

WEBSTER COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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WEBSTER COUNTY SCHOOL DISTRICT
JUNE 30, 2014

BOARD OF EDUCATION

Jeff Pettit, Chairman
Mickey Dunbar, Vice-Chairman
Timothy McCormick, Member
Venita Murphy, Member
Leland Steely, Member

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Pate Galloway, Interim Superintendent
Allan Lossner, Assistant Superintendent
Riley Ramsey, Assistant Superintendent
Brandi Burnett, Treasurer

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee
for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 modified opinion.

Basis for Disclaimer of Opinion on Governmental Activities

The District did not update its fixed assets files as of June 30, 2014, and was unable to provide evidence to support the amounts reported on the Statement of Net Position and the depreciation expense on the Statement of Activities as of June 30, 2014. The amounts that should have been reported as fixed assets and depreciation expense could not be reasonably determined.

Disclaimer Opinion on Governmental Activities

In our opinion, except for the effects of the matter described in the “Basis for Disclaimer of Opinion on Governmental Activities” paragraph the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of Webster County School District as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Special Revenue Fund, Construction Fund, Building Fund, and the aggregate remaining fund information of Webster County School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 4–13 and 49–53 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 Webster County School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

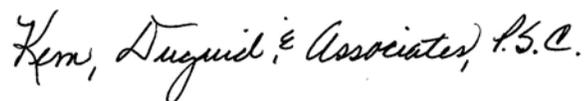
The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of Webster 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 Webster County School District's internal control over financial reporting and compliance.

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$3,768,477, as compared with the beginning cash balance of \$2,867,557. The ending cash balance consisted of General Fund of \$839,332, Special Revenue Fund of \$411,670, Construction Fund of \$1,074,672, Building Fund of \$505,125, Other Governmental Funds of \$47,341, Food Service Fund of \$582,707, Trust and Agency Fund of \$5,028 and School Activity Funds of \$302,602.
- The General Fund had \$15,857,143 in revenues excluding interfund transfers, which primarily consisted of the state program (SEEK) funds, property, utilities, and motor vehicle taxes, and on-behalf payments for fringe benefits from the Commonwealth of Kentucky. General Fund revenues increased in comparison to prior year revenues of \$15,802,035. Excluding interfund transfers, there were \$16,017,679 in General Fund expenditures. This compares to \$15,661,080 in General Fund expenditures for the prior year.
- The financial statements reflect a total of \$4,012,143 of revenues and aid from the state for payments made by the state on-behalf of district employees for retirement contributions, health insurance and technology. A like amount of expenses is also recorded in the financial statements.

The Webster County Schools has begun a new efficiency management effort under the new superintendent/finance officer, Dr. Rachel Yarbrough, since July 1, 2014. The efficiency improvements already put into place include the following initiatives:

- All school bookkeepers, principals, athletic directors, and other finance staff in the Webster County Schools received updated Kentucky Redbook training in August 2014 with Ron Flannery to better comply with previous audit findings/recommendations.
- Fixed Asset Tracking has been restructured with a new district employee identified to assume responsibility for upgrading the equipment/asset tracking data entry and posting in MUNIS. This employee has undergone recent training for the effective tracking of all assets purchased within the past three years. We will also cross train multiple employees in the asset tracking process so that when a vacancy exists the process can be maintained with fidelity in the district.

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

- A Resource Efficiency Team which met for the first time in October of 2014 has been established for the purpose of reviewing all funding sources and maximizing efficient utilization of these funds. The Resource Efficiency Team is comprised of one school board member, district administrators who have federal or state grant supervision, the maintenance director, transportation director, one school principal, the district treasurer, payroll clerk and the finance officer. This process should provide a more transparent process for efficient use of resources available to the Webster County Schools.
- First year Kentucky Finance Officer Training was provided for the Webster County Treasurer, Brandi Burnett, in November 2014. This training is a three year process and will provide additional finance management training and expanded knowledge of Kentucky school finance rules and regulations for the Webster County School District’s treasurer.
- A zero based budget process will occur prior to the 2015/16 school year for all funds in the Webster County Schools.

Under the new leadership, a commitment to transparency and stewardship of public funds will guide all financial decisions with the ultimate goal of improving the quality of instruction within the Webster County Schools on behalf of its students.

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 report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all the District’s assets and deferred outflows of resources and liabilities. All of the current year’s revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net position and how it has changed. Net position – the difference between the District’s assets and deferred outflows, and liabilities and deferred inflows – is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

In the government-wide financial statements, all the District’s activities are reported as governmental activities.

- Governmental activities – All of the District’s basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of the activities.

The fund financial statements provide more detailed information about the District’s *funds*, focusing on its most significant or “major” funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District’s basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – The District’s proprietary fund is food service. The proprietary fund statements are the same as the business-type activities in the government-wide statements, but provide more detail and additional information, such as cash flows.
- *Fiduciary funds* – The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District’s fiduciary funds consist of student activities funds. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

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

Other information – In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information, as well as combining and individual fund statements and schedules beginning on page 49.

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

GOVERNMENT WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$6,676,304 as of June 30, 2014.

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

Following is a summary of the District’s government-wide net position for the fiscal years ended June 30, 2014 and 2013:

Net Position for the Fiscal Years Ended June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current assets and other assets	\$ 3,221,746	\$ 2,775,896	\$ 649,753	\$ 573,538	\$ 3,871,499	\$ 3,349,434
Capital assets	25,912,610	25,035,244	50,000	83,115	25,962,610	25,118,359
Total assets	<u>29,134,356</u>	<u>27,811,140</u>	<u>699,753</u>	<u>656,653</u>	<u>29,834,109</u>	<u>28,467,793</u>
Current liabilities	1,026,295	2,532,736	3,280	1,500	1,029,575	2,534,236
Noncurrent obligations	22,065,411	17,574,926	9,740	13,000	22,075,151	17,587,926
Total liabilities	<u>23,091,706</u>	<u>20,107,662</u>	<u>13,020</u>	<u>14,500</u>	<u>23,104,726</u>	<u>20,122,162</u>
Net position						
Investment in capital assets, net of related debt	4,136,803	6,627,440	50,000	83,115	4,186,803	6,710,555
Restricted	-	79,042	-	-	-	79,042
Unrestricted	1,852,768	996,996	636,733	559,038	2,489,501	1,556,034
Total net position	<u>\$ 5,989,571</u>	<u>\$ 7,703,478</u>	<u>\$ 686,733</u>	<u>\$ 642,153</u>	<u>\$ 6,676,304</u>	<u>\$ 8,345,631</u>

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Change in net position. The District’s governmental activities net position decreased by \$1,713,907 (including a prior period adjustment of \$85,576) net and business-type activities net position increased \$44,580.

The Kentucky School Facilities Construction Commission (SFCC) makes direct payments of principal and interest on District bonds issued for construction of facilities. The bonds payable are included in the long-term obligations of the District, and the payments are recorded as revenue from the State. Another increase is the expenditure of current revenues on capital assets, an expenditure that does not reduce net position on the government-wide statements.

The District’s financial position is the product of many factors. For example, the determination of the District’s investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts.

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Following is a summary of schedule of changes in the District's net position for the years ended June 30, 2014 and 2013:

Changes in Net Position for the Fiscal Years Ended June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Operating grants and contributions	\$ 11,682,289	\$ 2,286,699	\$ 798,542	\$ 893,238	\$ 12,480,831	\$ 3,179,937
Capital grants and contributions	702,793	1,232,860	-	-	702,793	1,232,860
Charges for services	-	-	373,728	429,442	373,728	429,442
General revenues:						
Property taxes	2,935,817	2,962,950	-	-	2,935,817	2,962,950
Other taxes	1,673,783	1,542,925	-	-	1,673,783	1,542,925
Investment earnings	13,506	13,981	2,775	1,565	16,281	15,546
State aid	2,911,031	11,760,601	102,588	-	3,013,619	11,760,601
Other	119,434	89,263	-	-	119,434	89,263
Total revenues	20,038,653	19,889,279	1,277,633	1,324,245	21,316,286	21,213,524
Expenses:						
Instruction	11,388,015	7,409,320	-	-	11,388,015	7,409,320
Support services:						
Student	1,014,677	1,085,222	-	-	1,014,677	1,085,222
Instructional support	1,406,736	2,081,122	-	-	1,406,736	2,081,122
District administration	944,779	756,008	-	-	944,779	756,008
School administration	887,074	1,320,233	-	-	887,074	1,320,233
Business support	664,394	1,028,943	-	-	664,394	1,028,943
Plant operations	2,094,466	2,163,865	-	-	2,094,466	2,163,865
Student transportation	1,681,116	1,185,363	-	-	1,681,116	1,185,363
Community services	188,805	197,158	-	-	188,805	197,158
Facilities acquisition	-	-	-	-	-	-
Interest on long-term debt	1,394,696	598,669	-	-	1,394,696	598,669
Depreciation	-	939,856	-	-	-	939,856
Bond issuance costs	42,100	-	-	-	42,100	-
Transfers	(39,874)	(40,000)	39,874	40,000	-	-
Food service	-	-	1,193,179	1,267,530	1,193,179	1,267,530
Total expenses	21,666,984	18,725,759	1,233,053	1,307,530	22,900,037	20,033,289
Increase (Decrease) in net position	\$ (1,628,331)	\$ 1,163,520	\$ 44,580	\$ 16,715	\$ (1,583,751)	\$ 1,180,235

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District’s governmental funds reported combined ending fund balances of \$2,188,261 an increase of \$735,223 in comparison with the prior year. The following schedule indicates the fund balances and the total changes in fund balances by major fund and other governmental (nonmajor) funds as reported in the basic financial statements for the fiscal years ended June 30, 2014 and 2013.

The main sources of the General Fund’s revenues are state aid in the form of SEEK allocations and locally assessed taxes. The majority of the Districts activities are accounted for in the General Fund. The Special Revenue Fund consists of grant revenues, mostly state funds and federal funds administered through the state and expenditures of those grants for specific programs in accordance with the grants’ guidelines.

The SEEK Capital Outlay Fund’s revenues are derived from state SEEK allowances based upon student enrollment. The FSPK Building Fund’s revenues are produced by a five-cent property tax equivalent. The use of both funds’ resources is generally restricted to facilities acquisition or improvement and payment of the related debt on facilities. The Construction Fund is used to account for facility construction and improvement projects funded by other funds or borrowing.

The Debt Service Fund is used to account for all activities related to long-term bond obligations.

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Following is a summary of fund balances for the fiscal years ended June 30, 2014 and 2013:

Governmental Funds Balances as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Governmental Funds			
General Fund	\$ 815,557	\$ 1,343,769	\$ (528,212)
Special Revenue Fund	-	(137,621)	137,621
Construction Fund	820,238	(267,836)	1,088,074
Building Fund	505,125	505,124	1
Capital Outlay	47,341	8,190	39,151
Debt Service Fund	-	1,412	(1,412.00)
Total governmental funds	<u>\$ 2,188,261</u>	<u>\$ 1,453,038</u>	<u>\$ 735,223</u>
Proprietary Funds			
Food Service Fund	<u>\$ 686,733</u>	<u>\$ 642,153</u>	<u>\$ 44,580</u>
Fiduciary Funds			
Private Purpose Fund	\$ -	\$ 6,547	\$ (6,547)
School Activity Funds	-	-	-
	<u>\$ -</u>	<u>\$ 6,547</u>	<u>\$ (6,547)</u>

General Fund – The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$241,769, while total fund balance reached \$2,188,261. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 1.51% of total General Fund expenditures, while total fund balance represents 5.09% of that same amount.

During the current fiscal year, the total fund balance of the General Fund decreased by \$528,212 (including a prior period adjustment of \$144,469). Revenues and transfers totaling \$15,935,089 increased by \$68,939, while expenditures and transfers totaling \$16,318,832 increased by \$470,369.

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with directives from the Kentucky Department of Education (DOE) and Kentucky law, the District’s funds budgets are prepared to account for most transactions on a cash receipt/cash disbursement/encumbrance basis. The DOE requires a budget in which any budgeted remaining fund balance is shown as a contingency expense and any amounts being accumulated for other purposes ultimately shown as unspent or over-budgeted expenditures. By law, the budget must have a minimum 2% contingency. The District adopted a General Fund budget with a contingency of \$616,923 or 4.3%. Over the course of the year, the District revises the annual operating budget as circumstances dictate or as required by DOE.

As noted on the Budgetary Comparison Schedule for the General Fund contained in the Required Supplementary Information, the General Fund budget did not include \$4,012,143 of state payments on-behalf of District employees for retirement and health benefits. These payments are reflected in the GAAP basis actual amounts as state program revenues and in each type of expenditure in relation to wages paid, with the major portion contained in instructional expenditures. Local revenues are budgeted conservatively resulting in a favorable variance of local revenues for the year.

- The District’s total revenues for General Fund activities for the fiscal year ended June 30, 2014, excluding interfund transfers, beginning balances, and on-behalf payments, were \$12,639,380; compared to the total budgeted revenues of \$13,077,746.
- The District’s total expenditures for General Fund activities for the fiscal year ended June 30, 2014, excluding interfund transfers and on-behalf payments, were \$12,799,916; compared to the total budgeted expenditures of \$13,951,572
- The fund balance at the end of the 2014 fiscal year for all Governmental Funds was \$2,188,261 compared to \$1,453,038 in the prior year.

Significant Board action that impacts the District’s finances includes the award of multiple contracts and salary increases mandated by the Legislature.

Fund 2 is made up of state, local, and federal grants. These grants include Title I, No Child Left Behind Funding, Preschool, Special Education funding, and others. These funds have restricted use, according to the guidelines for each. Expenses include salaries and benefits, supplies, and transportation.

Funds 310 and 320 are restricted funds for capital projects. The State contributes to Fund 310.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At June 30, 2014, the District had \$25,962,610 invested in capital assets net of depreciation: historical costs totaled \$44,400,118 with accumulated depreciation totaling \$18,437,508. These assets include school, athletic, and support facilities, as well as technology, food service, and other equipment. Expenditures for acquisitions and improvements during the year totaled \$3,963,903. Depreciation charged to expense during the year totaled \$3,110,998, the majority of which was charged to governmental functions. More detailed information relating to capital assets may be found in Note 3 to the financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT – DIXON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Following is a summary of capital assets, net of depreciation, for the fiscal years ended June 30, 2014 and 2013.

Net Capital Assets for the Fiscal Years Ended June 30, 2014 and 2013

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>District Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 544,352	\$ 544,352	\$ -	\$ -	\$ 544,352	\$ 544,352
Land improvements	185,869	314,727	-	-	185,869	314,727
Construction in progress	3,583,483	193,551	-	-	3,583,483	193,551
Building and improvements	20,663,494	22,163,785	-	-	20,663,494	22,163,785
Technology equipment	(108,621)	313,322	(7,932)	-	(116,553)	313,322
General equipment	227,937	332,659	-	-	227,937	332,659
Vehicles	816,096	1,172,848	38,361	-	854,457	1,172,848
Food service equipment	-	-	19,571	83,115	19,571	83,115
Total	<u><u>\$ 25,912,610</u></u>	<u><u>\$ 25,035,244</u></u>	<u><u>\$ 50,000</u></u>	<u><u>\$ 83,115</u></u>	<u><u>\$ 25,962,610</u></u>	<u><u>\$ 25,118,359</u></u>

Long-Term Debt – The District’s long-term general obligation bonds outstanding at June 30, 2014 were \$8,765,000. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest payment under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to pay \$5,279,463 of the bonds leaving the District to pay \$3,485,537. The liability for compensated absences remained steady for the fiscal year. Other long-term obligations, mostly leases on buses, will decrease as the leases are paid down.

The State must approve the issuance of any new bonds of the District.

More detailed information about the District’s long-term liabilities may be found in Note 4 to the financial statements.

OUTLOOK FOR THE FUTURE

The most crucial aspect in the financial future of the District is continued adequate funding from the state. The District’s major source of revenue is state aid, primarily Kentucky SEEK funding.

The District’s financial position is contingent upon legislation and factors related to property taxation in conjunction with decisions made by the District’s Board management. The District remains committed to utilizing resources to provide the maximum benefit to students and provide them with a quality education. This involves closely monitoring legislation and seeking new sources of revenues through grant writing, etc.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances, comply with finance-related laws and regulations, and demonstrate the District’s commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Superintendent or District finance personnel (270) 639-0101 or by mail at 28 St Rt 1340, Dixon KY 42409.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,878,140	\$ 582,707	\$ 3,460,847
Accounts receivable:			
Taxes	151,146	-	151,146
Other	16,719	13,029	29,748
Intergovernmental - state	20,781	-	20,781
Intergovernmental - indirect federal	101,881	-	101,881
Inventory	-	54,017	54,017
Capital assets:			
Non-depreciable	43,512,758	-	43,512,758
Depreciable (net)	(17,600,148)	50,000	(17,550,148)
 Total assets	 <u>29,081,277</u>	 <u>699,753</u>	 <u>29,781,030</u>
LIABILITIES			
Accounts payable	494,314	3,280	497,594
Accrued payroll and related expenses	479	-	479
Unearned revenue	373,348	-	373,348
Interest payable	158,154	-	158,154
Long-term obligations:			
Portion due or payable within one year:			
Bonds payable	917,068	-	917,068
Capital lease obligations	194,086	-	194,086
Accrued sick leave	112,265	-	112,265
Portion due or payable after one year:			
Bonds payable	19,820,342	-	19,820,342
Capital lease obligations	844,311	-	844,311
Accrued sick leave	177,339	9,740	187,079
 Total liabilities	 <u>23,091,706</u>	 <u>13,020</u>	 <u>23,104,726</u>
NET POSITION			
Invested in capital assets, net of related debt	4,136,803	50,000	4,186,803
Unrestricted	1,852,768	636,733	2,489,501
 Total net position	 <u>\$ 5,989,571</u>	 <u>\$ 686,733</u>	 <u>\$ 6,676,304</u>

See accompanying notes to financial statements

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

Functions/Programs	Program Revenues			Net (Expenses) Revenues	
	Expenses	Charges for Services	Operating Grants & Contributions		Capital Grants & Contributions
Governmental Activities:					
Current:					
Instruction	\$ 11,388,015	\$ -	\$ 6,391,093	\$ -	\$ (4,996,922)
Support services:					
Student	1,014,677	-	396,650	-	(618,027)
Instructional staff	1,406,736	-	3,205,659	-	1,798,923
District administration	944,779	-	157,971	-	(786,808)
School administration	887,074	-	245,476	-	(641,598)
Business	664,394	-	20,054	-	(644,340)
Plant operation and maintenance	2,094,466	-	162,524	-	(1,931,942)
Student transportation	1,681,116	-	430,462	-	(1,250,654)
Community service activities	188,805	-	672,400	-	483,595
Bond issuance costs	42,100	-	-	-	(42,100)
Interest on long-term debt	1,394,696	-	-	702,793	(691,903)
Total governmental activities	21,706,858	-	11,682,289	702,793	(9,321,776)
Business-Type Activities:					
Food service	1,193,179	373,728	798,542	-	(20,909)
Total business-type activities	1,193,179	373,728	798,542	-	(20,909)
Total activities	\$ 22,900,037	\$ 373,728	\$ 12,480,831	702,793	\$ (9,342,685)
			Governmental Activities	Business-Type Activities	Total
Changes in Net Position					
Net revenues (expenses)			\$ (9,321,776)	\$ (20,909)	\$ (9,342,685)
General Revenues					
Taxes:					
Property			2,935,817	-	2,935,817
Motor vehicle			494,731	-	494,731
Utilities			957,186	-	957,186
Other			221,866	-	221,866
Investment earnings			13,506	2,775	16,281
State aid			2,911,031	102,588	3,013,619
Gain (loss) on sale of fixed assets			30,305	-	30,305
Transfers			39,874	(39,874)	-
Miscellaneous			89,129	-	89,129
Total general revenues			7,693,445	65,489	7,758,934
Change in net position			(1,628,331)	44,580	(1,583,751)
Net position, July 1, 2013			7,703,478	642,153	8,345,631
Prior period adjustment			(85,576)	-	(85,576)
Net position, July 1, 2013, restated			7,617,902	642,153	8,260,055
Net position, June 30, 2014			\$ 5,989,571	\$ 686,733	\$ 6,676,304

See accompanying notes to financial statements

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

	General Fund	Special Revenue	Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 839,332	\$ 411,670	\$ 1,074,672	\$ 505,125	\$ 47,341	\$ 2,878,140
Accounts receivable:						
Taxes	151,146	-	-	-	-	151,146
Other	16,719	-	-	-	-	16,719
Intergovernmental - state	-	20,781	-	-	-	20,781
Intergovernmental - indirect federal	-	101,881	-	-	-	101,881
Prepaid expense	-	-	-	-	-	-
Total assets	<u>\$ 1,007,197</u>	<u>\$ 534,332</u>	<u>\$ 1,074,672</u>	<u>\$ 505,125</u>	<u>\$ 47,341</u>	<u>\$ 3,168,667</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 78,896	\$ 160,984	\$ 254,434	\$ -	\$ -	\$ 494,314
Accrued payroll and related expenses	479	-	-	-	-	479
Accrued sick leave	112,265	-	-	-	-	112,265
Unearned revenue	-	373,348	-	-	-	373,348
Total liabilities	<u>191,640</u>	<u>534,332</u>	<u>254,434</u>	<u>-</u>	<u>-</u>	<u>980,406</u>
Fund balances						
Nonspendable						
Spendable:						
Restricted	380,416	-	820,238	505,125	47,341	1,753,120
Committed	162,410	-	-	-	-	162,410
Assigned	30,962	-	-	-	-	30,962
Unassigned	241,769	-	-	-	-	241,769
Total fund balances	<u>815,557</u>	<u>-</u>	<u>820,238</u>	<u>505,125</u>	<u>47,341</u>	<u>2,188,261</u>
Total liabilities and fund balances	<u>\$ 1,007,197</u>	<u>\$ 534,332</u>	<u>\$ 1,074,672</u>	<u>\$ 505,125</u>	<u>\$ 47,341</u>	<u>\$ 3,168,667</u>

See accompanying notes to financial statements

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

Total fund balance per fund financial statements		\$ 2,188,261
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$43,512,758, and the accumulated depreciation is \$17,600,148.</p>		
		25,912,610
<p>Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:</p>		
Bond obligations	\$ (20,737,410)	
Lease obligations	(1,038,397)	
Interest payable on bonds	(158,154)	
Noncurrent portion of accumulated sick leave	(177,339)	
	(22,111,300)	(22,111,300)
Net position for governmental activities		\$ 5,989,571

See accompanying notes to financial statements

**WEBSTER 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	Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
From local sources:						
Taxes						
Property	\$ 2,359,151	\$ -	\$ -	\$ 576,666	\$ -	\$ 2,935,817
Motor vehicle	494,731	-	-	-	-	494,731
Utilities	957,186	-	-	-	-	957,186
Other	221,866	-	-	-	-	221,866
Earnings on investments	12,727	779	-	-	-	13,506
Other local revenues	89,129	-	-	-	-	89,129
Intergovernmental - state	11,682,288	906,729	-	330,232	898,550	13,817,799
Intergovernmental - federal	40,065	1,438,248	-	-	-	1,478,313
Total revenues	15,857,143	2,345,756	-	906,898	898,550	20,008,347
EXPENDITURES						
Current:						
Instruction	8,697,268	1,174,051	-	-	-	9,871,319
Support services:						
Student	1,020,493	52,683	-	-	-	1,073,176
Instructional staff	496,322	910,414	-	-	-	1,406,736
District administration	894,613	-	-	-	-	894,613
School administration	1,070,900	-	-	-	-	1,070,900
Business	659,288	-	-	-	-	659,288
Plant operations and maintenance	2,026,537	5,091	-	-	-	2,031,628
Student transportation	1,150,302	93,802	-	-	-	1,244,104
Community service activities	1,956	192,953	-	-	-	194,909
Building acquisition and construction	-	-	3,120,549	-	-	3,120,549
Debt service	-	-	-	359,997	1,984,212	2,344,209
Total expenditures	16,017,679	2,428,994	3,120,549	359,997	1,984,212	23,911,431
Excess (deficit) of revenues over (under) expenditures	(160,536)	(83,238)	(3,120,549)	546,901	(1,085,662)	(3,903,084)
Other financing sources (uses)						
Proceeds from disposal of fixed assets	38,072	-	-	-	-	38,072.00
Bond proceeds, net	-	-	4,208,623	359,998	-	4,568,621
Operating transfers in	39,874	83,238	-	-	1,281,419	1,404,531
Operating transfers out	(301,153)	-	-	(906,898)	(156,606)	(1,364,657)
Total other financing sources (uses)	(223,207)	83,238	4,208,623	(546,900)	1,124,813	4,646,567
Net changes in fund balances	(383,743)	-	1,088,074	1	39,151	743,483
Fund balances, July 1, 2013	1,343,769	(137,621)	(267,836)	505,124	9,602	1,453,038
Prior period adjustment	(144,469)	137,621	-	-	(1,412)	(8,260)
Fund balances, July 1, 2013, restated	1,199,300	-	(267,836)	505,124	8,190	1,444,778
Fund balances, June 30, 2014	\$ 815,557	\$ -	\$ 820,238	\$ 505,125	\$ 47,341	\$ 2,188,261

See accompanying notes to financial statements

**WEBSTER 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 balance - Total governmental funds \$ 743,483

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 these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expenses exceeded capital outlay in the current period:

Capital outlay	\$ 3,924,655	
Depreciation expense	<u>(3,039,522)</u>	
Net capital outlay		885,133

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, CIP closures/transfers) is to decrease net position (7,767)

Bond proceeds are reported as other financing sources in governmental funds and contribute to the change in fund balance. However, in the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of bond principal is an expenditure in the government funds financial statements but is a reduction of the liability in the statement of net position.

Bond proceeds	(4,650,000)	
Bond discount	39,278	
Bond repayments	1,032,315	
KISTA lease payments	<u>212,368</u>	
		(3,366,039)

Some items reported in the statement of activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds. These activities are:

Accumulated sick leave-noncurrent portion	199,661	
Amortization of bond discount	(1,964)	
Accrued interest on bonds	<u>(80,838)</u>	
Net decrease in expenditures		<u>116,859</u>

Change in net position of governmental activities \$ (1,628,331)

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

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

	School Food Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 582,707
Accounts receivable	13,029
Inventory	54,017
Total current assets	649,753
Noncurrent assets	
Capital assets	887,360
Less: accumulated depreciation	(837,360)
Total noncurrent assets	50,000
Total assets	699,753
LIABILITIES	
Current liabilities	
Accounts payable	3,280
Accrued salaries and benefits	9,740
Total current liabilities	13,020
NET POSITION	
Invested in capital assets, net of related debt	50,000
Unrestricted	636,733
Total net position	\$ 686,733

See accompanying notes to financial statements

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

	<u>School Food Service Fund</u>
OPERATING REVENUES	
Lunchroom sales	\$ 373,728
Total operating revenues	<u>373,728</u>
 OPERATING EXPENSES	
Salaries, wages and benefits	631,426
Materials and supplies	456,841
Depreciation	72,363
Contract services	30,690
Other	1,859
Total operating expenses	<u>1,193,179</u>
Operating income (loss)	<u>(819,451)</u>
 NON-OPERATING REVENUES (EXPENSES)	
Federal grants	743,418
Donated commodities	55,124
State grants	10,999
State on-behalf payments	91,589
Transfers in (out)	(39,874)
Interest income	2,775
Total non-operating revenues (expenses)	<u>864,031</u>
Change in net position	44,580
Net position, July 1, 2013	<u>642,153</u>
Net position, June 30, 2014	<u><u>\$ 686,733</u></u>

See accompanying notes to financial statements

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

	<u>School Food Service Fund</u>
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 400,748
Cash paid to/for:	
Employees	(544,597)
Supplies	(361,058)
Contract services	(32,549)
	<u>(537,456)</u>
Net cash provided (used) by operating activities	<u>(537,456)</u>
Cash flows from noncapital financing activities	
Transfers in (out)	(39,874)
Government grants	754,417
	<u>714,543</u>
Net cash provided (used) by noncapital financing activities	<u>714,543</u>
Cash flows from investing activities	
Purchase of fixed assets	(39,245)
Receipt of interest income	2,775
	<u>(36,470)</u>
Net cash provided (used) by investing activities	<u>(36,470)</u>
Net increase (decrease) in cash and cash equivalents	140,617
Balances, beginning of year	<u>442,090</u>
Balances, end of year	<u><u>\$ 582,707</u></u>

See accompanying notes to financial statements

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS, continued
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>School Food Service Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (819,451)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	72,363
Donated commodities	55,124
State on-behalf payments	91,589
Change in assets and liabilities:	
Accounts receivable	27,020
Inventory	37,379
Compensated absences	(4,760)
Accounts payable	<u>3,280</u>
Net cash provided (used) by operating activities	<u><u>\$ (537,456)</u></u>
Schedule of non-cash transactions:	
Donated commodities received from Federal government	\$ 55,124
On-behalf payments	91,589

See accompanying notes to financial statements

FIDUCIARY FUNDS FINANCIAL STATEMENTS

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

	Fiscal Agent Funds	Agency Funds	Total Fiduciary Net Position
ASSETS			
Cash and cash equivalents	\$ 5,028	\$ 302,602	\$ 307,630
Total assets	<u>5,028</u>	<u>302,602</u>	<u>307,630</u>
LIABILITIES			
Accounts payable	238	-	238
Due to grantor agency	4,790	-	4,790
Due to student groups	<u>-</u>	<u>302,602</u>	<u>302,602</u>
Total liabilities	<u>5,028</u>	<u>302,602</u>	<u>307,630</u>
NET POSITION	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Webster 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 the Webster 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 District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Webster County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. 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:

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

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. Interfund activity is eliminated to avoid “doubling up” revenues and expenses.

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

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

Fund Financial Statement

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

The governmental funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Fund is accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Fund reports increases and decreases in total economic net worth.

Under the terms of the District's grant agreements, certain programs are funded by specific cost reimbursement grants and general revenues. Generally, the District applies cost reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

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

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The *General Fund* is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of 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. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

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

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations).

The *Facility Support Program of Kentucky Fund (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. The Building Fund (FSPK) is a major fund of the District.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenue to be used for authorized construction. The Construction Fund is a major fund of the District.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest, and related costs.

Proprietary Funds

Proprietary funds are used to account for ongoing activities which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The fund's principal operating revenues are food service charges and day care charges. Operating expenses include food production costs, supplies, administrative costs, and depreciation on capital assets. All items not meeting this definition are reported as nonoperating revenues and expenses.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA).

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District. The Fiduciary Funds are prepared under the economic resources measurement focus and the accrual basis of accounting.

Agency Funds

Agency funds consist of activity funds, which are established at each school to account for the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The District retains no equity interest in these funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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 use the accrual basis of accounting.

Revenue Recognition

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. "Available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2014 are recorded when the enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. 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 they are needed. 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.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are levied on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes become delinquent after December 31.

The property tax rates for the year ended June 30, 2014 to finance the General Fund operations were \$.476 per \$100 valuation for real property, \$.476 per \$100 valuation for tangible personal property, and \$.48 per \$100 valuation for motor vehicles.

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.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interfund Activity

Flows of cash 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.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2014. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and time deposits that are nonnegotiable, to be cash and cash equivalents, for governmental, proprietary and fiduciary funds. This definition is also used for the proprietary funds' statements of cash flows.

Prepaid Expenditures

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

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. The Proprietary Fund inventory is recorded at the lower of cost, determined by first-in first-out ("FIFO") method, or market value.

Nonmonetary assistance is reported in the proprietary funds at the market value of the commodities received/used.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. 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 interfund balances.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted Assets

Certain assets of the General Fund are classified as restricted assets because their use is restricted by KRS 157.420.3

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 capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold, as stated below, with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets except land 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 For Depreciation</u>
Buildings and improvements	25-50 years
Land improvements	20-25 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
Furniture and fixtures	7-20 years
Other	10-15 years

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Compensated Absences

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 as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of this type of item.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balances

In the fund financial statements, governmental fund balances are classified as follows:

Non-spendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted – Amounts which can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts which can be used only for specific purposes determined by the Board of Education’s formal action through a resolution.

Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board or Management. The Board adopted a resolution establishing the authority to assign funds.

Unassigned – All amounts not included in other spendable classifications.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District’s policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed, assigned, and then unassigned fund balances.

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Subsequent Events

Subsequent events have been evaluated through November 14, 2014, which is the date the financial statements were available to be issued.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

New GASB Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The adoption of GASB 67 does not have any impact on the Board's financial statements as the District only participates in a multiple-employer plan (and is not the trustee).

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – CASH AND CASH EQUIVALENTS

The District maintained deposits of public funds with depository institutions insured by FDIC as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. As stipulated by KRS 41.240(4), all deposits are collateralized with eligible securities or other obligations having aggregate current face value or current quoted market value at least equal to the deposits. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

At fiscal year end, the carrying amount of the District's deposits was \$3,768,477 and the bank balance was \$4,022,594. Of the District's bank balance, \$250,000 was covered by Federal Deposit insurance while the remaining \$3,772,594 was collateralized as discussed above.

The carrying amounts are reflected in the financial statements as follows:

Governmental funds	\$ 2,878,140
Proprietary funds	582,707
Fiduciary funds	<u>307,630</u>
Total	<u><u>\$ 3,768,477</u></u>

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Capital assets not depreciated:				
Land	\$ 544,352	\$ -	\$ -	\$ 544,352
Construction in progress	193,551	3,389,932	-	3,583,483
Total nondepreciable historical cost	<u>737,903</u>	<u>3,389,932</u>	<u>-</u>	<u>4,127,835</u>
Capital assets depreciated:				
Land improvements	777,473	-	-	777,473
Buildings and improvements	33,469,368	-	-	33,469,368
Technology equipment	988,477	277,712	623	1,265,566
General equipment	900,052	15,588.00	2,900.00	912,740
Vehicles	3,673,384	241,423	955,031	2,959,776
Total depreciable historical cost	<u>39,808,754</u>	<u>534,723</u>	<u>958,554</u>	<u>39,384,923</u>
Less: accumulated depreciation				
Land improvements	462,746	128,858	-	591,604
Building and improvements	11,305,583	1,500,291	-	12,805,874
Technology equipment	675,155	699,354	322	1,374,187
General equipment	567,393	120,621	3,211	684,803
Vehicles	2,500,536	590,398	947,254.00	2,143,680
Total accumulated depreciation	<u>15,511,413</u>	<u>3,039,522</u>	<u>950,787</u>	<u>17,600,148</u>
Total depreciable historical cost - net	<u>24,297,341</u>	<u>(2,504,799)</u>	<u>7,767</u>	<u>21,784,775</u>
Governmental activities capital assets - net	<u>\$ 25,035,244</u>	<u>\$ 885,133</u>	<u>\$ 7,767</u>	<u>\$ 25,912,610</u>

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – CAPITAL ASSETS, continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

Instruction	\$ 2,161,387
Support services:	
Student	2,744
Instructional staff	-
District administration	77,674
School administration	34,863
Business	7,318
Plant operation and maintenance	148,044
Student transportation	607,332
Community service	160
	<u>\$ 3,039,522</u>

Business-Type Activities	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Capital assets depreciated:				
Buildings and improvements	\$ -	\$ -	\$ -	\$ -
Technology equipment	54,280	-	-	54,280
Food service equipment	776,083	-	-	776,083
Vehicle	17,749	39,248	-	56,997
	<u>848,112</u>	<u>39,248</u>	<u>-</u>	<u>887,360</u>
Total depreciable historical cost				
	848,112	39,248	-	887,360
Less: accumulated depreciation				
Buildings and improvements	-	-	-	-
Technology equipment	54,280	7,932	-	62,212
Food service equipment	692,968	63,544	-	756,512
Vehicle	17,749	887	-	18,636
	<u>764,997</u>	<u>71,476</u>	<u>-</u>	<u>837,360</u>
Total accumulated depreciation				
	764,997	71,476	-	837,360
Business-type activities capital assets - net	<u>\$ 83,115</u>	<u>\$ (32,228)</u>	<u>\$ -</u>	<u>\$ 50,000</u>

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS

The District issues bonds to provide funds for the acquisition and construction of major capital facilities and improvements. The original amount of the issue, the dates and interest rates are summarized below:

Issue	Issue	Proceeds	Interest Rates
2004R	94 Refunding	2,880,000	1.90-3.625%
2005	HVAC - Clay Elementary	2,085,000	3.90%
2006	Renovations - Slaughters Elementary	900,000	3.90%
2008	Renovations - WCHS	9,995,000	3.00-4.875%
KISTA 2003	Renovations - Providence Elementary *	280,000	1.50%-4.70%
2004	95 Refunding *	410,000	1.30-3.50%
2004	Renovations - Restrooms Providence Elementary *	300,000	4.625%
KISTA 2009R	Refunding	603,191	1.00-3.25%
2010R	Refunding	1,020,000	
2011	Roof - Clay & Providence	178,485	1.50-3.50%
2012	Energy Conservation	3,005,000	.9-2.60%
2013	School Building Revenue Bonds	4,650,000	1.5-4.050%

*These bonds and KISTA loans were assumed by Webster County School District through the merger agreement dated December 12, 2006.

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

In connection with the school revenue bonds and KISTA Series, the District entered into “participation agreements” with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

The changes in outstanding debt during the year are summarized below:

	Balance July 1, 2013	New Issues/ Adjustments	Debt Payments/ Adjustments	Balance June 30, 2014
<u>Revenue Bonds</u>				
Issue of 2004	\$ 960,000	\$ -	\$ 315,000	\$ 645,000
Issue of 2005	1,510,000	-	170,000	1,340,000
Issue of 2006	840,000	-	10,000	830,000
Issue of 2008	9,025,000	-	260,000	8,765,000
Issue of 2010 (Refunding)	810,000	-	95,000	715,000
KISTA 2003	170,000	-	15,000	155,000
Issue of 2004 (Refunding)	85,000	-	40,000	45,000
Issue of 2004	195,000	-	15,000	180,000
KISTA 2009 (Refunding)	393,554	-	67,315	326,239
Issue of 2011	163,485	-	15,000	148,485
Issue of 2012	3,005,000	-	30,000	2,975,000
Issue of 2013	-	4,650,000	-	4,650,000
Total	17,157,039	4,650,000	1,032,315	20,774,724
Accrued compensated absences	377,000	-	87,396	289,604
Discount	-	(39,278)	(1,964)	(37,314)
	<u>\$ 17,534,039</u>	<u>\$ 4,610,722</u>	<u>\$ 1,117,747</u>	<u>\$ 21,027,014</u>
Business-Type: Accrued compensated absences	<u>\$14,500</u>	<u>-</u>	<u>\$ 4,760</u>	<u>\$ 9,740</u>

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS, continued

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

Year	Webster County Board of Education		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2015	463,764	457,899	453,304	269,723	1,644,690
2016	573,861	466,984	454,654	255,844	1,751,343
2017	550,700	443,264	467,901	240,978	1,702,843
2018	576,590	425,860	482,346	224,834	1,709,630
2019	596,521	407,442	476,598	208,005	1,688,566
2020-2024	3,403,938	1,712,450	2,219,547	773,824	8,109,759
2025-2029	4,045,355	1,035,859	2,219,645	292,918	7,593,777
2030-2034	3,622,027	340,103	167,973	16,601	4,146,704
	<u>\$ 13,832,756</u>	<u>\$ 5,289,861</u>	<u>\$ 6,941,968</u>	<u>\$ 2,282,727</u>	<u>\$ 28,347,312</u>

NOTE 5 – CAPITAL LEASE OBLIGATIONS

Leases meeting certain criteria are treated as financings and, according to generally accepted accounting principles, are recorded as capitalized leases. The District leases school buses pursuant to these types of leases and, as such, the cost is included with property and equipment. The related capital lease obligation reflects the present value of future lease payments less an interest amount implicit in the lease.

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Vehicles	\$ 1,867,631	\$ 972,455

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – CAPITAL LEASE OBLIGATIONS, continued

Future minimum payments under the long-term capital lease obligation, together with the present value of the net minimum lease payments as of June 30, 2014 are, as follows:

<u>Year Ending</u>	<u>KISTA Leases</u>
2015	220,592
2016	181,887
2017	180,304
2018	119,029
2019	109,624
2020-2023	<u>328,327</u>
Total minimum lease payments	\$ 1,139,763
Lease amount representing interest	<u>101,366</u>
Present value of net minimum lease payments	<u><u>\$ 1,038,397</u></u>

During the year ended June 30, 2014, the following changes occurred in the capital lease obligations:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>	<u>Due in One Year</u>
KISTA 04	\$ 11,984	\$ -	\$ 11,984	\$ -	\$ -
KISTA 05	34,246	-	16,836	17,410	17,410
KISTA 06	115,099	-	29,695	85,404	30,866
KISTA 07	128,588	-	33,162	95,426	34,516
KISTA 04(P)	5,637	-	5,637	-	-
KISTA 08	48,748	-	9,758	38,990	10,096
KISTA 11	137,191	-	16,553	120,638	16,913
KISTA 12	264,186	-	33,379	230,807	28,025
KISTA 13	505,086	-	55,364	449,722	56,260
	<u>\$ 1,250,765</u>	<u>\$ -</u>	<u>\$ 212,368</u>	<u>\$ 1,038,397</u>	<u>\$ 194,086</u>

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – FUND BALANCE REPORTING

Following is a summary of designations of fund balance at June 30, 2014:

	General Fund	Special Revenue	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted:				
Future construction	-	-	820,238	820,238
Capital outlay	-	-	-	-
SFCC escrow	-	-	47,341	47,341
Debt service	380,416	-	505,125	885,541
Committed:				
Sick leave	100,000	-	-	100,000
Site-based carryforward	62,410	-	-	62,410
				-
Assigned	30,962	-	-	30,962
				-
Unassigned	241,769	-	-	241,769
	<u>\$ 815,557</u>	<u>\$ -</u>	<u>\$ 1,372,704</u>	<u>\$ 2,188,261</u>

NOTE 7 – COMPENSATED ABSENCES

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

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be funded with current year's economic financial resources. These amounts are recorded in the account "accrued sick leave payable" in the General Fund. The amount estimated for expenditure for school year 2015 is \$112,265. Management has estimated that the long-term obligation will be approximately \$177,339. The amount for the business type activities is \$9,740 with the full amount considered to be a long-term obligation.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 – CONTINGENCIES AND COMMITMENTS

Grant Programs

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review, the funds are considered not to have been used for the intended purpose, the grantor may request a refund of 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.

KSBIT

The District has been notified by the Kentucky School Board Insurance Trust of a liability in the amount of \$86,905 for workers compensation losses incurred by the Trust. The District made a 25% down payment in the amount of \$21,726 in August 2014. The District chose to pay the remaining liability of \$65,179 in six installments beginning August 31, 2015. The entire unpaid balance of the assessment is due and payable in full on August 15, 2020.

NOTE 9 – PENSION PLANS

The District contributes to the Teachers' Retirement System of Kentucky (KTRS) and the County Employee's Retirement System (CERS). These are cost-sharing, multiple-employer defined benefit plans. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE). CERS administers similar programs for its employees and beneficiaries of county governmental entities, which includes classified employees of the district. Any benefit amendments of KTRS must be authorized by the State Legislature. The Board of Trustees of the Kentucky Retirement System administers CERS and, under provision of Kentucky Revised Statute Section 61.645, has the authority to establish and amend benefits.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 – PENSION PLANS, continued

Contribution rates are established by the legislature. KTRS members are required to contribute 11.355% of the employees' salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program is required to pay the matching contribution. The District is required to contribute 1.50% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 6% of their salaries to CERS. The District is required to contribute 18.89% of all CERS salaries.

The District's total payroll for the year was \$11,465,452. The payroll for employees covered under KTRS was \$8,590,602 and for CERS was \$2,733,755.

The contribution requirement for CERS for the year ended June 30, 2014 was \$658,934 which consisted of \$516,519 from the District and \$142,415 from the employees. The Commonwealth contributed \$1,058,286 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$211,476, which represents \$92,072 for those employees covered by federal programs and \$119,404 for all other KTRS employees.

The three year trend information for the District's contribution requirement to KTRS and CERS is as follows:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
6/30/2014	\$ 870,410	100%
6/30/2013	690,575	100%
6/30/2012	607,114	100%

KTRS and CERS do not make separate measurement of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as of the whole, derived from actuarial valuations (all dollar amounts are \$1,000's) performed as of June 30, 2013. (The actuarial reports for the year ended June 30, 2014 are not available.)

	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL</u>
KTRS	\$ 14,962,758	\$ 28,817,232	\$ 13,854,474
CERS	7,438,785	12,503,081	5,064,295
	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Underfunded Actuarial Liability as Percentage of Covered Payroll</u>
KTRS	51.90%	\$ 3,480,066	398.10%
CERS	59.50%	2,697,950	187.71%

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 – PENSION PLANS, continued

Medical Insurance Plan

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

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

Funding policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (3%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

Other

The District also offers employees the option to participate in defined contribution plans under Sections 401(k) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 11 – ON-BEHALF PAYMENTS

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contribution to Kentucky Teachers' Retirement System	\$	1,053,161
Health insurance, life insurance, flexible spending accounts (includes administrative fees)		2,229,525
Technology		26,665
Debt Service		<u>702,792</u>
	<u>\$</u>	<u>4,012,143</u>

The District is not legally responsible for these contributions. These payments are not required to be budgeted by the District. The total of these payments, has been included in revenues and the applicable expenditures functions in these financial statements, as follows:

Governmental activities:		
General Fund	\$	3,217,762
Debt Service Fund		702,792
Business-type activities:		
Food Service Fund		<u>91,589</u>
	<u>\$</u>	<u>4,012,143</u>

NOTE 12 – INSURANCE AND RELATED ACTIVITIES

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

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 worker's compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards' Insurance Trust Liability 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.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 13 – RISK MANAGEMENT AND LITIGATION, continued

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, the risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks to loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial statements

NOTE 14 – DEFICIT OPERATING FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the General Fund had a current year deficit of \$383,743 of revenues over expenditures causing a corresponding reduction of fund balance.

NOTE 15 – COBRA

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

The District has notified all terminated employees of available continuing insurance coverage as mandated by COBRA.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 16 – TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS matching funds	\$ 83,238
General	Debt Service	Debt service payment	217,915
Capital Outlay	Debt Service	Debt service payment	156,606
Building	Debt Service	Debt service payment	906,898
Food Service	Debt Service	Indirect food service reimbursements	39,874
			<u>\$ 1,404,531</u>

NOTE 17 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2014.

NOTE 18 – PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are recorded for correction of errors:

General Fund	\$ (144,469)
Special Revenue Fund	137,621
Debt Service Fund	<u>(1,412)</u>
Total for Governmental Fund Balances	(8,260)
Unrecorded accrued interest	<u>(77,316)</u>
Total for Governmental Activites - Net Position	<u>\$ (85,576)</u>

SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From local sources:				
Taxes				
Property	\$ 3,264,447	\$ 3,194,169	\$ 2,359,151	\$ (835,018)
Motor vehicle	425,000	425,000	494,731	69,731
Utilities	700,000	700,000	957,186	257,186
Other	195,000	195,000	221,866	26,866
Earnings on investments	6,500	6,500	12,727	6,227
Other local revenues	10,050	12,825	89,129	76,304
Intergovernmental - state	8,268,174	8,478,252	8,464,525	(13,727)
Intergovernmental - federal	66,000	66,000	40,065	(25,935)
Other receipts	-	-	-	-
Total revenues	12,935,171	13,077,746	12,639,380	(438,366)
EXPENDITURES				
Current:				
Instruction	6,561,557	6,508,868	6,392,627	116,241
Support services:				
Student	1,016,312	909,204	812,297	96,907
Instructional staff	462,220	477,877	463,261	14,616
District administration	819,554	950,235	736,642	213,593
School administration	772,510	836,990	825,424	11,566
Business	580,673	652,114	639,234	12,880
Plant operation and maintenance	1,863,746	1,989,554	1,881,756	107,798
Student transportation	884,404	1,017,848	1,046,719	(28,871)
Community Services	2,000	2,000	1,956	44
Land/Site acquisition	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Debt service	165,762	-	-	-
Contingency	444,327	606,882	-	606,882
Total expenditures	13,573,065	13,951,572	12,799,916	1,151,656
Excess (deficit) of revenues over (under) expenditures	(637,894)	(873,826)	(160,536)	713,290
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	-	38,072	38,072
Operating transfers in	40,000	40,000	39,874	126
Operating transfers out	(23,346)	(367,111)	(301,153)	(65,958)
Total other financing sources (uses)	16,654	(327,111)	(223,207)	(27,760.00)
Net change in fund balance	(621,240)	(1,200,937)	(383,743)	685,530
Fund balance, July 1, 2013	621,240	1,173,462	1,343,769	170,307
Prior period adjustment	-	-	(144,469)	(144,469)
Fund balance, July 1, 2013, restated	-	-	1,199,300	1,199,300
Fund balance, June 30, 2014	\$ -	\$ (27,475)	\$ 815,557	\$ 855,837

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

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From local sources:				
Earnings on investments	\$ -	\$ 1,000	\$ 779	\$ (221)
Other local revenues	-	10,123	-	(10,123)
Intergovernmental - state	666,741	809,076	906,729	97,653
Intergovernmental - federal	<u>1,307,374</u>	<u>1,310,678</u>	<u>1,438,248</u>	<u>127,570</u>
Total revenues	<u>1,974,115</u>	<u>2,130,877</u>	<u>2,345,756</u>	<u>214,879</u>
EXPENDITURES				
Current:				
Instruction	1,117,259	1,134,463	1,172,655	(38,192)
Support services:				
Student	67,640	65,685	54,079	11,606.00
Instructional staff	536,906	710,824	910,414	(199,590)
Plant operation and maintenance	-	50,147	5,091	45,056
Student transportation	60,090	60,378	93,802	(33,424)
Community services	<u>192,220</u>	<u>192,905</u>	<u>192,953</u>	<u>(48)</u>
Total expenditures	<u>1,974,115</u>	<u>2,214,402</u>	<u>2,428,994</u>	<u>(214,592)</u>
Excess (deficit) of revenues over (under) expenditures	<u>-</u>	<u>(83,525)</u>	<u>(83,238)</u>	<u>287</u>
Other financing sources (uses)				
Operating transfers in	<u>-</u>	<u>83,238</u>	<u>83,238</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>83,238</u>	<u>83,238</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>(287)</u>	<u>-</u>	<u>287</u>
Fund balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ (287)</u>	<u>\$ -</u>	<u>\$ 287</u>

**WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONSTRUCTION FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From local sources:				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor vehicle	-	-	-	-
Utilities	-	-	-	-
Other	-	-	-	-
Earnings on investments	-	-	-	-
Other local revenues	-	-	-	-
Intergovernmental - state	-	-	-	-
Intergovernmental - federal	-	-	-	-
Other receipts	-	-	-	-
<u>Total revenues</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Facilities acquisition and construction	4,095,876	4,772,646	3,120,549	1,652,097
Contingency	181,743	-	-	-
<u>Total expenditures</u>	<u>4,277,619</u>	<u>4,772,646</u>	<u>3,120,549</u>	<u>1,652,097</u>
Excess (deficit) of revenues over (under) expenditures	<u>(4,277,619)</u>	<u>(4,772,646)</u>	<u>(3,120,549)</u>	<u>1,652,097</u>
Other financing sources (uses)				
Proceeds from bond issue	4,277,619	4,208,623	4,208,623	-
<u>Total other financing sources (uses)</u>	<u>4,277,619</u>	<u>4,208,623</u>	<u>4,208,623</u>	<u>-</u>
Net change in fund balance	-	(564,023)	1,088,074	1,652,097
Fund balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>(267,836)</u>	<u>(267,836)</u>
Fund balance, June 30, 2014	<u>\$ -</u>	<u>\$ (564,023)</u>	<u>\$ 820,238</u>	<u>\$ 1,384,261</u>

**WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUILDING FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From local sources:				
Taxes				
Property	\$ -	\$ 576,666	\$ 576,666	\$ -
Intergovernmental - state	-	330,232	330,232	-
Total revenues	-	906,898	906,898	-
EXPENDITURES				
Current:				
Facilities acquisition and construction	372,381	505,125	-	505,125
Debt service		359,998	359,997	1
Total expenditures	372,381	865,123	359,997	505,126
Excess (deficit) of revenues over (under) expenditures	(372,381)	41,775	546,901	505,126
Other financing sources (uses)				
Proceeds from bond issue	372,381	359,998	359,998	-
Operating transfers in	-	-	-	-
Operating transfers out	(100,177)	(906,898)	(906,898)	-
Total other financing sources (uses)	272,204	(546,900)	(546,900)	-
Net change in fund balance	(100,177)	(505,125)	1	505,126
Fund balance, July 1, 2013	100,177	505,125	505,124	(1)
Fund balance, June 30, 2014	\$ -	\$ -	\$ 505,125	\$ 505,125

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

NOTE 1 – BUDGETARY INFORMATION

The District's budgetary process accounts for transactions on a basis other than GAAP. Differences between the budgetary accounting methods and GAAP are not material.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General and Food Service Funds in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Reconciliation to the General Fund

Revenues - budgetary basis	\$ 12,639,380
On-behalf payments	<u>3,217,763</u>
Total revenues - modified cash basis	<u>\$ 15,857,143</u>
Expenditures - budgetary basis	\$ 12,799,916
On-behalf payments	<u>3,217,763</u>
Total expenditures - modified cash basis	<u>\$ 16,017,679</u>

**WEBSTER COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 47,341	\$ -	\$ 47,341
Total assets and resources	<u>\$ 47,341</u>	<u>-</u>	<u>\$ 47,341</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances			
Nonspendable	-	-	-
Spendable			
Restricted	47,341	-	47,341
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>47,341</u>	<u>-</u>	<u>47,341</u>
Total liabilities and fund balances	<u>\$ 47,341</u>	<u>\$ -</u>	<u>\$ 47,341</u>

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

	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES			
Intergovernmental - state	\$ 195,757	\$ 702,793	\$ 898,550
Intergovernmental - direct federal	-	-	-
Total revenues	195,757	702,793	898,550
EXPENDITURES			
Debt service	-	1,984,212	1,984,212
Total expenditures	-	1,984,212	1,984,212
Excess (deficit) of revenues over (under) expenditures	195,757	(1,281,419)	(1,085,662)
Other financing sources (uses)			
Operating transfers in	-	1,281,419	1,281,419
Operating transfers out	(156,606)	-	(156,606)
Total other financing sources (uses)	(156,606)	1,281,419	1,124,813
Net change in fund balances	39,151	-	39,151
Fund balances, July 1, 2013	8,190	1,412	9,602
Prior period adjustment	-	(1,412)	(1,412)
Fund balances, July 1, 2013, restated	8,190	-	8,190
Fund balances, June 30, 2014	\$ 47,341	-	\$ 47,341

**WEBSTER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Cash Balance</u> <u>July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance</u> <u>June 30, 2014</u>	<u>Accounts</u> <u>Receivable</u>	<u>Accounts</u> <u>Payable</u>	<u>Fund Balance</u> <u>June 30, 2014</u>
Webster County High School	\$ 164,928	\$ 361,311	\$ 355,217	\$ 171,022	\$ -	\$ -	\$ 171,022
Ashmore Scholarship	39,230	191	1,500	37,921	-	-	37,921
Clay Elementary	31,426	80,168	98,318	13,276	-	-	13,276
Dixon Elementary	45,573	55,802	52,381	48,994	-	-	48,994
Providence Elementary	4,392	56,339	56,697	4,034	-	-	4,034
Sebree Elementary	15,724	50,424	46,857	19,291	-	-	19,291
Waggoner Scholarship	8,023	41		8,064	-	-	8,064
Total activity funds	309,296	604,276	610,970	302,602	-	-	302,602
Fiscal Agent Fund	6,665	41,935	43,572	5,028	-	238	4,790
Total agency funds	<u>\$ 315,961</u>	<u>\$ 646,211</u>	<u>\$ 654,542</u>	<u>\$ 307,630</u>	<u>\$ -</u>	<u>\$ 238</u>	<u>\$ 307,392</u>

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS - WEBSTER COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balance			Cash Balance	Accounts	Accounts	Due to
	July 1, 2013	Receipts	Disbursements	June 30, 2014	Receivable	Payable	Student Groups
							June 30, 2014
Academic	\$ 394	\$ -	\$ -	\$ 394.00	\$ -	\$ -	\$ 394
Agriculture	732	1,765	1,516	981	-	-	981
Annual Staff	13,911	17,970	21,445	10,436	-	-	10,436
Archery	1,015	-	-	1,015	-	-	1,015
Athletic	33,125	94,939	90,195	37,869	-	-	37,869
Athletic - Boys BB	252	1,500	1,553	199	-	-	199
Athletic - Girls BB	616	2,000	386	2,230	-	-	2,230
Band	172	265	-	437	-	-	437
Baseball	89	1,550	648	991	-	-	991
BETA Club	981	931	920	992	-	-	992
Bookstore	5,057	8,849	7,042	6,864	-	-	6,864
Cheerleaders	362	2,966	3,321	7	-	-	7
Chess	6	-	6	-	-	-	-
Class of '14	799	11,779	12,578	-	-	-	-
Class of '16	7	4,507.00	1,198	3,316.00	-	-	3,316.00
Cross Country - Boys & Girls	146	1,907	1,774	279	-	-	279
Culinary Skills	1,622	3,497	3,041	2,078	-	-	2,078
Dance Team	321	1,606	1,800.00	127	-	-	127
English	-	1,382	1,371.00	11	-	-	11
FFA	49	40,678	39,315.00	1,412	-	-	1,412
FACS	1,009	970	673.00	1,306	-	-	1,306
FCA	343	474	389	428	-	-	428
FCCLA	2,202	6,095	6,325	1,972	-	-	1,972
Film	-	42	-	42	-	-	42
Football	11,142	4,250	6,724	8,668	-	-	8,668
General Fund	7,295	36,233	38,603	4,925	-	-	4,925
Girls Softball	814	1,700	1,130	1,384	-	-	1,384
Golf - Boys	4,309	4,162	4,549	3,922	-	-	3,922
Golf - Girls	1,504	4,768	2,631	3,641	-	-	3,641
Graduation	104	-	104	-	-	-	-
Greenhouse	12,024	6,449	3,937	14,536	-	-	14,536
Guidance	8	3,045	2,833	220	-	-	220

(continued)

WEBSTER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS, continued
SCHOOL ACTIVITY FUNDS - WEBSTER COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2014
Inst. Science	934	2,362	2,181	1,115	-	-	1,115
Library	1,938	924	2,251	611	-	-	611
Math	-	1,355	1,349	6	-	-	6
Middle School Athletics	19,604	39,869	34,974	24,499	-	-	24,499
Military Club	120	40	160.00	-	-	-	-
Mock Trial	682	425	41	1,066	-	-	1,066
New Sign	-	1,648	-	1,648	-	-	1,648
Physical Education	1,147	355	780	722	-	-	722
Project Graduation	969	13,148	12,468	1,649	-	-	1,649
Quiz Bowl	572	200	566	206	-	-	206
R.C.	5,781	502	4,874	1,409	-	-	1,409
Renaissance	2,258	4,605	2,087	4,776	-	-	4,776
Scholarships	4,911	2,425	1,900	5,436	-	-	5,436
Senior Class Trip	3,390	47,057.00	47,482	2,965	-	-	2,965
Soccer	392	845	491	746	-	-	746
Student Council	79	-	59	20	-	-	20.00
Student Rewards	18	1,338	476	880	-	-	880
Teachers Lounge - Drinks	186	1,462	1,532	116	-	-	116
Tennis - Boys & Girls	499	2,731.00	2,005.00	1,225	-	-	1,225
Track - Boys & Girls	2,362	1,156.00	415.00	3,103	-	-	3,103
Volleyball	271	650.00	435.00	486	-	-	486
Young Politicians	1,166	7,672.00	8,724.00	114	-	-	114
Youth Experiencing Success	3,619	1,460.00	5,079.00	-	-	-	-
Text Rent Fees	11,881	7,055.00	12,702.00	6,234	-	-	6,234
Pep Club	1,622	220.00	834.00	1,008	-	-	1,008
Practical Living	117	1,132	949	300	-	-	300
	164,928	406,915	400,821	171,022	-	-	171,022
Less: Interfund Transfers	-	(45,608)	(45,608)	-	-	-	-
Totals	<u>\$ 164,928</u>	<u>\$ 361,307</u>	<u>\$ 355,213</u>	<u>\$ 171,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,022</u>

**WEBSTER 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	Federal Expenditures	
U.S. Department of Education				
Passed through State Department of Education:				
Title I Grants to Local Education Agencies	84.010	310000213	\$ 145,118	
		310000212	369,884	
		310000211	<u>14,619</u>	\$ 529,622
Title I, Part D	84.010	310010213		4,190
Migrant Education	84.011	31100213	121,464	
		31100212	26,002	
		31100211	<u>1,100</u>	148,566
Career and Technical Education - Basic Grants to States	84.048	462133213	3,343	
		371000213	<u>10,605</u>	13,948
Special Education Preschool Grants***	84.173**	380000212	37,106	
		380000211	<u>5,359</u>	42,465
Title III, Part A, English Language Acquisition	84.365	33000013	19,800	
		33000012	<u>1,385</u>	21,185
Improving Teacher Quality State Grants	84.367	323000213	107,967	
		323000212	<u>42,054</u>	150,022
Special Education - Grants to States***	84.027**	381000213	285,725	
		381000212	<u>206,926</u>	492,651
Rural School	84.358	314000213	27,637	
		314000212	<u>7,962</u>	35,599
Education Jobs Fund	84.410	EJOB0010		<u> </u>
Total U. S. Department of Education				<u>1,438,248</u>
U.S. Department of Agriculture				

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

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	
U.S. Department of Agriculture				
Passed through State Department of Education:				
School Breakfast Program***	* 10.553	776000514	151,147	
		776000513	<u>41,260</u>	192,407
National School Lunch Program***	* 10.555	775000214	413,844	
		775000213	<u>114,480</u>	528,324
Summer Food Service Program for Children***	* 10.559	769002413	2,056	
		774002313	<u>19,724</u>	21,780
	10.560	785001212		907
Noncash Assistance - Commodities (Note 4)		Fund 51		<u>55,124</u>
Total U.S. Department of Agriculture				<u>798,542</u>
Total Expenditures of Federal Awards				<u>\$ 2,236,790</u>

*Child Nutrition Cluster

**Special Education Cluster

***Major Program

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

NOTE 4 – COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the USDA food commodities received and disbursed.

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



**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
Webster County School District
Dixon, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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 *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, and Appendix III to the Independent Auditor's Contract – Electronic Submission*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Webster County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Webster County School District's basic financial statements and have issued our report thereon dated November 14, 2014. We disclaimed our opinion on Statement of Net Position and Statement of Activities for the governmental activities because the amounts that should have been reported as fixed assets and depreciation expense could not be reasonably determined.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiency (item 2014-01).

Compliance and Other Matters

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

In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*. However, we noted certain matters that we have reported to management of Webster County School District in a separate letter dated November 14, 2014.

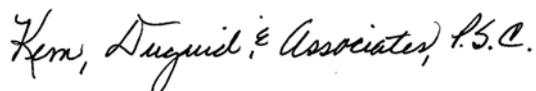
Webster County School District's Response to Findings

Webster County School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Webster County School District's response was not subjected to auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

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.

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 14, 2014

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA

WALTER G. CUMMINGS, CPA



INDEPENDENT AUDITORS' 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
Webster County School District
Dixon, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Webster 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 Webster County School District's major federal programs for the year ended June 30, 2014. Webster County School District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Webster 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; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. 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 Webster 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 on Webster County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

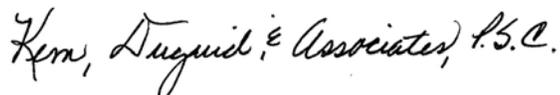
Management of Webster County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Webster County School District's internal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

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

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

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

Kem, Duguid & Associates, P.S.C.



Certified Public Accountants
Hopkinsville, Kentucky

November 14, 2014

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

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of General Fund, Special Revenue, Construction, and Building Fund and the aggregate remaining fund information of the Webster County School District. The auditors' report expresses a disclaimer of opinion on the financial statements of the governmental activities for fixed assets and depreciation.
2. One significant deficiency was disclosed during the audit of the financial statements. See Section B: 2014-01.
3. No instances of noncompliance material to the financial statements of Webster County School District were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit of Webster County School District.
5. The auditor's report on compliance for the major federal award programs for Webster County School District expresses an unmodified opinion on all major federal programs.
6. The audit disclosed no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was:

<u>Program Title</u>	<u>CFDA Number</u>
Special Education	84.027
Special Education Preschool	84.173
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program	10.559

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

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2014-01 Internal Controls

Condition – The District does not have control over the preparation of the financial statements, including footnote disclosures, which would prevent or detect a misstatement in the financial statements. The independent auditor cannot be a compensating control for the client.

Criteria – Statement on Auditing Standards (SAS 115) states that a control deficiency exists when an entity does not have controls in place which would prevent or detect a misstatement in the financial statements.

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

Effect – Lack of accountability and possible misstatement of financial statements, including footnote disclosures.

Recommendation – The District should designate an individual who possesses suitable skill, knowledge, and/or experience to review the financial statements, including footnote disclosures, and take responsibility for these financial statements.

Response – It is not feasible for the District to invest the resources for a member of the financial accounting staff to obtain the training necessary to obtain the knowledge related to Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) pronouncements and to remain current with this knowledge. Management does not consider the deficiency to be imperative to the daily internal control operations of the District.

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

None.

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

There were no prior year findings to report for Webster County School District.

MANAGEMENT COMMENTS FOR AUDIT

MICHAEL A. KEM, CPA
SANDRA D. DUGUID, CPA
ANNA B. GENTRY, CPA
WALTER G. CUMMINGS, CPA



November 14, 2014

Members of the Board of Education
Webster County Board of Education
Dixon, Kentucky

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

During our audit, we did not become aware of any matters in fiscal year 2014 that are considered reportable management letter comments regarding the strengthening of internal control and operating efficiency. The memorandum that accompanies this letter reflects that result. This letter does not affect our report dated November 14, 2014 on the financial statements of the Webster County School District.

We performed a follow-up on the prior year findings with the status of these findings documented on page 71 of this report.

Respectfully,

Kem, Duguid & Associates, P.S.C.

Kem, Duguid & Associates, P.S.C.

Certified Public Accountants
Hopkinsville, Kentucky

**WEBSTER COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no management points for the current year.

**WEBSTER COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Purchase Orders

Condition – Instances were noted of purchase orders not being prepared properly, i. e., after-the-fact preparation and lack of signature by person requesting purchase.

Recommendation – All purchases are to be based upon a properly prepared purchase order prior to purchase with signature of person requesting purchase in addition to person approving the purchase.

Current Status - The finding was repeated for fiscal year June 30, 2014

Required Forms

Condition – The “Red Book” requires use of specific forms (or reasonable facsimiles) for certain activities such as (1) Multiple receipts, (2) Fundraising, (3) Inventory control, (4) Internal account – budgets, (5) Transfers, (6) ticket sales, and (7) Annual financial reports. Instances were noted where either the forms were not completed or completed incorrectly.

Recommendation – The principal and secretary at each school should review the “Red Book” and comply with its requirements regarding the use of required forms.

Current Status – The finding was repeated for fiscal year June 30, 2014

Fixed Assets

Governmental accounting standards require the District to record and account for changes in its fixed assets, including depreciation. Deficiencies were noted in the recording of fixed assets. Specifically noted was the lack of incorporation of the fixed assets from the Providence Independent School District following merger, and fixed assets not being recorded on the fixed asset schedule. Also, the tagging of fixed assets has been inconsistent with the numerical sequence of the tags.

Recommendation – Strict adherence to the District’s fixed asset procedures. All fixed assets should be retagged using a consistent system of numbers with the corresponding school location numbers being incorporated into the number.

Current Status - The finding was repeated, with the exception of the Providence Independent School District as this relates to fiscal year 2010, for fiscal year June 30, 2014