

ROWAN COUNTY SCHOOL DISTRICT

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

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	3-5
MANAGEMENT’S DISCUSSION AND ANALYSIS	6-9
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position.....	10
Statement of Activities	11
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Net Position - Proprietary Funds.....	16
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds.....	18
Statement of Net Position - Fiduciary Funds.....	19
Statement of Changes in Net Position - Fiduciary Funds	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund.....	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Fund.....	22
Notes to the Financial Statements	23-37
SUPPLEMENTARY INFORMATION:	
Combining and Individual Statements – Non-Major Funds -	
Combining Balance Sheet – Non-Major Governmental Funds.....	38
Combining Statement of Revenues, Expenditures and Changes In Fund Balances – Non-Major Governmental Funds.....	39
Combining Balance Sheet – Non-Major Debt Service Funds	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Debt Service Funds	41
Statement of Changes in Assets and Liabilities - School Activity Funds	42
Statement of Changes in Assets and Liabilities - School Activity Funds: Rowan County High School.....	43-44
Schedule of Expenditures of Federal Awards	45-46

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>	47-48
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.....	49-50
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	51
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	52
CORRECTIVE ACTION PLAN.....	53
INDEPENDENT AUDITOR'S TRANSMITTAL LETTER FOR MANAGEMENT LETTER POINTS.....	54
MANAGEMENT LETTER POINTS	55-58



INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Rowan County School District
Morehead, Kentucky 40351

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Rowan County School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 9 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 Rowan County School District's basic financial statements. The combining and individual non-major fund financial statements, and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual 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 14, 2014, on our consideration of Rowan 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 the District's internal control over financial reporting and compliance.

Kelley Ballouay Smith Doolley, PSC

October 14, 2014

ROWAN COUNTY SCHOOL DISTRICT
MOREHEAD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2014

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

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$2,494,674 and the ending balance was approximately \$2,418,123, a decrease of approximately \$76,551 for the year, principally due to a decrease in grant revenues in the current year.
- The General Fund had \$23,476,716 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$23,250,190 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$1,796,673 during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 and 11 of this report.

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

The basic fund financial statements can be found on pages 12 through 22 of this report.

Notes to the financial statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$12.2 million as of June 30, 2014.

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

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

Net Position for the period ending June 30, 2014

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 2,978,000	\$ 3,071,000
Noncurrent Assets	<u>42,123,000</u>	<u>43,367,000</u>
Total Assets	<u>45,101,000</u>	<u>46,438,000</u>
Deferred Outflows	277,000	338,000
Current Liabilities	3,015,000	2,764,000
Noncurrent Liabilities	<u>30,208,000</u>	<u>32,255,000</u>
Total Liabilities	<u>33,223,000</u>	<u>35,019,000</u>
Net Position		
Investment in capital assets (net of debt)	11,373,000	10,629,000
Restricted	918,000	1,200,000
Unrestricted Fund Balance	<u>(136,000)</u>	<u>72,000</u>
Total Net Position	<u>\$ 12,155,000</u>	<u>\$ 11,757,000</u>

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2014, with comparison to 2013.

	<u>2014</u>	<u>2013</u>
Revenues:		
Local Revenue Sources	\$ 8,705,000	\$ 8,405,000
State Revenue Sources	19,716,000	20,440,000
Federal Revenue	3,447,000	3,578,000
Other Sources	-	5,000
Total Revenues	<u>31,868,000</u>	<u>32,428,000</u>
Expenses:		
Instruction	18,097,000	18,694,000
Student Support Services	999,000	929,000
Instructional Support	697,000	855,000
District Administration	817,000	967,000
School Administration	1,249,000	1,244,000
Plant Operations	3,041,000	3,203,000
Student Transportation	2,606,000	2,627,000
Business and Other Support Services	278,000	298,000
Community Services	296,000	291,000
Debt Service	1,270,000	1,420,000
Food Services	2,048,000	2,204,000
Day Care Fund	71,000	71,000
Community Ed Fund	2,000	2,000
Total Expenses before KSBIT	<u>31,471,000</u>	<u>32,805,000</u>
Extraordinary item - KSBIT	-	671,000
Total Expenses	<u>31,471,000</u>	<u>33,476,000</u>
Revenues in Deficiency of Expenses	<u>\$ 397,000</u>	<u>\$ (1,048,000)</u>

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 61.9% and federal funding of 10.8% of total revenue. Local revenues make up 27.3% of total revenue (26.3% in 2013).

District-Wide Support Allocation

District-wide support services expenditures were Transportation 8.3%, Maintenance & Operations 9.7%, and Business Functions .9% (as compared to 8.0%, 10.0%, and .9% in 2013, respectively).

The total cost of all programs and services for governmental activities was \$29,350,000, compared with \$31,198,000 in 2013.

The District's total revenues for the governmental funds for the fiscal year ended June 30, 2014 and 2013, net of inter-fund transfers and bond proceeds, was approximately \$29.7 million and \$30.2 million, respectively.

Comments on Budget Comparisons

- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$57,769 less than budget or approximately 0.3%.
- General Fund revenue compared to budget varied from line item to line item more this year than in the past due in part to local property tax collection rates being up from a rate increase.

Capital Assets

At the end of June 30, 2014, the District's investment in capital assets for its governmental and business-type activities was \$42,123,421, representing an decrease of \$1,243,830, net of depreciation, from the prior year.

Debt Service

At year-end, the District had approximately \$31.6 million in outstanding debt, compared to \$33.4 million last year. The District continues to maintain favorable debt ratings from Moody's and Standard & Poor's.

Budgetary Implications

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with approximately \$1,108,007 in contingency (3.8%). The general fund cash balance for beginning the next fiscal year is \$1,530,182. There was no significant Board action that impacts the finances for the new year.

Questions regarding this report should be directed to the Superintendent Marvin Moore or to his representative, Director of Financial Services Glen Teager or by mail at:

Rowan County School District
121 E Second Street
Morehead, Kentucky 40351

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,082,962	\$ 335,161	\$ 2,418,123
Receivables (net of allowances for uncollectibles):			
Taxes	85,310	-	85,310
Other	131,204	-	131,204
Intergovernmental - state	312,860	4,070	316,930
Inventories	-	26,295	26,295
Capital assets, not being depreciated	2,027,270	-	2,027,270
Capital assets, being depreciated, net	39,917,287	178,863	40,096,150
Total assets	<u>44,556,893</u>	<u>544,389</u>	<u>45,101,282</u>
Deferred Outflows of Resources			
Deferred savings from refunding bonds	276,361	-	276,361
Total deferred outflows of resources	<u>276,361</u>	<u>-</u>	<u>276,361</u>
Liabilities			
Accounts payable	235,023	60	235,083
Overdraft payable	148,816	-	148,816
Accrued interest payable	166,105	-	166,105
Deferred revenue	164,044	-	164,044
Portion due or payable within one year:			
Accrued sick leave	368,318	-	368,318
KSBFT payable	163,535	-	163,535
Bond obligations	1,769,279	-	1,769,279
Portion due or payable after one year:			
Accrued sick leave	553,733	-	553,733
KSBFT payable	396,522	-	396,522
Bond obligations	29,257,476	-	29,257,476
Total liabilities	<u>33,222,851</u>	<u>60</u>	<u>33,222,911</u>
Net Position			
Net investment in capital assets	11,194,163	178,863	11,373,026
Restricted for:			
Capital projects	552,780	-	552,780
Other	-	365,466	365,466
Unrestricted	(136,540)	-	(136,540)
Total net position	<u>\$ 11,610,403</u>	<u>\$ 544,329</u>	<u>\$ 12,154,732</u>

The accompanying notes to financial statements
are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 18,096,732	\$ -	\$ 2,699,763	\$ -	\$ (15,396,969)	\$ -	\$ (15,396,969)
Support services:							
Students	998,444	-	146,417	-	(852,027)	-	(852,027)
Instructional staff	697,027	-	216,102	-	(480,925)	-	(480,925)
District administration	816,496	-	600	-	(815,896)	-	(815,896)
School administration	1,249,027	-	-	-	(1,249,027)	-	(1,249,027)
Business and other support services	278,130	-	32,661	-	(245,469)	-	(245,469)
Operation and maintenance of plant	3,041,435	-	30,336	-	(3,011,099)	-	(3,011,099)
Student transportation	2,605,539	-	-	-	(2,605,539)	-	(2,605,539)
Community services	296,182	-	296,182	-	-	-	-
Interest	1,269,530	-	-	510,915	(758,615)	-	(758,615)
Total governmental activities	<u>29,348,542</u>	<u>-</u>	<u>3,422,061</u>	<u>510,915</u>	<u>(25,415,566)</u>	<u>-</u>	<u>(25,415,566)</u>
Business-type activities:							
Food service	2,048,405	423,535	1,712,919	-	-	88,049	88,049
Day Care Fund	71,404	68,522	-	-	-	(2,882)	(2,882)
Community Ed Fund	2,286	3,515	-	-	-	1,229	1,229
Total business-type activities	<u>2,122,095</u>	<u>495,572</u>	<u>1,712,919</u>	<u>-</u>	<u>-</u>	<u>86,396</u>	<u>86,396</u>
Total primary government	<u>\$ 31,470,637</u>	<u>\$ 495,572</u>	<u>\$ 5,134,980</u>	<u>\$ 510,915</u>	<u>\$ (25,415,566)</u>	<u>\$ 86,396</u>	<u>\$ (25,329,170)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 5,727,625	\$ -	\$ 5,727,625
Motor vehicle					541,965	-	541,965
Utilities					1,478,666	-	1,478,666
Revenue in lieu of taxes					84,220	-	84,220
Intergovernmental revenues:							
State					17,517,006	-	17,517,006
Investment earnings					4,397	-	4,397
Gain on sale of assets					-	-	-
Other local revenues					372,450	-	372,450
Total general revenues and transfers					<u>25,726,329</u>	<u>-</u>	<u>25,726,329</u>
Change in net position					310,763	86,396	397,159
Net position, June 30, 2013, as restated					<u>11,299,640</u>	<u>457,933</u>	<u>11,757,573</u>
Net position, June 30, 2014					<u>\$ 11,610,403</u>	<u>\$ 544,329</u>	<u>\$ 12,154,732</u>

The accompanying notes to financial statements are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Special Revenue Fund	SEEK Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,530,182	\$ -	\$ 546,719	\$ 6,061	\$ 2,082,962
Receivables (net of allowances for uncollectibles):					
Taxes	85,310	-	-	-	85,310
Other	131,204	-	-	-	131,204
Intergovernmental - state	-	312,860	-	-	312,860
Prepaid expenses	-	-	-	-	-
Total assets	<u>\$ 1,746,696</u>	<u>\$ 312,860</u>	<u>\$ 546,719</u>	<u>\$ 6,061</u>	<u>\$ 2,612,336</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 235,023	\$ -	\$ -	\$ -	\$ 235,023
Overdraft	-	148,816	-	-	148,816
Deferred revenue	-	164,044	-	-	164,044
Total liabilities	<u>235,023</u>	<u>312,860</u>	<u>-</u>	<u>-</u>	<u>547,883</u>
Fund balances:					
Committed	194,892	-	-	-	194,892
Restricted	-	-	546,719	6,061	552,780
Unassigned	1,316,781	-	-	-	1,316,781
Total fund balances	<u>1,511,673</u>	<u>-</u>	<u>546,719</u>	<u>6,061</u>	<u>2,064,453</u>
Total liabilities and fund balances	<u>\$ 1,746,696</u>	<u>\$ 312,860</u>	<u>\$ 546,719</u>	<u>\$ 6,061</u>	<u>\$ 2,612,336</u>

The accompanying notes to financial statements
are an integral part of this statement.

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

Fund balances—total governmental funds	\$ 2,064,453
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	41,944,557
Certain other liabilities are not due and payable in the current period and therefore are not reported in the funds.	(166,105)
Savings from refunding bonds are not available to pay current period expenditures and therefore are not reported in the funds.	276,361
Some liabilities, including bonds, capital leases, and accrued sick leave, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(32,508,863)</u>
Net position of governmental activities	<u><u>\$ 11,610,403</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Special Revenue Fund	SEEK Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	\$ 4,637,625	\$ -	\$ -	\$ 1,090,000	\$ 5,727,625
Motor vehicles	541,965	-	-	-	541,965
Utilities	1,478,666	-	-	-	1,478,666
Revenue in lieu of taxes	84,220	-	-	-	84,220
Interest income	3,213	-	-	1,184	4,397
Other local revenues	237,869	134,581	-	-	372,450
Intergovernmental - State	16,360,906	1,154,624	286,699	1,428,223	19,230,452
Intergovernmental - Indirect federal	-	2,087,278	-	-	2,087,278
Intergovernmental - Direct federal	132,252	-	-	-	132,252
Total revenues	<u>23,476,716</u>	<u>3,376,483</u>	<u>286,699</u>	<u>2,519,407</u>	<u>29,659,305</u>
Expenditures:					
Current:					
Instruction	14,117,680	2,699,763	245,653	-	17,063,096
Support services:					
Students	850,958	146,417	-	-	997,375
Instructional staff	478,236	216,102	-	-	694,338
District administration	792,615	600	-	-	793,215
School administration	1,249,027	-	-	-	1,249,027
Business and other support services	245,469	32,661	-	-	278,130
Operation and maintenance of plant	2,852,099	30,336	-	-	2,882,435
Student transportation	2,495,902	-	6,585	-	2,502,487
Community services	-	296,182	-	-	296,182
Facilities acquisition and construction	-	-	-	-	-
Debt service	168,204	-	-	2,869,505	3,037,709
Total expenditures	<u>23,250,190</u>	<u>3,422,061</u>	<u>252,238</u>	<u>2,869,505</u>	<u>29,793,994</u>
Excess (deficiency) of revenues over expenditures	<u>226,526</u>	<u>(45,578)</u>	<u>34,461</u>	<u>(350,098)</u>	<u>(134,689)</u>
Other financing sources (uses):					
Gain on sale of assets	-	-	-	-	-
Transfers in	-	45,578	-	2,357,393	2,402,971
Transfers out	(45,578)	-	(116,655)	(2,240,738)	(2,402,971)
Total other financing sources and uses	<u>(45,578)</u>	<u>45,578</u>	<u>(116,655)</u>	<u>116,655</u>	<u>-</u>
Net change in fund balances	180,948	-	(82,194)	(233,443)	(134,689)
Fund balances, June 30, 2013	<u>1,330,725</u>	<u>-</u>	<u>628,913</u>	<u>239,504</u>	<u>2,199,142</u>
Fund balances, June 30, 2014	<u>\$ 1,511,673</u>	<u>\$ -</u>	<u>\$ 546,719</u>	<u>\$ 6,061</u>	<u>\$ 2,064,453</u>

The accompanying notes to financial statements
are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Net change in fund balances—total governmental funds \$ (134,689)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	185,797	
Depreciation expense	<u>(1,482,420)</u>	(1,296,623)

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave		(26,104)
Interest payable		7,463
Capitalized savings from bond refundings amortization expense		(62,061)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.

1,822,777

Change in net position of governmental activities \$ 310,763

The accompanying notes to financial statements
 are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 333,932	\$ -	\$ 1,229	\$ 335,161
Accounts receivable	4,070	-	-	4,070
Inventories	26,295	-	-	26,295
Total current assets	<u>364,297</u>	<u>-</u>	<u>1,229</u>	<u>365,526</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	178,863	-	-	178,863
Total noncurrent assets	<u>178,863</u>	<u>-</u>	<u>-</u>	<u>178,863</u>
Total assets	<u>\$ 543,160</u>	<u>\$ -</u>	<u>\$ 1,229</u>	<u>\$ 544,389</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 60	\$ -	\$ -	\$ 60
Overdraft payable	-	-	-	-
Total current liabilities	<u>60</u>	<u>-</u>	<u>-</u>	<u>60</u>
Total liabilities	<u>60</u>	<u>-</u>	<u>-</u>	<u>60</u>
Net Position				
Invested in capital assets	178,863	-	-	178,863
Restricted	364,237	-	1,229	365,466
Total net position	<u>543,100</u>	<u>-</u>	<u>1,229</u>	<u>544,329</u>
Total liabilities and net position	<u>\$ 543,160</u>	<u>\$ -</u>	<u>\$ 1,229</u>	<u>\$ 544,389</u>

The accompanying notes to financial statements
are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Operating revenues:				
Lunchroom sales	\$ 418,746	\$ -	\$ -	\$ 418,746
Other operating revenues	4,789	68,522	3,515	76,826
Total operating revenues	<u>423,535</u>	<u>68,522</u>	<u>3,515</u>	<u>495,572</u>
Operating expenses:				
Salaries and wages	598,810	55,462	56	654,328
Employee benefits	604,177	15,942	18	620,137
Materials and supplies	737,900	-	2,212	740,112
Depreciation	16,191	-	-	16,191
Other operating expenses	91,327	-	-	91,327
Total operating expenses	<u>2,048,405</u>	<u>71,404</u>	<u>2,286</u>	<u>2,122,095</u>
Operating income (loss)	<u>(1,624,870)</u>	<u>(2,882)</u>	<u>1,229</u>	<u>(1,626,523)</u>
Nonoperating revenues :				
Federal grants	1,138,102	-	-	1,138,102
Investment income	-	-	-	-
On-behalf payments	468,057	-	-	468,057
Donated commodities	89,506	-	-	89,506
State grants	17,254	-	-	17,254
Total nonoperating revenue	<u>1,712,919</u>	<u>-</u>	<u>-</u>	<u>1,712,919</u>
Increase (decrease) in net position	88,049	(2,882)	1,229	86,396
Net position June 30, 2013	<u>455,051</u>	<u>2,882</u>	<u>-</u>	<u>457,933</u>
Net position, June 30, 2014	<u>\$ 543,100</u>	<u>\$ -</u>	<u>\$ 1,229</u>	<u>\$ 544,329</u>

The accompanying notes to financial statements
are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Cash flows from operating activities:				
Cash received from:				
Lunchroom sales and fees charged	\$ 492,175	\$ 68,522	\$ 3,977	\$ 564,674
Cash paid to/for:				
Payments to suppliers and providers of goods and services	(653,671)	-	(2,212)	(655,883)
Payments to employees	(734,930)	(71,404)	(74)	(806,408)
Other payments	(91,327)	-	-	(91,327)
Net cash provided by (used for) operating activities	<u>(987,753)</u>	<u>(2,882)</u>	<u>1,691</u>	<u>(988,944)</u>
Cash flows from noncapital financing activities:				
Government grants	<u>1,155,356</u>	<u>-</u>	<u>-</u>	<u>1,155,356</u>
Net cash provided by noncapital and related financing activities	<u>1,155,356</u>	<u>-</u>	<u>-</u>	<u>1,155,356</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	<u>(68,983)</u>	<u>-</u>	<u>-</u>	<u>(68,983)</u>
Net cash used for capital and related financing activities	<u>(68,983)</u>	<u>-</u>	<u>-</u>	<u>(68,983)</u>
Cash flows from investing activities:				
Interest received on investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	98,620	(2,882)	1,691	97,429
Cash and cash equivalents, June 30, 2013	<u>235,312</u>	<u>2,882</u>	<u>(462)</u>	<u>237,732</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 333,932</u>	<u>\$ -</u>	<u>\$ 1,229</u>	<u>\$ 335,161</u>
Reconciliation of operating loss to net cash used by operating activities:				
Operating income (loss)	\$ (1,624,870)	\$ (2,882)	\$ 1,229	\$ (1,626,523)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:				
Depreciation	16,191	-	-	16,191
Donated commodities	89,506	-	-	89,506
On-behalf payments	468,057	-	-	468,057
Change in assets and liabilities:				
Accounts receivable	68,640	-	462	69,102
Inventory	(5,337)	-	-	(5,337)
Accounts payable	60	-	-	60
Net cash provided by (used for) operating activities	<u>\$ (987,753)</u>	<u>\$ (2,882)</u>	<u>\$ 1,691</u>	<u>\$ (988,944)</u>
Non-cash items:				
Donated commodities	\$ 89,506	\$ -	\$ -	\$ 89,506
On-behalf payments	468,057	-	-	468,057

The accompanying notes to financial statements
are an integral part of this statement.

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

	Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 43,166	\$ 423,303
Accounts receivable	-	-
Total assets	43,166	423,303
Liabilities		
Accounts payable	-	3,825
Due to students	-	419,478
Total liabilities	-	423,303
Net position held in trust	\$ 43,166	\$ -

The accompanying notes to financial statements
 are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Trust Funds
Additions -	
Contributions/donations	\$ 16,730
Deductions -	
Supplies and materials	13,650
Change in net position	3,080
Net position, June 30, 2013	40,086
Net position, June 30, 2014	\$ 43,166

The accompanying notes to financial statements
 are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 4,345,000	\$ 4,556,709	\$ 4,637,625	\$ 80,916
Motor vehicles	450,000	450,000	541,965	91,965
Utilities	1,500,000	1,500,000	1,478,666	(21,334)
Revenue in lieu of taxes	80,000	80,000	84,220	4,220
Interest income	6,000	6,000	3,213	(2,787)
Other local revenues	253,000	253,000	237,869	(15,131)
Intergovernmental - State	16,313,783	16,313,783	16,360,906	47,123
Intergovernmental - Direct federal	25,000	25,000	132,252	107,252
Total revenues	<u>22,972,783</u>	<u>23,184,492</u>	<u>23,476,716</u>	<u>292,224</u>
Expenditures:				
Current:				
Instruction	14,082,165	14,226,375	14,117,680	108,695
Support services:				
Students	771,912	772,362	850,958	(78,596)
Instructional staff	488,013	485,190	478,236	6,954
District administration	897,823	897,823	792,615	105,208
School administration	1,263,096	1,253,273	1,249,027	4,246
Business and other support services	197,765	197,765	245,469	(47,704)
Operation and maintenance of plant	2,761,788	2,856,788	2,852,099	4,689
Student transportation	2,313,383	2,368,383	2,495,902	(127,519)
Debt service	250,000	250,000	168,204	81,796
Contingency	897,338	962,867	-	962,867
Total expenditures	<u>23,923,283</u>	<u>24,270,826</u>	<u>23,250,190</u>	<u>1,020,636</u>
Excess (deficiency) of revenues over expenditures	<u>(950,500)</u>	<u>(1,086,334)</u>	<u>226,526</u>	<u>1,312,860</u>
Other financing sources (uses):				
Sale of equipment	500	500	-	(500)
Transfers out	(50,000)	(50,000)	(45,578)	4,422
Total other financing sources and uses	<u>(49,500)</u>	<u>(49,500)</u>	<u>(45,578)</u>	<u>3,922</u>
Net change in fund balances	<u>(1,000,000)</u>	<u>(1,135,834)</u>	<u>180,948</u>	<u>1,316,782</u>
Fund balances, June 30, 2013	<u>1,000,000</u>	<u>1,135,834</u>	<u>1,330,725</u>	<u>194,891</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,511,673</u>	<u>\$ 1,511,673</u>

The accompanying notes to financial statements
are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Interest income	\$ -	\$ -	\$ -	\$ -
Other local revenues	(2,757)	24,860	134,581	109,721
Intergovernmental - State	1,068,897	1,242,933	1,154,624	(88,309)
Intergovernmental - Indirect federal	2,122,871	2,012,574	2,087,278	74,704
Intergovernmental - Direct federal	-	-	-	-
Total revenues	<u>3,189,011</u>	<u>3,280,367</u>	<u>3,376,483</u>	<u>96,116</u>
Expenditures:				
Current:				
Instruction	2,624,232	2,718,733	2,699,763	18,970
Support services:				
Students	14,219	11,981	146,417	(134,436)
Instructional staff	260,112	190,386	216,102	(25,716)
District administration	600	600	600	-
School administration	-	-	-	-
Business and other support services	32,515	32,475	32,661	(186)
Operation and maintenance of plant	8,567	30,585	30,336	249
Student transportation	45,000	45,000	-	45,000
Community services	290,089	296,185	296,182	3
Operation of non-instructional services	-	-	-	-
Total expenditures	<u>3,275,334</u>	<u>3,325,945</u>	<u>3,422,061</u>	<u>(96,116)</u>
Excess (deficiency) of revenues over expenditures	<u>(86,323)</u>	<u>(45,578)</u>	<u>(45,578)</u>	<u>-</u>
Other financing sources (uses):				
Transfers in	50,000	45,578	45,578	-
Transfers out	-	-	-	-
Total other financing sources and uses	<u>50,000</u>	<u>45,578</u>	<u>45,578</u>	<u>-</u>
Net change in fund balances	(36,323)	-	-	-
Fund balances, June 30, 2013	<u>36,323</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements
are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

(1) REPORTING ENTITY

The Rowan 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 Rowan County School District (“District”). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards 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 reporting purposes, includes all of the funds and account groups relevant to the operation of the Rowan County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of this organization’s financial statements may be obtained from the District’s Finance Office at 121 E. Second Street, Morehead, Kentucky 40351.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

Basis of Presentation

The accounting policies of the Rowan County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and 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 position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project

periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by the Proprietary Fund).

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

D. Debt Service Funds

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

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The Community Ed Fund is used to account for fee-based classes. This is listed as a major fund due to the nature of the activity.
- C. The Day Care Fund is used to account for day care activities. This is listed as a major fund due to the nature of the activity.

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

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

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis

when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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

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

Property Taxes

Property taxes are levied each October 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 \$.552 per \$100 valuation for real property, \$.552 per \$100 valuation for business personal property and \$.490 per \$100 valuation for motor vehicles. In addition, the District assessed a nickel levy in the amount of \$.057 per \$100 valuation for construction purposes, only. The assessed value of property upon which the levy for the 2014 fiscal year was based, was \$1,040,474,442.

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

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on

various grants. The District also receives commodities from USDA. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000) with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

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

Interfund Balances

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

Budgetary Process

The District is required by state law to adopt annual budgets. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

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 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, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

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

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

Net Position

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

Operating Revenues and Expenses

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

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.

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 experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District adopted GASB 65 for the year ended June 30, 2014. See Note 13.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well

as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015. Management has not yet determined the effect this statement will have on the financial statements.

(3) 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.

(4) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. 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.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$2,735,783 and the related bank balances totaled \$3,672,627. Of the total cash balance, \$690,726 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Education Building Fund, Special Revenue (Grant) Funds, Bond and Interest Redemption Fund, School Food Service Funds, and School Activity Funds.

(5) CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance</u>			<u>Balance</u>		
	<u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>		
Land	\$ 2,027,270	\$ -	\$ -	\$ 2,027,270		
Land improvements	1,008,972	-	-	1,008,972		
Buildings and improvements	53,422,511	47,840	-	53,470,351		
Technology equipment	2,426,468	123,371	-	2,549,839		
General equipment	553,467	14,586	-	568,053		
Vehicles	4,349,010	-	-	4,349,010		
Totals	<u>63,787,698</u>	<u>185,797</u>	<u>-</u>	<u>63,973,495</u>		
Less: accumulated depreciation						
Land improvements	933,009	17,455	-	950,464		
Buildings and improvements	13,560,479	1,566,331	406,258	14,720,552		
Technology equipment	2,194,809	172,435	-	2,367,244		
General equipment	373,815	11,451	-	385,266		

Vehicles	<u>3,484,406</u>	<u>288,965</u>	<u>167,959</u>	<u>3,605,412</u>
Total accumulated depreciation	<u>20,546,518</u>	<u>2,056,637</u>	<u>574,217</u>	<u>22,029,938</u>

Governmental Activities				
Capital Assets - Net	<u>\$ 43,241,180</u>	<u>\$ (1,870,840)</u>	<u>\$ 574,217</u>	<u>\$ 41,944,557</u>

<u>Business-Type Activities</u>				
Food service equipment	\$ 429,470	\$ 68,983	\$ -	\$ 498,453
Food service technology equipment	<u>8,868</u>	<u>-</u>	<u>-</u>	<u>8,868</u>
	<u>438,338</u>	<u>68,983</u>	<u>-</u>	<u>507,321</u>

Less: accumulated depreciation				
Food service equipment	310,915	14,839	-	325,754
Food service technology equipment	<u>1,352</u>	<u>1,352</u>	<u>-</u>	<u>2,704</u>
	<u>312,267</u>	<u>16,191</u>	<u>-</u>	<u>328,458</u>

Business-Type Activities				
Capital Assets - Net	<u>\$ 126,071</u>	<u>\$ 52,792</u>	<u>-</u>	<u>\$ 178,863</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 1,193,329
Student support services	1,069
Instructional staff support services	2,689
District administration	23,281
Plant operation & maintenance	159,000
Student transportation	<u>103,052</u>
	<u>\$ 1,482,420</u>

(6) BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as debt obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Rowan County School District Finance Corporation, with original amounts of issues totaling \$44,225,000.

Bonds

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

The original amount of present outstanding issues, the issue dates, and interest rates are summarized below:

<u>ORIGINAL ISSUE</u>	<u>ISSUER</u>	<u>AMOUNT</u>	<u>INTEREST RATES</u>
Issue of 2003	Rowan County School District Finance Corporation & KSFCC	\$ 8,875,000	2.00% to 4.65%
Issue of 2005	Rowan County School District Finance Corporation & KSFCC	1,255,000	3.00% to 3.78%

Issue of 2006	Rowan County School District Finance Corporation & KSFCC	2,305,000	4.00% to 4.20%
Issue of 2008	Rowan County School District Finance Corporation & KSFCC	2,030,000	2.40% to 3.65%
Issue of 2008B	Rowan County School District Finance Corporation & KSFCC	9,885,000	4.40% to 4.60%
Issue of 2009	Rowan County School District Finance Corporation & KSFCC	9,945,000	3.50% to 4.25%
Issue of 2010	Rowan County School District Finance Corporation	4,015,000	0.80% to 6.00%
Issue of 2011	Rowan County School District Finance Corporation & KSFCC	5,915,000	1.00% to 2.75%

The bonds may be called prior to maturity dates at redemption premiums specified in each issue.

In connection with the bond issues, the District entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the District notice of its intention not to participate within sixty days prior to the expiration of the two year period.

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

Year	Kentucky School Facilities Construction Commission		Rowan County School District		Total
	Principal	Interest	Principal	Interest	
2015	\$ 376,066	\$ 131,051	\$ 1,298,934	\$ 1,061,547	\$ 2,867,598
2016	382,385	119,865	1,352,615	1,017,337	2,872,202
2017	386,803	109,884	1,413,197	970,224	2,880,108
2018	395,771	98,916	1,459,229	922,033	2,875,949
2019	358,323	87,588	1,521,677	867,451	2,835,039
2020-2024	1,878,904	269,434	8,576,096	3,432,328	14,156,762
2025-2029	548,851	43,840	10,221,149	1,433,508	12,247,348
2030-2031	-	-	410,000	24,600	434,600
	<u>\$4,327,103</u>	<u>\$ 860,578</u>	<u>\$ 26,252,897</u>	<u>\$ 9,729,028</u>	<u>\$ 41,169,606</u>

On July 6, 2008, the District sold \$500,000 of Qualified Zone Academy Bonds ("QZAB"). QZAB's are financing instruments that are used to finance renovations and repairs to schools, with the federal government providing the interest payment and the school district being responsible for the repayment of principal only. A school district must meet certain eligibility criteria to qualify for a QZAB bond issue. To be eligible, a school district must either be located in an Empowerment Zone or Enterprise Community, or, have at least 35% of the school's students eligible for free or reduced lunches under the Federal National School Lunch Program. Requirements of the QZAB program are as follows: The District must lease the school project through the maturity of July 5, 2021. The District elected to make a prepayment of rentals due thereunder in an amount, which when invested in accordance with the investment agreement, will produce the entire principal amount due on the bonds on or before the maturity date.

Capital Leases Payable

The District has leased buses with a book value of \$907,696 under capital leases through KISTA school bus financing program. The following is a schedule by year of the future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2014:

Year Ending	Capital Leases Payable
2015	\$ 108,059
2016	100,308
2017	101,829
2018	65,831
2019-2022	<u>113,510</u>
Total minimum lease payments	489,467
Less amount represented by interest	(42,172)
Present value of net minimum lease payments	<u>\$ 446,755</u>

KSBIT Payable

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during fiscal year 2013 that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance (“KEMI”). As a result, the District’s workers’ compensation portion of the liability was estimated at \$403,255. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2015 with no interest. The District’s property and liability portion of the liability was estimated at \$156,802. The District took the option of paying 40% down by September 15, 2014 and financing the remaining balance over 2 years to be paid in equal annual installments beginning September 15, 2015 with no interest.

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

Description	Balance at June 30, 2013	Additions	Payments	Balance at June 30, 2014
General obligation bonds - \$44,225,000 originally issued with interest rates ranging from 0.80% to 6.00%	\$ 32,200,000	\$ -	\$ 1,620,000	\$ 30,580,000
KISTA Loan	538,860	-	92,105	446,755
KSBIT Liability	670,729	-	110,672	560,057
Accumulated unpaid sick leave benefits	895,947	26,104	-	922,051
	<u>\$ 34,305,536</u>	<u>\$ 26,104</u>	<u>\$ 1,822,777</u>	<u>\$ 32,508,863</u>

(7) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

The Rowan 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 of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring a four (4) year college degree or certification by Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

The 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 may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. Effective July 1, 2013, for members whose salaries are federally funded, the District contributes 14.605% of salaries.

The District's total payroll for the year was \$17,131,896. The payroll for employees covered under KTRS was \$12,442,914. For the year ended June 30, 2014, 2013, and 2012, the Commonwealth of Kentucky contributed \$1,606,645, \$1,558,789, and \$1,515,012, respectively, to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2014, 2013, and 2012, were \$158,673, \$265,425, and \$205,787, respectively, which represents those employees covered by Federal programs. The District contributed \$170,359 to KTRS under the Shared Responsibility Plan for the year ended June 30, 2014.

B. Medical Insurance Plan:

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

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky 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, the District pays 1.5% of members' salary for the 2013-2014 fiscal year.

C. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 18.89% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's total payroll for the year was \$17,136,896. The payroll for employees covered under CERS was \$4,185,624. The District's contributions to CERS for the year ending June 30, 2014, 2013, and 2012 were \$790,664, \$838,012, and \$798,299, respectively, equal to the required contributions for the year.

(8) CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request 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 is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

(9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Employer's Mutual Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier,

subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) COBRA

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

(11) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 45,578
Operating	Building	Debt Service	Debt Service	2,240,737
Operating	Capital Outlay	Debt Service	Debt Service	116,656

(12) ON-BEHALF PAYMENTS

For the year ended June 30, 2014, total payments of \$5,239,338 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance.

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

Teacher Retirement	\$ 1,606,645
Health & Life Insurance	3,073,926
Technology	47,850
Debt Service	510,917

(13) PRIOR PERIOD ADJUSTMENTS

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

increased to capitalize the deferred savings from refunding bonds issued prior to the 2012-2013 fiscal year.

Net position of governmental activities at	
June 30, 2013 is restated as follows:	
Previously reported net position at June 30, 2013	\$ 11,154,632
Prior period unamortized debt issuance costs	(193,414)
Deferred savings from refunding bonds	<u>338,422</u>
Restated net position at June 30, 2013	<u>\$ 11,299,640</u>

SUPPLEMENTARY INFORMATION

ROWAN COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	FSPK Fund	Construction Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ -	\$ 6,061	\$ -	\$ 6,061
Accounts receivable	-	-	-	-
Total assets	\$ -	\$ 6,061	\$ -	\$ 6,061
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balances:				
Restricted	-	6,061	-	6,061
Total fund balance	-	6,061	-	6,061
Total liabilities and fund balances	\$ -	\$ 6,061	\$ -	\$ 6,061

ROWAN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	FSPK Fund	Construction Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES:				
From local sources -				
Taxes -				
Property	\$ 1,090,000	\$ -	\$ -	\$ 1,090,000
Interest income	-	-	1,184	1,184
Intergovernmental - State	917,308	-	510,915	1,428,223
Total revenues	<u>2,007,308</u>	<u>-</u>	<u>512,099</u>	<u>2,519,407</u>
EXPENDITURES:				
Current -				
Facilities acquisition and construction	-	-	-	-
Site improvement	-	-	-	-
Debt service	-	-	2,869,505	2,869,505
Total expenditures	<u>-</u>	<u>-</u>	<u>2,869,505</u>	<u>2,869,505</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,007,308</u>	<u>-</u>	<u>(2,357,406)</u>	<u>(350,098)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	2,357,393	2,357,393
Operating transfers out	(2,240,738)	-	-	(2,240,738)
Total other financing sources (uses)	<u>(2,240,738)</u>	<u>-</u>	<u>2,357,393</u>	<u>116,655</u>
NET CHANGE IN FUND BALANCE	(233,430)	-	(13)	(233,443)
FUND BALANCE JUNE 30, 2013	<u>233,430</u>	<u>6,061</u>	<u>13</u>	<u>239,504</u>
FUND BALANCE JUNE 30, 2014	<u>\$ -</u>	<u>\$ 6,061</u>	<u>\$ -</u>	<u>\$ 6,061</u>

ROWAN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2014

	2011 Bond Fund	2010 Bond Fund	5/1/09 Bond Fund	2008B Bond Fund	3/1/08 Bond Fund	7/1/06 Bond Fund	6/1/05 Bond Fund	7/1/03 Bond Fund	Total Debt Service Fund
ASSETS:									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE:									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:									
Unreserved - designated for capital expenditures	-	-	-	-	-	-	-	-	-
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ROWAN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	2011 Bond Fund	2010 Bond Fund	5/1/09 Bond Fund	2008B Bond Fund	3/1/08 Bond Fund	7/1/06 Bond Fund	6/1/05 Bond Fund	7/1/03 Bond Fund	Total Debt Service Fund
REVENUES:									
Intergovernmental - State	\$ 81,367	\$ -	\$ 35,401	\$ 12,646	\$ 54,163	\$ 134,298	\$ 14,230	\$ 178,810	\$ 510,915
Interest income	-	4	334	288	296	262	-	-	1,184
Total revenues	<u>81,367</u>	<u>4</u>	<u>35,735</u>	<u>12,934</u>	<u>54,459</u>	<u>134,560</u>	<u>14,230</u>	<u>178,810</u>	<u>512,099</u>
EXPENDITURES:									
Debt service	<u>202,268</u>	<u>299,178</u>	<u>915,775</u>	<u>446,350</u>	<u>242,104</u>	<u>175,197</u>	<u>139,050</u>	<u>449,583</u>	<u>2,869,505</u>
Total expenditures	<u>202,268</u>	<u>299,178</u>	<u>915,775</u>	<u>446,350</u>	<u>242,104</u>	<u>175,197</u>	<u>139,050</u>	<u>449,583</u>	<u>2,869,505</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(120,901)</u>	<u>(299,174)</u>	<u>(880,040)</u>	<u>(433,416)</u>	<u>(187,645)</u>	<u>(40,637)</u>	<u>(124,820)</u>	<u>(270,773)</u>	<u>(2,357,406)</u>
OTHER FINANCING SOURCES (USES):									
Operating transfers in	<u>120,901</u>	<u>299,172</u>	<u>880,037</u>	<u>433,413</u>	<u>187,643</u>	<u>40,634</u>	<u>124,820</u>	<u>270,773</u>	<u>2,357,393</u>
Total other financing sources (uses)	<u>120,901</u>	<u>299,172</u>	<u>880,037</u>	<u>433,413</u>	<u>187,643</u>	<u>40,634</u>	<u>124,820</u>	<u>270,773</u>	<u>2,357,393</u>
NET CHANGE IN FUND BALANCE	-	(2)	(3)	(3)	(2)	(3)	-	-	(13)
FUND BALANCE JUNE 30, 2013	<u>-</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>13</u>
FUND BALANCE JUNE 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance June 30, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Payable	Deposits Held in Custody for Students June 30, 2014
Rowan County High School	\$ 117,118	\$ 331,017	\$ 319,482	\$ 128,653	\$ -	\$ 128,653
Rowan County Middle School	135,690	196,157	187,467	144,380	-	144,380
McBrayer Elementary	25,049	75,551	63,248	37,352	3,825	33,527
Clearfield Elementary	12,719	44,666	40,962	16,423	-	16,423
Rodburn Elementary	47,321	47,962	43,310	51,973	-	51,973
Tilden-Hogge Elementary	32,232	47,516	35,226	44,522	-	44,522
	<u>\$ 370,129</u>	<u>\$ 742,869</u>	<u>\$ 689,695</u>	<u>\$ 423,303</u>	<u>\$ 3,825</u>	<u>\$ 419,478</u>

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
ROWAN COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance June 30, 2013	Receipts	Disburse- ments	Cash Balance June 30, 2014	Accounts Payable	Deposits Held in Custody for Students June 30, 2014
Astronomy Club	\$ 424	\$ -	\$ 40	\$ 384	\$ -	\$ 384
AP Exams	1,549	5,319	4,713	2,155	-	2,155
Aviation	931	3,110	2,935	1,106	-	1,106
Golf- Girls	28	-	-	28	-	28
Art Club	179	-	179	-	-	-
Swimming	100	-	100	-	-	-
Friends Unite Club	335	-	335	-	-	-
Art Department	49	679	684	44	-	44
RCSHS Basketball	71	-	71	-	-	-
Athletics	2,198	86,878	85,245	3,831	-	3,831
Boys Basketball	648	6,095	5,486	1,257	-	1,257
Golf-Boys	1,065	-	553	512	-	512
Girls Basketball	116	-	116	-	-	-
Tennis-Girls	2,341	500	1,429	1,412	-	1,412
Softball	10	-	10	-	-	-
Cross Country	-	675	675	-	-	-
Football	241	241	241	241	-	241
Track	557	1,101	1,266	392	-	392
Band	25	17,516	14,834	2,707	-	2,707
Dance Team	-	1,961	1,961	-	-	-
Baseball	-	4,000	4,000	-	-	-
National Honor Society	5	-	5	-	-	-
Cheerleaders	4,726	26,893	23,734	7,885	-	7,885
Choral	687	2,781	3,358	110	-	110
Class of 2014	1,368	-	1,368	-	-	-
Class of 2015	-	4,950	4,338	612	-	612
CO-ED-Y	-	11,886	11,682	204	-	204
English Department	2,834	302	333	2,803	-	2,803
FBLA	260	740	403	597	-	597
FCA	86	-	-	86	-	86
FFA	8,329	8,100	14,871	1,558	-	1,558
FCCLA	241	-	85	156	-	156
Foreign Language	20	-	-	20	-	20
Telephone	1,395	-	1,246	149	-	149
Senior Class Trip	-	70,262	60,560	9,702	-	9,702
National Honor Society	42	1,699	1,643	98	-	98
General	9,627	27,177	16,545	20,259	-	20,259
Reserve	8,802	1,890	10,692	-	-	-
Sealmaster Grant	304	-	29	275	-	275
Guidance	203	1,657	949	911	-	911
Postage	83	-	83	-	-	-
Laura Bush Foundation	1	-	-	1	-	1
Library	2,374	2,472	1,374	3,472	-	3,472
Math Department	620	-	-	620	-	620
Physical Education	74	-	74	-	-	-
Project Prom	3,795	9,238	10,452	2,581	-	2,581
Science Club	1,384	1,272	1,821	835	-	835
Physics	124	-	-	124	-	124
Science Department	814	70	378	506	-	506
Anatomy/Physiology	1,083	1,433	1,363	1,153	-	1,153
AP Biology/Calculus	9	-	-	9	-	9
Military Skills Class	-	929	929	-	-	-
SGA	5,668	3,805	3,680	5,793	-	5,793
Spanish Club	62	1,272	-	1,334	-	1,334
Social Studies	2,682	268	533	2,417	-	2,417
Special Education	79	-	-	79	-	79

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
ROWAN COUNTY HIGH SCHOOL (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance June 30, 2013	Receipts	Disburse- ments	Cash Balance June 30, 2014	Accounts Payable	Deposits Held in Custody for Students June 30, 2014
Speech Department	3,694	4,007	2,748	4,953	-	4,953
Sports Medicine	1	-	1	-	-	-
STLP	269	-	269	-	-	-
Textbook	35,009	364	2,926	32,447	-	32,447
Vending - Students	1,004	1,221	1,377	848	-	848
Vending - Teachers	5,517	2,565	4,856	3,226	-	3,226
TSA	133	1,151	1,230	54	-	54
Agriculture Department	88	88	88	88	-	88
Yearbook	-	2,818	2,154	664	-	664
Youth Service Center	1,970	9,731	4,802	6,899	-	6,899
Early College Students	-	300	300	-	-	-
Anatomy	199	640	839	-	-	-
School Store	552	961	491	1,022	-	1,022
Academic Team	34	-	-	34	-	34
	<u>\$ 117,118</u>	<u>\$ 331,017</u>	<u>\$ 319,482</u>	<u>\$ 128,653</u>	<u>\$ -</u>	<u>\$ 128,653</u>

ROWAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100002-13	\$ 984,165	\$ 855,246 *
Title I Grants to Local Educational Agencies	84.010	3100002-12	1,021,793	110,487 *
Title I School Improvement (Part A)	84.010	3100202-12	80,888	269 *
				<u>966,002</u>
Title I Grant for Neglected and Delinquent Children	84.013	3134	12,840	12,840
Title I Grant for Neglected and Delinquent Children	84.013	3144	16,757	16,757
				<u>29,597</u>
Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA, Part B	84.027	3810002-13	659,251	306,793 *
Special Education Grants to States - IDEA, Part B	84.027	3810002-12	699,687	337,210 *
Special Education Grants to States - IDEA, Part B, Preschool	84.173	3800002-12	43,826	691 *
Special Education Grants to States - IDEA, Part B, Preschool	84.173	3800002-13	43,214	43,214 *
				<u>687,908</u>
Rural Education	84.358	3140002-13	60,923	13,910
Rural Education	84.358	3140002-12	60,923	50,005
				<u>63,915</u>
Improving Teacher Quality State Grants	84.367	3230002-12	195,534	(2,292)
Improving Teacher Quality State Grants	84.367	3230002-13	186,547	178,000
				<u>175,708</u>
Vocational Education Basic Grants to States	84.048	4621332-13	34,638	31,478
Vocational Education Basic Grants to States	84.048	4621332-12	30,200	(2,711)
				<u>28,767</u>
Race to the Top	84.413	4521	41,613	8,737
Direct:				
Safe and Drug Free Schools and Communities State Grants	84.184	6912	125,000	125,000
Safe and Drug Free Schools and Communities State Grants	84.184	6910	250,000	11,578
				<u>136,578</u>
Total U.S. Department of Education				<u>2,097,212</u>

ROWAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
Cash Assistance:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-14		655,544
National School Lunch Program	10.555	7750002-13		179,472
School Breakfast Program	10.553	7760005-14		247,025
School Breakfast Program	10.553	7760005-13		66,769
				<u>1,148,810</u>
Non-cash Assistance:				
Food Donation	10.555	057502-02		89,506
Total child nutrition cluster				<u>1,238,316</u>
Total U.S. Department of Agriculture				<u>1,238,316</u>
 Total expenditures of Federal awards				 <u>\$ 3,335,528</u>

* Denotes major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Rowan County School District under the programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Rowan County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, commodities on hand are included in the total inventory of \$26,295.



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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Rowan County School District
Morehead, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Rowan County School District (the "District") as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 14, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Kelley Dalloway Smith Goolsby, PSC

October 14, 2014



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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Rowan County School District
Morehead, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Rowan County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. Rowan 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 Rowan County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rowan 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 Rowan County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Rowan 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 the 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 Rowan 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.

Purpose of this Report

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.

Kelley Galloway Smith Goolsby, PSC

October 14, 2014

**ROWAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Type of audit auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ yes x no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2014:

Title I (84.010)
Special Education Cluster (IDEA) (84.027, 84.173)

Dollar threshold to distinguish between Type A and Type B Programs: \$ 300,000

The District qualified as a low risk auditee _____ x yes _____ no

(B) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

**ROWAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no findings in the prior year.

**ROWAN COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

No corrective action plan needed in the current year.



Kentucky State Committee for School District Audits
Members of the Board of Education
Rowan County School District
Morehead, Kentucky

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

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 14, 2014, on the financial statements of the District.

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

Kelley Galloway Smith Goolsby, PSC

October 14, 2014

ROWAN COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014

2014-1 Employee Underpaid

Statement of Condition: We noted an instance whereby an employee was underpaid by 12 hours for a pay period.

Criteria for Condition: Employee not paid for all work performed.

Cause of Condition: Inadequate review.

Effect of the Condition: Employee not properly paid.

Recommendation of the Condition: We recommend that further procedures be implemented to ensure employees are paid for all time worked.

Management Response: Better diligence will be executed to make sure that all hours reported on time sheets are duly paid.

2014-2 High School Activity Fund - Check Dual Signatures

Statement of Condition: We noted a check that did not contain dual signatures.

Criteria for Condition: All checks require dual signatures.

Cause of Condition: Inadequate review.

Effect of the Condition: Disbursement was not properly authorized.

Recommendation of the Condition: We recommend that all checks contain dual signatures.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds.

2014-3 High School Activity Fund - Check Mailing

Statement of Condition: We noted checks are not always mailed the same day they are prepared.

Criteria for Condition: The Redbook requires that checks be mailed the same day they are prepared.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Checks not mailed as required by the Redbook.

Recommendation of the Condition: We recommend that all checks be mailed the same day as they are prepared.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds.

2014-4 High School Activity Fund - Disbursement Filing

Statement of Condition: We noted supporting documentation for disbursements is not filed together by month, in check numerical order.

Criteria for Condition: The Redbook requires that supporting documentation for disbursements be filed by month, in check numerical order.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Supporting documentation for disbursements not filed as required by the Redbook.

Recommendation of the Condition: We recommend that all disbursement supporting documentation be filed by month, in check numerical order.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds.

2014-5 Middle School Activity Fund - Budgets

Statement of Condition: We noted activity fund budgets were not prepared.

Criteria for Condition: The Redbook requires that a budget be prepared for all activity fund accounts.

Cause of Condition: Lack of knowledge of Redbook budget requirements.

Effect of the Condition: Budget not prepared as required.

Recommendation of the Condition: We recommend that all activity fund accounts have properly prepared budgets.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds.

2014-6 Middle School Activity Fund - Purchase Order

Statement of Condition: We noted a disbursement that did not include a purchase order.

Criteria for Condition: Proper procedure is to prepare and approve purchase orders.

Cause of Condition: Purchase order was lost.

Effect of the Condition: Purchase not properly supported by the required documentation.

Recommendation of the Condition: We recommend that purchase orders be properly approved and maintained.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds.

2014-7 Rodburn Elementary - Sales Tax

Statement of Condition: We noted instances of sales tax being paid.

Criteria for Condition: Schools are exempt from sales tax.

Cause of Condition: Teachers not utilizing the sales tax exempt credit card maintained by the school.

Effect of the Condition: Overpaying for items purchased.

Recommendation of the Condition: We recommend that personnel avoid paying sales tax by utilizing the school maintained credit card.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds.

2014-8 Tilden Hogge Elementary Activity Fund - Prescribed Forms

Statement of Condition: We noted that all prescribed forms are not utilized.

Criteria for Condition: The Redbook requires that prescribed forms be utilized when applicable.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Prescribed forms are not utilized as required.

Recommendation of the Condition: We recommend that all prescribed forms be utilized when applicable.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds.

2014-9 Tilden Hogge Elementary Activity Fund - Donations Received

Statement of Condition: We noted that donations received were not reported to the District Finance Officer.

Criteria for Condition: The Redbook requires that donations received be reported to the District Finance Officer on an annual basis.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Donations received are not being properly reported to District Finance Officer.

Recommendation of the Condition: We recommend that all donations received be reported to District Finance officer on an annual basis.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds.

Status of Prior Year Management Points

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