund)

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

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

Fiduciary Fund Types (Agency Fund)

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

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government –wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

Like the government-wide financial statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of these funds included on the statement of net position. The statement of

changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

E. 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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 year end.

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

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future operating period.

Property taxes not received within the available period and grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows in the governmental fund financial statements.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

F. Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.829 per \$100 valuation for real property, \$0.833 per \$100 for business real property, and \$0.504 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of gross receipts derived from telephone communication services, cablevision services, electric power, water, and gas furnished within the District's boundaries.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. The District's infrastructure consists of sidewalks, streets, and water and sewer lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Capital assets utilized by the proprietary funds are reported in both 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 disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the District's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund capital assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25 – 50 Years
Land improvements	20 Years
Technology	5 Years
Vehicles	5 – 10 Years
General equipment	15 Years
Food service equipment	10 – 12 Years

H. Interfund Balances

On the fund financial statements, unpaid amounts for interfund services are reported as "due from/to

other funds". These amounts are eliminated in the governmental and business-type activity columns of the statement of net position, except any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

I. Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

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

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

J. Budgetary Process

Budgetary Basis of Accounting - The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and GAAP basis are: (1) revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP); and (2) expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. 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/objective level. All budget appropriations lapse at year-end.

K. Cash and Cash Equivalents

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

L. Inventories

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

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on 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, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

N. Fund Balance Classification

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of District Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless District Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of District Council.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

O. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component of “net investment in capital assets”, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Operating expenses can be tied specifically to the production of the goods and services, such as materials, labor, and direct overhead.

Q. 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 basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

NOTE 2 – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District’s management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS

At year-end the carrying amount of the District's total cash and cash equivalents was \$197,098 which was covered by Federal Deposit Insurance Corporation ("FDIC") insurance and by collateral agreements and collateral held by the pledging bank's trust department in the District's name

Cash and cash equivalents at June 30, 2014 consisted of the following:

	Bank Balance	Book Balance
General checking	\$ 241,898	\$ 191,512
School activity	5,586	5,586
	<u>\$ 247,484</u>	<u>\$ 197,098</u>

Breakdown per financial statements:

Governmental funds	\$ 206,033
Proprietary funds	-14,521
Agency funds	5,586
	<u>\$ 197,098</u>

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2014, all of the District's deposits are insured by the FDIC.

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NOTE 4 – CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>Balance 7/1/13</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/14</u>
Governmental Activities				
Land	\$ 46,545	\$ 0	\$ 0	\$ 46,545
Buildings and improvements	2,361,437	6,532	0	2,367,969
Technology equipmenmt	250,716	978	0	251,694
General equipment	44,241	0	0	44,241
Construction in progress	-	0	0	0
Total cost	<u>2,702,939</u>	<u>7,510</u>	<u>0</u>	<u>2,710,449</u>
Less Accumulated Depreciation				
Buildings and improvements	508,839	47,522	0	556,361
Technology equipmenmt	183,719	25,431	0	209,150
General equipment	3,243	2,250	0	5,493
Total accumulated depreciation	<u>695,801</u>	<u>75,203</u>	<u>0</u>	<u>771,004</u>
Governmental activities capital assets, net	<u>\$ 2,007,138</u>	<u>\$ (67,693)</u>	<u>\$ 0</u>	<u>\$ 1,939,445</u>
Business-type Activities				
Technology equipment	\$ 1,545	\$ 0	\$ 0	\$ 1,545
Food service equipment	60,406	3,394	0	63,800
Total cost	<u>61,951</u>	<u>3,394</u>	<u>0</u>	<u>65,345</u>
Less Accumulated Depreciation				
Technology equipment	995	220	0	1,215
Food service equipment	22,115	3,961	0	26,076
Total accumulated depreciation	<u>23,110</u>	<u>4,181</u>	<u>0</u>	<u>27,291</u>
Business-type capital assets, net	<u>\$ 38,841</u>	<u>\$ (787)</u>	<u>\$ 0</u>	<u>\$ 38,054</u>

Depreciation was charged to governmental activities functions as follows:

Instruction	\$ 58,208
Student support	1,895
Instructional staff	0
District administration	7,079
School administration	136
Plant operations	2,724
Community service	5,161
	<u>\$ 75,203</u>

NOTE 5 – BONDED DEBT AND LEASED OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligation to make lease payments relating to the bonds issued by the Southgate Independent School District Financial Corporation aggregating \$1,420,000.

The original amount of each issue, the issue date, and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2002	\$ 535,000	3.60%
2011	1,355,000	2.00% - 4.50%

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

The District entered into participation agreements with the Kentucky School Facilities Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

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SOUTHGATE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District and the Commission at June 30, 2014 for debt service (principal and interest) are as follows:

Fiscal Years Ending June 30	District		Commission		Total
	Principal	Interest	Principal	Interest	
2015	\$ 55,674	\$ 33,385	\$ 19,326	\$ 15,930	\$ 124,315
2016	50,191	32,379	19,809	15,446	117,825
2017	49,696	31,124	20,304	14,951	116,075
2018	49,188	29,881	20,812	14,444	114,325
2019	48,668	28,652	21,332	13,923	112,575
2020	48,135	27,435	21,865	13,390	110,825
2021	47,588	26,232	22,412	12,843	109,075
2022	46,691	24,328	23,309	11,947	106,275
2023	50,759	22,460	24,241	11,015	108,475
2024	54,789	20,430	25,211	10,045	110,475
2025	58,781	18,239	26,219	9,037	112,276
2026	57,732	15,887	27,268	7,988	108,875
2027	56,573	13,432	28,427	6,829	105,261
2028	60,365	11,029	29,635	5,621	106,650
2029	59,106	8,464	30,896	4,361	102,827
2030	62,715	5,804	32,285	2,971	103,775
2031	66,263	2,982	33,735	1,518	104,498
	<u>\$ 922,914</u>	<u>\$ 352,143</u>	<u>\$ 427,086</u>	<u>\$ 172,259</u>	<u>\$ 1,874,402</u>

The schedule of changes in the District's bond obligations for the year ended June 30, 2014 is as follows:

	Outstanding July 1, 2013	Additions	Repayments	Outstanding June 30, 2014	Amounts Expected to be Paid Within One Year
Bonds payable	\$ 1,420,000	\$ -	\$ 70,000	\$ 1,350,000	\$ 75,000

NOTE 6 – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District has no operating lease for equipment as of June 30, 2014

NOTE 7 – RETIREMENT PLANS

The 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 KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.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 in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), as cost sharing, multiple-employer defined benefit pension plan (the "Plan"). Funding for the Plan is provided through payroll withholdings of 5% and required District matching contributions of 19.55%.

The District's total payroll for the year was \$1,295,403. The District's contribution to KTRS for the benefit of participating employees was \$27,659. The District's contribution to CERS for the benefit of participating employees was \$35,568.

NOTE 8 – CONTINGENCIES

A. Grants

The District receives funding from federal and state agencies in the form of grants. 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 unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

B. Litigation

The District is subject to various legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of cases presently in progress.

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District has obtained insurance coverage through a commercial insurance company. In addition, the District has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

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

the District continues to carry commercial insurance for all other risks of loss.

Management estimates that the amount of actual or potential claims against the District as of June 30, 2014 will not materially affect the financial condition of the District. Therefore, the General Fund contains no provision for estimated claims. Settled claims resulting from these risks have not exceeded insurance coverage amounts in any of the past three fiscal years.

NOTE 10 – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss. District management believes it is in compliance with the COBRA requirements.

NOTE 11 – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	\$ 1,698
Operating	FSPK	Debt Service	Debt Service	86,449
				<u>\$ 88,147</u>

NOTE 12 – ON-BEHALF PAYMENTS

For the year ended June 30, 2014, payments of \$422,879 were made by the Commonwealth of Kentucky on behalf of the District for insurance benefits, retirement benefits, technology, and debt service. The following amounts were recorded in the Statement of Activities and the Statement of Revenue, Expenditures, and Changes in Fund Balance:

Insurance	\$ 217,920
Retirement	136,853
Technology	32,850
Debt service	<u>35,256</u>
Total	<u>\$ 422,879</u>

NOTE 13 – SUBSEQUENT EVENTS

The District evaluated subsequent events through October 29, 2014, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure within the financial statements.

Southgate Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	SEEK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ 35,738	\$ 18,230	\$ 0	\$ 53,968
Receivables:				
Taxes	0	0	0	0
Accounts	0	0	0	0
Intergovernmental - federal	0	0	0	0
Total assets	<u>\$ 35,738</u>	<u>\$ 18,230</u>	<u>\$ 0</u>	<u>\$ 53,968</u>
Liabilities:				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
Cash deficit balance	0	0	0	0
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Deferred inflows of resources:				
Unavailable taxes	0	0	0	0
Unearned revenue	0	0	0	0
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances:				
Nonspendable	0	0	0	0
Restricted	35,738	18,230	0	53,968
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	0	0	0	-
Total fund balances	<u>35,738</u>	<u>18,230</u>	<u>0</u>	<u>53,968</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 35,738</u>	<u>\$ 18,230</u>	<u>\$ 0</u>	<u>\$ 53,968</u>

The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	SEEK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ 0	\$ 0	\$ 0	\$ 0
Motor vehicle	0	0	0	0
Utilities	0	0	0	0
Earnings on investments	52	33	0	85
Other local revenue	0	0	0	0
Intergovernmental - State	16,981	0	0	16,981
Intergovernmental - State on behalf	0	0	35,256	35,256
Intergovernmental - Indirect federal	0	0	0	0
Total revenues	17,033	33	35,256	52,322
Expenditures:				
Instruction	0	0	0	0
Support services:				
Student	0	0	0	0
Instruction staff	0	0	0	0
District administrative	0	0	0	0
School administrative	0	0	0	0
Plant operation and maintenance	14,595	0	0	14,595
Facilities acquisition and construction	0	0	0	0
Debt service	0	0	121,705	121,705
Total expenditures	14,595	0	121,705	136,300
Excess of revenues over (under) expenditures	2,438	33	(86,449)	(83,978)
Other financing sources (uses):				
Transfers in	0	0	86,449	86,449
Transfers out	0	0	0	0
Total other financing sources (uses)	0	0	86,449	86,449
Net change in fund balances	2,438	33	0	2,471
Fund balances - beginning of year	33,300	18,197	0	51,497
Fund balances - end of year	\$ 35,738	\$ 18,230	\$ 0	\$ 53,968

The accompanying notes are an integral part of these financial statements.

Southgate Independent School District
Statement of Receipts, Disbursements, and Cash Balances
Activity Funds
For the Year Ended June 30, 2014

<u>Fund Name</u>	<u>Cash Balance July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance June 30, 2014</u>
Middle School	\$ 85	\$ 0	\$ 0	\$ 85
Library	3,883	6,392	9,701	574
Office	1,478	21,631	21,547	1,562
Student council	277	0	150	127
Yearbook	(263)	515	252	0
Grades K-8	985	1,254	746	1,493
NKOA	-	4,587	4,581	6
8th grade trip	645	2,719	2,362	1,002
Band	632	185	143	674
Dreamfest	50	0	0	50
RTI	1	50	38	13
Total	<u>\$ 7,773</u>	<u>\$ 37,333</u>	<u>\$ 39,520</u>	<u>\$ 5,586</u>

The accompanying notes are an integral part of these financial statements.

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

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southgate Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Southgate Independent School District's basic financial statements and have issued our report thereon dated October 29, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated October 29, 2014.

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

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky
October 29, 2014

DRAFT
Subject to Change

Southgate Independent School District
Schedule of Prior Year Audit Findings
June 30, 2014

There were no audit findings in the prior year.

DRAFT
Subject to Change

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

In planning and performing our audit of the financial statements of Southgate Independent School District (the "District") as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 29, 2014 on the financial statements of the District.

We will review the status of these comments during our next audit engagement.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky
October 29, 2014

CURRENT YEAR COMMENTS

2014-01 Segregation of Duties

Internal controls are designed to safeguard assets and prevent or detect losses from employee dishonesty or error. A fundamental concept in good system of internal control is the segregation of duties. Although the District does not have enough employees to follow this concept, we believe the District should have an awareness of the condition and that there should be a continuing effort to implement policies that improve existing internal control without impairing efficiency.

1. Closely review the District Treasurer's monthly report.
2. Closely review and approve all disbursements.
3. Closely monitor and investigate all significant variations between the approved budget and actual cash receipts and disbursements.

While these procedures will not entirely eliminate the potential risk of misstatement, their implementation will assist in reducing the risk to a tolerable level given the circumstances.

PRIOR YEAR COMMENTS

2013-02 School Activity Funds

Redbook guidelines for expenditures state that checks shall not be made payable to "Cash", to the "School", or to the "Bank". Our testing of school activity fund disbursements noted two instances of checks made payable to "Cash". The District should be aware of Redbook expenditure guidelines.

1. Review the Redbook 2013 Edition available from the Kentucky Department of Education.
2. Utilize the Redbook training videos available from the Kentucky Department of Education.

Based on our testing of school activity fund disbursements, it appears the District has corrected this finding.