

**MAGOFFIN COUNTY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2014**

**With**

**REPORT OF INDEPENDENT AUDITORS**

## TABLE OF CONTENTS

<b>Independent Auditor’s Report</b> .....	1
<b>Management’s Discussion and Analysis</b> .....	4
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position .....	9
Statement of Activities .....	10
<b>Fund Financial Statements</b>	
Balance Sheet – Governmental Funds.....	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities .....	14
Statement of Net Position – Proprietary Funds .....	15
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds .....	16
Statement of Cash Flows – Proprietary Funds .....	17
Statement of Fiduciary Net Position – Fiduciary Funds .....	18
<b>Notes to the Basic Financial Statements</b> .....	19

## Supplementary Information

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund .....	38
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund .....	39
Notes to Required Supplementary Information – Budget and Actual – General Fund .....	40
Combining Balance Sheet – Nonmajor Governmental Funds .....	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	42
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Elementary and Middle School Activity Funds .....	43
Statement of Revenues, Expenditures, and Changes in Fund Balances – Magoffin County High School Activity Fund .....	44
Schedule of Expenditures of Federal Awards.....	46
Notes to the Schedule of Expenditures of Federal Awards.....	47
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	48
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; And Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 .....	50
Schedule of Findings and Questioned Costs – Major Programs .....	53
Schedule of Prior Year Audit Findings .....	55
Independent Auditors’ Transmittal Letter for Management Letter Comments .....	57
Management Letter Comments .....	58

## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Magoffin County School District  
Salyersville, 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 Magoffin County School 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget 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 *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit 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 Magoffin County School 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 and budgetary comparison information per 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 Magoffin County School District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The management's discussion and analysis and budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 11, 2014, on our consideration of Magoffin 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Magoffin County School District's internal control over financial reporting and compliance.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 11, 2014

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
Year Ended June 30, 2014

---

The management of Magoffin County School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2014. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

- The beginning cash balance, including activity funds, for the District was \$11,478,122. The ending cash balance, including activity funds, for the District was \$15,753,968.
- Excluding interfund transfers, the General Fund had \$16,393,546 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding interfund transfers, there were \$16,615,054 in General Fund expenditures. This includes on-behalf payments.
- During the 2012-13 fiscal year, the District was notified the Kentucky School Board Insurance Trust (KSBIT) would be dissolving as the self-insurance provider for school districts in Kentucky. KSBIT has informed districts there is an unfunded liability that will be assessed. However, the exact amount of the assessment has not been determined.
- The Board approved the compensating tax rate of 46.10 cents per \$100 of value for Real Estate and 47.00 cents per \$100 of value for Tangible Property. The Board also approved a 5.9 cent recallable nickel. The Motor Vehicle tax rate was set at 57.60 cents per \$100 of value.
- The Board approved a \$19,243,715 working budget for the General Fund for the 2013-14 fiscal year. The budget included \$1,261,817 (7.8%) for contingencies.
- The Board approved an insurance settlement for damages sustained in the March 2, 2012 tornado. Insurance proceeds are being utilized, in conjunction with funding from bond sales and proceeds from a New Market Tax Credits transaction, to demolish the Herald Whitaker Middle School destroyed by the tornado and construct a new high school, gymnasium and wellness center, football field and field house, and softball and baseball fields.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information 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 primarily 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 asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on the table of contents of this report.

**Fund financial statement.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There 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, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements can be found on pages 9 to 18 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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 are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending.

Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### **Net Position for the period ending June 30, 2014**

Fiscal year 2014 government-wide net position compared to 2013 is as follows:

*See table on next page*

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED**  
Year Ended June 30, 2014

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 16,864,488	\$ 12,348,089
Capital assets	52,309,203	47,187,373
Total assets	<u>\$ 69,173,691</u>	<u>\$ 59,535,462</u>
Deferred outflow of resources	<u>\$ 104,451</u>	<u>\$ 481,692</u>
Current liabilities	\$ 3,689,683	\$ 1,519,097
Noncurrent liabilities	23,645,915	27,484,077
Total liabilities	<u>\$ 27,335,598</u>	<u>\$ 29,003,174</u>
Deferred inflow of resources	<u>\$ -</u>	<u>\$ 5,711,578</u>
Net investment in capital assets, net of debt	\$ 27,271,214	\$ 21,255,454
Restricted net position	12,638,598	2,491,444
Unrestricted net position	2,032,732	1,555,504
Total net position	<u>\$ 41,942,544</u>	<u>\$ 25,302,402</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$40,989,996; proprietary assets exceeded liabilities by \$952,548 and total assets exceeded liabilities by \$41,942,544 at June 30, 2014.

The District had an overall decrease in unrestricted net position of \$477,728, comprised of a decrease in governmental activities unrestricted net position of \$477,728.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2014 and 2013.

*See table on next page*

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED**  
Year Ended June 30, 2014

	<u>2014</u>	<u>2013</u>
<b>Revenues and other financing sources</b>		
Local revenue sources	\$ 2,777,476	\$ 2,734,075
State revenue sources	17,173,256	17,449,968
Federal revenue	3,421,426	3,419,129
<b>Total revenue</b>	<u>\$ 23,372,158</u>	<u>\$ 23,603,172</u>
<b>Expenditures and other financing uses</b>		
Instruction	\$ 12,124,667	\$ 12,283,534
Student support services	1,114,057	1,257,294
Instructional support	1,199,065	1,182,854
District administration	776,420	623,789
School administration	1,293,634	1,202,899
Business operations	436,831	383,066
Plant operation and maintenance	1,526,844	1,517,833
Student transportation	1,981,380	1,552,836
Community services	441,040	426,618
Debt service	2,510,665	2,513,719
Building acquisition and construction	7,114,507	5,854,050
<b>Total expenditures</b>	<u>\$ 30,519,110</u>	<u>\$ 28,798,492</u>
<b>Excess revenues (expenditures)</b>	<u>\$ (7,146,952)</u>	<u>\$ (5,195,320)</u>
<b>Other financing sources (uses)</b>		
Capital lease proceeds	\$ 337,452	\$ -
Proceeds from sale of assets	16,793,428	5,747,825
Transfers in	914,192	46,625
Transfers out	(914,192)	(46,625)
<b>Total other financing sources (uses)</b>	<u>\$ 17,130,880</u>	<u>\$ 5,747,825</u>
<b>Net change in fund balance</b>	<u>\$ 9,983,928</u>	<u>\$ 552,505</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

## **BUDGETARY IMPLICATION**

In Kentucky the public school fiscal year is July 1 through June 30; other programs, such as, 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. The District adopted a working budget with \$1,261,817 in contingency.

### **Comments on Budget Comparisons**

- The District's total general fund revenues for the fiscal year ended June 30, 2014 were \$16,393,546 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$153,914 more than budget or 9.48% more than budget.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2014 was \$16,615,054.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$1,336,513 less than budget or 7.45% less than budget.

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

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent at 606-349-6117 or by mail at P.O. Box 109 Salyersville, KY 41465.

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
June 30, 2014

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,683,876	\$ 936,875	\$ 15,620,751
Accounts receivable:			
Taxes	207,221	-	207,221
Other	444,827	6,643	451,470
Intergovernmental - State	75,005	-	75,005
Intergovernmental - Federal	494,204	2,108	496,312
Inventory	-	13,729	13,729
Capital Assets, net			
Nondepreciable	17,952,132	-	17,952,132
Depreciable	34,356,428	643	34,357,071
<b>Total assets</b>	<u>68,213,693</u>	<u>959,998</u>	<u>69,173,691</u>
<b>Deferred outflows of resources</b>			
Deferred outflows created by refunding bonds	<u>104,451</u>	<u>-</u>	<u>104,451</u>
<b>LIABILITIES</b>			
Accounts payable	942,993	7,450	950,443
Accrued expenses	6,989	-	6,989
Unearned revenue	159,868	-	159,868
Current portion of capital lease obligations	36,525	-	36,525
Current maturities of bond obligations	1,460,000	-	1,460,000
Interest payable	326,676	-	326,676
KSBIT assessment payable	749,182	-	749,182
Noncurrent portion of capital lease obligations	300,927	-	300,927
Noncurrent maturities of bond obligations	23,130,000	-	23,130,000
Noncurrent portion of accumulated sick leave	214,988	-	214,988
<b>Total liabilities</b>	<u>27,328,148</u>	<u>7,450</u>	<u>27,335,598</u>
<b>NET POSITION</b>			
Net investment in capital assets	27,270,571	643	27,271,214
Restricted for:			
Capital expenditures	11,390,697	-	11,390,697
Debt service and other	295,996	951,905	1,247,901
Unrestricted	2,032,732	-	2,032,732
<b>Total net position</b>	<u>\$ 40,989,996</u>	<u>\$ 952,548</u>	<u>\$ 41,942,544</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>							
<b>Governmental activities</b>							
Instruction	\$ 13,128,910	\$ -	\$ 5,509,075	\$ -	\$ (7,619,835)	\$ -	\$ (7,619,835)
Student	1,156,312	56,578	239,491	-	(860,243)	-	(860,243)
Instructional support	1,307,629	-	601,681	-	(705,948)	-	(705,948)
District administration	908,743	-	48,989	-	(859,754)	-	(859,754)
School administration	1,305,758	-	302,930	-	(1,002,828)	-	(1,002,828)
Business operations	439,097	-	142,157	-	(296,940)	-	(296,940)
Plant operations and maintenance	1,564,628	-	132,336	-	(1,432,292)	-	(1,432,292)
Student transportation	1,967,324	-	71,198	-	(1,896,126)	-	(1,896,126)
Other instructional	7	-	-	-	(7)	-	(7)
Community services	441,040	-	401,077	-	(39,963)	-	(39,963)
Interest on long-term debt	1,034,620	-	-	1,545,812	511,192	-	511,192
<b>Total governmental activities</b>	<b>23,254,068</b>	<b>56,578</b>	<b>7,448,934</b>	<b>1,545,812</b>	<b>(14,202,744)</b>	<b>-</b>	<b>(14,202,744)</b>
<b>Business-type activities</b>							
Food service	1,608,459	128,650	1,773,359	-	-	293,550	293,550
Community service operations	34	280	-	-	-	246	246
<b>Total business-type activities</b>	<b>1,608,493</b>	<b>128,930</b>	<b>1,773,359</b>	<b>-</b>	<b>-</b>	<b>293,796</b>	<b>293,796</b>
<b>Total primary government</b>	<b>\$ 24,862,561</b>	<b>\$ 185,508</b>	<b>\$ 9,222,293</b>	<b>\$ 1,545,812</b>	<b>(14,202,744)</b>	<b>293,796</b>	<b>(13,908,948)</b>
			<b>General revenues</b>				
			Taxes:				
			Property	1,344,516	-	1,344,516	
			Motor vehicle	404,436	-	404,436	
			Utility	619,036	-	619,036	
			Other local	159,905	-	159,905	
			Earnings on investments	38,447	1,691	40,138	
			State grants	11,631,665	-	11,631,665	
			Other local amounts	122,329	-	122,329	
			Transfers	-	-	-	
			disposal/conversion of assets	16,793,428	-	16,793,428	
			<b>Total general revenues</b>	<b>31,113,762</b>	<b>1,691</b>	<b>31,115,453</b>	
			<b>Change in net position</b>	<b>16,911,018</b>	<b>295,487</b>	<b>17,206,505</b>	
			Restated net position July 1, 2013	24,288,990	657,061	24,946,051	
			Prior period adjustments	(210,012)	-	(210,012)	
			<b>Net position as of June 30, 2014</b>	<b>\$ 40,989,996</b>	<b>\$ 952,548</b>	<b>\$ 41,942,544</b>	

The accompanying notes are an integral part of these financial statements

**MAGOFFIN COUNTY SCHOOL DISTRICT**

**BALANCE SHEET -**

**GOVERNMENTAL FUNDS**

June 30, 2014

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,932,185	\$ -	\$ 11,903,801	\$ 257,356	\$ 15,093,342
Accounts receivable:					
Taxes	207,221	-	-	-	207,221
Other	8,125	110,412	326,290	-	444,827
Intergovernmental - State	65,204	9,801	-	-	75,005
Intergovernmental - Federal	-	494,204	-	-	494,204
<b>Total assets</b>	<b><u>\$ 3,212,735</u></b>	<b><u>\$ 614,417</u></b>	<b><u>\$ 12,230,091</u></b>	<b><u>\$ 257,356</u></b>	<b><u>\$ 16,314,599</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Checks written in excess of account balance	\$ -	\$ 409,466	\$ -	\$ -	\$ 409,466
Accounts payable	58,726	45,083	839,184	-	942,993
Accrued salaries and wage payable	6,989	-	-	-	6,989
Unearned revenue	-	159,868	-	-	159,868
<b>Total liabilities</b>	<b><u>65,715</u></b>	<b><u>614,417</u></b>	<b><u>839,184</u></b>	<b><u>-</u></b>	<b><u>1,519,316</u></b>
<b>Fund balances</b>					
Restricted	38,640	-	11,390,907	257,356	11,686,903
Unassigned	3,108,380	-	-	-	3,108,380
<b>Total fund balances</b>	<b><u>3,147,020</u></b>	<b><u>-</u></b>	<b><u>11,390,907</u></b>	<b><u>257,356</u></b>	<b><u>14,795,283</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 3,212,735</u></b>	<b><u>\$ 614,417</u></b>	<b><u>\$ 12,230,091</u></b>	<b><u>\$ 257,356</u></b>	<b><u>\$ 16,314,599</u></b>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF NET POSITION**  
Year ended June 30, 2014

---

Total fund balances - governmental funds	\$ 14,795,283
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	52,308,560
Deferred outflows are not considered current use of economic resources and are not reported in the governmental funds bur are presented in the statement of net position	104,451
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(24,590,000)
KSBIT assessment payables not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(749,182)
Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(337,452)
Accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(214,988)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(326,676)</u>
Total net position - governmental activities	<u>\$ 40,989,996</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**Year ended June 30, 2014**

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
From local sources:					
Taxes:					
Property	\$ 918,146	\$ -	\$ -	\$ 426,370	\$ 1,344,516
Motor vehicle	404,436	-	-	-	404,436
Utility	619,036	-	-	-	619,036
Other	159,905	-	-	-	159,905
Earnings on investments	25,081	-	13,366	-	38,447
Other local	122,829	88,307	-	-	211,136
Intergovernmental - State	13,987,439	976,486	-	2,209,331	17,173,256
Intergovernmental - Federal	156,674	3,264,752	-	-	3,421,426
<b>Total revenues</b>	<b>16,393,546</b>	<b>4,329,545</b>	<b>13,366</b>	<b>2,635,701</b>	<b>23,372,158</b>
<b>Expenditures</b>					
Current:					
Instruction	8,772,840	3,351,827	-	-	12,124,667
Student	1,045,086	68,971	-	-	1,114,057
Instructional support	751,907	447,158	-	-	1,199,065
District administration	776,420	-	-	-	776,420
School administration	1,280,384	13,250	-	-	1,293,634
Business operations	353,709	83,122	-	-	436,831
Plant operations and maintenance	1,526,844	-	-	-	1,526,844
Student transportation	1,981,380	-	-	-	1,981,380
Community services	45,493	395,547	-	-	441,040
Building acquisition and construction	-	-	7,114,507	-	7,114,507
Debt service	80,991	-	-	2,429,674	2,510,665
<b>Total expenditures</b>	<b>16,615,054</b>	<b>4,359,875</b>	<b>7,114,507</b>	<b>2,429,674</b>	<b>30,519,110</b>
Excess (deficit) of revenues over (under) expenditures	(221,508)	(30,330)	(7,101,141)	206,027	(7,146,952)
Other financing sources (uses)					
Capital lease proceeds	337,452	-	-	-	337,452
Proceeds from sale of assets	56,437	-	16,736,991	-	16,793,428
Transfers in	-	30,330	-	883,862	914,192
Transfers out	(30,330)	-	-	(883,862)	(914,192)
<b>Total other financing sources (uses)</b>	<b>363,559</b>	<b>30,330</b>	<b>16,736,991</b>	<b>-</b>	<b>17,130,880</b>
Net change in fund balance	142,051	-	9,635,850	206,027	9,983,928
Fund balance as of June 30, 2013	3,004,969	-	1,755,057	54,819	4,814,845
Prior period adjustment	-	-	-	(3,490)	(3,490)
Fund balance as of June 30, 2014	\$ 3,147,020	\$ -	\$ 11,390,907	\$ 257,356	\$ 14,795,283

**MAGOFFIN COUNTY SCHOOL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended June 30, 2014**

---

Net change in total fund balances - governmental funds \$ 9,983,928

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

Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year. 5,787,752

Amortization of deferred outflows are not presented in the fund financial statements, but are presented in the statement of activities as a component of interest and a reduction of net position. (20,890)

The proceeds of debt issuance provide current financial resources and are reported in this fund financial statement; however, they are presented as an increase of liabilities in the statement of net position. (337,452)

Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position. 1,482,752

Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities 13,683

Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources. 1,245

Change in net position - governmental activities \$ 16,911,018

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION -  
PROPRIETARY FUNDS  
June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 931,944	\$ 4,931	\$ 936,875
Accounts receivable			
From federal sources	6,643	-	6,643
Other	2,108	-	2,108
Inventory	13,729	-	13,729
Total current assets	<u>954,424</u>	<u>4,931</u>	<u>959,355</u>
<b>Noncurrent assets</b>			
Capital assets	431,017	-	431,017
Less accumulated depreciation	<u>(430,374)</u>	<u>-</u>	<u>(430,374)</u>
Total noncurrent assets	<u>643</u>	<u>-</u>	<u>643</u>
<b>Total assets</b>	<u>955,067</u>	<u>4,931</u>	<u>959,998</u>
<b>LIABILITIES</b>			
Accounts payable	<u>7,450</u>	<u>-</u>	<u>7,450</u>
Total liabilities	<u>7,450</u>	<u>-</u>	<u>7,450</u>
<b>NET POSITION</b>			
Net investment in capital assets	643	-	643
Restricted for:			
Other	<u>946,974</u>	<u>4,931</u>	<u>951,905</u>
<b>Total net position</b>	<u>\$ 947,617</u>	<u>\$ 4,931</u>	<u>\$ 952,548</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUNDS**  
**Year ended June 30, 2014**

	Food Service Fund	Wellness Center	Total
<b>Operating revenues</b>			
Lunchroom sales	\$ 128,650	\$ -	\$ 128,650
Tuition and fees	-	280	280
<b>Total operating revenues</b>	<u>128,650</u>	<u>280</u>	<u>128,930</u>
<b>Operating expenses</b>			
Salaries and wages	443,481	-	443,481
Employee benefits	272,450	-	272,450
Materials and supplies	875,228	34	875,262
Student transportation	3,810	-	3,810
Depreciation	13,490	-	13,490
<b>Total operating expenses</b>	<u>1,608,459</u>	<u>34</u>	<u>1,608,493</u>
Operating loss	<u>(1,479,809)</u>	<u>246</u>	<u>(1,479,563)</u>
<b>Nonoperating revenues</b>			
Federal grants	1,531,418	-	1,531,418
State grants	159,731	-	159,731
Donated commodities	82,210	-	82,210
Interest income	1,691	-	1,691
<b>Total nonoperating revenues/(expenses)</b>	<u>1,775,050</u>	<u>-</u>	<u>1,775,050</u>
Income before contributions			
Transfers and special items	<u>295,241</u>	<u>246</u>	<u>295,487</u>
<b>Change in net position</b>	295,241	246	295,487
Net position as of June 30, 2013	<u>652,376</u>	<u>4,685</u>	<u>657,061</u>
<b>Net position as of June 30, 2014</b>	<u>\$ 947,617</u>	<u>\$ 4,931</u>	<u>\$ 952,548</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUNDS**  
Year ended June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
<b>Cash flows from operating activities</b>			
Cash received from:			
Lunchroom sales	\$ 126,452	\$ -	\$ 126,452
Other activities		280	280
Cash paid to/for:			
Employees	(715,931)	-	(715,931)
Supplies	(786,957)	(34)	(786,991)
Student transportation	(3,810)	-	(3,810)
Net cash used in operating activities	<u>(1,380,246)</u>	<u>246</u>	<u>(1,380,000)</u>
<b>Cash flows from non-capital financing activities</b>			
Grants received	<u>1,792,283</u>	-	<u>1,792,283</u>
Net cash used in non-capital financing activities	<u>1,792,283</u>	-	<u>1,792,283</u>
<b>Cash flows from investing activities</b>			
Interest received on investments	<u>1,691</u>	-	<u>1,691</u>
Net cash used in capital and related activities	<u>1,691</u>	-	<u>1,691</u>
Net increase in cash and cash equivalents	413,728	246	413,974
Cash and cash equivalents as of June 30, 2013	<u>518,216</u>	<u>4,685</u>	<u>522,901</u>
<b>Cash and cash equivalents as of June 30, 2014</b>	<u>\$ 931,944</u>	<u>\$ 4,931</u>	<u>\$ 936,875</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income/ (loss)	\$ (1,479,809)	\$ 246	\$ (1,479,563)
Adjustments to reconcile change in net position to net cash used in operating activities:			
(Increase) Decrease in Accounts receivable	(2,198)	-	(2,198)
Increase (Decrease) in Accounts payable	6,061	-	6,061
Depreciation	13,490	-	13,490
Commodities received	82,210	-	82,210
<b>Net cash used in operating activities</b>	<u>\$ (1,380,246)</u>	<u>\$ 246</u>	<u>\$ (1,380,000)</u>
<b>Schedule of non-cash transactions:</b>			
Depreciation	\$ 13,490	\$ -	\$ 13,490
Donated commodities	82,210	-	82,210
<b>Total non-cash transactions</b>	<u>\$ 95,700</u>	<u>\$ -</u>	<u>\$ 95,700</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION -**  
**FIDUCIARY FUNDS**  
 June 30, 2014

---

	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>		
Cash	\$ 133,217	\$ 133,217
Accounts receivable	<u>1,366</u>	<u>1,366</u>
<b>Total assets</b>	<u>134,583</u>	<u>134,583</u>
<b>LIABILITIES</b>		
Accounts payable	12	12
Due to student groups	<u>134,571</u>	<u>134,571</u>
<b>Total liabilities</b>	<u>134,583</u>	<u>134,583</u>
<b>Total net position</b>	<u>\$ -</u>	<u>\$ -</u>

## **1. REPORTING ENTITY**

The Magoffin 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 Magoffin County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Magoffin County Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

Magoffin County School District Finance Corporation - The Magoffin County Board of Education resolved to authorize the establishment of the Magoffin County School District Finance Corporation (a non-profit, non-stock, public and charitable 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 for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the basis of presentation:

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

**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, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

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

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

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

### **I. Government Fund Types**

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. 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.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

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

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodeling.

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.

The Permanent Fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

**II. Proprietary Fund Types (Enterprise Funds)**

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are 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 Wellness Center Fund is used to account for membership fees to the Wellness Center.

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

**III. Fiduciary Fund Type (Agency Funds)**

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

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

### 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. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they 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. The District reports unearned revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as unearned revenue. In subsequent periods, the liability for unearned revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

### Property Taxes

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

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

---

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

The property tax rates (including exonerations) assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.461 per \$100 valuation for real property, \$.470 per \$100 valuation for business personal property and \$.576 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Prepaid Assets

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

Capital Assets

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

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 \$5,000. 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 asset's life are not capitalized.

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

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

Interfund Receivables and Payables

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.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

### 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 vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

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

- Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, 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. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

### Cash and Cash Equivalents

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

### Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method; the general fund inventory is stated at cost and uses the first-in, first-out method.

### Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, 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 balances are separated into five categories, as required by GASB 54, as follows:

**Nonspendable** fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

**Restricted** fund balances arise when constraints placed on the use of resources 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** fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

**Assigned** fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

**Unassigned** fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

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

### Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are appropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2014, in the governmental funds balance sheet.

### Net Position

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

### Operating 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.

### Estimates

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

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

---

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

Deferred Inflows and Deferred Outflows of Resources

The Magoffin County Board of Education adopted GASB 63 in the prior year and GASB 65 in the current year, which combined requires the recording deferred inflows and deferred outflows of resources in the government wide statements. The deferred outflows of resources presented were primarily created by the prior refunding of revenue bonds.

**3. CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2014, none of the District's bank balance were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

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

	<u>Bank Balance</u>		<u>Book Balance</u>
Salyersville National Bank	\$16,633,443	\$	15,753,968
	<u>\$ 16,633,443</u>	<u>\$</u>	<u>15,753,968</u>

Breakdown per financial statements is as follows:

Governmental funds	\$	14,683,876
Proprietary funds		936,875
Agency funds		<u>133,217</u>
	<u>\$</u>	<u>15,753,968</u>

Cash is commingled in various bank accounts and short-term certificates of deposit. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash account within the following funds is considered to be restricted:

- Special Revenue Funds
- SEEK Capital Outlay Fund
- Facility Support Program (FSPK) Fund
- School Construction Fund
- School Food Service Fund
- Agency Funds

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

**4. INVESTMENTS**

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2014, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

**5. CAPITAL ASSETS**

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

	June 30, 2013			June 30, 2014
	Balance	Additions	Retirements	Balance
<b>Governmental Activities</b>				
Land & land improvements	\$ 6,586,265	\$ -	\$ -	\$ 6,586,265
Buildings	38,332,090	-	-	38,332,090
Technology equipment	4,586,462	300,424	-	4,886,886
Vehicles	3,043,601	337,452	-	3,381,053
General equipment	1,548,426	6,900	-	1,555,326
Construction work in progress	4,679,049	6,814,084	-	11,493,133
Total historical cost	58,775,893	7,458,860	-	66,234,753
Less accumulated depreciation	12,255,086	1,671,107	-	13,926,193
Governmental capital assets, net	<u>\$ 46,520,807</u>	<u>\$ 5,787,753</u>	<u>\$ -</u>	<u>\$ 52,308,560</u>
<b>Business-type Activities</b>				
Buildings	\$ -	\$ -	\$ -	\$ -
Technology equipment	41,000	-	-	41,000
General equipment	390,017	-	-	390,017
Total historical cost	431,017	-	-	431,017
Less accumulated depreciation	416,884	13,490	-	430,374
Business-type capital assets, net	<u>\$ 14,133</u>	<u>\$ (13,490)</u>	<u>\$ -</u>	<u>\$ 643</u>

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

*See table on next page*

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

---

**5. CAPITAL ASSETS-CONTINUED**

Instruction	\$ 1,005,488
Student	42,255
Instruction staff	108,564
District administrative	132,323
School administrative	12,124
Business	2,266
Plant operation and maintenance	44,684
Student transportation	323,396
Community services	<u>7</u>
	<u>\$ 1,671,107</u>

**6. CAPITAL LEASE PAYABLE**

The District has entered into a capital lease agreement for buses under which the buses will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2014:

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2013	Debt Issued	Debt Paid	Balance June 30, 2014	Due Within One Year
2012 KISTA First Series	March, 2014	1.0% - 3.5%	\$ 837,406	\$ 78,252	\$ -	\$ 78,252	\$ -	\$ -
2014 KISTA First Series	March, 2024	2.0% - 3.0%	<u>337,452</u>	<u>-</u>	<u>337,452</u>	<u>-</u>	<u>337,452</u>	<u>36,525</u>
			<u>\$ 1,174,858</u>	<u>\$ 78,252</u>	<u>\$ 337,452</u>	<u>\$ 78,252</u>	<u>\$ 337,452</u>	<u>\$ 36,525</u>

The following presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2014:

*See table on next page*

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

---

**6. CAPITAL LEASE PAYABLE-CONTINUED**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	36,525	7,409	43,934
2016	37,262	6,782	44,044
2017	31,974	6,037	38,011
2018	32,589	5,398	37,987
2019	33,204	4,752	37,956
2020-2024	165,898	12,817	178,715
Totals	<u>\$ 337,452</u>	<u>\$ 43,195</u>	<u>\$ 380,647</u>
		Less: amounts representing interest	<u>(43,195)</u>
		Net Capital lease liability	<u>\$ 337,452</u>

**7. LONG-TERM OBLIGATIONS**

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Magoffin County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rates of bonded debt and lease obligations are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2006	\$ 18,800,000	3.75% - 4.25%
2007R	5,565,000	3.75% - 3.875%
2009	7,540,000	2.00% - 4.25%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Magoffin 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.

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

**7. LONG-TERM OBLIGATIONS-CONTINUED**

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008, the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

The District issued one \$750,000 2.150% term refunding bond issue in the amount during the year to refund the 2005 series bond. The refunding is expected to save the District approximately \$98,000 over the term.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2014 for debt service (principal and interest) are as follows:

Year	Magoffin County School District		Kentucky School Facility Construction Commission		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2014-15	\$ 488,603	\$ 398,835	\$ 971,397	\$ 574,802	\$ 1,460,000	\$ 973,637
2015-16	503,592	380,836	1,006,408	539,136	1,510,000	919,972
2016-17	526,397	361,993	1,038,603	501,503	1,565,000	863,496
2017-18	546,782	341,835	1,068,218	461,931	1,615,000	803,766
2018-19	566,979	320,780	1,108,021	420,655	1,675,000	741,435
2019-20	586,778	299,058	1,153,222	377,814	1,740,000	676,872
2020-21	621,373	265,863	1,003,627	331,874	1,625,000	597,737
2021-22	644,876	239,861	1,040,124	290,943	1,685,000	530,804
2022-23	676,539	212,421	1,083,461	247,987	1,760,000	460,408
2023-24	701,265	183,316	1,128,735	202,721	1,830,000	386,037
2024-25	734,460	153,085	1,175,540	155,557	1,910,000	308,642
2025-26	766,033	121,285	1,228,967	105,531	1,995,000	226,816
2026-27	799,829	88,201	1,060,171	57,890	1,860,000	146,091
2027-28	816,061	70,429	338,939	29,294	1,155,000	99,723
2028-29	850,686	36,154	354,314	15,058	1,205,000	51,212
	<u>\$ 9,830,253</u>	<u>\$ 3,473,952</u>	<u>\$ 14,759,747</u>	<u>\$ 4,312,696</u>	<u>\$ 24,590,000</u>	<u>\$ 7,786,648</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2014 is as follows:

*See table on next page*

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

---

**7. LONG-TERM OBLIGATIONS-CONTINUED**

School Building Revenue Bonds	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
2006	15,430,000	-	640,000	14,790,000
2007R	4,015,000		515,000	3,500,000
2009	6,550,000	-	250,000	6,300,000
	<u>\$ 25,995,000</u>	<u>\$ -</u>	<u>\$ 1,405,000</u>	<u>\$ 24,590,000</u>

**8. OTHER LONG TERM DEBT – KSBIT**

The District was assessed a total of \$749,182 payable due to the Kentucky School Board Insurance Trust shortfall in the prior year. The District has several options of repayment but has chosen the option that will allow them to pay the overall assessment of both Worker's Compensation and Property and Liability over the next fifteen years. There were no reductions in the assessment during the year ended June 30, 2014.

**9. RETIREMENT PLANS**

Kentucky Teachers' Retirement System

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. Certified employees are covered under KTRS. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four 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 defined benefit plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS website at <http://www.ktrs.ky.gov/>.

*Funding policy* – Contribution rates are established by KTRS. Members contribute 11.355% of their salaries to KTRS. Employer contributions for federally funded employees were 14.105% and employer contributions for non-federally funded employees was 1.0%. The Commonwealth of Kentucky, on behalf of the District's certified employees, is required to contribute a portion of the state retirement (see *On-behalf Payments* for Fringe Benefits). The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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 or eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

## **9. RETIREMENT PLANS-CONTINUED**

*Funding policy* – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of member's gross salaries. Those who became members before July 1, 2008 contribute 1.25 of their salary to the plan. Member contributions are 2.25% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.50% of members' salary for the 2013-2014 fiscal year.

### County Employees Retirement System

Substantially all other employees (full time classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple employers, and public employer's retirement system. The plan provides for retirement, disability, and death benefits. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The CERS issues a publicly available financial report which may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

*Funding Policy* - Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5% and a District contribution of 18.63% of the employee's total compensation subject to contribution.

The combined total of both the District's and employees' contributions (both withholding and match) KTRS for the years ended June 30, 2014, 2013, and 2012, was \$1,566,842, \$1,442,202, and \$1,466,182, respectively. The combined total of both the District's and employees' contributions (both withholding and match) CERS for the years ended June 30, 2014, 2013, and 2012 was \$743,851, \$713,246, and \$836,726, respectively. The District met their contribution requirements.

## **10. LEASES**

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2014, aggregate cost for equipment and copier rentals was \$40,124.

## **11. CONTINGENCIES**

*Grants* - The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2014 may be impaired. 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.

*Kentucky School Boards Insurance Trust (KSBIT)*-The Kentucky School Boards Insurance Trust was created in 1978 to provide insurance through nonprofit self-insured pools authorized under Kentucky law. These pools allow school districts, colleges and universities to combine their resources while sharing risks. Due to various economic factors, the Pools have incurred significant deficits. KSBIT has taken a number of steps to address the Pools' deficits: however, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the Pools due to competitive pressures.

**11. CONTINGENCIES-CONTINUED**

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to confirm the Pools' deficits. As a result of these reviews and after consultation with the Kentucky Department of Insurance, KSBIT provided an assessment that the District must pay. The amounts for property/liability insurance and workers compensation insurance have been recorded in the financial statements as liabilities.

**12. LITIGATION**

The District is subject to legal actions in various states 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 financial statements as a result of the cases presently in progress.

**13. IMPLEMENTATION OF GASB STATEMENT NO. 63 AND GASB STATEMENT NO. 65**

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013 and GASB Statement No 65 for the year ended June 30, 2014. These standards established guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. The District presented \$104,451 as deferred outflow of resources composed of amounts from refunding bond issues.

**14. RISK MANAGEMENT**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

**15. DEFICIT FUND BALANCES**

The District did not have any funds with deficit balances at June 30, 2014. However, there may be funds with deficit operating balances.

**16. 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. There were no instances of noncompliance noted.

**17. TRANSFER OF FUNDS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 30,330
Operating	Building	Debt Service	Debt Service	883,862

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

---

**18. INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2014, there were no interfund balances outstanding that are reflected in the financial statements.

**19. ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of activities:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$	740,504
Health and Life insurance		2,424,616
Other		-
Technology		62,471
Debt Service		<u>1,545,812</u>
	\$	<u>4,773,403</u>

**20. FUND BALANCE DESIGNATIONS**

The following funds had restricted fund balances as follows:

Fund	Amount	Purpose
General	\$ 38,640	Sick leave
SEEK Capital Outlay	19,334	SFCC Escrow
SEEK Capital Outlay	189,558	Future Construction
Building	31,995	SFCC Escrow
Building	16,469	Future Construction
Construction	11,390,907	Future Construction

**21. RESTATEMENT OF NET POSITION**

Governmental Accounting Standards Board statements 63 and 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was decreased by \$481,692 to eliminate bond issuance costs which had been capitalized and amortized on previous statements. Additionally, beginning net position of the governmental activities increased by \$125,341 to capitalize unearned savings from refunding bonds issued prior to the 2013-14 fiscal year.

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year Ended June 30, 2014

---

**22. PRIOR PERIOD ADJUSTMENT**

The District had a prior period adjustment to net position due to a correction of the estimation of liability from the KSBIT claims payable and an over reporting of fixed assets as of June 30, 2013.

Restated net position, June 30, 2013	\$ 24,288,990
Prior period adjustment to correct KSBIT Payable Estimation	438,430
Prior period adjustment to correct fixed assets	<u>(648,442)</u>
Net position, June 30, 2013	<u>\$ 24,078,978</u>

**23. SUBSEQUENT EVENTS**

Management of the District has evaluated subsequent events through the date of the audit report. In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 68 Accounting and Financial Reporting for Pensions. Statement No. 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of the statement must be implemented by the District no later than the fiscal year beginning July 1, 2014.

No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources				
Taxes:				
Property	\$ 880,000	\$ 880,000	\$ 918,146	\$ 38,146
Motor vehicle	350,000	350,000	404,436	54,436
Utility	650,000	650,000	619,036	(30,964)
Other	125,000	125,000	159,905	34,905
Earnings on investments	2,500	2,500	25,081	22,581
Other local	7,500	7,500	122,829	115,329
Intergovernmental - State	14,184,632	14,184,632	13,987,439	(197,193)
Intergovernmental - Federal	40,000	40,000	156,674	116,674
Total revenues	<u>\$ 16,239,632</u>	<u>\$ 16,239,632</u>	<u>\$ 16,393,546</u>	<u>\$ 153,914</u>
<b>Expenditures</b>				
Current:				
Instruction	8,732,763	8,732,763	8,772,840	(40,077)
Student	1,278,703	1,278,703	1,045,086	233,617
Instructional staff	904,367	904,367	751,907	152,460
District administration	1,398,819	1,398,819	776,420	622,399
School administration	1,395,627	1,395,627	1,280,384	115,243
Business operations	327,239	327,239	353,709	(26,470)
Plant operations and maintenance	2,070,120	2,070,120	1,526,844	543,276
Student transportation	1,760,014	1,760,014	1,981,380	(221,366)
Community service	2,826	2,826	45,493	(42,667)
Debt service	81,089	81,089	80,991	98
Total expenditures	<u>17,951,567</u>	<u>17,951,567</u>	<u>16,615,054</u>	<u>1,336,513</u>
Excess (deficit) of revenues over (under) expenditures	(1,711,935)	(1,711,935)	(221,508)	1,490,427
<b>Other financing sources (uses)</b>				
Proceeds from sale of assets	-	-	13,449	13,449
Comp for loss of assets	37,754	37,754	42,988	5,234
Capital lease proceeds	-	-	337,452	337,452
Transfers in	-	-	-	-
Transfers out	(30,330)	(30,330)	(30,330)	-
Contingencies	(1,261,817)	(1,261,817)	-	1,261,817
Total other financing sources (uses)	<u>(1,254,393)</u>	<u>(1,254,393)</u>	<u>363,559</u>	<u>1,617,952</u>
Net change in fund balance	(2,966,328)	(2,966,328)	142,051	3,108,379
Fund balance as of June 30, 2013	<u>3,004,969</u>	<u>3,004,969</u>	<u>3,004,969</u>	-
Fund balance as of June 30, 2014	<u>\$ 38,641</u>	<u>\$ 38,641</u>	<u>\$ 3,147,020</u>	<u>\$ 3,108,379</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUND**  
Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources:				
Other local	\$ 668,794	\$ 668,794	\$ 88,307	\$ (580,487)
Intergovernmental - State	970,393	970,393	976,486	6,093
Intergovernmental - Federal	2,439,885	2,439,885	3,264,752	824,867
<b>Total revenues</b>	<u>4,079,072</u>	<u>4,079,072</u>	<u>4,329,545</u>	<u>250,473</u>
<b>Expenditures</b>				
Current:				
Instruction	3,090,162	3,090,162	3,351,827	(261,665)
Student	81,441	81,441	68,971	12,470
Instructional support	431,244	431,244	447,158	(15,914)
School administration	36,746	36,746	13,250	23,496
Business operations	60,966	60,966	83,122	(22,156)
Student transportation	12,653	12,653	-	12,653
Community service	396,190	396,190	395,547	643
<b>Total expenditures</b>	<u>4,109,402</u>	<u>4,109,402</u>	<u>4,359,875</u>	<u>(250,473)</u>
Deficit of revenues under expenditures	<u>(30,330)</u>	<u>(30,330)</u>	<u>(30,330)</u>	<u>-</u>
Other financing sources				
Operating transfers in	30,330	30,330	30,330	-
<b>Total other financing sources</b>	<u>30,330</u>	<u>30,330</u>	<u>30,330</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**Year ended June 30, 2014**

---

The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget.

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2014**

---

	<u>SEEK Capital Outlay Fund</u>	<u>Facility Support Program (FSPK) Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-major Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 208,892	\$ 48,464	\$ -	\$ 257,356
<b>Total assets</b>	<u>\$ 208,892</u>	<u>\$ 48,464</u>	<u>\$ -</u>	<u>\$ 257,356</u>
<b>FUND BALANCES</b>				
Fund Balances: Restricted	\$ 208,892	\$ 48,464	\$ -	\$ 257,356
<b>Total fund balances</b>	<u>\$ 208,892</u>	<u>\$ 48,464</u>	<u>\$ -</u>	<u>\$ 257,356</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS**  
Year ended June 30, 2014

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Total Non-major Governmental Funds
<b>Revenues</b>				
From local sources:				
Taxes:				
Property	\$ -	\$ 426,370	\$ -	\$ 426,370
Intergovernmental - State	<u>189,558</u>	<u>473,961</u>	<u>1,545,812</u>	<u>2,209,331</u>
Total revenues	<u>189,558</u>	<u>900,331</u>	<u>1,545,812</u>	<u>2,635,701</u>
<b>Expenditures</b>				
Debt service	<u>-</u>	<u>-</u>	<u>2,429,674</u>	<u>2,429,674</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>2,429,674</u>	<u>2,429,674</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	883,862	883,862
Transfers out	<u>-</u>	<u>(883,862)</u>	<u>-</u>	<u>(883,862)</u>
Total other financing sources (uses)	<u>-</u>	<u>(883,862)</u>	<u>883,862</u>	<u>-</u>
<b>Net change in fund balance</b>	189,558	16,469	-	206,027
Fund balance as of June 30, 2013	<u>19,334</u>	<u>31,995</u>	<u>3,490</u>	<u>54,819</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(3,490)</u>	<u>(3,490)</u>
<b>Fund balance as of June 30, 2014</b>	<u>\$ 208,892</u>	<u>\$ 48,464</u>	<u>\$ -</u>	<u>\$ 257,356</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS**  
**Year Ended June 30, 2014**

<u>School/ Activity Fund</u>	<u>Cash and Equivalents June 30, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Balances June 30, 2014</u>
Magoffin County Career & Technical Center	\$ 22,886	\$ 46,295	\$ 42,414	\$ 26,767	\$ -	\$ -	\$ 26,767
Herald Whitaker Middle School	13,743	49,880	49,858	13,765	-	-	13,765
North Magoffin Elementary	19,835	67,187	65,356	21,666	-	-	21,666
South Magoffin Elementary	28,900	53,286	61,745	20,441	1,366	12	21,795
Salyersville Grade School	<u>20,685</u>	<u>73,050</u>	<u>71,645</u>	<u>22,090</u>	<u>-</u>	<u>-</u>	<u>22,090</u>
Totals	<u>\$ 106,049</u>	<u>\$ 289,698</u>	<u>\$ 291,018</u>	<u>\$ 104,729</u>	<u>\$ 1,366</u>	<u>\$ 12</u>	<u>\$ 106,083</u>

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**MAGOFFIN COUNTY HIGH SCHOOL ACTIVITY FUND**  
**Year ended June 30, 2014**

	Balances		Transfers		Cash and Cash	Accounts	Accounts	Balances
	June 30, 2013	Receipts	Disbursements	in (out)	Equivalents	Receivable	Payable	June 30, 2014
					June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
General Fund	\$ 146	\$ 2,143	\$ 2,229	\$ -	\$ 60	\$ -	\$ -	\$ 60
Student Vending	1,824	9,087	8,293	(65)	2,553	-	-	2,553
Faculty Beverage	1,114	9,162	9,546	-	730	-	-	730
JKG Club	-	-	-	-	-	-	-	-
Key Club	254	9,653	8,938	-	969	-	-	969
Band	2	8,117	7,998	-	121	-	-	121
Peer Tutoring	-	2,027	2,089	65	3	-	-	3
Athletic Fund	1,332	52,510	48,590	(275)	4,977	-	-	4,977
Baseball	241	-	25	-	216	-	-	216
Boys Basketball	-	4,179	3,372	1,352	2,159	-	-	2,159
Girls Basketball	7	1,185	1,046	-	146	-	-	146
Cheerleading	5,824	25,769	29,745	-	1,848	-	-	1,848
Dance	46	16,719	15,598	1,352	2,519	-	-	2,519
Tennis	30	-	-	-	30	-	-	30
Track/Cross Country	5	5,733	6,000	275	13	-	-	13
Softball	570	9,525	10,095	-	-	-	-	-
57th District Tournament	-	3,895	3,895	-	-	-	-	-
Senior Fund	1,277	107,685	102,297	(2,500)	4,165	-	-	4,165
Project graduation	10	15,774	18,179	2,500	105	-	-	105
Junior Fund	371	12,321	12,567	-	125	-	-	125
Yearbook	8,156	7,613	8,286	-	7,483	-	-	7,483
Library	5,002	-	4,999	-	3	-	-	3
Athletic Scholarship	225	-	-	-	225	-	-	225
FUTP Grant	1,000	-	962	-	38	-	-	38
Dance/Bball Horses	-	3,072	368	(2,704)	-	-	-	-
<b>Total accounts</b>	<b>\$ 27,436</b>	<b>\$ 306,169</b>	<b>\$ 305,117</b>	<b>\$ -</b>	<b>\$ 28,488</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,488</b>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

MAGOFFIN COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2014

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Passed Through State Department of Education:			
<b>School Breakfast Program</b>	10.553		
Fiscal Year 14		7760005 14	\$ 372,857
Fiscal Year 13		7760005 13	111,707
<b>National School Lunch Program</b>	10.555		
Fiscal Year 14		7750002 14	716,317
Fiscal Year 14		510.4950	82,210
Fiscal Year 13		7750002 13	218,625
<i>Child Nutrition Cluster Total</i>			<u>1,501,716</u>
<b>Child and Adult Care Food Program</b>	10.558		
Fiscal Year 14		7720013 14	111,911
Total US Department of Agriculture			<u>1,613,627</u>
US Department of Education			
Passed Through State Department of Education			
<b>Title I Grants to Local Education Agencies</b>	84.010		
Fiscal Year 14		3100002 14	1,200,075
Fiscal Year 13		3100002 13	419,477
<i>Title I Cluster Total</i>			<u>1,619,552</u>
<b>Special Education Grants to States</b>	84.027		
Fiscal Year 14		3810002 14	472,425
Fiscal Year 13		3810002 13	36,541
<b>Special Education -Preschool Grants</b>	84.173		
Fiscal Year 14		3800002 14	21,365
Fiscal Year 13		3800002 13	6,828
<i>Special Education Cluster Total</i>			<u>537,159</u>
<b>Career and Technical Education - Basic Grants to States</b>	84.048		
Fiscal Year 14		4620932 14	35,108
Fiscal Year 13		4620932 13	1,831
			<u>36,939</u>
<b>Rural Education</b>	84.358		
Fiscal Year 14		3140002 14	32,316
<b>Improving Teacher Quality State Grants</b>	84.367		
Fiscal Year 14		3230002 14	243,565
Fiscal Year 13		3230002 13	27,751
			<u>271,316</u>
<b>Race to the Top</b>	84.413		
Fiscal Year 11		4521	24,454
Passed Through Berea College			
<b>Gaining Early Awareness and Readiness for Undergraduate Programs</b>	84.334		
Fiscal Year 14		3794	24,044
Fiscal Year 13		3793	55,737
			<u>79,781</u>
Passed Through Council on Postsecondary Education			
<b>Adult Education</b>	84.002		
Fiscal Year 14		3654	5,610
Fiscal Year 14		3734	45,070
Fiscal Year 14		3734S	740
			<u>51,420</u>
Passed Through Morehead State University			
<b>Appalachian Research, Technical Assistance, and Demonstration Projects</b>	23.011		
Fiscal Year 11		6881	69
Total US Department of Education			<u>2,653,006</u>
U.S. Department of Labor			
Passed Through The State Department of Education			
<b>WIA Adult Program - ARRA</b>	17.258		
Fiscal Year 10		6080	69
Total US Department of Labor			<u>69</u>
U.S. Health and Human Services			
Passed Through Big Sandy Area Community Action Program, Inc.			
<b>Head Start</b>	93.600		
Fiscal Year 13		6553	180,755
Fiscal Year 14		6554	531,020
Total US Health and Human Services			<u>711,776</u>
<b>Total Expenditure of Federal Awards</b>			<u>\$ 4,978,477</u>

See notes to federal awards.

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2014

---

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Magoffin 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.

**2. IN-KIND COMMODITIES**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2014 is \$82,210.

**3. CLUSTER PROGRAMS**

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559
WIA Cluster	
WIA Adult Program	17.258
WIA Youth Program	17.259
WIA Dislocated Worker Formula Grants	17.260

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

Independent Auditor's Report

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Magoffin County School District  
Salyersville, Kentucky

We have audited, in accordance with the 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 the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Magoffin County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Magoffin County School District's basic financial statements, and have issued our report thereon dated November 11, 2014.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness as item 14-01.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency as item 14-01.

### **Compliance and Other Matters**

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

We noted other matters involving the internal control over financial reporting that we have reported to the management of Magoffin County School District in a separate letter dated November 11, 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.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 11, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Magoffin County School District  
Salyersville, Kentucky

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

We have audited Magoffin County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Magoffin County School District's major federal programs for the year ended June 30, 2014. The Magoffin 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 Magoffin 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; 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 *Appendix I to the Independent Auditor's Contract-General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract-State Audit 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 Magoffin 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 Magoffin County School District's compliance.

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

In our opinion, Magoffin 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, 2014.

### **Report on Internal Control over Compliance**

Management of Magoffin 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 Magoffin 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 Magoffin 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.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Magoffin County School District, as of and for the year ended June 30, 2014, and have issued our report thereon dated November 11, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 11, 2014

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2014

---

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditors' report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statement notes	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No

**Federal Awards**

Internal control over major programs:			
Material weaknesses identified	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> None reported
Type of auditors' report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
---	--------------------

Special Education Cluster	
Special Education-Grants to States	84.027
Special Education-Preschool Grants	84.173
Headstart	93.600
Title I Grants to Local Educational Agencies	84.010

Dollar threshold used to distinguish between Type A and Type B program	\$300,000
--	-----------

Auditee qualified as low risk	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No
-------------------------------	--------------------------	-----	-------------------------------------	----

(continued)

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
Year Ended June 30, 2014

---

**Section II – Financial Statement Findings**

**14-01**

Condition: The District had material misstatements identified in the financial statements for the period under audit that was not initially identified by the District's internal control.

Criteria: The District had material errors in the financial statements.

Effects: The District's net position was overstated.

Cause: The District had overstated fixed assets in the prior year.

Recommendations: The District needs to track and manage all additions/retirements to the fixed asset module timely.

Corrective Action Plan: The District finance staff will manage fixed assets within the Munis module to ensure accuracy. Finance department staff will review balance sheet line items for accuracy.

**Section III – Federal Award Findings**

None

**MAGOFFIN COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended June 30, 2014

---

**Status of Prior Year Findings**

There were no prior year findings.

**MANAGEMENT LETTER COMMENTS**

Members of the Board of Education  
Magoffin County School District  
Salyersville, Kentucky

In planning and performing our audit of the basic financial statements of Magoffin County School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 11, 2014, on the basic financial statements of Magoffin County School District.

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

Respectfully,

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 11, 2014

# MAGOFFIN COUNTY SCHOOL DISTRICT

## MANAGEMENT LETTER COMMENTS JUNE 30, 2014

### Prior Year Comments – School Activity Funds

#### Central Office

1. Did not comply with KRS 45A.370, Model Procurement Act. There were two vendors who were paid over \$20,000 which had not been bid.

*This deficiency appears to have been corrected in the current audit year.*

2. Kentucky Administrative Regulations 702 KAR 3:080 requires the District to submit the fidelity bonds for the finance officer to the Commissioner of Education for approval. The District hired a new finance officer in July 2012, a bond was not obtained. I recommend the District obtain and submit the finance officer's bond and others holding similar positions who are responsible for district fund to the Commissioner of Education for approval. This is a repeat from last year.

*This deficiency appears to have been corrected in the current audit year.*

3. KRS 134.140(2) requires, "as part of the monthly distribution of taxes to a district board of education, ...the sheriff shall pay to the board of education that part of the investment earning for the month which are attributable to the investment of school taxes." The sheriff does not include interest earned in his payments to the board. I recommend the Superintendent discuss the requirement with the Sheriff. This is a repeat from last year.

*This deficiency appears to have been corrected in the current audit year.*

4. Purchasing policies and procedures require purchase orders to be completed and approved prior to the order being placed. Testing disclosed 20 out of 153 disbursements had Purchase order dates after the invoice date. Staff should be reminded to get purchase orders approved prior to placing the order. This is a repeat from last year.

*This deficiency appears to have not been corrected in the current audit year.*

5. I recommend the finance officer assume the following responsibilities: reconcile the bank statement monthly, file payroll tax reports, including CERS, KTRS, local returns, quarterly Form 941, quarterly unemployment returns. All reports should be signed and dated. The bank reconciliation should be signed and dated by the finance officer as preparer, and I recommend the Superintendent review the reconciliation, sign and date as the reviewer. This would enhance the District's segregation of duties. This is a repeat from last year.

*This deficiency appears to have been corrected in the current audit year.*

6. Classified salary schedule only applies to new hires. Staff that have been with the district for several years and have received raises in the past are not paid according to the salary schedule. Board policy 03.22 states, "the Board shall annually establish schedules for salaries and benefits for classified personnel." The District needs to develop a salary schedule for classified personnel that includes all classified personnel so that salaries are uniformly applied. This is a repeat from last year.

*This deficiency appears to have not been corrected in the current audit year.*

7. Fixed Assets continues to be an area that needs improvement. Additional work needs to be done to retire assets and asset tags need to be put on all assets when possible. I recommend someone be assigned the duty of maintaining fixed assets. An actual inventory needs to be taken and reconciled to MUNIS annually. This is a repeat from last year.

*This deficiency appears to have not been corrected in the current audit year.*

8. The treasurer filed 12 months of travel expense reimbursements at the end of the fiscal year. There were 2 days billed that were actually noncontract days not worked. The amount overcharged was \$2.40. I believe

this error would not have occurred if the travel requests were made monthly. Therefore, I recommend the treasurer file monthly travel reimbursement requests.

*This deficiency appears to have been corrected in the current audit year.*

9. The Food Service Director needs to check inventory from the schools on a monthly basis for accuracy. Testing disclosed some inventory sheets were not totaled correctly. Some sheets had -0- number of items, but then had a total cost amount, others had a number of items but no amount in the total cost column. It was also noted that not all of the schools are using the same cost for the same item. The Food Service Director should verify cost per item based on bid price. He should also mathematically verify the amounts on the inventory reports.

*This deficiency appears to have been corrected in the current audit year.*

10. The food service assistant did not sign or date one of her travel expense voucher. That same form was not signed or dated by her supervisor. Another employee travel expense voucher was not signed or dated by her supervisor. All travel expense vouchers should be signed and dated by the employee making the request and signed and dated by that employee's immediate supervisor.

*This deficiency appears to have been corrected in the current audit year.*

11. Leasing is not a school function. It is a board function. A principal should not sign a copier lease, the Superintendent or board chair should sign the lease after it has been approved by the board of education. The board approved the copier for the Salyersville Grade School, but the lease was signed by the principal. I recommend the Superintendent or board chair sign all leases after the approval by the board of education.

*This deficiency appears to have been corrected in the current audit year.*

12. One board member did not return his signed statement that he had no knowledge of any conflict of interest or nepotism, as defined by KRS 160.180. Numerous attempts to contact the board member were made unsuccessfully. I recommend training be held for board members to discuss their responsibilities to cooperate with the auditor.

*This deficiency appears to have not been corrected in the current audit year.*

#### Magoffin County High School

13. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 21 out of 26 expenditures tested that were not signed by the principal. 20 of 26 did not have the sponsor signature. 22 of 26 did not have a purchase order. 4 out of 26 did not have check number on invoice. 3 out of 26 did not have date paid marked on invoice. Purchase order forms with the requirement minimum information should be used, signed by the sponsor and principal.

*This deficiency appears to have not been corrected in the current audit year.*

14. There was a blank purchase order form in the box of data that had the Principal's signature on the form. No form should ever be signed until it is properly completed.

*This deficiency appears to have been corrected in the current audit year.*

15. All money collected by a teacher/sponsor shall be given to the school treasurer on the day collected. All money collected should be deposited on a daily basis. During the month of November there were only six deposits made all month. Teachers did not turn money into the treasurer timely and the treasurer did not make daily deposits. Staff should be reminded to turn their money in daily and the treasurer should be reminded to make deposits daily.

*This deficiency appears to have been corrected in the current audit year.*

16. Teachers/sponsors are not signing and/or dating their multiple receipt form. The timeliness of turning money in cannot be determined when the forms are not dated. Teachers/sponsors should be reminded to sign and date all multiple receipt forms prior to turning them in.

*This deficiency appears to have been corrected in the current audit year.*

17. Ticket Sale Forms are not being signed properly. Of the 35 forms, 1 were not signed by the person in charge at the time of receiving the tickets and start up money, 4 were not signed by the ticket taker. The Treasurer should remind everyone involved to sign in the proper place and at the proper time.

*This deficiency appears to have been corrected in the current audit year.*

18. Testing disclosed eleven (11) checks with only one signature. All checks require two signatures according to board policy. I recommend that the treasurer review checks before they are distributed to assure that two signatures are on the check. This is a repeat finding from the past two years.

*This deficiency appears to have been corrected in the current audit year.*

19. Three (3) checks did not have the date on the check. All checks should be properly completed prior to being signed.

*This deficiency appears to have been corrected in the current audit year.*

#### Magoffin County Career & Technical Center

20. The school used a purchase order form that does not meet minimum standards set by the Accounting Procedures for Kentucky School Activity Funds, (Redbook). The Redbook states, "all transactions shall, at a minimum, be in accordance with the guidelines of this document... using the forms contained herein or equivalent. The equivalent must contain, at a minimum, the information listed on the forms, however, additional information may be added, if desired." The purchase order form used by the Career and Technical Center did not have: signatures lines for delivered by, requested by, approved by and did not have a place to put the activity fund charged. I recommend the school use the purchase order form in the Redbook or one that has all of the required items. This is a repeat finding from last year.

*This deficiency appears to have been corrected in the current audit year.*

21. The school does not use the EPES system. I recommend the school convert the accounting system to the EPES system.

*This deficiency appears to have been corrected in the current audit year.*

22. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." 4 of 17 tested had a purchase order date after the invoice date. Staff should be reminded that all purchase orders are to be approved prior to ordering. There was 1 of 17 that did not have any supporting documentation. A vendor invoice should be obtained prior to payment of any check. This is a repeat finding for not approving purchase orders prior to invoice dates.

*This deficiency appears to have not been corrected in the current audit year.*

23. The Career and Technical Center did not have a Principal for the fiscal year. Therefore, the bank statement was not initialed by anyone. The Center did have a contact teacher. I would recommend the contact teacher review and initial the bank statement prior to the bookkeeper receiving it.

*This deficiency appears to have been corrected in the current audit year.*

#### Herald Whitaker Middle School

24. The school used a purchase order form that does not meet minimum standards set by the Accounting Procedures for Kentucky School Activity Funds, (Redbook). The Redbook states, "all transactions shall, at a minimum, be in accordance with the guidelines of this document... using the forms contained herein or equivalent. The equivalent must contain, at a minimum, the information listed on

the forms, however, additional information may be added, if desired." The purchase order form used by the Middle School did not have: signatures lines for delivered by, requested by, approved by and did not have a place to put the activity fund charged. I recommend the school use the purchase order form in the Redbook or one that has all of the required items. This is a repeat finding from last year.

*This deficiency appears to have been corrected in the current audit year.*

25. Transfer forms should be completed and signed before they are executed. There was one transfer form that could not be found.

*This deficiency appears to have been corrected in the current audit year.*

26. Ticket Sale Forms are not being signed properly. Of the 18 forms, 3 were not signed by the person in charge at the time of receiving the tickets and start up money. 1 was not signed by the person in charge at the time of turning in the tickets and money. 13 were not signed by the ticket taker. The Treasurer should remind everyone involved to sign in the proper place and at the proper time. Money from the girls' basketball game on 10-10-12 was not turned in until 10-15-12. Money from athletic events should be turned in on the next school day. Forms not being signed properly is a repeat finding from last year.

*This deficiency appears to have been corrected in the current audit year.*

27. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 11 of 22 expenditures tested that were not signed by the sponsor.

*This deficiency appears to have not been corrected in the current audit year.*

28. Schools are exempt from the payment of sales tax. One employee was reimbursed for sales tax on a local expenditure, and one vendor was paid sales tax. All requests for payment of sales tax except for out of district meals and lodging should not be paid. A copy of the Tax Exemption Certificate should be sent to the vendor.

*This deficiency appears to have been corrected in the current audit year.*

29. Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice. There was one item tested that did not have the vendor invoice attached. No check should be written without all documentation being attached.

*This deficiency appears to have been corrected in the current audit year.*

30. The girls' softball team had a fundraiser selling Kettle Korn. Orders were taken, money was to be collected and turned in and then the order was place. There were only three (3) sheets turned in with orders taken. Not all of the money for the orders was deposited. It appears that proper controls for the fundraiser did not occur. Either, money was not collected at the time the orders were taken, or the money was not deposited. Better controls need to be in place for fundraisers. This fundraiser did not have a reasonable profit.

*This deficiency appears to have been corrected in the current audit year.*

North Magoffin Elementary School

31. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 12 out of 20 expenditures tested that did not have the sponsor approval. Staff should be reminded that the sponsor of the activity account being charged should approve the purchase order. This is a repeat finding from last year.

*This deficiency appears to have not been corrected in the current audit year.*

Salyersville Grade School

32. The school used a purchase order form that does not meet minimum standards set by the Accounting Procedures for Kentucky School Activity Funds, (Redbook). The Redbook states, "all transactions shall, at a minimum, be in accordance with the guidelines of this document...using the forms contained herein or equivalent. The equivalent must contain, at a minimum, the information listed on the forms, however, additional information may be added, if desired." The purchase order form used by the Salyersville Grade School did not have: signatures lines for delivered by, requested by, approved by and did not have a place to put the activity fund charged. I recommend the school use the purchase order form in the Redbook or one that has all of the required items. This is a repeat finding from last year.

*This deficiency appears to have been corrected in the current audit year.*

33. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 4 out of 19 expenditures that had purchase order dates after the invoice date. There were 4 out of 19 expenditures tested that did not have the sponsor approval. Staff should be reminded that the sponsor of the activity account being charged should approve the purchase order. In addition, all purchase orders should be approved before the order is placed. This is a repeat finding from last year.

*This deficiency appears to have been corrected in the current audit year.*

South Magoffin Elementary

34. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 8 out of 20 expenditures tested that did not have the sponsor approval. Staff should be reminded that the sponsor of the activity account being charged should approve the purchase order. In addition, all purchase orders should be approved before the order is placed.

*This deficiency appears to have been corrected in the current audit year.*

**Current Year Comments –School Activity Funds**

During testing of school activity funds, we noted the following general deficiencies in internal control. The individual schools where these issues were noted are listed:

Central Office

1. Purchasing policies and procedures require purchase orders to be completed and approved prior to the order being placed. Testing disclosed some disbursement had Purchase order dates after the invoice date.

*Management response: School district management will review audit findings with appropriate school and central office staff. Additional training will be held with appropriate staff regarding purchasing policies and procedures.*

2. Classified salary schedule only applies to new hires. Staff that have been with the district for several years and have received raises in the past are not paid according to the salary schedule. Board policy 03.22 states, "the Board shall annually establish schedules for salaries and benefits for classified personnel." The District needs to develop a salary schedule for classified personnel that includes all classified personnel so that salaries are uniformly applied.

*Management response: The District has developed a salary schedule for classified personnel. The Board approved the salary schedule in June 2014 with a July 1, 2014, effective date.*

3. Fixed Assets continues to be an area that needs improvement. Additional work needs to be done to retire assets and asset tags need to be put on all assets when possible. An actual inventory needs to be taken and reconciled to MUNIS annually.

*Management response: School district management will review audit findings with appropriate school and central office staff. The District will work to establish procedures to retire assets and tag new assets as necessary. The District's fixed assets inventory will be reviewed and reconciled to MUNIS annually.*

4. One board member did not return his signed statement that he had no knowledge of any conflict of interest or nepotism, as defined by KRS 160.180.

*Management response: School district management will review audit findings with board members and reiterate the requirements of set forth by KRS 160.180.*

Magoffin County High School

5. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were instances of the purchase order being dated after the invoice.

*Management response: School district management will review audit findings with appropriate school and central office staff. Additional training will be held with appropriate staff regarding purchasing policies and procedures.*

Magoffin County Career & Technical Center

6. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." This is a repeat finding for not approving purchase orders prior to invoice dates.

*Management response: School district management will review audit findings with appropriate school and central office staff. Additional training will be held with appropriate staff regarding purchasing policies and procedures.*

Herald Whitaker Middle School

7. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were instances of the purchase order dated after the invoice.

*Management response: School district management will review audit findings with appropriate school and central office staff. Additional training will be held with appropriate staff regarding purchasing policies and procedures.*

North Magoffin Elementary School

8. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were instances of the purchase order being dated after the invoice.

*Management response: School district management will review audit findings with appropriate school and central office staff. Additional training will be held with appropriate staff regarding purchasing policies and procedures.*

9. Multi receipt forms are not consistently being used as prescribed by Redbook guidelines.

*Management response: School district management will review audit findings with appropriate school and central office staff. Additional training will be held with appropriate staff regarding Redbook procedures for school activity funds.*

South Magoffin Elementary

10. Multi receipt forms are not consistently being used as prescribed by Redbook guidelines.

*Management response: School district management will review audit findings with appropriate school and central office staff. Additional training will be held with appropriate staff regarding Redbook procedures for school activity funds.*