

POWELL COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2014

POWELL COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2014

	<u>Pages</u>
Independent Auditor's Report .....	1 - 3
Management's Discussion and Analysis .....	4 - 9
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position.....	10
Statement of Activities.....	11 - 12
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	16
Statement of Net Position – Proprietary Fund .....	17
Statement 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
Statement of Changes in Fiduciary Net Position .....	21
Notes to the Basic Financial Statements .....	22 - 41
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	42

POWELL COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2014

	<u>Pages</u>
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Funds .....	43
Other Supplementary Information:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds .....	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	45
Statement of Revenues, Expenditures and Changes in Fund Balance – Powell County High School Activity Fund.....	46 - 47
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Middle and Elementary School Activity Funds .....	48
Schedule of Expenditures of Federal Awards.....	49 - 51
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 <i>Government Auditing Standards</i> .....	52 - 53
Independent Auditor’s Report on Compliance for Each Major Program and Internal Control Over Compliance Required by OMB Circular A-133.....	54 - 55
Summary Schedule of Prior Audit Findings.....	56
Schedule of Findings and Questioned Costs .....	57 - 58
Management Letter .....	59 - 60

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits  
Members of Powell County Board of Education  
Stanton, Kentucky

***Report on the Financial Statements***

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

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

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 State Committee for School District Audits in the Kentucky Public School District's Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Powell 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 4-9 and 42-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Powell 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 non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual 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 as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014, on our consideration of the Powell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Powell County School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Chris Gooch".

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

October 13, 2014

POWELL COUNTY SCHOOL DISTRICT  
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2014

As management of the Powell County School 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. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance, including MMA investment accounts, fiduciary funds and fund 2 deficit balance of \$183,187 was \$6,505,047, for which \$4,658,143 was committed to construction projects. The ending cash balance, including MMA investment accounts and fiduciary funds and fund 2 deficit balance of \$332,210 was \$3,588,533 for which \$2,197,337 is committed to construction projects.
- Interest revenue totaled \$4,988 for the year ended and for the prior year the total interest revenue was \$3,175.
- Total long-term principal reductions for the fiscal year were \$957,632. This includes SFCC participation.
- For the prior fiscal year ended, total general fund revenue was \$17,141,997 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. This total included \$3,377,919 in state on behalf payments. Excluding transfers and state on behalf payments, total general fund expenditures were \$13,988,367.
- For the current fiscal year ended, total general fund revenue was \$17,436,348 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. This total included \$3,451,915 in state on behalf payments. Excluding transfers and state on behalf payments, total general fund expenditures were \$14,400,909.
- A \$5,825,606 High School Renovation/Addition, including the acquisition of forty-three acres of land for \$850,000 adjacent to District existing property was approved by the Kentucky Division of Facilities Management. Total fiscal year expenditures were \$2,466,348.

**OVERVIEW OF FINANCIAL STATEMENTS**

The 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.

POWELL COUNTY SCHOOL DISTRICT  
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

**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 assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

**Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

**Notes to the Financial Statements**

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

POWELL COUNTY SCHOOL DISTRICT  
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2014, assets exceeded liabilities by \$7,179,958.

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

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 positions for the years ended June 30, 2014 and 2013**

Following are comparisons of net assets:

	<u>At June 30,</u>	
	<u>2014</u>	<u>2013</u>
Current assets	4,286,984	6,898,113
Noncurrent assets	17,836,948	15,471,668
Deferred outflows of resources	20,187	-
<u>Total assets and deferred outflows of resources</u>	<u>22,144,119</u>	<u>22,369,781</u>
Current liabilities	1,905,607	1,840,162
Noncurrent liabilities	12,907,233	13,558,673
Deferred inflows of resources	151,321	-
<u>Total liabilities and deferred inflows of resources</u>	<u>14,964,161</u>	<u>15,398,835</u>
Net position		
Investment in capital assets (net of debt)	3,962,934	548,808
Restricted	2,778,962	5,186,673
Unreserved fund balance	438,062	1,235,465
<u>Total net position</u>	<u>7,179,958</u>	<u>6,970,946</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>22,144,119</u>	<u>22,369,781</u>

POWELL COUNTY SCHOOL DISTRICT  
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

- Current assets include decreases due to construction expenditures of \$2,466,348 at June 30, 2014
- Noncurrent assets and resources reflect \$3,144,504 in fixed assets additions and depreciation expense of \$753,443.
- Noncurrent liabilities and resources reflect principal reduction in long-term debt of \$957,632 including SFCC on-behalf payments. Also included in 2014 is \$151,321 unearned revenue.
- Net position reflects increases in account line items for new construction expenditures.

**Comments on budget comparisons**

The following table presents a comparison of budget to actual for the general fund for the fiscal year ended June 30, 2014:

	<u>Budget 2014</u>	<u>Actual 2014</u>	<u>Variance I/(D)</u>
Revenues:			
Local revenue sources	2,532,180	2,599,921	67,741
Federal and state revenue sources	<u>13,601,543</u>	<u>14,836,427</u>	<u>1,234,884</u>
<u>Total revenues</u>	<u>16,133,723</u>	<u>17,436,348</u>	<u>1,302,625</u>
Expenses:			
Instruction	9,875,978	10,726,175	(850,197)
Student support services	635,474	681,482	(46,008)
Instructional support	615,853	671,671	(55,818)
District administration	1,152,657	1,155,615	(2,958)
School administration	1,106,417	1,100,594	5,823
Business support services	289,299	277,112	12,187
Plant operations and management	1,972,589	2,044,854	(72,265)
Student transportation	1,112,483	1,123,378	(10,895)
Debt service	71,942	71,943	(1)
Contingencies	<u>685,470</u>	<u>-</u>	<u>685,470</u>
<u>Total expenses</u>	<u>17,518,162</u>	<u>17,852,824</u>	<u>(334,662)</u>
<u>Excess (deficiency) of revenue over expense</u>	<u>(1,384,439)</u>	<u>(416,476)</u>	<u>1,637,287</u>

POWELL COUNTY SCHOOL DISTRICT  
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

Variations in actual state revenue sources and expenditures are a result of on behalf payment differences totaling \$1,190,464.

- Contingencies reflected in the current year meet regulatory requirements.

The following table presents a comparison of government wide revenue and expense for the fiscal years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Revenues:		
Local revenue sources	2,907,264	3,114,186
State revenue sources	16,991,627	16,578,566
Federal revenue	<u>3,607,439</u>	<u>3,584,844</u>
<u>Total revenues</u>	<u>23,506,330</u>	<u>23,277,596</u>
Expenses:		
Instruction	13,093,657	13,427,158
Student support services	711,154	689,030
Instructional support	1,504,775	1,418,776
District administration	1,304,037	1,244,220
School administration	1,104,533	1,119,412
Business support services	277,512	291,750
Plant operations and management	2,058,863	1,867,631
Student transportation	1,277,988	1,384,233
Food services operation	1,516,925	1,554,257
Community services operations	301,125	300,723
Interest on long-term debt	<u>401,588</u>	<u>408,376</u>
<u>Total expenses</u>	<u>23,552,157</u>	<u>23,705,566</u>
<u>Excess (Deficiency) of revenue over expense</u>	<u>(45,827)</u>	<u>(427,970)</u>

POWELL COUNTY SCHOOL DISTRICT  
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

- Local revenue source decreases include the accounting for Kentucky School Board Insurance Trust settlement of \$310,437.
- Instructional and student transportation expenditures for the government wide financial statements include \$191,900 and \$118,168 in reclassifications to agree the District capital asset schedule.
- Revenue sources include local property and utility taxes, interest revenue, food service revenue and local, state and federal grant funding resources.

**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 prior year budget included \$685,470 in contingency (3.91%). Management has established reserves for sick leave. The District continually monitors non-monetary factors that may have an impact on the District's budget including new legislation, economic changes, and shifts in population.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 663-3300.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

At June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>Assets:</b>			
- Current assets -			
Cash and cash equivalents	2,606,199	415,980	3,022,179
Investments	495,117	-	495,117
Accounts receivable:			
Taxes - current	83,816	-	83,816
Taxes - delinquent	13,584	-	13,584
Other	110,724	-	110,724
Intergovernmental - indirect federal	499,563	36,032	535,595
Inventories	-	25,969	25,969
<u>Total current assets</u>	<u>3,809,003</u>	<u>477,981</u>	<u>4,286,984</u>
- Noncurrent assets -			
Capital assets			
Nondepreciable capital assets	1,220,539	-	1,220,539
Depreciable capital assets, net	16,561,443	54,966	16,616,409
Capital assets, net	17,781,982	54,966	17,836,948
<u>Total assets</u>	<u>21,590,985</u>	<u>532,947</u>	<u>22,123,932</u>
<b>Deferred Outflows of Resources</b>			
Deferred savings from refunding bonds	20,187	-	20,187
<u>Total deferred outflows of resources</u>	<u>20,187</u>	<u>-</u>	<u>20,187</u>
<u>Total assets and deferred outflows of resources</u>	<u>21,611,172</u>	<u>532,947</u>	<u>22,144,119</u>
<b>Liabilities:</b>			
- Current liabilities -			
Cash deficit	332,210	-	332,210
Accounts payable	102,624	396	103,020
Current portion of bond/lease obligations	984,245	-	984,245
Current portion - KSBIT obligation	98,946	-	98,946
Interest payable	387,186	-	387,186
<u>Total current liabilities</u>	<u>1,905,211</u>	<u>396</u>	<u>1,905,607</u>
- Noncurrent liabilities -			
Accrued sick leave payable	172,972	-	172,972
Long-term portion of KSBIT obligation	211,491	-	211,491
Noncurrent portion of long-term debt	12,522,770	-	12,522,770
<u>Total noncurrent liabilities</u>	<u>12,907,233</u>	<u>-</u>	<u>12,907,233</u>
<u>Total liabilities</u>	<u>14,812,444</u>	<u>396</u>	<u>14,812,840</u>
<b>Deferred Inflows of Resources</b>			
Unearned revenues - governmental sources	151,321	-	151,321
<u>Total deferred outflows of resources</u>	<u>151,321</u>	<u>-</u>	<u>151,321</u>
<b>Net position:</b>			
Invested in capital assets, net of related debt	3,907,968	54,966	3,962,934
Restricted for:			
Capital projects	2,198,084	-	2,198,084
Other	103,293	477,585	580,878
Unrestricted	438,062	-	438,062
<u>Total net position</u>	<u>6,647,407</u>	<u>532,551</u>	<u>7,179,958</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>21,611,172</u>	<u>532,947</u>	<u>22,144,119</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Capital Grants &amp; Contributions</u>
<b>FUNCTIONS/PROGRAMS:</b>				
- Governmental Activities -				
Instruction	13,093,657	-	4,517,834	-
Support services:				
Student	711,154	-	180,939	-
Instructional staff	1,504,775	-	981,994	-
District administration	1,304,037	-	287,664	-
School administration	1,104,533	-	222,526	-
Business support	277,512	-	41,697	-
Plant operation & management	2,058,863	-	95,203	-
Student transportation	1,277,988	-	222,292	-
Community services operations	301,125	-	300,076	-
Interest on long-term debt	401,588	-	-	-
<u><b>Total governmental activities</b></u>	<u>22,035,232</u>	<u>-</u>	<u>6,850,225</u>	<u>-</u>
- Business-type Activities -				
Food service	1,516,925	285,234	1,270,906	-
<u><b>Total business-type activities</b></u>	<u>1,516,925</u>	<u>285,234</u>	<u>1,270,906</u>	<u>-</u>
<u><b>Total primary government</b></u>	<u>23,552,157</u>	<u>285,234</u>	<u>8,121,131</u>	<u>-</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES (continued)For the Year Ended June 30, 2014

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental</u>	<u>Business-</u>	<u>Total</u>
	<u>Activities</u>	<u>Type</u>	
		<u>Activities</u>	
	(8,575,823)	-	(8,575,823)
	(530,215)	-	(530,215)
	(522,781)	-	(522,781)
	(1,016,373)	-	(1,016,373)
	(882,007)	-	(882,007)
	(235,815)	-	(235,815)
	(1,963,660)	-	(1,963,660)
	(1,055,696)	-	(1,055,696)
	(1,049)	-	(1,049)
	<u>(401,588)</u>	<u>-</u>	<u>(401,588)</u>
	<u>(15,185,007)</u>	<u>-</u>	<u>(15,185,007)</u>
	<u>-</u>	<u>39,215</u>	<u>39,215</u>
	<u>-</u>	<u>39,215</u>	<u>39,215</u>
	<u>(15,185,007)</u>	<u>39,215</u>	<u>(15,145,792)</u>
<b>General revenues:</b>			
Taxes	2,757,874	-	2,757,874
Investment earnings	4,971	17	4,988
State and formula grants	12,477,935	-	12,477,935
Miscellaneous	170,930	(1,325)	169,605
Loss on KSBIT settlement	<u>(310,437)</u>	<u>-</u>	<u>(310,437)</u>
<b><u>Total general revenues</u></b>	<u>15,101,273</u>	<u>(1,308)</u>	<u>15,099,965</u>
Change in net position	(83,734)	37,907	(45,827)
Net position - beginning (restated)	<u>6,731,141</u>	<u>494,644</u>	<u>7,225,785</u>
Net position - ending	<u>6,647,407</u>	<u>532,551</u>	<u>7,179,958</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTBALANCE SHEET – GOVERNMENTAL FUNDSAt June 30, 2014

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u>	<u>Construction</u> <u>Fund</u>	<u>Other</u> <u>Gov't</u> <u>Funds</u>	<u>Total</u> <u>Gov't</u> <u>Funds</u>
<b>Assets:</b>					
Cash and cash equivalents	401,573	-	2,197,337	7,289	2,606,199
Investments	495,117	-	-	-	495,117
Accounts receivable:					
Taxes - current	83,816	-	-	-	83,816
Taxes - delinquent	13,584	-	-	-	13,584
Other	110,724	-	-	-	110,724
Intergovernmental - indirect federal	<u>14,706</u>	<u>484,857</u>	<u>-</u>	<u>-</u>	<u>499,563</u>
 <u>Total assets and resources</u>	 <u>1,119,520</u>	 <u>484,857</u>	 <u>2,197,337</u>	 <u>7,289</u>	 <u>3,809,003</u>
<b>Liabilities:</b>					
Cash deficit	-	332,210	-	-	332,210
Accounts payable	<u>94,756</u>	<u>1,326</u>	<u>6,542</u>	<u>-</u>	<u>102,624</u>
 <u>Total liabilities</u>	 <u>94,756</u>	 <u>333,536</u>	 <u>6,542</u>	 <u>-</u>	 <u>434,834</u>
<b>Deferred Inflows of Resources:</b>					
Unearned revenues - governmental sources	<u>-</u>	<u>151,321</u>	<u>-</u>	<u>-</u>	<u>151,321</u>
 <u>Total deferred inflows of resources</u>	 <u>-</u>	 <u>151,321</u>	 <u>-</u>	 <u>-</u>	 <u>151,321</u>
<b>Fund Balance:</b>					
Restricted - sick leave	66,115	-	-	-	66,115
Assigned - site based carryforward	37,178	-	-	-	37,178
Restricted for future construction/outlay	-	-	2,190,795	7,289	2,198,084
Unassigned fund balance	<u>921,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>921,471</u>
 <u>Total fund balance</u>	 <u>1,024,764</u>	 <u>-</u>	 <u>2,190,795</u>	 <u>7,289</u>	 <u>3,222,848</u>
 <u>Total liabilities, deferred inflows of resources and fund balance</u>	 <u>1,119,520</u>	 <u>484,857</u>	 <u>2,197,337</u>	 <u>7,289</u>	 <u>3,809,003</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2014

Total fund balance per fund financial statements	3,222,848
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net position.	17,781,982
Deferred outflows on refunded debt are reported in government wide financial statements but not in fund financial statements.	20,187
Long-term sick leave payable is not recognized in the fund financial statements.	(172,972)
Certain liabilities (such as bonds payable, premiums and discounts on bonds and accrued interest) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net position.	<u>(14,204,638)</u>
Net position for governmental activities	<u><u>6,647,407</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes	2,499,876	-	-	257,998	2,757,874
Earnings on investments	4,969	2	-	-	4,971
Other local revenue	95,076	75,854	-	-	170,930
Intergovernmental - state	14,692,984	952,046	-	1,166,571	16,811,601
Intergovernmental - indirect federal	<u>143,443</u>	<u>2,373,116</u>	<u>-</u>	<u>-</u>	<u>2,516,559</u>
<b><u>Total revenues</u></b>	<u>17,436,348</u>	<u>3,401,018</u>	<u>-</u>	<u>1,424,569</u>	<u>22,261,935</u>
<b>Expenditures:</b>					
Instructional	10,726,175	1,994,560	-	-	12,720,735
Student support services	681,482	29,505	-	-	710,987
Staff support services	671,671	831,706	-	-	1,503,377
District administration	1,155,615	146,498	-	-	1,302,113
School administration	1,100,594	3,551	-	-	1,104,145
Business support	277,112	-	-	-	277,112
Plant operations and management	2,044,854	-	-	-	2,044,854
Student transportation	1,123,378	129,516	-	-	1,252,894
Community service activities	-	300,076	-	-	300,076
Building improvements	-	-	2,466,348	-	2,466,348
Debt service:					
Principal	66,418	-	-	891,214	957,632
Interest	<u>5,525</u>	<u>-</u>	<u>-</u>	<u>401,531</u>	<u>407,056</u>
<b><u>Total expenditures</u></b>	<u>17,852,824</u>	<u>3,435,412</u>	<u>2,466,348</u>	<u>1,292,745</u>	<u>25,047,329</u>
Excess (deficit) of revenues over expenditures	<u>(416,476)</u>	<u>(34,394)</u>	<u>(2,466,348)</u>	<u>131,824</u>	<u>(2,785,394)</u>
<b>Other financing sources (uses):</b>					
Operating transfers in	125,536	34,394	-	869,172	1,029,102
Operating transfers out	<u>(34,394)</u>	<u>-</u>	<u>-</u>	<u>(994,708)</u>	<u>(1,029,102)</u>
<b><u>Total other financing sources (uses)</u></b>	<u>91,142</u>	<u>34,394</u>	<u>-</u>	<u>(125,536)</u>	<u>-</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(325,334)</u>	<u>-</u>	<u>(2,466,348)</u>	<u>6,288</u>	<u>(2,785,394)</u>
<b>Fund balance - July 1, 2013</b>	<u>1,350,098</u>	<u>-</u>	<u>4,657,143</u>	<u>1,001</u>	<u>6,008,242</u>
<b>Fund balance - June 30, 2014</b>	<u><u>1,024,764</u></u>	<u><u>-</u></u>	<u><u>2,190,795</u></u>	<u><u>7,289</u></u>	<u><u>3,222,848</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2014

Net change in total fund balances per fund financial statements	(2,785,394)
Amounts reported for governmental activities in the statement of activities differences:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.	
Capital outlays reported in fund financial statements	2,776,416
Depreciation recorded in government wide financial statements	(753,443)
Other long term debt, i.e, related to extraordinary events is recognized currently in the government wide financial statements	(310,437)
Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statements of activities.	19,369
Accrued sick leave is recognized when incurred in the fund financial statements.	26,025
Amortization expense on refunded debt is not recognized in the fund financial statements.	(13,902)
Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	<u>957,632</u>
Change in net position of governmental activities	<u><u>(83,734)</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION – PROPRIETARY FUNDAt June 30, 2014

	Food Service Fund
<b>Assets:</b>	
- Current Assets -	
Cash and cash equivalents	415,980
Accounts receivable:	
Intergovernmental - indirect federal	36,032
Inventories	<u>25,969</u>
<u>Total current assets</u>	<u>477,981</u>
- Noncurrent Assets -	
Depreciable capital assets	535,300
Less: accumulated depreciation	<u>(480,334)</u>
<u>Total noncurrent assets</u>	<u>54,966</u>
<u>Total assets</u>	<u><u>532,947</u></u>
<b>Liabilities:</b>	
- Current Liabilities -	
Accounts payable	<u>396</u>
<u>Total current liabilities</u>	<u>396</u>
<b>Net position:</b>	
Investments in capital assets	54,966
Nonspendable inventories	25,969
Restricted net assets	<u>451,616</u>
<u>Total net position</u>	<u>532,551</u>
<u>Total liabilities and net position</u>	<u><u>532,947</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION – PROPRIETARY FUNDFor the Year Ended June 30, 2014

	<u>Food service Fund</u>
<b>Operating revenues:</b>	
Lunchroom sales	285,234
Federal grants	1,090,880
State grants	106,704
Donated commodities	<u>73,322</u>
<u>Total operating revenues</u>	<u>1,556,140</u>
<b>Operating expense:</b>	
Salaries and wages	588,518
Contract services	28,311
Materials and supplies	872,353
Depreciation	24,455
Other operating expenses	<u>3,288</u>
<u>Total operating expenses</u>	<u>1,516,925</u>
<u>Operating income (loss)</u>	<u>39,215</u>
<b>Nonoperating Revenue/(Expense):</b>	
Interest income	17
Loss on Asset Disposal	<u>(1,325)</u>
<u>Total nonoperating revenue/(expense)</u>	<u>(1,308)</u>
<u>Change in net position</u>	37,907
Net position, July 1, 2013	<u>494,644</u>
Net position, June 30, 2014	<u><u>532,551</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

For the Year Ended June 30, 2014

	<u>Food service Fund</u>
<b>Cash flows from operating activities:</b>	
Cash received from:	
Lunchroom sales	285,234
Federal and state grants	1,141,985
Cash paid to/for:	
Employees	(496,785)
Supplies/Contractual	(823,660)
Other activities	(3,288)
	103,486
<u>Net cash provided (used) by operating activities</u>	103,486
<b>Cash flows from capital and related financing activities:</b>	
Disposal of fixed assets	-
<b>Cash flows from investing activities:</b>	
Interest income	17
<b>Cash flows from financing activities:</b>	
	-
Net increase (decrease) in cash	103,503
Cash, beginning of year	312,477
Cash, end of year	415,980
<b>Reconciliation of operating income (loss) to net cash provided (used) by operations:</b>	
Operating income (loss)	39,215
Adjustments to reconcile operating income to cash provided (used) by operating activities:	
Depreciation	24,455
Changes in current assets/liabilities:	
Accounts receivable	36,134
Inventory	3,485
Accounts payable	197
	103,486
Net cash provided (used) by operating activities	103,486

Note – Non-cash transactions include State on-behalf payments of \$91,733, donated commodities of \$73,322 and loss on disposal of equipment, \$1,325.

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION - FIDUCIARY FUNDSAt June 30, 2014

	<u>Activity Funds</u>	<u>Scholarship Fund</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	<u>221,588</u>	<u>181,859</u>	<u>403,447</u>
<u>Total assets</u>	<u>221,588</u>	<u>181,859</u>	<u>403,447</u>
<b>Liabilities:</b>			
Accounts payable	1,502	-	1,502
Due to individual student activity account funds	<u>220,086</u>	<u>-</u>	<u>220,086</u>
<u>Total liabilities</u>	<u>221,588</u>	<u>-</u>	<u>221,588</u>
<b>Net Position:</b>			
Permanently restricted	-	167,803	167,803
Restricted - other spendable	<u>-</u>	<u>14,056</u>	<u>14,056</u>
<u>Total net position</u>	<u>-</u>	<u>181,859</u>	<u>181,859</u>
<u>Total liabilities and net position</u>	<u>221,588</u>	<u>181,859</u>	<u>403,447</u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF CHANGES IN FIDUCIARY NET POSITIONFor the Year Ended June 30, 2014

	<u>Scholarship Fund</u>
Additions:	
Interest income	2,265
Contributions/Donations	<u>3,026</u>
Total Additions	5,291
Deductions:	
Scholarship payments	<u>6,000</u>
Change in net position	(709)
Net position, beginning of year	<u>182,568</u>
Net position, end of year	<u><u>181,859</u></u>

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Powell 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 Powell County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Powell 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 Board 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 or the respective governing board.

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

Powell County School District Finance Corporation – The Powell County, Kentucky, Board of Education resolved to authorize the establishment of the Powell 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) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Powell County Board of Education also comprise the Corporations' Board of Directors.

Basis of Presentation

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

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

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

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

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

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

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is 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 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 Funds).
  - 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 Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

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

The Herbert and Hattie Profitt scholarship fund is a permanent type endowment fund. The interest earned is used for scholarships to Powell County High School students.

Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements,

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources. On the accrual basis of accounting, unamortized deferred charges on debt refunding is reported as a deferred outflow of resources.

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 change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.378 per \$100 valuation for real property, \$.378 per \$100 valuation for business personal property and \$.502 per \$100 valuation for motor vehicles.

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

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)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 assets 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 assets 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 capitalization threshold policies are five thousand dollars for equipment, furniture and fixtures. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

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

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 assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

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

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

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2014.

The District has set aside a board approved reserve in the amount of \$66,115 for accumulated sick leave.

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).

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.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Net Position

GASB 63, implemented for the previous fiscal year, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

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

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.

Recently Issued Accounting Pronouncements

GASB Statement No. 66, *Technical Corrections*—2012; an Amendment of GASB Statements No. 10 and No. 62, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District implemented the new requirements for the fiscal year 2013-2014 financial statements.

The District implemented GASB Statement 65 which establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of "deferred" in financial statement presentations.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Recently Issued Accounting Pronouncements (continued)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment* of GASB Statement 27 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements for future reporting periods.

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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$5,067,902 and the book balance was \$3,588,533. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). At June 30, 2014 the District's cash and cash equivalents were insured by FDIC in the amount of \$250,000 for all accounts. The balance of cash was collateralized with securities held in the financial institution's name and pledged to the District. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

The funds of the District are deposited and invested under the terms of a contract, contents of which are set out in the bond of depositors for public school funds. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE C – CASH AND CASH EQUIVALENTS (continued)

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

	<u>Bank Balance</u>	<u>Book Balance</u>
<u>Whitaker Bank:</u>		
General Checking Account	4,158,569	2,704,025
Revolving Fund	496	-
MMDA Account	245,117	245,117
Certificate of Deposit	250,000	250,000
Investment - Trust Agency Fund	167,803	167,803
Bowen Elementary Activity	29,089	25,007
Clay City Elementary Activity	22,789	18,320
Powell County High School Activity	112,180	103,426
Powell County Middle School Activity	61,808	58,933
Stanton Elementary Activity	20,051	15,902
<u>Total</u>	<u>5,067,902</u>	<u>3,588,533</u>

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

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

<u>Issue Date</u>	<u>Original Proceeds</u>	<u>Rates</u>
Refunding Issue 2002	2,465,000	2.50% - 3.90%
August 2006	3,290,000	3.65% - 4.20%
2nd Series of 2008	1,275,000	3.35% - 4.40%
KISTA 2008 Series	601,776	2.40% - 4.00%
KISTA 2009 R	75,416	1.00% - 3.30%
Refunding Issue 2010	4,050,000	1.50% - 3.00%
Revenue Series 2013	5,545,000	1.50% - 3.00%

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

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

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

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

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

<u>Year</u>	<u>Powell County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014 - 15	693,357	254,544	290,888	132,642	1,371,431
2015 - 16	708,028	233,544	297,069	126,532	1,365,173
2016 - 17	719,198	211,707	293,548	120,402	1,344,855
2017 - 18	644,630	193,283	299,722	114,233	1,251,868
2018 - 19	606,587	176,069	306,294	107,690	1,196,640
2019 - 24	2,691,306	616,813	1,491,388	411,339	5,210,846
2024 - 29	1,785,297	245,851	1,229,703	210,850	3,471,701
2029 - 33	638,874	48,271	811,126	61,679	1,559,950
<u>Totals</u>	<u>8,487,277</u>	<u>1,980,082</u>	<u>5,019,738</u>	<u>1,285,367</u>	<u>16,772,464</u>

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Following are changes in long-term debt:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Current</u> <u>Portion</u>
2002 Refunding Series	1,195,000	-	(285,000)	910,000	295,000
2006 Series	2,865,000	-	(80,000)	2,785,000	85,000
2008 2nd Series	1,145,000	-	(35,000)	1,110,000	35,000
2008 KISTA	299,097	-	(60,894)	238,203	62,685
2009 KISTA R	50,550	-	(6,738)	43,812	6,560
2010 Refunding Series	3,365,000	-	(340,000)	3,025,000	350,000
2013 Revenue Series	<u>5,545,000</u>	<u>-</u>	<u>(150,000)</u>	<u>5,395,000</u>	<u>150,000</u>
<u>Total</u>	<u>14,464,647</u>	<u>-</u>	<u>(957,632)</u>	<u>13,507,015</u>	<u>984,245</u>

NOTE E – CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Governmental Activities</u>				
Land	1,220,539	-	-	1,220,539
Land improvements	1,067,294	-	-	1,067,294
Buildings and improvements	23,648,786	-	-	23,648,786
Technology equipment	468,753	186,456	-	655,209
Vehicles	2,394,905	118,168	-	2,513,073
General equipment	822,018	5,444	-	827,462
Construction work in progress	<u>366,691</u>	<u>2,834,436</u>	<u>-</u>	<u>3,201,127</u>
<u>Totals at historical cost</u>	<u>29,988,986</u>	<u>3,144,504</u>	<u>-</u>	<u>33,133,490</u>

## POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

## NOTE E – CAPITAL ASSETS (continued)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<u>Governmental Activities</u>				
Less: accumulated depreciation				
Land improvements	1,005,830	15,245	-	1,021,075
Buildings and improvements	10,772,424	546,070	-	11,318,494
Technology equipment	428,583	18,341	-	446,924
Vehicles	1,769,161	142,963	-	1,912,124
General equipment	<u>622,067</u>	<u>30,824</u>	<u>-</u>	<u>652,891</u>
<u>Total accumulated depreciation</u>	<u>14,598,065</u>	<u>753,443</u>	<u>-</u>	<u>15,351,508</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>15,390,921</u>	<u>2,391,061</u>	<u>-</u>	<u>17,781,982</u>
<u>Business-Type Activities</u>				
Food service equipment	528,946	-	2,446	526,500
Vehicles	<u>8,800</u>	<u>-</u>	<u>-</u>	<u>8,800</u>
<u>Totals at historical cost</u>	<u>537,746</u>	<u>-</u>	<u>2,446</u>	<u>535,300</u>
Less: accumulated depreciation				
Food service and equipment	451,572	22,695	1,120	473,147
Vehicles	<u>5,427</u>	<u>1,760</u>	<u>-</u>	<u>7,187</u>
<u>Total accumulated depreciation</u>	<u>456,999</u>	<u>24,455</u>	<u>1,120</u>	<u>480,334</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>80,747</u>	<u>(24,455)</u>	<u>1,326</u>	<u>54,966</u>

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental functions as follows:

Instructional	590,846
Student support service	167
Instructional staff support	1,398
District administration	1,924
School administration	388
Business support	400
Plant operations and maintenance	14,009
Student transportation	143,262
Community services	<u>1,049</u>
Total depreciation expense -	
Government functions	<u><u>753,443</u></u>

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements provided by the District for equipment provide the minimum future rental payments as of June 30, 2014, as follows:

2014 - 15	35,598
2015 - 16	24,792
2016 - 17	20,036
2017 - 18	4,265
2018 - 19	3,470
and thereafter	<u>-</u>
<u>Total</u>	<u><u>88,161</u></u>

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

**Pension Plan**

*Plan Description* – The Powell County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE G – RETIREMENT PLANS (continued)

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, Kentucky 40601 or from the KTRS web site at [www.ktrs.ky.gov/](http://www.ktrs.ky.gov/).

*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 14.105%.

**Medical Insurance Plan**

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

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

*Funding Policy* – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of members' salary for the 2013-2014 fiscal year.

The Powell County School District's total payroll for the year was \$13,138,168. The payroll for employees covered under KTRS was \$9,976,929. For the year ended June 30, 2014, the Commonwealth contributed \$1,171,905 to KTRS for the benefit of the District's participating employees. The District has recognized \$1,172,519 as on-behalf payments in its financial statements. The School District's contributions to KTRS for the year ending June 30, 2014 were \$162,895, which represents those employees covered by federal programs.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE G – RETIREMENT PLANS (continued)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 18.89% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$3,151,016.

The contribution requirement for CERS for the year ended June 30, 2014 was \$747,241, which consisted of \$586,416 from the District and \$160,825 from the employees.

Following is a summary of contributions paid by the District and State on-behalf of the employees for the past three years:

Year Ended <u>June 30,</u>	<u>Teacher's Retirement</u>		County <u>Retirement</u>
	<u>District</u>	<u>State</u>	
2014	295,711	1,172,519	586,416
2013	247,030	1,133,698	644,100
2012	214,758	1,134,860	546,644

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

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of June 30, 2013:

	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age Normal</u>	<u>Unfunded Actuarial Accrued Liabilities (UAAL)</u>	<u>% Funded</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a % of Covered Payroll</u>
County Employee Retirement System (non-hazardous)	<u>5,637.1</u>	<u>9,378.9</u>	<u>3,741.8</u>	<u>60.1</u>	<u>2,236.3</u>	<u>167.3</u>
Teacher's Retirement System of Kentucky	<u>14,962.8</u>	<u>28,817.2</u>	<u>13,854.5</u>	<u>51.9</u>	<u>3,481.1</u>	<u>398.1</u>

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE G – RETIREMENT PLANS (continued)

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013 comprehensive annual financial reports.

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

NOTE H – CONTINGENCIES

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

The District was notified Kentucky School Board Insurance Trust dissolved during the previous fiscal year. As a result, assessments were proposed to be passed to local participating Districts based on past premiums or past claims. The District's liability to the KSBIT Workers' Compensation Fund was \$168,190. The District paid \$42,047 of this balance in August 2014 and chose to pay the remaining balance of \$126,142 over a five year period with the first payment beginning August 31, 2015. The District opted to pay its \$142,247 KSBIT Property and Liability Assessment in three installments - \$56,898.80 due September 15, 2014 and the remaining two equal payments of \$42,674.10 due September 15, 2015 and 2016. The amount of the liability is recorded in the government wide financial statements. A liability is not reflected in the fund financial statements in accordance with GASB Interpretation No. 6, as governmental funds follow the current financial resources measurement focus (modified accrual basis of accounting).

NOTE I – 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 are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE K – RISK MANAGEMENT

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2014:

None

The following funds had expenditures in excess of revenues at June 30, 2014:

General Fund	378,710
Stanton Elementary Activity Fund	11,795
Clay City Elementary Activity Fund	285
Powell County High School Activity Fund	4,523

NOTE M – COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay	General Fund	Property Insurance	42,996
Capital Outlay	General Fund	Bus Purchase	82,540
FSPK	Debt Service	Bond principal and interest	781,887
Capital Outlay	Debt Service	Bond principal and interest	87,285
General Fund	Special Revenue Fund	KETS match first offer	21,496
General Fund	Special Revenue Fund	KETS match second offer	12,898
Total Transfers			<u>1,029,102</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2014 were as follows:

None

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2014, fund balances/retained earnings originally reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Food Service Fund</u>	<u>Trust Fund</u>
Fund Balance/Retained Earnings as originally reported to the Department of Education	997,594	-	2,198,084	447,267	181,859
Adjustment to Fund Balance/Retained Earnings					
(1) To record additional accounts receivable	8,152	-	-	33,803	
(2) To adjust payables	19,018	-	-	-	-
(4) To adjust consumable inventory	-	-	-	(3,485)	-
Fund Balance/Retained Earnings per fund financial statements at June 30, 2014	<u>1,024,764</u>	<u>-</u>	<u>2,198,084</u>	<u>477,585</u>	<u>181,859</u>

NOTE Q – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2014:

Kentucky Teacher's Retirement System	1,172,519
Health Insurance	2,353,007
Life Insurance	5,732
Administrative Fees	27,030
HRA/Dental/Vision	149,547
Technology	37,102
Debt Service	423,573
Less: Federal Reimbursements	<u>(201,289)</u>
<u>Total</u>	<u>3,967,221</u>
Allocated to:	
General Fund	3,451,915
Debt Service Fund	423,573
School Food Service Fund	<u>91,733</u>
<u>Total</u>	<u>3,967,221</u>

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE R – FUND BALANCE REPORTING

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* - fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* - fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and does not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2014:

<b>Fund balances</b>	General Fund	Construction Fund	Non-major Funds	Total
Restricted - sick leave	66,115	-	-	66,115
Committed - site based carryforward	37,178	-	-	37,178
Restricted for future construction/outlay	-	2,190,795	7,289	2,198,084
Unassigned fund balance	921,471	-	-	921,471
<b><u>Total fund balances</u></b>	<b><u>1,024,764</u></b>	<b><u>2,190,795</u></b>	<b><u>7,289</u></b>	<b><u>3,222,848</u></b>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserves fund has not been established. The statement of net position reflects reserves for fixed assets and school food service inventory.

NOTE S – COMMITMENTS

A \$5,825,606 High School Renovation/Addition project, including the acquisition of forty-three additional acres of land for \$850,000 adjacent to the District's existing property was approved by the Kentucky Division of Facilities Management and in progress. Fund resources include an SFCC bond sale of \$3,050,000; a local bond sale of \$2,495,000 and SFCC cash of \$280,606.

NOTE T – NET POSITION RESTATEMENT

The District's net increase in the amount of \$254,839 for beginning net position for government wide financial statements is as follows: increase of \$368,088 to recognize accumulated construction in progress costs at year end not previously recorded as a fixed asset.

GASB Statements No. 63 and No. 65 require changes affecting beginning balances of the District wide Statement of Net Position. Beginning net position of the governmental activities was decreased \$51,658 to eliminate bond issuance costs, previously capitalized and amortized and increased \$34,090 recognizing deferred savings on bond refunding issues. The District also recognized as a beginning balance adjustment in the government wide financial statements long-term sick leave payable totaling \$198,997.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<b>Revenues:</b>				
From local sources:				
Taxes	2,422,524	2,440,000	2,499,876	59,876
Earnings on investments	1,800	1,800	4,969	3,169
Other local revenue	90,380	90,380	95,076	4,696
Intergovernmental - state	10,924,972	13,501,543	14,692,984	1,191,441
Intergovernmental - federal	60,000	100,000	143,443	43,443
<b><u>Total revenues</u></b>	<u>13,499,676</u>	<u>16,133,723</u>	<u>17,436,348</u>	<u>1,302,625</u>
<b>Expenditures:</b>				
Instructional	8,140,240	9,875,978	10,726,175	(850,197)
Student support services	538,773	635,474	681,482	(46,008)
Staff support services	526,315	615,853	671,671	(55,818)
District administration	1,001,499	1,152,657	1,155,615	(2,958)
School administration	903,613	1,106,417	1,100,594	5,823
Business support	194,552	289,299	277,112	12,187
Plant operations and management	1,703,489	1,972,589	2,044,854	(72,265)
Student transportation	935,575	1,112,483	1,123,378	(10,895)
Debt service	71,942	71,942	71,943	(1)
Contingencies	599,807	685,470	-	685,470
<b><u>Total expenditures</u></b>	<u>14,615,805</u>	<u>17,518,162</u>	<u>17,852,824</u>	<u>(334,662)</u>
Excess (deficit) of revenues over expenditures	<u>(1,116,129)</u>	<u>(1,384,439)</u>	<u>(416,476)</u>	<u>967,963</u>
<b>Other financing sources (uses):</b>				
Operating transfers in		125,536	125,536	-
Operating transfers out	<u>(25,080)</u>	<u>(25,080)</u>	<u>(34,394)</u>	<u>(9,314)</u>
<b><u>Total other financing sources (uses)</u></b>	<u>(25,080)</u>	<u>100,456</u>	<u>91,142</u>	<u>(9,314)</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(1,141,209)</u>	<u>(1,283,983)</u>	<u>(325,334)</u>	<u>958,649</u>
<b>Fund Balance - July 1, 2013</b>	<u>1,141,209</u>	<u>1,283,983</u>	<u>1,283,983</u>	<u>-</u>
<b>Fund Balance - June 30, 2014</b>	<u>-</u>	<u>-</u>	<u>958,649</u>	<u>958,649</u>

Notes:

Beginning and ending fund balance do not reflect \$66,115 restricted for sick leave payable.

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

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<b>Revenues:</b>				
From local sources:				
Earnings on investments	250	2	2	-
Contributions/donations	-	50,486	75,854	25,368
Intergovernmental - state	979,377	936,743	952,046	15,303
Intergovernmental - indirect federal	<u>2,280,177</u>	<u>2,319,646</u>	<u>2,373,116</u>	<u>53,470</u>
<b><u>Total revenues</u></b>	<u>3,259,804</u>	<u>3,306,877</u>	<u>3,401,018</u>	<u>94,141</u>
<b>Expenditures:</b>				
Instructional	1,898,465	1,892,523	1,994,560	(102,037)
Student support services	28,180	29,505	29,505	-
Staff support services	790,167	845,175	831,706	13,469
District administration	142,514	146,498	146,498	-
School administration	19,858	5,158	3,551	1,607
Student transportation	120,158	116,258	129,516	(13,258)
Community service activities	<u>285,542</u>	<u>306,209</u>	<u>300,076</u>	<u>6,133</u>
<b><u>Total expenditures</u></b>	<u>3,284,884</u>	<u>3,341,326</u>	<u>3,435,412</u>	<u>(94,086)</u>
Excess (deficit) of revenues over expenditures	<u>(25,080)</u>	<u>(34,449)</u>	<u>(34,394)</u>	<u>(55)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	25,080	34,394	34,394	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>Total other financing sources (uses)</u></b>	<u>25,080</u>	<u>34,394</u>	<u>34,394</u>	<u>-</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	(55)	-	55
<b>Fund Balance - July 1, 2013</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance - June 30, 2014</b>	<u>-</u>	<u>(55)</u>	<u>-</u>	<u>55</u>

See notes to financial statements and independent auditors's report.

POWELL COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

At June 30, 2014

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
<b>Asset and resources:</b>				
Cash and cash equivalents	<u>3,611</u>	<u>3,678</u>	<u>-</u>	<u>7,289</u>
<b>Liabilities and fund balances:</b>				
- Liabilities -				
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
- Fund balances -				
Restricted - sfcc escrow	<u>-</u>	<u>1,001</u>	<u>-</u>	<u>1,001</u>
Restricted - other	<u>3,611</u>	<u>2,677</u>	<u>-</u>	<u>6,288</u>
<b>Total fund balances</b>	<u>3,611</u>	<u>3,678</u>	<u>-</u>	<u>7,289</u>
<b>Total liabilities and fund balances</b>	<u>3,611</u>	<u>3,678</u>	<u>-</u>	<u>7,289</u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2014

	SEEK Capital Outlay Fund	Building Fund	Debt Service Funds	Total
<b>Revenues:</b>				
From local sources:				
General real property tax	-	257,998	-	257,998
Intergovernmental - state	216,432	526,566	423,573	1,166,571
	<u>216,432</u>	<u>784,564</u>	<u>423,573</u>	<u>1,424,569</u>
<b><u>Total revenues</u></b>	<u>216,432</u>	<u>784,564</u>	<u>423,573</u>	<u>1,424,569</u>
<b>Expenditures:</b>				
Debt service				
Principal	-	-	891,214	891,214
Interest	-	-	401,531	401,531
	<u>-</u>	<u>-</u>	<u>1,292,745</u>	<u>1,292,745</u>
<b><u>Total expenditures</u></b>	<u>-</u>	<u>-</u>	<u>1,292,745</u>	<u>1,292,745</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>216,432</u>	<u>784,564</u>	<u>(869,172)</u>	<u>131,824</u>
Other financing sources (uses):				
Operating transfers in	-	-	869,172	869,172
Operating transfers out	(212,821)	(781,887)	-	(994,708)
Bond issue proceeds	-	-	-	-
	<u>(212,821)</u>	<u>(781,887)</u>	<u>869,172</u>	<u>(125,536)</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>3,611</u>	<u>2,677</u>	<u>-</u>	<u>6,288</u>
Fund balance, July 1, 2013	<u>-</u>	<u>1,001</u>	<u>-</u>	<u>1,001</u>
Fund balance, June 30, 2014	<u><u>3,611</u></u>	<u><u>3,678</u></u>	<u><u>-</u></u>	<u><u>7,289</u></u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPOWELL COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2014

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2013</u>	<u>Fund Balance June 30, 2014</u>
General	6,499	12,246	(5,747)	9,522	3,775
Teacher Vending	2,706	3,347	(641)	746	105
Foundation Grants	2,150	2,650	(500)	643	143
Student Vending	1,877	1,799	78	28	106
AP English	-	50	(50)	50	-
Courtesy Committee	218	40	178	94	272
PTO	2,123	2,532	(409)	931	522
Art Class Fee	3,643	5,972	(2,329)	2,585	256
STLP	-	-	-	167	167
Windows of Creativity	15,816	15,816	-	-	-
FMD Classroom	3,116	2,719	397	426	823
Humanities Trip	-	247	(247)	306	59
Science Grant	5,029	5,044	(15)	91	76
Student Testing	1,440	104	1,336	135	1,471
Christmas Tea	1,107	851	256	141	397
Graduation/Honors	2,713	4,373	(1,660)	1,959	299
Social Studies Grant	-	-	-	131	131
Key Club	3,304	3,305	(1)	63	62
Attendance Incentives	1,347	1,225	122	-	122
Advance KY	-	1,003	(1,003)	1,003	-
Substitutes	-	-	-	270	270
Upper Room	-	-	-	82	82
Academic Team	2,600	2,254	346	273	619
Student Parking	1,735	1,002	733	384	1,117
Library	39	139	(100)	149	49
Spanish	1,450	1,512	(62)	298	236
Entrepreneurship	10,730	11,558	(828)	2,561	1,733
Home Economics	-	34	(34)	182	148
Textbook Rental	14,141	22,373	(8,232)	10,169	1,937
Prom	5,697	5,675	22	3,375	3,397
Senior Class	5,000	5,600	(600)	1,111	511
Class of 2014	23,663	20,648	3,015	185	3,200
Band	15,604	15,728	(124)	210	86
FBLA	8,586	8,189	397	763	1,160
Ecology Club	1,270	1,090	180	153	333
Youth Services Center	2,657	4,041	(1,384)	3,554	2,170
Snack Shack	19,501	15,958	3,543	592	4,135
Chorus	50	-	50	76	126
Class of 2015	-	-	-	558	558
Yearbook	5,630	844	4,786	12,349	17,135
Pirate Press	-	-	-	397	397
Paper Fund	1,036	1,028	8	137	145
Counselors	455	432	23	830	853
Class of 2016	-	-	-	83	83
Online Gaming	220	219	1	-	1
Gear Up Projects	673	673	-	-	-
Ky Youth Association	2,568	2,227	341	-	341
Charitable Organizations	3,729	3,729	-	-	-

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

POWELL COUNTY HIGH SCHOOL ACTIVITY FUND (CONTINUED)

For the Year Ended June 30, 2014

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2013</u>	<u>Fund Balance June 30, 2014</u>
Locker Rental	1,925	1,010	915	2,425	3,340
Beta Club	1,855	1,931	(76)	135	59
Drama Club	-	-	-	851	851
FCA	110	45	65	664	729
FFA	8,369	9,227	(858)	1,646	788
FCCLA	3,432	3,339	93	3,537	3,630
Student Council	-	11	(11)	11	-
Hometown Scholarship	1,695	-	1,695	884	2,579
FEA Club	-	-	-	145	145
Sew What	913	17	896	2,181	3,077
Pep Club	405	734	(329)	703	374
TSA	14	-	14	-	14
Special Olympics	1,087	1,498	(411)	521	110
HOSA	16	80	(64)	121	57
Construction Class	1,640	1,918	(278)	511	233
Skills Club	53	-	53	-	53
HOSA Competition	-	-	-	8	8
Gen. Athletics	77,077	75,183	1,894	3,221	5,115
Baseball	24,976	29,390	(4,414)	4,718	304
Boys Basketball	4,951	8,035	(3,084)	3,455	371
Girls Basketball	10,398	10,839	(441)	1,728	1,287
Cheerleaders - Varsity	6,246	5,698	548	518	1,066
Concessions	14,275	14,052	223	334	557
Football	12,765	16,322	(3,557)	4,407	850
Boys Golf	3,865	3,251	614	16	630
Girls Golf	4,496	2,870	1,626	1,185	2,811
Softball	13,568	12,533	1,035	5,104	6,139
Track	1,034	1,572	(538)	1,778	1,240
Cross Country	3,565	3,555	10	75	85
Volleyball	11,030	12,577	(1,547)	5,594	4,047
4th and 5th Grade	1,860	3,483	(1,623)	1,918	295
Athletic Field Trip	-	-	-	1	1
Football Support	26,366	19,009	7,357	368	7,725
Student Field Trips	3,771	3,619	152	243	395
Band Trip	6,265	6,342	(77)	85	8
Band Parents Organization	17,119	13,370	3,749	-	3,749
Gen Athletics/Extras	-	-	-	286	286
<u>Sub-total</u>	<u>445,263</u>	<u>449,786</u>	<u>(4,523)</u>	<u>107,139</u>	<u>102,616</u>
Less: Interfund transfers	<u>36,231</u>	<u>36,231</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>409,032</u>	<u>413,555</u>	<u>(4,523)</u>	<u>107,139</u>	<u>102,616</u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCEMIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2014

	<u>Powell County Middle School</u>	<u>Bowen Elementary</u>	<u>Clay City Elementary</u>	<u>Stanton Elementary</u>	<u>Total (Memorandum Only)</u>
<u>REVENUES:</u>					
Activity funds	177,997	47,117	23,377	54,520	303,011
<u>EXPENDITURES:</u>					
Activity funds	<u>176,573</u>	<u>38,382</u>	<u>23,662</u>	<u>66,315</u>	<u>304,932</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	1,424	8,735	(285)	(11,795)	(1,921)
Fund Balance, July 1, 2013	<u>57,509</u>	<u>16,272</u>	<u>17,795</u>	<u>27,697</u>	<u>119,273</u>
Fund Balance, June 30, 2014	<u><u>58,933</u></u>	<u><u>25,007</u></u>	<u><u>17,510</u></u>	<u><u>15,902</u></u>	<u><u>117,352</u></u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>2014 Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	10.553	7760005 14	N/A	197,442
	10.553	7760005 13	N/A	58,217
				<u>255,659</u>
School Lunch Program	10.555	7750002 14	N/A	597,275
	10.555	7750002 13	N/A	177,443
				<u>774,718</u>
Summer Food Service Program for Children	10.559	7690024 13	N/A	1,774
	10.559	7740023 13		16,938
				<u>18,712</u>
Passed through State Department of Agriculture:				
National School Lunch Program	10.555	006 0100	N/A	73,322
				<u>73,322</u>
<u>Total Child Nutrition Cluster</u>				<u>1,122,411</u>
Passed through State Department of Education:				
Fresh Fruit and Vegetable Program				
	10.582	720012.13	N/A	4,673
	10.582	7720012.14	N/A	22,028
				<u>26,701</u>
Passed through Powell County Fiscal Court				
Schools and Roads Grants To States	10.665	505X	N/A	19,008
				<u>19,008</u>
<u>Total U.S. Department of Agriculture</u>				<u>1,168,120</u>
<u>Appalachian Regional Commission</u>				
Passed through Kentucky Science and Technology Corporation:				
Appalachian Higher Education Network	23.011	688	3,991	3,991
				<u>3,991</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
- Title 1 Cluster -				
Title 1 Grants to Local Education Agencies	84.010	3104	1,128,045	986,570
	84.010	3103	1,139,594	164,204
	84.010	3104M	11,394	11,394
				<u>1,162,168</u>
<u>Total Title I Cluster</u>				<u>1,162,168</u>
Migrant Education - State Grant Program	84.011	3114	121,050	107,830
	84.011	3113	101,169	9,881
	84.011	3113S	3,945	3,758
	84.011	3112S	11,652	33
				<u>121,502</u>

See independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

For the Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>2014 Program Expenditures</u>
<b><u>U. S. Department of Education (continued)</u></b>				
- Special Education Cluster -				
Special Education - Grants to States	84.027	3374	513,917	410,788
	84.027	3373	535,298	112,138
	84.027	3372P	8,973	8,973
				<u>531,899</u>
Special Education - Preschool Grants	84.173	3434	31,076	31,076
	84.173	3432P	246	246
				<u>31,322</u>
Total Special Education Cluster				<u><b>563,221</b></u>
Vocational Education - Basic Grants to States	84.048	3484	34,403	34,402
	84.048	3483A	1,795	1,795
				<u><b>36,197</b></u>
Title VI				
Rural Education	84.358	3504	43,200	37,295
	84.358	3503	45,516	10,005
				<u><b>47,300</b></u>
Improving Teacher Quality State Grants	84.367	4014	170,336	166,894
	84.367	4013	177,794	36,703
				<u><b>203,597</b></u>
Race to the Top	84.413A	4521	46,879	<u><b>963</b></u>
Gaining Early Awareness and Readiness for Undergraduate Programs (GEARUP)	84.334A	3794C	55,000	55,000
	84.334A	3794G	146,500	143,960
	84.334A	3794P	50,000	35,216
				<u><b>234,176</b></u>
<b><u>Total U.S. Department of Education</u></b>				<u><b>2,369,124</b></u>
<b><u>Total Federal Awards Expended</u></b>				<u><b>3,541,235</b></u>

See independent auditor's report.

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2014**NOTE A**

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

**NOTE B**

Non-monetary assistance CFDA #10.555, \$73,322, is reported in the schedule at the fair value of the food donations disbursed.

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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*

State Committee for School District Audits  
Members of Powell County Board of Education  
Stanton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School Districts Audit Contract Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Powell County School District's basic financial statements, and have issued our report thereon dated October 13, 2014.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School District's Audit Contract and Requirements – State Compliance Requirements.

**Purpose of this Report**

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



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

October 13, 2014

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

State Committee for School District Audits  
Members of Powell County Board of Education  
Stanton, Kentucky

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

We have audited Powell 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 Powell County School District's major federal programs for the year ended June 30, 2014. Powell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

## Report on Internal Control over Compliance

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

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

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

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



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

October 13, 2014

POWELL COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2014- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2013-1**

Condition: The District was accruing its estimate of workers' compensation liability at a higher experience factor than the amount actually paid. The total adjustment increased unrestricted fund balance \$277,514.

Criteria: Management should ensure inputs to its payroll system for individual workers' compensation rates are based on actual rates rather than estimated or older rates.

Cause: Management was not monitoring the account and adjusting periodically for actual rates paid.

Effect: Financial reports reflected overstatements in fringe benefits.

Recommendations: Management should assess the effect, if any, the adjustment had for prior reimbursement regarding grant programs and determine if refunds are necessary. The District should enhance its controls over monitoring fringe benefits expense and related liability accounts to ensure excess balances are reasonable.

Management's Response: The District will enhance its controls procedures through consultation with its insurance agent and periodic monitoring of account balances throughout the year. The District will review the effect the adjustment may have had on prior year program expenditures used for reimbursement purposes and determine if refunds are required.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2014- SUMMARY OF AUDIT RESULTS -

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness were disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Powell County School District had the following major programs:
  - U. S. Department of Education
    - Passed through State Department of Education -  
Title I  
CFDA number 84.010
    - Special Education Cluster -  
IDEA-B Basic  
CFDA numbers 84.027
    - IDEA-B Preschool  
CFDA number 84.173
  - U.S. Department of Agriculture
    - Passed through State Departments of Education and Agriculture -  
- Child Nutrition Cluster -  
School Lunch and Breakfast Program, Summer Food Service Program  
for Children  
CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

POWELL COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended June 30, 2014

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

**Chris Gooch**  
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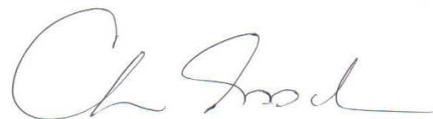
Powell County Board of Education  
Stanton, Kentucky

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated October 13, 2014, contains our report on control deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated October 13, 2014, on the financial statements of the Powell County School District.

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

Respectfully,



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

October 13, 2014

POWELL COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

For the Year Ended June 30, 2014

**Follow-up on Prior Year Comments**

1. District management should monitor activity fund purchases to assure fixed assets meeting the threshold criteria are accounted for and recorded in the government-wide financial statements. Management has notified district activity fund personnel of the District's fixed asset policies and procedures.
2. Periodically, applicable District personnel should assess and present a plan for spending excessive ending balances in student activity individual account funds. We noted Stanton Elementary Boys and Girls Little League beginning July 1, 2013 with balances of \$11,528 and \$3,956, respectively. Personnel presented individual fund budgets and expended excessive fund balances during the 2013-14 school year.

**Current Year Comments**

1. District management should monitor other liability account balances periodically and provide evidence reconciliation to underlying documentation is occurring.
2. Use of PTO funding should be restricted to activity type expenditures – not capital or instructional funding.
3. Book fair revenue at the activity fund level should be supported by receipt reconciliation at the recipient level prior to access by the activity fund clerk.