

NICHOLAS COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2014



Penny R. Stanfield, CPA & Co., PLLC

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606

**NICHOLAS COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2014**

| | <u>Page</u> |
|--|-------------|
| Independent Auditor’s Report | 1-3 |
| Management’s Discussion and Analysis | 4-8 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements: | |
| 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 of Governmental Funds to the Statement of Activities | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund | 16 |
| Statement of Net Position – Proprietary Fund | 17 |
| Statements of Revenues, Expenses and Changes in Net Position - Proprietary Fund | 18 |
| Statement of Cash Flows – Proprietary Fund | 19 |
| Statement of Net Position – Fiduciary Funds | 20 |

**NICHOLAS COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS – CONTINUED
YEAR ENDED JUNE 30, 2014**

| | |
|---|-------|
| Notes to the Basic Financial Statements | 21-38 |
| Supplementary Information: | |
| Combining Statements – Nonmajor Funds: | |
| Combining Balance Sheet – Nonmajor Governmental Funds..... | 39 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds..... | 40 |
| Combining Statements – Agency Funds: | |
| Combining Statement of Receipts, Disbursements and Fund Balances – Activity Funds..... | 41 |
| Statement of Receipts, Disbursements and Fund Balances - Activity Funds: | |
| High School | 42-43 |
| Schedule of Expenditures of Federal Awards | 44 |
| Notes to the Schedule of Expenditures of Federal Awards | 45 |
| Independent Auditor’s Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 46-47 |
| Independent Auditor’s Report on Compliance for Each Major Program And on Internal Control over Compliance Required by OMB Circular A-133 | 48-49 |
| Schedule of Findings and Questioned Costs | 50 |
| Independent Auditor’s Transmittal Letter for Management Letter Points | 51 |
| Management Letter Points | 52-55 |



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Nicholas County School District
Carlisle, Kentucky 40311

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nicholas County School District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities and State Compliance Requirements*. Those standards require that I 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.

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 Nicholas 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 on pages 4 through 8 and 15 through 16 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. I 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nicholas County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The 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 relates 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 my opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 10, 2014, on my consideration of Nicholas County School District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Penny Stanfield

PENNY R STANFIELD, CPA & CO., PLLC
Maysville, Kentucky
November 10, 2014

**NICHOLAS COUNTY SCHOOL DISTRICT- CARLISLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD & A)
YEAR ENDED JUNE 30, 2014**

As management of the Nicholas County School District “the District”, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District was \$2,531,294 and the ending balance was \$2,611,500, an increase of \$80,206 for the year.
- The General Fund had \$7,651,470 in revenue, which primarily consisted of the state program (SEEK), and property, motor vehicle and utility taxes. Excluding interfund transfers, there was \$7,705,640 in General Fund expenditures.
- The District’s total debt decreased by \$730,304 during the current fiscal year.
- The District gave employees a 2% raise effective September 18, 2013, in addition, the District provided increases based on rank and experience.
- The District continues to improve its technology each year with purchases of new computers and iPad’s. During FY14, the District purchased \$34,413 of technology additions.

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 in addition to the basic financial statements themselves.

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 9 and 10 of this report.

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

The basic governmental fund financial statements can be found on pages 11 through 20 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 notes to the financial statements can be found on pages 21-38 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, total assets exceeded liabilities by approximately \$4,381,283 as of June 30, 2014.

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

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

Net Position for the period ending June 30, 2014

| | <u>2014</u> | <u>2013</u> |
|--|----------------------------|----------------------------|
| Current Assets | \$ 2,849,958 | \$ 2,848,314 |
| Noncurrent Assets | <u>13,265,796</u> | <u>14,302,118</u> |
| Total Assets | <u>16,115,754</u> | <u>17,150,432</u> |
| Current Liabilities | 1,013,772 | 952,172 |
| Noncurrent Liabilities | <u>10,720,699</u> | <u>11,614,678</u> |
| Total Liabilities | <u>11,734,471</u> | <u>12,566,850</u> |
| Net Position | | |
| Investment in capital assets (net of debt) | 2,144,637 | 2,446,354 |
| Restricted | 669,356 | 644,800 |
| Unrestricted | <u>1,567,290</u> | <u>1,492,428</u> |
| Total Net Position | <u>\$ 4,381,283</u> | <u>\$ 4,583,582</u> |

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2014, net of interfund transfers and on-behalf payments were \$8,378,764.
- The General Fund budget compared to actual revenue varied slightly from line item to line item with the ending balance being \$287,400 more than budget or approximately 4%.
- The total cost of General Fund programs and services was \$7,583,635, net of interfund transfers and debt service.
- General Fund budget expenditures to actual varied significantly in Instruction. Actual expenditures were \$623,410 less than budget.

The following table presents a summary comparison of governmental funds revenues and expenses for the fiscal years ended June 30, 2014 and 2013.

| Revenues: | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Local revenue sources | \$ 1,836,603 | \$ 1,873,924 |
| State revenue sources, on-Behalf | 7,322,002 | 7,433,339 |
| Federal Revenue | <u>970,217</u> | <u>876,465</u> |
| Total Revenues | \$10,128,822 | \$10,183,728 |
| | | |
| Expenses: | | |
| Instruction | 5,359,322 | 5,383,668 |
| Student Support Services | 283,096 | 264,095 |
| Instructional Support | 315,260 | 263,305 |
| District Administration | 687,638 | 572,762 |
| School Administration | 539,716 | 529,046 |
| Plant Operations & Maintenance | 855,579 | 743,301 |
| Student Transportation | 754,063 | 760,012 |
| Central Office and Business | 165,987 | 191,911 |
| Community Services | 90,799 | 83,096 |
| Facility Acquisition/Construction | - | 56,140 |
| Debt Service | <u>1,152,626</u> | <u>1,160,552</u> |
| Total Expenses | \$10,204,086 | \$10,007,888 |
| Revenue in Excess (Deficit) of Expense | \$ (75,264) | \$ 175,840 |

General Fund Revenue

The majority of revenue was derived from state funding making up 72% of total revenue. Local revenues make up 18% of total revenue.

Budget Allocation

Site Based Decision Making Councils expended \$5,957,678 of the general fund budget. The majority of the Non-SBDM funds (28%) were spent for debt service.

School Allocation

Regular Instruction accounts for 53% of the school level expenditures.

Central Office Support Allocation

Central support services expenditures were Transportation 8%, Maintenance & Operations 9%, and Business Functions 2%.

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$450,000 in contingency (5%). The general fund cash balance for beginning the next fiscal year is \$2,011,332. Significant Board action that impacts the finances include a pay raise for all certified and classified employees for the new year.

Questions regarding this report should be directed to the Superintendent Marty Feltner or to his **REPRESENTATIVE**, Director of Financial Services Bodie Stevens or by mail at:

Nicholas County School District
395 W. Main Street
Carlisle, Kentucky 40311

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 2,352,807 | \$ 258,693 | \$ 2,611,500 |
| Accounts receivable: | | | |
| Taxes | 71,267 | - | 71,267 |
| Other | 16,340 | 9,006 | 25,346 |
| Intergovernmental - Federal | 126,262 | - | 126,262 |
| Inventory | - | 15,583 | 15,583 |
| Total Current Assets | <u>2,566,676</u> | <u>283,282</u> | <u>2,849,958</u> |
| Noncurrent Assets | | | |
| Bond Issue Costs | - | - | - |
| Capital Assets (Note D) | | | |
| Nondepreciable | 56,429 | - | 56,429 |
| Depreciable, net of accumulated depreciation | 12,943,212 | 266,155 | 13,209,367 |
| Total Noncurrent Assets | <u>12,999,641</u> | <u>266,155</u> | <u>13,265,796</u> |
| TOTAL ASSETS | <u>15,566,317</u> | <u>549,437</u> | <u>16,115,754</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | 79,382 | 4,846 | 84,228 |
| Accrued Interest Payable | 90,696 | - | 90,696 |
| Unearned Revenue | 94,585 | - | 94,585 |
| Current Portion of Capital Leases and Bonds | 744,263 | - | 744,263 |
| Total Current Liabilities | <u>1,008,926</u> | <u>4,846</u> | <u>1,013,772</u> |
| Noncurrent Liabilities | | | |
| Bonds Payable | 9,970,000 | - | 9,970,000 |
| Capital Leases Payable | 316,200 | - | 316,200 |
| KSBIT Payable | 208,468 | - | 208,468 |
| Noncurrent Portion of Accumulated Sick Leave | 226,031 | - | 226,031 |
| Total Noncurrent Liabilities | <u>10,720,699</u> | <u>-</u> | <u>10,720,699</u> |
| TOTAL LIABILITIES | <u>11,729,625</u> | <u>4,846</u> | <u>11,734,471</u> |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 1,878,482 | 266,155 | 2,144,637 |
| Restricted for: | | | |
| Capital projects | 341,327 | - | 341,327 |
| Debt Service | 148 | - | 148 |
| Sick Leave | 49,445 | - | 49,445 |
| Food Service | - | 262,853 | 262,853 |
| Nonspendable | - | 15,583 | 15,583 |
| Unrestricted | 1,567,290 | - | 1,567,290 |
| TOTAL NET POSITION | <u>\$ 3,836,692</u> | <u>\$ 544,591</u> | <u>\$ 4,381,283</u> |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

| | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|----------------------|-------------------------|--|--|--|-----------------------------|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| FUNCTIONS/PROGRAMS | | | | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | | | | |
| Instruction | \$ 5,496,094 | \$ - | \$ 1,109,129 | \$ - | \$ (4,386,965) | \$ - | \$ (4,386,965) |
| Support Services: | | | | | | | |
| Student | 285,861 | - | - | - | (285,861) | - | (285,861) |
| Instructional staff | 315,648 | - | 132,954 | - | (182,694) | - | (182,694) |
| District administration | 688,548 | - | - | - | (688,548) | - | (688,548) |
| School administration | 539,716 | - | - | - | (539,716) | - | (539,716) |
| Business | 189,614 | - | - | - | (189,614) | - | (189,614) |
| Plant operation and maintenance | 1,347,218 | - | - | - | (1,347,218) | - | (1,347,218) |
| Student transportation | 865,997 | - | 118,688 | - | (747,309) | - | (747,309) |
| Community services | 92,624 | - | 90,799 | - | (1,825) | - | (1,825) |
| Facility Acquisition and Construction | - | - | - | - | - | - | - |
| Debt Service | 418,021 | - | - | 186,496 | (231,525) | - | (231,525) |
| TOTAL GOVERNMENTAL ACTIVITIES | 10,239,341 | - | 1,451,570 | 186,496 | (8,601,275) | - | (8,601,275) |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | |
| Food Services | 676,675 | 112,295 | 556,886 | - | - | (7,494) | (7,494) |
| TOTAL BUSINESS-TYPE ACTIVITIES | 676,675 | 112,295 | 556,886 | - | - | (7,494) | (7,494) |
| TOTAL PRIMARY GOVERNMENT | \$ 10,916,016 | \$ 112,295 | \$ 2,008,456 | \$ 186,496 | (8,601,275) | (7,494) | (8,608,769) |
| General Revenues | | | | | | | |
| Property Taxes | | | | | 963,422 | - | 963,422 |
| Motor Vehicle Taxes | | | | | 227,466 | - | 227,466 |
| Utility Taxes | | | | | 371,356 | - | 371,356 |
| Other Taxes | | | | | 464 | - | 464 |
| State aid-formula grants | | | | | 6,862,885 | - | 6,862,885 |
| Investment earnings | | | | | 21,677 | 1,640 | 23,317 |
| Gain (loss) on Disposal of Assets | | | | | (500) | - | (500) |
| Other Local Revenues | | | | | 43,486 | - | 43,486 |
| Total General Revenues | | | | | 8,490,256 | 1,640 | 8,491,896 |
| Change in Net Assets | | | | | (111,019) | (5,854) | (116,873) |
| Net Position July 1, 2013, as restated | | | | | 3,947,711 | 550,445 | 4,498,156 |
| Net Position June 30, 2014 | | | | | \$ 3,836,692 | \$ 544,591 | \$ 4,381,283 |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

| | Major Funds | | | Nonmajor Funds | Total Governmental Funds |
|--|-------------------------|--------------------------------------|------------------------------|---|---|
| | General Fund | Special Revenue Funds | Debt Service Fund | Other Governmental Funds | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 2,011,332 | \$ - | \$ 148 | \$ 341,327 | \$ 2,352,807 |
| Accounts receivable: | | | | | |
| Taxes | 71,267 | - | - | - | 71,267 |
| Other | 16,340 | - | - | - | 16,340 |
| Intergovernmental - Federal | - | 126,262 | - | - | 126,262 |
| Due from other funds | 24,581 | - | - | - | 24,581 |
| TOTAL ASSETS | \$ 2,123,520 | \$ 126,262 | \$ 148 | \$ 341,327 | \$ 2,591,257 |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 72,286 | \$ 7,096 | \$ - | \$ - | \$ 79,382 |
| Unearned revenues | - | 94,585 | - | - | 94,585 |
| Due to other funds | - | 24,581 | - | - | 24,581 |
| Total Liabilities | 72,286 | 126,262 | - | - | 198,548 |
| Fund Balances | | | | | |
| Restricted for: | | | | | |
| Sick leave | 49,445 | - | - | - | 49,445 |
| Debt Service | - | - | 148 | - | 148 |
| Capital Projects | - | - | - | 341,327 | 341,327 |
| Unassigned | 2,001,789 | - | - | - | 2,001,789 |
| Total Fund Balances | 2,051,234 | - | 148 | 341,327 | 2,392,709 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 2,123,520 | \$ 126,262 | \$ 148 | \$ 341,327 | \$ 2,591,257 |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balance – Governmental Funds **\$ 2,392,709**

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

Capital assets used in governmental activities are not financial resources
And therefore are not reported in the governmental funds.

| | |
|--------------------------|---------------------|
| Cost of the Assets | 23,219,451 |
| Accumulated Depreciation | <u>(10,219,810)</u> |
| | 12,999,641 |

Long-term liabilities, including bonds payable, are not due and
Payable in the current period and therefore are not reported in the funds.
Long-term liabilities at year-end consist of:

| | |
|---------------------------|---------------------|
| Bonds Payable | (10,615,000) |
| Capital Leases | (415,463) |
| Accrued sick leave | (226,031) |
| KSBIT Payable | (208,468) |
| Accrued interest on bonds | <u>(90,696)</u> |
| | <u>(11,555,658)</u> |

Total Net Position - Government Activities **\$ 3,836,692**

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

| | General Fund | Special Revenue Fund | Debt Service Fund | Other Funds | TOTAL Governmental Funds |
|---|---------------------|----------------------------|----------------------|-------------------|--------------------------------|
| REVENUES: | | | | | |
| Property taxes | \$ 676,706 | \$ - | \$ - | \$ 286,716 | \$ 963,422 |
| Motor vehicle taxes | 227,466 | - | - | - | 227,466 |
| Utility taxes | 371,356 | - | - | - | 371,356 |
| Other taxes | 464 | - | - | - | 464 |
| Earnings on investments | 21,604 | 66 | 7 | - | 21,677 |
| Other local revenues | 43,486 | 208,732 | - | - | 252,218 |
| State sources | 4,712,604 | 306,843 | - | 552,497 | 5,571,944 |
| Federal sources | 34,222 | 935,995 | - | - | 970,217 |
| State on-behalf payments | 1,563,562 | - | 186,496 | - | 1,750,058 |
| TOTAL REVENUES | 7,651,470 | 1,451,636 | 186,503 | 839,213 | 10,128,822 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction | 4,233,938 | 1,125,384 | - | - | 5,359,322 |
| Support Services: | | | | | |
| Student | 283,096 | - | - | - | 283,096 |
| Instructional staff | 182,306 | 132,954 | - | - | 315,260 |
| District administration | 687,638 | - | - | - | 687,638 |
| School administration | 539,716 | - | - | - | 539,716 |
| Business | 165,987 | - | - | - | 165,987 |
| Plant operations and maintenance | 855,579 | - | - | - | 855,579 |
| Student transportation | 635,375 | 118,688 | - | - | 754,063 |
| Community Services | - | 90,799 | - | - | 90,799 |
| Facilities acquisition and construction | - | - | - | - | - |
| Debt service | 122,005 | - | 1,030,621 | - | 1,152,626 |
| TOTAL EXPENDITURES | 7,705,640 | 1,467,825 | 1,030,621 | - | 10,204,086 |
| Excess (Deficit) of Revenues over Expenditures | (54,170) | (16,189) | (844,118) | 839,213 | (75,264) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | - | 16,189 | 844,124 | - | 860,313 |
| Transfers out | (21,100) | - | - | (839,213) | (860,313) |
| TOTAL OTHER FINANCING SOURCES (USES) | (21,100) | 16,189 | 844,124 | (839,213) | - |
| NET CHANGE IN FUND BALANCES | (75,270) | - | 6 | - | (75,264) |
| FUND BALANCE JULY 1, 2013 | 2,126,504 | - | 142 | 341,327 | 2,467,973 |
| FUND BALANCE, JUNE 30, 2014 | \$ 2,051,234 | \$ - | \$ 148 | \$ 341,327 | \$ 2,392,709 |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

Total Net Change in Fund Balances – Governmental Funds **\$ (75,264)**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.

| | | |
|----------------------|------------------|-----------|
| Capital outlay | 34,413 | |
| Depreciation expense | <u>(954,405)</u> | |
| | | (919,992) |

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, donations, and disposals) is to decrease net position. (500)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the Statement of Net Position.

| | |
|-------------------------------|---------|
| Total bond and lease payments | 730,304 |
|-------------------------------|---------|

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the Statement of Activities when they are incurred.

| | | |
|--------------------------|---------------|--|
| KSBIT Liability | 120,257 | |
| Accrued Interest Payable | 4,301 | |
| Accrued Sick Leave | <u>29,875</u> | |

Change in Net Position of Governmental Activities **\$ (111,019)**

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2014**

GENERAL FUND

| | Budgeted Amounts | | Actual | Final Budget |
|---|-------------------------|--------------------|---------------------|--------------------------------|
| | Original | Final | | Variance |
| | | | | Positive (Negative) |
| REVENUES: | | | | |
| Property taxes | \$ 535,000 | \$ 535,000 | \$ 565,905 | \$ 30,905 |
| PSC property taxes | 85,000 | 85,000 | 110,801 | 25,801 |
| Motor vehicle taxes | 200,000 | 200,000 | 227,466 | 27,466 |
| Utility taxes | 310,000 | 310,000 | 371,356 | 61,356 |
| Penalties & interest on taxes | - | - | 464 | 464 |
| Earnings on investments | 20,000 | 20,000 | 21,604 | 1,604 |
| Other local revenues | 8,000 | 8,000 | 43,486 | 35,486 |
| State sources | 4,767,993 | 4,699,070 | 4,712,604 | 13,534 |
| Federal sources | - | - | 34,222 | 34,222 |
| State on-behalf payments | - | 1,507,000 | 1,563,562 | 56,562 |
| TOTAL REVENUES | 5,925,993 | 7,364,070 | 7,651,470 | 287,400 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction | 3,646,452 | 4,857,348 | 4,233,938 | 623,410 |
| Support Services: | | | | |
| Student | 229,480 | 291,397 | 283,096 | 8,301 |
| Instructional staff | 181,833 | 281,833 | 182,306 | 99,527 |
| District administration | 799,308 | 893,992 | 687,638 | 206,354 |
| School administration | 461,616 | 574,216 | 539,716 | 34,500 |
| Business | 108,014 | 152,014 | 165,987 | (13,973) |
| Plant operation and maintenance | 876,201 | 951,201 | 855,579 | 95,622 |
| Student transportation | 673,089 | 799,934 | 635,375 | 164,559 |
| Community Services | - | - | - | - |
| Debt service | 138,000 | 138,000 | 122,005 | 15,995 |
| Contingency | 450,000 | 450,000 | - | 450,000 |
| Facilities acquisition and construction | - | - | - | - |
| TOTAL EXPENDITURES | 7,563,993 | 9,389,935 | 7,705,640 | 1,684,295 |
| Excess (Deficit) of Revenues Over Expenditures | (1,638,000) | (2,025,865) | (54,170) | 1,971,695 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | - | - | - | - |
| Transfers (out) | (12,000) | (12,000) | (21,100) | (9,100) |
| TOTAL OTHER FINANCING SOURCES (USES) | (12,000) | (12,000) | (21,100) | (9,100) |
| NET CHANGE IN FUND BALANCES | (1,650,000) | (2,037,865) | (75,270) | 1,962,595 |
| FUND BALANCE - JULY 1, 2013 | 1,650,000 | 2,037,865 | 2,126,504 | 88,639 |
| FUND BALANCE - JUNE 30, 2014 | \$ - | \$ - | \$ 2,051,234 | \$ 2,051,234 |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE- BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2014**

SPECIAL REVENUE FUND

| | Budgeted Amounts | | Actual | Final Budget Variance Positive (Negative) |
|---|-------------------------|------------------|------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Earnings on investments | \$ - | \$ - | \$ 66 | \$ 66 |
| Other local revenues | 202,454 | 202,454 | 208,732 | 6,278 |
| State sources | 259,858 | 265,679 | 306,843 | 41,164 |
| Federal sources | 728,500 | 873,018 | 935,995 | 62,977 |
| TOTAL REVENUES | 1,190,812 | 1,341,151 | 1,451,636 | 110,485 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction | 955,802 | 1,102,990 | 1,125,384 | (22,394) |
| Support Services: | | | | |
| Student | - | - | - | - |
| Instructional staff | 51,130 | 54,469 | 132,954 | (78,485) |
| District administration | - | - | - | - |
| School administration | - | - | - | - |
| Plant operations and maintenance | - | - | - | - |
| Student transportation | 114,880 | 118,871 | 118,688 | 183 |
| Community services | 81,000 | 76,821 | 90,799 | (13,978) |
| Facilities acquisition and construction | - | - | - | - |
| TOTAL EXPENDITURES | 1,202,812 | 1,353,151 | 1,467,825 | (114,674) |
| Excess (Deficit) of Revenues Over Expenditures | (12,000) | (12,000) | (16,189) | (4,189) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 12,000 | 12,000 | 16,189 | 4,189 |
| Transfers (out) | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | 12,000 | 12,000 | 16,189 | 4,189 |
| NET CHANGE IN FUND BALANCES | - | - | - | - |
| FUND BALANCE JULY 1, 2013 | - | - | - | - |
| FUND BALANCE JUNE 30, 2014 | \$ - | \$ - | \$ - | \$ - |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014**

| | <u>Food Service Fund</u> |
|---|---------------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 258,693 |
| Accounts receivable: | |
| Accounts | 9,006 |
| Intergovernmental - Federal | - |
| Inventories for consumption | <u>15,583</u> |
| Total Current Assets | 283,282 |
| Noncurrent assets: | |
| Capital Assets, net of accumulated depreciation | <u>266,155</u> |
| Total Noncurrent Assets | <u>266,155</u> |
| TOTAL ASSETS | <u>549,437</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | <u>4,846</u> |
| Total Current Liabilities | <u>4,846</u> |
| TOTAL LIABILITIES | <u>4,846</u> |
| NET POSITION | |
| Invested in capital assets | 266,155 |
| Restricted-expendable | 262,853 |
| Nonspendable- Inventories | <u>15,583</u> |
| Total Net Position | <u><u>\$ 544,591</u></u> |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014**

| | Food Service Fund |
|---|--------------------------|
| OPERATING REVENUES | |
| Lunchroom sales | \$ 112,295 |
| Other operating revenues | <u>-</u> |
| TOTAL OPERATING REVENUES | 112,295 |
| OPERATING EXPENSES | |
| Salaries and wages | 206,301 |
| Employee benefits | 119,116 |
| Contract services | 4,103 |
| Materials and supplies | 311,905 |
| Depreciation expense | 30,404 |
| Other operating expenses | <u>4,846</u> |
| TOTAL OPERATING EXPENSES | <u>676,675</u> |
| OPERATING INCOME (LOSS) | (564,380) |
| NON-OPERATING REVENUES | |
| Earnings on Investments | 1,640 |
| Donated Commodities | 29,926 |
| Federal Grants | 444,789 |
| State Grants | 6,467 |
| State On-behalf Payments | <u>75,704</u> |
| TOTAL NON-OPERATING REVENUES | <u>558,526</u> |
| CHANGE IN NET POSITION | (5,854) |
| TOTAL NET POSITION-JULY 1, 2013 | <u>550,445</u> |
| TOTAL NET POSITION-JUNE 30, 2014 | <u>\$ 544,591</u> |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014**

| | <u>Food Service Fund</u> |
|---|------------------------------|
| Cash Flows from Operating Activities | |
| Cash Received from: | |
| Lunchroom Sales | \$ 110,953 |
| Cash Payments to Employees for Services | (249,713) |
| Cash Payments for Contract Services | (4,103) |
| Cash Payments to Suppliers for Goods and Services | (283,928) |
| | <hr/> |
| Net Cash Used by Operating Activities | (426,791) |
| Cash Flows from Noncapital and Related Financing Activities | |
| Federal and State Grants | 489,602 |
| Cash Flows from Capital and Related Financing Activities | |
| Acquisition of Capital Assets | - |
| | <hr/> |
| Net Cash Used by Capital and Related Financing Activities | - |
| | <hr/> |
| Cash Flows from Investing Activities | |
| Interest on Investments | 1,640 |
| | <hr/> |
| Net Increase in Cash and Cash Equivalents | 64,451 |
| Cash and Cash Equivalents July 1, 2013 | 194,242 |
| | <hr/> |
| Cash and Cash Equivalents June 30, 2014 | <u>\$ 258,693</u> |
| Reconciliation of Operating Income to Net Cash Used by Operating Activities | |
| Operating Income (Loss) | \$ (564,380) |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities: | |
| Depreciation | 30,404 |
| Donated Commodities | 29,926 |
| State On-Behalf Payments | 75,704 |
| Changes in Assets and Liabilities: | |
| Accounts Receivable | (1,342) |
| Inventory | (1,549) |
| Accounts Payable | 4,446 |
| | <hr/> |
| Net Cash Used by Operating Activities | <u>\$ (426,791)</u> |
| Schedule of Non-Cash Transactions | |
| Donated Commodities | \$ 29,926 |
| On-Behalf Payments | \$ 75,704 |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

| | Agency Funds |
|-------------------------------------|--------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 149,359 |
| Accounts receivable | - |
| TOTAL ASSETS | <u>149,359</u> |
| | |
| LIABILITIES AND NET POSITION | |
| LIABILITIES | |
| Accounts payable | - |
| Due to student groups | <u>149,359</u> |
| TOTAL LIABILITIES | <u>149,359</u> |
| NET POSITION | |
| Held in trust for scholarships | - |
| Held in trust for other purposes | <u>-</u> |
| TOTAL NET POSITION | <u><u>\$ -</u></u> |

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Blended Component Unit

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation

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

The government-wide statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing and related cash flows. 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 statements of activities present 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 good or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable 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.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 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.
- D. The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

II. Proprietary Fund Types (Enterprise Fund)

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

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

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

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

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

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

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.

NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - Continued

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.387 per \$100 valuation for real property, \$.387 per \$100 valuation for business personal property and \$.555 per \$100 valuation for motor vehicles. The assessed value, upon which the levy for the 2014 fiscal year was based, was \$286,715,568.

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 telegraphic communications services, cablevision services, electric power, water, and gas.

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 five thousand dollars (\$5,000) with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets- Continued

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Classified employees are compensated for accrued sick leave by the District purchasing service credits through KRS, up to 126 days. Anything above 126 days is paid at 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the vesting method of calculation and that the assumption that it is probable that all vested employees with ten years of experience will eventually retire from the District and become eligible for termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgetary Process

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

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

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

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

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

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Prepaid Assets

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

Accrued Liabilities and Long-Term Obligations

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations- Continued

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

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District adopted GASB 65 for the year ended June 30, 2014. The adoption of GASB 65 resulted in the write-off of bond issuance costs and a reduction of beginning net position of \$85,496.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE B – ESTIMATES

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

NOTE C – CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$2,687,392 of the bank balance was exposed to custodial credit risk as follows:

| | |
|--|-------------|
| Uninsured and collateral held by pledging bank | \$2,687,392 |
|--|-------------|

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE D - CAPITAL ASSETS

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

| Governmental Activities | Balance July 1, 2013 | Additions | Deductions | Balance June 30, 2014 |
|--|-----------------------------|----------------------------|----------------------|-----------------------------|
| Land | \$ 56,429 | \$ - | \$ - | \$ 56,429 |
| Buildings and improvements | 19,805,832 | - | - | 19,805,832 |
| Technology equipment | 1,213,865 | 34,413 | - | 1,248,278 |
| Vehicles | 1,560,899 | - | - | 1,560,899 |
| Other equipment | 561,303 | - | 13,290 | 548,013 |
| Totals at historical cost | <u>23,198,328</u> | <u>34,413</u> | <u>13,290</u> | <u>23,219,451</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 6,762,064 | 738,505 | - | 7,500,569 |
| Technology equipment | 1,096,603 | 88,658 | - | 1,185,261 |
| Vehicles | 1,031,227 | 99,570 | - | 1,130,797 |
| Other equipment | 388,301 | 27,672 | 12,790 | 403,183 |
| Total accumulated depreciation | <u>9,278,195</u> | <u>954,405</u> | <u>12,790</u> | <u>10,219,810</u> |
| Governmental Activities Capital Assets - Net | <u>\$ 13,920,133</u> | <u>\$ (919,992)</u> | <u>\$ 500</u> | <u>\$ 12,999,641</u> |
| <u>Business-Type Activities</u> | | | | |
| Food service general equipment | \$ 420,603 | \$ - | \$ - | \$ 420,603 |
| Construction in Progress | - | - | - | - |
| Food service technology equipment | 21,374 | - | - | 21,374 |
| Totals at historical cost | <u>441,977</u> | <u>-</u> | <u>-</u> | <u>441,977</u> |
| Less accumulated depreciation: | | | | |
| Food service general equipment | 127,078 | 30,404 | - | 157,482 |
| Food service technology equipment | 18,340 | - | - | 18,340 |
| Total accumulated depreciation | <u>145,418</u> | <u>30,404</u> | <u>-</u> | <u>175,822</u> |
| Business-Type Activities Capital Assets - Net | <u>\$ 296,559</u> | <u>\$ (30,404)</u> | <u>\$ -</u> | <u>\$ 266,155</u> |

Depreciation was charged to governmental functions as follows:

| | |
|-------------------------------|-------------------|
| Instructional | \$ 321,317 |
| Student Staff Services | 2,765 |
| Staff Support Services | 388 |
| District Administration | 910 |
| Business Support Services | 23,627 |
| Plant Operation & Maintenance | 491,639 |
| Student Transportation | 111,934 |
| Community Service Operations | 1,825 |
| | <u>\$ 954,405</u> |

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE E – DEBT OBLIGATIONS

Bonds

The amount shown in the accompanying financial statements as lease obligations represents the District’s future obligations to make lease payments relating to the bonds issued by the Nicholas County School District Finance Corporation, with original amounts of issue totaling \$13,160,000.

The General Fund, including utility taxes, the Facility Support Program Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide, among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Nicholas County School District Finance Corporation, and Kentucky School Facility Construction Commission (KSFCC) to construct school facilities and (2) the District with the option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The bonds may be called prior to maturity dates at redemption premiums specified in each issue. The original amount of the issue, the issue dates, and interest rates are summarized below:

| <u>ORIGINAL ISSUE</u> | <u>ISSUER</u> | <u>AMOUNT</u> | <u>INTEREST RATES</u> |
|---------------------------|---|---------------------|-----------------------|
| Issue of 1996 | KSFCC | \$ 100,000 | 5.30% to 5.70% |
| Issue of 2009 | Nicholas County School District Finance Corporation & KSFCC | 8,285,000 | 2.00% to 4.125% |
| Issue of 2009R | Nicholas County School District Finance Corporation & KSFCC | 2,630,000 | 2.00% to 3.60% |
| Issue of 2011 | Nicholas County School District Finance Corporation & KSFCC | <u>2,145,000</u> | 1.90% to 4.375% |
| | | <u>\$13,160,000</u> | |

NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE E: DEBT OBLIGATIONS - CONTINUED

Bonds- Continued

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2014, for debt service, (principal and interest) are as shown below:

| | SCHOOL DISTRICT | | KSFCC | | TOTAL |
|---------------|----------------------------|----------------------------|----------------------------|--------------------------|-----------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2015 | 509,048 | 338,101 | 135,952 | 50,545 | 1,033,646 |
| 2016 | 524,855 | 323,248 | 140,145 | 46,353 | 1,034,601 |
| 2017 | 538,131 | 307,296 | 141,869 | 41,914 | 1,029,210 |
| 2018 | 556,262 | 290,648 | 138,738 | 37,464 | 1,023,112 |
| 2019 | 571,476 | 272,850 | 143,524 | 32,943 | 1,020,793 |
| 2020 | 515,044 | 253,437 | 59,956 | 27,961 | 856,398 |
| 2021 | 532,951 | 235,656 | 62,049 | 25,866 | 856,522 |
| 2022 | 550,724 | 216,853 | 64,276 | 23,639 | 855,492 |
| 2023 | 573,355 | 197,006 | 66,645 | 21,271 | 858,277 |
| 2024 | 595,835 | 175,907 | 69,165 | 18,751 | 859,658 |
| 2025 | 618,072 | 152,288 | 71,928 | 15,987 | 858,275 |
| 2026 | 640,199 | 127,785 | 74,801 | 13,114 | 855,899 |
| 2027 | 672,203 | 101,987 | 77,797 | 10,118 | 862,105 |
| 2028 | 699,088 | 74,897 | 80,912 | 7,004 | 861,901 |
| 2029 | 725,847 | 46,724 | 84,153 | 3,764 | 860,488 |
| 2030 | 181,818 | 16,341 | 3,182 | 284 | 201,625 |
| 2031 | 191,679 | 8,386 | 3,321 | 145 | 203,531 |
| TOTALS | <u>\$ 9,196,587</u> | <u>\$ 3,139,410</u> | <u>\$ 1,418,413</u> | <u>\$ 377,123</u> | <u>\$ 14,131,533</u> |

Capital Leases

The District has leased buses with a book value \$968,162 under a capital lease through KISTA school bus financing program. The following is a schedule of years of the future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2014:

| <u>Year Ending</u> | <u>Capital Lease Payable</u> |
|---|------------------------------|
| June 2015 | 112,756 |
| June 2016 | 97,736 |
| June 2017 | 79,284 |
| June 2018 | 69,513 |
| June 2019 | 41,535 |
| June 2020-2023 | 56,551 |
| Total minimum lease payments | <u>\$ 457,375</u> |
| Less amount representing interest | <u>(41,912)</u> |
| Present Value of Net Minimum Lease Payments | <u><u>\$ 415,463</u></u> |

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE E – DEBT OBLIGATIONS- CONTINUED

KSBIT Payable

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during FY13 that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. During FY14, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance (“KEMI”). As a result, the District’s workers’ compensation portion of the liability was estimated at \$106,827 and property and liability portion of the liability was estimated at \$101,641 for a total of \$208,468. The District took the Rehabilitator Installment Option with No Interest. The District will repay the workers compensation portion over six years and property and liability portion over two years.

A summary of activity in bond obligations and other debts is as follows:

| Description | Balance at June 30, 2013 | Additions | Payments | Balance at June 30, 2014 |
|---|-----------------------------|-------------|-------------------|-----------------------------|
| General Obligation Bonds | \$ 11,240,000 | \$ - | \$ 625,000 | \$ 10,615,000 |
| KISTA Loans | 520,767 | - | 105,304 | 415,463 |
| KSBIT Liability | 328,725 | - | 120,257 | 208,468 |
| Accumulated Unpaid Sick Leave Benefits | 255,906 | - | 29,875 | 226,031 |
| | <u>\$ 12,345,398</u> | <u>\$ -</u> | <u>\$ 880,436</u> | <u>\$ 11,464,962</u> |

NOTE F – RETIREMENT PLANS

Kentucky Teachers Retirement System

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

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE F – RETIREMENT PLANS- CONTINUED

Kentucky Teachers Retirement System- Continued

Funding policy - Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.605%.

The Nicholas County School System's total payroll for the year was \$5,764,730. The payroll for the employees covered under KTRS was \$4,399,936. For the year ended June 30, 2014, the Commonwealth contributed \$544,722 to KTRS for the benefit of participating employees. The School district's contributions to KTRS for the year ending June 30, 2014 were \$42,920, which represents those employees covered by federal programs.

County Employees Retirement System

Substantially all other employees (classified personnel) are covered under the Kentucky County Employees Retirement System (CERS), a cost sharing, multiple-employer, public employers' retirement system. Funding for the CERS Plan is provided through payroll withholdings of 5.00%, plus an additional 1% for employees hired after September 1, 2008, and a District contribution of 18.89% of the eligible employee's total compensation. The District's contributions to CERS for the year ending June 30, 2014, 2013, and 2012 were \$322,312, \$337,795, and \$342,358, respectively, equal to the required contributions for the year.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents. The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pension's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons between the plans and employers. The funding status and progress, actuarially determined contribution requirements, and trend information may be found in the Commonwealth of Kentucky Comprehensive annual Report for the year ended June 30, 2014, under "Notes to the General Purpose Financial Statements-Pension Plans" which is scheduled for release in December 2014.

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE F – RETIREMENT PLANS- CONTINUED

Medical Insurance Plan

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

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

Funding policy –In order to fund the post-retirement healthcare benefit, four and one half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and one half percent (1.50%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

NOTE G – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District had purchased certain policies, which are retrospective rated, which includes Worker's compensation insurance.

NOTE H – CONTINGENCIES

The District receives funding from Federal and State government agencies. 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 grantors may request of monies advanced, or refuse to reimburse the District for its disbursements.

The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant program is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NICHOLAS COUNTY SCHOOL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 Year Ended June 30, 2014**

NOTE I – DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures (including other financing sources and uses, such as transfers) resulting in a corresponding reduction of fund balance/net position:

General Fund \$ (75,270)

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from insurance companies. Currently, the District maintains insurance coverage through Ohio Casualty Insurance Company.

Contributions for Workers’ Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is management’s opinion that the District is in compliance with the COBRA requirements.

NOTE L – TRANSFER OF FUNDS

The following transfers were made during the year:

| <u>Type</u> | <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|-------------|------------------|-----------------|------------------|---------------|
| Operating | General | Special Revenue | Technology Match | \$ 16,189 |
| Operating | Building Fund | Debt Service | Debt Service | 737,490 |
| Operating | Capital Outlay | Debt Service | Debt Service | 101,723 |
| Operating | General | Debt Service | Debt Service | 4,911 |

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014**

NOTE M - ON-BEHALF PAYMENTS

For the year ended June 30, 2014, total payments of \$1,825,762 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, KTRS matching, administrative fees, technology, and debt service. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense accounts in the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance.

On-behalf payments at June 30, 2014 consisted of the following:

| | |
|--------------------------------|---------------------|
| Teacher Retirement | \$ 544,722 |
| Insurance and related expenses | 1,067,580 |
| Technology | 26,964 |
| Debt Service | <u>186,496</u> |
| Total | <u>\$ 1,825,762</u> |

NOTE N – SUBSEQUENT EVENTS

Subsequent events were considered through November 10, 2014, which represents the release date of this report.

NOTE O – PRIOR PERIOD ADJUSTMENTS

The District adopted a change in accounting principle for the year ending June 30, 2014. GASB 65, *Items Previously Reported as Assets and Liabilities* amends or supersedes accounting principles which required debt issuance costs to be amortized over the life of the debt issuance. Under GASB 65, the District is required to recognize debt issuance costs as an expense in the current period. While there were costs being amortized from period periods, the removal of these costs reduced net position at June 30, 2013 by \$85,496.

SUPPLEMENTARY INFORMATION

**NICHOLAS COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014**

| | <u>Capital Outlay Fund</u> | <u>Building Fund</u> | <u>Construction Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|--|--------------------------------|--------------------------|------------------------------|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 63,561 | \$ 163,766 | \$ 114,000 | \$ 341,327 |
| Accounts receivable | - | - | - | - |
| TOTAL ASSETS | <u>\$ 63,561</u> | <u>\$ 163,766</u> | <u>\$ 114,000</u> | <u>\$ 341,327</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total Liabilities | - | - | - | - |
| Fund Balances | | | | |
| Restricted | 63,561 | 163,766 | 114,000 | 341,327 |
| Unassigned | - | - | - | - |
| Total Fund Balances | <u>63,561</u> | <u>163,766</u> | <u>114,000</u> | <u>341,327</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 63,561</u> | <u>\$ 163,766</u> | <u>\$ 114,000</u> | <u>\$ 341,327</u> |

**NICHOLAS COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2014**

| | Capital Outlay Fund | Building Fund | Construction Fund | Total Nonmajor Governmental Funds |
|--|------------------------|-------------------|----------------------|--|
| Revenues | | | | |
| From local sources | | | | |
| Property taxes | \$ - | \$ 286,716 | \$ - | \$ 286,716 |
| Earnings on investments | - | - | - | - |
| State sources | 101,723 | 450,774 | - | 552,497 |
| Total Revenues | <u>101,723</u> | <u>737,490</u> | <u>-</u> | <u>839,213</u> |
| Expenditures | | | | |
| Instruction | - | - | - | - |
| Support services | | | | |
| Instructional staff | - | - | - | - |
| Plant operation and maintenance | - | - | - | - |
| Student transportation | - | - | - | - |
| Facilities acquisition and construction | - | - | - | - |
| Debt service | - | - | - | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficit) of Revenues Over Expenditures | 101,723 | 737,490 | - | 839,213 |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers (out) | (101,723) | (737,490) | - | (839,213) |
| Total Other Financing Sources (Uses) | <u>(101,723)</u> | <u>(737,490)</u> | <u>-</u> | <u>(839,213)</u> |
| Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | - | - | - | - |
| Fund Balance, July 1, 2013 | 63,561 | 163,766 | 114,000 | 341,327 |
| Fund Balance, June 30, 2014 | <u>\$ 63,561</u> | <u>\$ 163,766</u> | <u>\$ 114,000</u> | <u>\$ 341,327</u> |

**NICHOLAS COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
 ALL ACTIVITY FUNDS
 YEAR ENDED JUNE 30, 2014**

| | <u>Cash Balances 07/01/13</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Cash Balances 06/30/14</u> | <u>Accounts Receivable 06/30/14</u> | <u>Accounts Payable 06/30/14</u> | <u>Due to Students and Others 06/30/14</u> |
|-------------|---------------------------------------|-------------------|----------------------|---------------------------------------|---|--|--|
| High School | \$ 103,241 | \$ 398,885 | \$ 376,003 | \$ 126,123 | \$ - | \$ - | \$ 126,123 |
| Elementary | <u>37,769</u> | <u>52,407</u> | <u>66,940</u> | <u>23,236</u> | <u>-</u> | <u>-</u> | <u>23,236</u> |
| Totals | <u>\$ 141,010</u> | <u>\$ 451,292</u> | <u>\$ 442,943</u> | <u>\$ 149,359</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 149,359</u> |

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
HIGH SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2014**

| | CASH BALANCES | | DISBURSE- MENTS | | CASH BALANCES | | RECEIVABLE (PAYABLE) | IN CUSTODY FOR STUDENTS |
|-----------------------|------------------|-----------|--------------------|-----------|------------------|---------------|-------------------------|----------------------------|
| | JULY 1, 2013 | RECEIPTS | | TRANSFERS | JUNE 30, 2014 | JUNE 30, 2014 | JUNE 30, 2014 | |
| General | \$ 2,277 | \$ 15,299 | \$ 16,103 | \$ 2,177 | 3,650 | \$ - | \$ 3,650 | |
| Sophomore 2016 | 755 | 9,178 | 5,774 | (15) | 4,144 | - | 4,144 | |
| Health - PE | 432 | 21 | 53 | - | 400 | - | 400 | |
| Testing Incentives | 2,803 | 3,505 | 5,307 | 750 | 1,751 | - | 1,751 | |
| Band | 2,971 | 13,983 | 16,073 | - | 881 | - | 881 | |
| Class 2015 JR | 3,496 | 12,794 | 12,245 | - | 4,045 | - | 4,045 | |
| Drama Club | 725 | 2,418 | 1,195 | - | 1,948 | - | 1,948 | |
| Class of 2011 | 1,663 | - | - | (1,663) | - | - | - | |
| Class of 2009 | 117 | - | - | (117) | - | - | - | |
| Project Graduation | 2,495 | 10,530 | 10,632 | (7) | 2,386 | - | 2,386 | |
| Chess Club | 62 | - | - | - | 62 | - | 62 | |
| KYA/KUNA | 11 | 7,321 | 7,232 | - | 100 | - | 100 | |
| Science Lab/Chemistry | 1,280 | 976 | 918 | - | 1,338 | - | 1,338 | |
| Class of 2012 | 71 | - | - | (71) | - | - | - | |
| Senior Trip | 1,196 | - | - | - | 1,196 | - | 1,196 | |
| Poster Machine | 344 | 25 | 360 | 110 | 119 | - | 119 | |
| Hot Shot Club | 192 | - | - | - | 192 | - | 192 | |
| Class of 2013 | 127 | - | - | (127) | - | - | - | |
| Class of 2018 FR | - | 1,556 | 1,168 | - | 388 | - | 388 | |
| FFA | 222 | 20,705 | 20,337 | 985 | 1,575 | - | 1,575 | |
| Vocational Ag | 46 | - | - | - | 46 | - | 46 | |
| FCCLA | 366 | 3,201 | 3,107 | - | 460 | - | 460 | |
| Home Economics | 30 | - | - | - | 30 | - | 30 | |
| Industrial Arts | 593 | 561 | 809 | - | 345 | - | 345 | |
| Class of 2014 | 1,780 | 410 | 2,093 | (50) | 47 | - | 47 | |
| School Newspaper | 128 | - | - | - | 128 | - | 128 | |
| Fall Festival | - | 810 | 430 | (360) | 20 | - | 20 | |
| Embroidery Shop | 219 | - | 197 | - | 22 | - | 22 | |
| Library | 748 | 84 | - | - | 832 | - | 832 | |
| Academic Team | 27 | - | - | - | 27 | - | 27 | |
| Yearbook | 17,222 | 8,738 | 11,112 | 29 | 14,877 | - | 14,877 | |
| Student Council | 43 | - | 20 | - | 23 | - | 23 | |
| Art Club | 154 | 128 | - | - | 282 | - | 282 | |
| Science Fair/Biology | 1,204 | 1,090 | 1,687 | (15) | 592 | - | 592 | |
| Twin Towers | 25 | - | - | - | 25 | - | 25 | |
| FBLA | 372 | 4,760 | 4,043 | 196 | 1,285 | - | 1,285 | |
| Scrapbooking Club | 73 | - | - | - | 73 | - | 73 | |
| Angel Tree | - | 938 | 912 | - | 26 | - | 26 | |
| Class of 2010 | 182 | - | - | (182) | - | - | - | |
| FCA | 55 | - | - | - | 55 | - | 55 | |
| College Classes | - | 7,224 | 7,068 | 60 | 216 | - | 216 | |
| NCHS Honor | 358 | 362 | 257 | - | 463 | - | 463 | |
| Cheer Competition | 1,938 | - | 3,532 | 2,228 | 634 | - | 634 | |
| Drive for Perfection | 1,317 | 817 | 659 | - | 1,475 | - | 1,475 | |
| Athletic Fund | 7,711 | 78,310 | 68,503 | (2,231) | 15,287 | - | 15,287 | |
| Athletic Uniforms | 768 | - | 100 | - | 668 | - | 668 | |
| 38TH Baseball | 778 | - | 453 | (325) | - | - | - | |
| All A | 4,791 | - | 244 | - | 4,547 | - | 4,547 | |
| Volleyball 38th | 109 | 164 | - | - | 273 | - | 273 | |
| 38th District BB | 4,033 | 807 | 963 | - | 3,877 | - | 3,877 | |
| 38th SB | 150 | - | 150 | - | - | - | - | |
| Region 10 Girls/12 | 5,080 | 3,007 | 1,214 | - | 6,873 | - | 6,873 | |

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
HIGH SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2014**

| | CASH BALANCES JULY 1, 2013 | RECEIPTS | DISBURSE- MENTS | TRANSFERS | CASH BALANCES JUNE 30, 2014 | RECEIVABLE (PAYABLE) JUNE 30, 2014 | IN CUSTODY FOR STUDENTS JUNE 30, 2014 |
|---------------------------|----------------------------------|-------------------|--------------------|-------------|-----------------------------------|--|---|
| 38TH GBB | \$ 1,055 | \$ 2,247 | \$ 2,171 | \$ - | \$ 1,131 | \$ - | \$ 1,131 |
| Rec Bowl | 4,000 | - | 244 | - | 3,756 | - | 3,756 |
| Region 10 FB | 1,523 | 632 | 200 | - | 1,955 | - | 1,955 |
| Region 10 Boys BB | 3,354 | 374 | 384 | - | 3,344 | - | 3,344 |
| Hall of Fame FB | - | 7,767 | 6,469 | 1,151 | 2,449 | - | 2,449 |
| Bluegrass Conference | - | 2,355 | 2,355 | - | - | - | - |
| Shoot for Cure | - | 2,105 | 2,255 | 400 | 250 | - | 250 |
| Volleyball Boosters | 615 | 14,063 | 14,772 | 96 | 2 | - | 2 |
| Football Boosters | 2,094 | 10,050 | 6,831 | (1,251) | 4,062 | - | 4,062 |
| Baseball Boosters | 1,022 | 9,586 | 8,465 | (190) | 1,953 | - | 1,953 |
| Boys Basketball Boosters | 436 | 13,781 | 12,777 | 1,207 | 2,647 | - | 2,647 |
| Girls Basketball Boosters | 2,034 | 9,718 | 8,219 | (1,659) | 1,874 | - | 1,874 |
| Softball Boosters | 1,990 | 5,962 | 5,951 | 667 | 2,668 | - | 2,668 |
| Training Facilities | 993 | - | 420 | - | 573 | - | 573 |
| Girls Golf Booster | 199 | - | 199 | - | - | - | - |
| MS/HS Cheerleaders | 446 | 22,397 | 18,448 | (2,100) | 2,295 | - | 2,295 |
| Cross Co | 461 | 5,216 | 4,079 | - | 1,598 | - | 1,598 |
| MS Football | 303 | 6,467 | 5,409 | - | 1,361 | - | 1,361 |
| MS Girls BB | 1,255 | 7,049 | 7,518 | - | 786 | - | 786 |
| MS Boys BB | 82 | 14,995 | 13,918 | (97) | 1,062 | - | 1,062 |
| MS Volleyball | 825 | 646 | 680 | - | 791 | - | 791 |
| MS Softball | 547 | 1,781 | 997 | (287) | 1,044 | - | 1,044 |
| MS Baseball | 835 | - | 15 | (820) | - | - | - |
| Ohio Valley Conference | - | 4,824 | 1,660 | (10) | 3,154 | - | 3,154 |
| MS Athletic | 5,042 | 31,912 | 31,029 | 1,528 | 7,453 | - | 7,453 |
| 7th Science Fees | 1,303 | 815 | 968 | - | 1,150 | - | 1,150 |
| MS Honor Society | 806 | 13,292 | 13,084 | - | 1,014 | - | 1,014 |
| MS FCA | 5 | - | - | - | 5 | - | 5 |
| MS Classroom | 307 | 422 | 666 | - | 63 | - | 63 |
| 8th Science Fees | 170 | 707 | 870 | (7) | - | - | - |
| TOTALS | \$ 103,241 | \$ 398,885 | \$ 376,003 | \$ - | \$ 126,123 | \$ - | \$ 126,123 |

**NICHOLAS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

| <u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u> | <u>FEDERAL CFDA NUMBER</u> | <u>PASS-THROUGH GRANTOR'S NUMBER/AWARD NUMBER</u> | <u>EXPENDITURES</u> |
|--|------------------------------------|---|----------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed Through Kentucky Department of Education: | | | |
| Child Nutrition Cluster | | | |
| National School Breakfast | 10.553 | 7760005-13 | 26,864 |
| National School Breakfast | 10.553 | 7760005-14 | 99,808 |
| National School Lunch | 10.555 | 7750002-13 | 63,780 |
| National School Lunch | 10.555 | 7750002-14 | 254,337 |
| National School Lunch- Non-cash Commodities | 10.555 | 2014 | 29,926 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | <u>474,715</u> |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed Through Kentucky Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002-12 | 156,122 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002-13 | 261,343 |
| | | | <u>417,465</u> |
| Migrant Education - State Grant Program | 84.011 | 3110002-13 | 47,039 |
| Migrant Education - State Grant Program | 84.011 | 3110002-12 | 70,084 |
| Migrant Education - State Grant Program | 84.011 | 3110002-11 | 18,000 |
| | | | <u>135,123</u> |
| Special Education Cluster | | | |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 3810002-13 | 207,622 |
| Special Education - Preschool Grants (IDEA Preschool) | 84.173 | 3800002-13 | 7,769 |
| | | | <u>215,391</u> |
| Career and Technical Education | 84.048 | 3710002-13 | 12,753 |
| Twenty-First Century Community Learning Centers | 84.287 | 3400002-12 | 1,036 |
| Improving Teacher Quality State Grants | 84.367 | 3230002-12 | 37,389 |
| Improving Teacher Quality State Grants | 84.367 | 3230002-13 | 75,110 |
| | | | <u>112,499</u> |
| Rural Education | 84.358 | 3140002-11 | 12,299 |
| Rural Education | 84.358 | 3140002-12 | 11,115 |
| | | | <u>23,414</u> |
| Race To The Top | 84.413A | 3960002-11 | 13,718 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | <u>931,399</u> |
| APPALACHIAN REGIONAL COMMISSION | | | |
| Passed Through Morehead State University: | | | |
| Appalachian Research, Technical Assistance and Demonstration Projects | 23.011 | 2014 | 3,991 |
| TOTAL APPALACHIAN REGIONAL COMMISSION | | | <u>3,991</u> |
| TOTAL FEDERAL EXPENDITURES | | | <u>\$ 1,410,105</u> |

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

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Nicholas County School District under programs of the federal government for the year ended June 30, 2014. 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*. Because the Schedule presents only a selected portion of the operations of the Nicholas County School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, the District had food commodities totaling \$15,583 in inventory.



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Nicholas County School District
Carlisle, Kentucky 40311

I have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities and State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Nicholas County School District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

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

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

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific statutes or regulations identified in *State Compliance Requirements* contained in the Kentucky Public School Districts' Audit Contract and Requirements.

I noted certain matters that I reported to management of the District in a separate letter dated November 10, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Penny Stanfield

PENNY R STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

November 10, 2014



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Nicholas County School District
Carlisle, Kentucky 40311

Report on Compliance for Each Major Federal Program

I have audited Nicholas County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. Nicholas 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

My responsibility is to express an opinion on compliance for each of Nicholas County School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that I 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 Nicholas County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Opinion on Each Major Federal Program

In my opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Nicholas 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 my audit of compliance, I considered Nicholas 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 my 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, I do not express an opinion on the effectiveness of Nicholas 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.

My 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 weakness or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weakness may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

Penny Stanfield

PENNY R STANFIELD, CPA & CO., PLLC
Maysville, Kentucky
November 10, 2014

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

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the Nicholas County School District.
2. No significant deficiencies were disclosed during the audit of the financial statements which would be required to be reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statement of Nicholas County School District were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for Nicholas County School District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs for the year ended June 30, 2014 include:

| | <u>CFDA #</u> |
|--|----------------|
| Child Nutrition Cluster | 10.553, 10.555 |
| Title I Grants to Local Educational Agencies | 84.010 |

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. STATUS OF PRIOR YEAR FINDINGS

THERE WERE NO FINDINGS IN THE PRIOR YEAR.



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

Kentucky State Committee for School District Audits
Members of the Board of Education
Nicholas County School District
Carlisle, Kentucky 40311

In planning and performing my audit of the financial statements of Nicholas County School District as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

However, during my audit, I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated November 10, 2014, on the financial statements of Nicholas County School District.

I will review the status of these comments during my next audit engagement. I have already discussed the comments with various District personnel, and 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.

Penny Stanfield

PENNY R STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

November 10, 2014

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

**NICHOLAS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
Year Ended June 30, 2014**

Status of Prior Year Management Points

Recommendations from the prior year have been implemented with the exception of findings 14-1, 14-4, 14-5, 14-6, 14-9 and 14-10 which are repeated from prior year.

CENTRAL OFFICE

14-1 PURCHASE ORDERS

Condition: My audit tests indicated that purchase orders are not being completed for all purchases and occasionally are prepared after items are received. This practice may defeat the control a purchase order system is intended to provide.

Recommendation: To help monitor the volume of purchases and ensure purchases are initiated with proper approval, I recommend that purchase orders be prepared and approved before items are received or ordered.

Management

Response: Purchase order procedures will be reviewed with the staff and will be monitored by the Finance Officer.

14-2 EXTRA DUTY PAY

Condition: During my review of Form 1099's, I discovered that an employee was issued a Form 1099-MISC for extra duty pay and a Form W-2 for substitute teaching. Per IRS guidelines, an individual is not permitted to be an employee and a contractor concurrently.

Recommendation: All extra duty pay to employees of the District must be included in taxable wages.

Management

Response: The District will implement this recommendation during FY15.

14-3 ACCOMPANY CHECKS SUBMITTED FOR SIGNATURE WITH SUPPORTING DOCUMENTS

Condition: Checks submitted for signature are not accompanied by invoices or other supporting documents, nor are the supporting documents approved for payment.

Recommendation: I recommend that supporting documents bearing the appropriate approvals and other information should accompany the checks submitted for signature.

Management

Response: Supporting documentation will be provided to check signors prior to signing the checks.

**NICHOLAS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
Year Ended June 30, 2014**

HIGH/MIDDLE SCHOOL

14-4 MULTIPLE RECEIPT FORMS

Condition: Multiple Receipt Forms were noted during the audit that lacked the proper signatures. Multiple Receipt Forms are required to be signed by the student and the person remitting the money to the office.

Recommendation: I recommend that all Multiple Receipt Forms be signed by both the student and the person submitting the money to the office for deposit.

Management

Response: The school treasurer will ensure that multiple receipt forms are properly used to document receipt of funds and that the student and teacher will sign to document agreement that the amounts shown are correct.

14-5 FUND RAISER WORKSHEETS

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

Recommendation: For each fundraising event, the sponsor responsible for the administration of the fundraiser must fill out the Fund Raiser Worksheet.

Management

Response: Fundraising sponsors will be instructed to complete the required documentation in a timely manner.

14-6 PURCHASE ORDERS

Condition: The use and completeness of purchase orders needs improvement. When reviewing disbursements, I noted instances of missing purchase orders, purchase orders with no sponsor approval, and some that were dated after the invoice date.

Recommendation: In order to maintain proper controls over the purchasing process, all purchase orders should be properly completed and approved for each purchase.

Management

Response: Purchase order procedures will be reviewed with the staff and form completion will be monitored by the school treasurer.

**NICHOLAS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
Year Ended June 30, 2014**

14-7 CREDIT CARD LOG

Condition: The use of the Wal-Mart cards is not being documented by having the employee using the card sign a log when the card is issued and returned to the school.

Recommendation: I recommend compliance with the Redbook which requires that all credit cards be checked out to individual employees using the Credit Card Sign In/Out Log (Form F-SA-13).

Management Response: The use the Credit Card Sign In/Out Log will be implemented.

14-8 DEPOSITS NOT BEING MADE TIMELY

Condition: When testing receipts, I discovered that deposits are not being made within the guidelines described in the Redbook which requires that all monies collected shall be deposited on a daily basis when the deposit amount reaches \$100 or the following day after evening events.

Recommendation: I recommend that all Redbook guidelines be followed.

Management Response: The principal will monitor deposits by reviewing the bank statement deposit dates and implementing procedures for making timely deposits in the absence of the school treasurer.

ELEMENTARY SCHOOL

14-9 PURCHASE ORDERS

Condition: The use and completeness of purchase orders needs improvement. For instance, I noted several purchase orders were completed after the invoice date.

Recommendation: I recommend the completion of a purchase order before the payment is obligated.

Management Response: Purchase order procedures will be reviewed with the staff and form completion will be monitored by the school treasurer.

**NICHOLAS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
Year Ended June 30, 2014**

14-10 BOOSTER CLUB

Condition: The PTA did not submit a budget, list of officers or an annual financial report as required by the Redbook.

Recommendation: The PTA must comply with all Redbook guidelines.

Management
Response: The PTA became an internal booster during FY15.