

NICHOLAS COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nicholas County School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nicholas County School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 13 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 9 and the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions on pages 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nicholas County School District's basic financial statements. The combining and individual non-major fund financial statements, and the schedule of expenditures of

federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015, on our consideration of Nicholas County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

October 19, 2015
Ashland, Kentucky

**NICHOLAS COUNTY SCHOOL DISTRICT
CARLISLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2015**

As management of the Nicholas County School District ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$2,611,500 and the ending balance was approximately \$2,427,115, a decrease of approximately \$184,385 for the year.
- The General Fund had \$7,769,376 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$7,923,885 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$643,859 during the current fiscal year.
- The District implemented GASB 68 this year. There are two sources of pension liabilities with which the District has to contend. The Kentucky Teachers Retirement System covers the District's professional staff members. It had analysis performed by Cavanaugh Macdonald Consulting, LLC to determine each Kentucky school district's share of pension liabilities for its professional staff. This debt is the responsibility of the State of Kentucky. Our allocated amount was \$28,850,987, as of June 30, 2014. Our non-professional staff members are covered by the Kentucky County Employee Retirement System. Under this system the District's share of the pension liabilities was \$1,890,000, as of June 30, 2014. The District does not believe these disclosures will have a major impact on their day to day operations or the financial health of District. The District's bond rating is based on the State's rating so we have little control over our cost of borrowing.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

The basic fund financial statements can be found on pages 12 through 21 of this report.

Notes to the financial statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$2.4 million as of June 30, 2015.

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

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

Net Position for the period ending June 30, 2015

	2015	(As restated) 2014
Current Assets	\$ 2,618,471	\$ 2,849,958
Noncurrent Assets	12,607,737	13,265,796
Total Assets	<u>15,226,208</u>	<u>16,115,754</u>
Deferred Outflows	238,877	252,412
Current Liabilities	1,074,096	1,013,772

Noncurrent Liabilities	<u>11,780,383</u>	<u>12,923,111</u>
Total Liabilities	<u>12,854,479</u>	<u>13,936,883</u>
Deferred Inflows	211,000	-
Net Position		
Investment in capital assets (net of debt)	2,153,769	2,144,637
Restricted	315,178	669,356
Unrestricted Fund Balance	<u>(69,341)</u>	<u>(382,710)</u>
Total Net Position	<u>\$ 2,399,606</u>	<u>\$ 2,431,283</u>

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2015, with comparison to 2014.

	<u>2015</u>	<u>2014</u>
Revenues:		
Local Revenue Sources	\$ 1,831,394	\$ 1,950,038
State Revenue Sources	8,552,053	7,404,173
Federal Revenue	1,459,828	1,444,932
Other Sources	-	-
Total Revenues	<u>11,843,275</u>	<u>10,799,143</u>
Expenses:		
Instruction	6,447,577	5,496,094
Student Support Services	289,296	285,861
Instructional Support	282,293	315,648
District Administration	700,685	688,548
School Administration	528,646	539,716
Plant Operations	1,333,518	1,347,218
Student Transportation	712,648	865,997
Business and Other Support Services	217,703	189,614
Community Services	85,939	92,624
Debt Service	590,352	418,021
Food Services	<u>686,295</u>	<u>676,675</u>
Total Expenses	<u>11,874,952</u>	<u>10,916,016</u>
Revenues in Deficiency of Expenses	<u>\$ (31,677)</u>	<u>\$ (116,873)</u>

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 72.2% and federal funding of 12.2% of total revenue. Local revenues make up 15.5% of total revenue (18.1% in 2014).

District-Wide Support Allocation

District-wide support services expenditures were Transportation 6.0%, Maintenance & Operations 11.2%, and Business Functions 1.8% (as compared to 7.9%, 12.3%, and 1.7% in 2014, respectively).

The total cost of all programs and services for governmental activities was \$11,188,657, compared with \$10,239,341 in 2014.

The District's total revenues for the governmental funds for the fiscal year ended June 30, 2015 and 2014, net of inter-fund transfers and bond proceeds, was approximately \$10.3 million and \$10.1 million, respectively.

Comments on Budget Comparisons

- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$1,385,419 less than budget or approximately 14.7%.
- General Fund revenue compared to budget varied from line item to line item more this year than in the past due in part to local property tax collection rates being up.

Capital Assets

At the end of June 30, 2015, the District's investment in capital assets for its governmental and business-type activities was \$12,607,737, representing a decrease of \$658,060, net of depreciation, from the prior year.

Debt Service

At year-end, the District had approximately \$10.6 million in outstanding debt, compared to \$11.2 million last year.

Budgetary Implications

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with approximately \$450,000 in contingency (4.5%). The general fund cash balance for beginning the next fiscal year is \$1,877,987. There was no significant Board action that impacts the finances for the new year.

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

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

NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,157,276	\$ 269,839	\$ 2,427,115
Receivables (net of allowances for uncollectibles):			
Taxes	44,615	-	44,615
Intergovernmental - state	129,677	-	129,677
Inventories	-	17,064	17,064
Capital assets, not being depreciated	56,429	-	56,429
Capital assets, being depreciated, net	12,315,236	236,072	12,551,308
Total assets	<u>14,703,233</u>	<u>522,975</u>	<u>15,226,208</u>
Deferred Outflows of Resources			
Deferred pension contributions	208,105	30,772	238,877
Total deferred outflows of resources	<u>208,105</u>	<u>30,772</u>	<u>238,877</u>
Liabilities			
Accounts payable	57,927	1,139	59,066
Overdraft payable	25,557	-	25,557
Accrued interest payable	59,930	-	59,930
Deferred revenue	93,931	-	93,931
Portion due or payable within one year:			
Accrued sick leave	18,902	-	18,902
KSBIT payable	43,846	-	43,846
Bond and capital lease obligations	772,864	-	772,864
Portion due or payable after one year:			
Accrued sick leave	112,021	-	112,021
Net pension liability	1,646,534	243,466	1,890,000
KSBIT payable	97,258	-	97,258
Bond and capital lease obligations	9,681,104	-	9,681,104
Total liabilities	<u>12,609,874</u>	<u>244,605</u>	<u>12,854,479</u>
Deferred inflows of resources			
Deferred pension investment earnings	183,819	27,181	211,000
Total deferred inflows of resources	<u>183,819</u>	<u>27,181</u>	<u>211,000</u>
Net Position			
Net investment in capital assets	1,917,697	236,072	2,153,769
Restricted for:			
Capital projects	269,289	-	269,289
Other	-	45,889	45,889
Unrestricted	(69,341)	-	(69,341)
Total net position	<u>\$ 2,117,645</u>	<u>\$ 281,961</u>	<u>\$ 2,399,606</u>

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

NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 6,447,577	\$ -	\$ 1,173,278	\$ -	\$ (5,274,299)	\$ -	\$ (5,274,299)
Support services:							
Students	289,296	-	-	-	(289,296)	-	(289,296)
Instructional staff	282,293	-	109,720	-	(172,573)	-	(172,573)
District administration	700,685	-	-	-	(700,685)	-	(700,685)
School administration	528,646	-	-	-	(528,646)	-	(528,646)
Business and other support services	217,703	-	-	-	(217,703)	-	(217,703)
Operation and maintenance of plant	1,333,518	-	-	-	(1,333,518)	-	(1,333,518)
Student transportation	712,648	-	111,164	-	(601,484)	-	(601,484)
Community services	85,939	-	84,114	-	(1,825)	-	(1,825.00)
Interest	590,352	-	-	186,496	(403,856)	-	(403,856)
Total governmental activities	<u>11,188,657</u>	<u>-</u>	<u>1,478,276</u>	<u>186,496</u>	<u>(9,523,885)</u>	<u>-</u>	<u>(9,523,885)</u>
Business-type activities:							
Food service	686,295	87,074	585,997	-	-	(13,224)	(13,224)
Total business-type activities	<u>686,295</u>	<u>87,074</u>	<u>585,997</u>	<u>-</u>	<u>-</u>	<u>(13,224)</u>	<u>(13,224)</u>
Total primary government	<u>\$ 11,874,952</u>	<u>\$ 87,074</u>	<u>\$ 2,064,273</u>	<u>\$ 186,496</u>	<u>\$ (9,523,885)</u>	<u>\$ (13,224)</u>	<u>\$ (9,537,109)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 972,208	\$ -	\$ 972,208
Motor vehicle					233,782	-	233,782
Utilities					291,106	-	291,106
Intergovernmental revenues:							
State					7,761,112	-	7,761,112
Investment earnings					17,986	1,789	19,775
Other local revenues					227,449	-	227,449
Total general revenues and transfers					<u>9,503,643</u>	<u>1,789</u>	<u>9,505,432</u>
Change in net position					(20,242)	(11,435)	(31,677)
Net position, June 30, 2014, as restated					<u>2,137,887</u>	<u>293,396</u>	<u>2,431,283</u>
Net position, June 30, 2015					<u>\$ 2,117,645</u>	<u>\$ 281,961</u>	<u>\$ 2,399,606</u>

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

NICHOLAS COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,887,987	\$ -	\$ 269,289	\$ 2,157,276
Receivables (net of allowances for uncollectibles):				
Taxes	44,615	-	-	44,615
Intergovernmental - state	-	129,677	-	129,677
Prepaid expenses	-	-	-	-
Total assets	<u>\$ 1,932,602</u>	<u>\$ 129,677</u>	<u>\$ 269,289</u>	<u>\$ 2,331,568</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 47,738	\$ 10,189	\$ -	\$ 57,927
Overdraft payable	-	25,557	-	25,557
Deferred revenue	-	93,931	-	93,931
Total liabilities	<u>47,738</u>	<u>129,677</u>	<u>-</u>	<u>177,415</u>
Fund balances:				
Restricted	-	-	269,289	269,289
Committed	49,445	-	-	49,445
Unassigned	1,835,419	-	-	1,835,419
Total fund balances	<u>1,884,864</u>	<u>-</u>	<u>269,289</u>	<u>2,154,153</u>
Total liabilities and fund balances	<u>\$ 1,932,602</u>	<u>\$ 129,677</u>	<u>\$ 269,289</u>	<u>\$ 2,331,568</u>

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

NICHOLAS COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET
POSITION
JUNE 30, 2015

Fund balances—total governmental funds		\$ 2,154,153
<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 financial resources and therefore are not reported in the funds.</p>		12,371,665
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:</p>		
Deferred pension investment earnings	(183,819)	
Deferred pension contributions	208,105	24,286
<p>Some liabilities, including bonds, capital leases, and accrued sick leave, are not due and payable in the current period and therefore, are not reported in the governmental funds financial statements.</p>		
Net pension liability	(1,646,534)	
Bonds payable	(9,970,000)	
Capital leases payable	(483,968)	
Accrued interest payable	(59,930)	
Accrued sick leave	(130,923)	
KSBIT payable	(141,104)	(12,432,459)
Net position of governmental activities		\$ 2,117,645

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes -				
Property	\$ 683,394	\$ -	\$ 288,814	\$ 972,208
Motor vehicles	233,782	-	-	233,782
Utilities	291,106	-	-	291,106
Interest income	17,838	142	6	17,986
Other local revenues	9,660	208,554	-	218,214
Intergovernmental - State	6,446,843	380,378	766,240	7,593,461
Intergovernmental - Indirect federal	-	864,708	-	864,708
Intergovernmental - Direct federal	86,753	-	-	86,753
Total revenues	<u>7,769,376</u>	<u>1,453,782</u>	<u>1,055,060</u>	<u>10,278,218</u>
Expenditures:				
Current:				
Instruction	4,344,174	1,173,278	-	5,517,452
Support services:				
Students	291,130	-	-	291,130
Instructional staff	174,114	109,720	-	283,834
District administration	704,229	-	-	704,229
School administration	534,571	-	-	534,571
Business and other support services	195,806	-	-	195,806
Operation and maintenance of plant	848,891	-	-	848,891
Student transportation	693,239	111,164	-	804,403
Community services	-	84,114	-	84,114
Debt service	137,731	-	1,127,246	1,264,977
Total expenditures	<u>7,923,885</u>	<u>1,478,276</u>	<u>1,127,246</u>	<u>10,529,407</u>
Excess (deficiency) of revenues over expenditures	<u>(154,509)</u>	<u>(24,494)</u>	<u>(72,186)</u>	<u>(251,189)</u>
Other financing sources (uses):				
Capital lease proceeds	-	-	-	-
Sale of assets	12,633	-	-	12,633
Transfers in	-	24,494	948,250	972,744
Transfers out	(24,494)	-	(948,250)	(972,744)
Total other financing sources and uses	<u>(11,861)</u>	<u>24,494</u>	<u>-</u>	<u>12,633</u>
Net change in fund balances	(166,370)	-	(72,186)	(238,556)
Fund balances, June 30, 2014	<u>2,051,234</u>	<u>-</u>	<u>341,475</u>	<u>2,392,709</u>
Fund balances, June 30, 2015	<u>\$ 1,884,864</u>	<u>\$ -</u>	<u>\$ 269,289</u>	<u>\$ 2,154,153</u>

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

**NICHOLAS 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, 2015**

Net change in fund balances—total governmental funds \$ (238,556)

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

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

Capital outlay	349,720	
Adjustment to gain	(3,398)	
Depreciation expense	<u>(974,298)</u>	(627,976)

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

Long-term portion of accrued sick leave	95,108
Interest payable	30,766

Governmental funds report pension contributions as expenditures when paid.

However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

KTRS on-behalf revenues	880,962	
KTRS on-behalf pension expense	(880,962)	
CERS contributions	208,105	
Pension expense	<u>(131,548)</u>	76,557

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

643,859

Change in net position of governmental activities \$ (20,242)

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015**

	Food Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 269,839
Accounts receivable	-
Inventories	17,064
Total current assets	286,903
Noncurrent assets:	
Capital assets, net of accumulated depreciation	236,072
Total noncurrent assets	236,072
Total assets	522,975
Deferred Outflows of Resources	
Deferred pension contributions	30,772
Total deferred outflows of resources	30,772
Total assets and deferred outflows	\$ 553,747
Liabilities	
Current liabilities:	
Accounts payable	\$ 1,139
Overdraft payable	-
Total current liabilities	1,139
Noncurrent liabilities:	
Net pension liability	243,466
Total liabilities	244,605
Deferred Inflows of Resources	
Deferred earnings on pension investments	27,181
Total deferred inflows of resources	27,181
Net Position	
Invested in capital assets	236,072
Restricted	45,889
Total net position	281,961
Total liabilities and net position	\$ 553,747

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 87,074
Other operating revenues	<u>-</u>
Total operating revenues	<u>87,074</u>
 Operating expenses:	
Salaries and wages	214,417
Employee benefits	103,636
Materials and supplies	333,876
Depreciation	30,083
Other operating expenses	<u>4,283</u>
Total operating expenses	<u>686,295</u>
Operating income (loss)	<u>(599,221)</u>
 Nonoperating revenues :	
Federal grants	470,242
Investment income	1,789
On-behalf payments	71,416
Donated commodities	38,125
State grants	<u>6,214</u>
Total nonoperating revenue	<u>587,786</u>
Increase (decrease) in net position	(11,435)
Net position, June 30, 2014, as restated	<u>293,396</u>
Net position, June 30, 2015	<u><u>\$ 281,961</u></u>

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales and fees charged	\$ 96,080
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(300,940)
Payments to employees	(257,957)
Other payments	(4,282)
Net cash provided by (used for) operating activities	<u>(467,099)</u>
 Cash flows from noncapital financing activities:	
Government grants	<u>476,456</u>
Net cash provided by noncapital and related financing activities	<u>476,456</u>
 Cash flows from investing activities:	
Interest received on investments	<u>1,789</u>
Net cash provided by investing activities	<u>1,789</u>
 Net increase (decrease) in cash and cash equivalents	11,146
 Cash and cash equivalents, June 30, 2014	<u>258,693</u>
 Cash and cash equivalents, June 30, 2015	<u><u>\$ 269,839</u></u>
 Reconciliation of operating loss to net cash used by operating activities:	
Operating income (loss)	\$ (599,221)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:	
Depreciation	30,083
Donated commodities	38,125
On-behalf payments	71,416
Net pension expense	(11,320)
Change in assets and liabilities:	
Accounts receivable	9,006
Inventory	(1,482)
Accounts payable	(3,706)
Net cash provided by (used for) operating activities	<u><u>\$ (467,099)</u></u>
 Non-cash items:	
Donated commodities	\$ 38,125
On-behalf payments	71,416

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

NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Agency Funds
Assets	
Cash and cash equivalents	\$ 140,937
Accounts receivable	-
Total assets	140,937
Liabilities	
Accounts payable	-
Due to students	140,937
Total liabilities	140,937
Net position held in trust	\$ -

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

NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 620,000	\$ 620,000	\$ 683,394	\$ 63,394
Motor vehicles	200,000	200,000	233,782	33,782
Utilities	310,000	310,000	291,106	(18,894)
Interest income	20,000	20,000	17,838	(2,162)
Other local revenues	8,000	8,000	9,660	1,660
Intergovernmental - State	6,256,039	6,256,039	6,446,843	190,804
Intergovernmental - Direct federal	-	-	86,753	86,753
Total revenues	<u>7,414,039</u>	<u>7,414,039</u>	<u>7,769,376</u>	<u>355,337</u>
Expenditures:				
Current:				
Instruction	4,934,968	4,936,757	4,344,174	592,583
Support services:				
Students	290,336	290,336	291,130	(794)
Instructional staff	258,330	258,330	174,114	84,216
District administration	756,718	756,718	704,229	52,489
School administration	621,062	621,062	534,571	86,491
Business and other support services	144,289	144,289	195,806	(51,517)
Operation and maintenance of plant	991,235	991,235	848,891	142,344
Student transportation	807,101	807,101	693,239	113,862
Debt service	148,000	148,000	137,731	10,269
Contingency	450,000	450,000	-	450,000
Total expenditures	<u>9,402,039</u>	<u>9,403,828</u>	<u>7,923,885</u>	<u>1,479,943</u>
Excess (deficiency) of revenues over expenditures	<u>(1,988,000)</u>	<u>(1,989,789)</u>	<u>(154,509)</u>	<u>1,835,280</u>
Other financing sources (uses):				
Sale of assets	-	-	12,633	12,633
Transfers in	-	-	-	-
Transfers out	(12,000)	(12,000)	(24,494)	(12,494)
Total other financing sources and uses	<u>(12,000)</u>	<u>(12,000)</u>	<u>(11,861)</u>	<u>139</u>
Net change in fund balances	<u>(2,000,000)</u>	<u>(2,001,789)</u>	<u>(166,370)</u>	<u>1,835,419</u>
Fund balances, June 30, 2014	<u>2,000,000</u>	<u>2,001,789</u>	<u>2,051,234</u>	<u>49,445</u>
Fund balances, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,884,864</u>	<u>\$ 1,884,864</u>

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest income	\$ -	\$ -	\$ 142	\$ 142
Other local revenues	202,454	202,454	208,554	6,100
Intergovernmental - State	314,236	356,117	380,378	24,261
Intergovernmental - Indirect federal	757,885	976,486	864,708	(111,778)
Intergovernmental - Direct federal	-	-	-	-
Total revenues	<u>1,274,575</u>	<u>1,535,057</u>	<u>1,453,782</u>	<u>(81,275)</u>
Expenditures:				
Current:				
Instruction	1,042,405	1,284,888	1,173,278	111,610
Support services:				
Instructional staff	52,469	69,587	109,720	(40,133)
Student transportation	114,880	114,880	111,164	3,716
Community services	76,821	77,702	84,114	(6,412)
Operation of non-instructional services	-	-	-	-
Total expenditures	<u>1,286,575</u>	<u>1,547,057</u>	<u>1,478,276</u>	<u>68,781</u>
Excess (deficiency) of revenues over expenditures	<u>(12,000)</u>	<u>(12,000)</u>	<u>(24,494)</u>	<u>(12,494)</u>
Other financing sources (uses):				
Transfers in	12,000	12,000	24,494	12,494
Transfers out	-	-	-	-
Total other financing sources and uses	<u>12,000</u>	<u>12,000</u>	<u>24,494</u>	<u>12,494</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

(1) REPORTING ENTITY

The Nicholas County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Nicholas County School District (“District”). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of this organization’s financial statements may be obtained from the District’s Finance Office at 395 W. Main Street, Carlisle, Kentucky 40311.

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

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

Basis of Presentation

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

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

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also

distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue 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 the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by the Proprietary Fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

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

Basis of Accounting

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

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

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

District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.385 per \$100 valuation for real property, \$.387 per \$100 valuation for business personal property and \$.555 per \$100 valuation for motor vehicles. In addition, the District assessed a nickel levy in the amount of \$.059 per \$100 valuation for construction purposes, only.

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

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The District also receives commodities from USDA. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

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

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

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

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

Interfund Balances

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

Budgetary Process

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

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

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

Net Position

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

Operating Revenues and Expenses

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

Bond Issuance Costs

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

Pension

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

New Accounting Pronouncements

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which requires employers participating in a multiple-employer cost-sharing plan to report net pension liability on the entity-wide statements for their proportionate share of the liability. See Note (13) for the effect of this adoption on beginning net position.

(3) ESTIMATES

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

(4) CASH AND CASH EQUIVALENTS

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

At year-end, the carrying amount of the District's total cash and cash equivalents was \$2,568,052 and the related bank balances totaled \$2,836,873. Of the total cash balance, \$397,005 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

The three levels of risks are as follows:

- Category 1 Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name.
- Category 2 Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Deposits, which are not collateralized or insured.

Based on these three levels of risk, the District's uninsured cash deposits are classified as Category 2.

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

(5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance			Balance
	June 30, 2014	Additions	Deductions	June 30, 2015
<u>Governmental Activities</u>				
Land	\$ 56,429	\$ -	\$ -	\$ 56,429
Land improvements	199,370	-	-	199,370
Buildings and improvements	19,606,462	89,601	-	19,696,063
Technology equipment	1,248,278	46,360	-	1,294,637
General equipment	548,013	12,015	10,870	549,157
Vehicles	1,560,899	201,744	516,972	1,245,671
Totals	<u>23,219,451</u>	<u>349,720</u>	<u>527,842</u>	<u>23,041,329</u>
Less: accumulated depreciation				
Land improvements	29,075	9,969	-	39,043
Buildings and improvements	7,471,494	725,974	-	8,197,468
Technology equipment	1,185,262	112,626	-	1,297,888
General equipment	403,182	27,493	10,870	419,806
Vehicles	1,130,797	98,236	513,574	715,459
Total accumulated depreciation	<u>10,219,810</u>	<u>974,298</u>	<u>524,444</u>	<u>10,669,664</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 12,999,641</u>	<u>\$ (624,578)</u>	<u>\$ 3,398</u>	<u>\$ 12,371,665</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 420,603	\$ -	\$ -	\$ 420,603
Food service technology equipment	21,374	-	-	21,374
	<u>441,977</u>	<u>-</u>	<u>-</u>	<u>441,977</u>

Less: accumulated depreciation				
Food service equipment	157,482	30,083	-	187,565
Food service technology equipment	18,340		-	18,340
	<u>175,822</u>	<u>30,083</u>	<u>-</u>	<u>205,905</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 266,155</u>	<u>\$ (30,083)</u>	<u>-</u>	<u>\$ 236,072</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 343,127
Student support services	1,642
Instructional staff support services	388
Business support services	23,626
Plant operation & maintenance	488,647
Student transportation	115,043
Community services	1,825
	<u>\$ 974,298</u>

(6) BONDED DEBT AND LEASE OBLIGATIONS

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

Bonds

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

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

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

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

In connection with the bond issues, the District entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two

years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the District notice of its intention not to participate within sixty days prior to the expiration of the two year period.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2015, for debt service, (principal and interest) are as shown below:

Year	Kentucky School Facilities Construction Commission		Nicholas County School District		Total
	Principal	Interest	Principal	Interest	
2016	\$ 140,145	\$ 46,353	\$ 524,855	\$ 323,248	\$ 1,034,601
2017	141,869	41,914	538,131	307,296	1,029,210
2018	138,738	37,464	556,262	290,648	1,023,112
2019	143,524	32,943	571,476	272,850	1,020,793
2020	59,956	27,961	515,044	253,437	856,398
2021-2025	334,063	105,515	2,870,937	977,710	4,288,225
2026-2030	320,845	34,284	2,919,155	367,734	3,642,018
2031	3,321	145	191,679	8,386	203,531
	<u>\$1,282,461</u>	<u>\$ 326,579</u>	<u>\$ 8,687,539</u>	<u>\$ 2,801,309</u>	<u>\$ 13,097,887</u>

Future minimum debt service on notes payable to KISTA, at June 30, 2015, are as follows:

Year	Principal	Interest	Total
2016	\$ 107,864	\$ 13,936	\$ 121,800
2017	89,613	10,639	100,252
2018	82,869	7,928	90,797
2019	57,394	5,391	62,785
2020	49,059	3,736	52,795
2021-2024	97,169	5,280	102,449
	<u>\$ 483,968</u>	<u>\$ 46,910</u>	<u>\$ 530,878</u>

KSBIT Payable

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during fiscal year 2014 that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance (“KEMI”). As a result, the District’s workers’ compensation portion of the liability was estimated at \$106,827. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2014 with no interest. The District’s property and liability portion of the liability was estimated at \$101,641. The District took the option of paying 40% down by September 15, 2014 and financing the remaining balance over 2 years to be paid in equal annual installments beginning September 15, 2014 with no interest. The following is a schedule by year of payments:

Year Ending	
2016	\$ 43,846
2017	43,846
2018	13,353
2019	13,353
2020	13,353
2021	13,353
	<u>\$ 141,104</u>

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

<u>Description</u>	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2015</u>
General obligation bonds - \$13,160,000 originally issued with interest rates ranging from 1.90% to 5.70%	\$ 10,615,000	\$ -	\$ 645,000	\$ 9,970,000
KISTA Loans	415,463	190,248	121,743	483,968
KSBIT Liability	208,468	-	67,364	141,104
Accumulated unpaid sick leave benefits	226,031	-	95,108	130,923
	<u>\$ 11,464,962</u>	<u>\$ 190,248</u>	<u>\$ 929,215</u>	<u>\$ 10,725,995</u>

(7) RETIREMENT PLANS

Kentucky Teachers Retirement System

Plan description: Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. 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 is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided: For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the KTRS has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions: Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.105% of their salaries to the System. University members are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries of members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

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

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

Funding policy: In order to fund the post-retirement healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District did not report a liability for its proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net Pension liability	\$ -
Commonwealth's proportionate share of the Net Pension liability associated with the District	28,850,987
	<u>\$ 28,850,987</u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the Commonwealth as determined by the actuary. At June 30, 2014, the District's proportion was 0.1404%.

For the year ended June 30, 2014, the District recognized pension expense of \$1,413,757 and revenue of \$1,413,757 for support provided by the State.

Actuarial Methods and Assumptions: The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	5.23%
Municipal Bond Index Rate	4.35%
Inflation	3.5%
Salary Increase	4.0-8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%

High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 5.23%, as well as what the Commonwealth's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23%) or 1-percentage-point higher (6.23%) than the current rate:

	<u>1% Decrease (4.23%)</u>	<u>Current discount rate (5.23%)</u>	<u>1% Increase (6.23%)</u>
Commonwealth's proportionate share of the Net Pension liability associated with the District	\$ 38,080,254	\$ 28,850,987	\$23,907,368

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report which is publically available at <http://www.ktrs.ky.gov/>.

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

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

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of

members who contribute 17.67% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2014. At June 30 2014, the District's proportion was 0.05824%.

For the year ended June 30, 2015, the District recognized pension expense of \$151,000. At June 30, 2015, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of \$238,877. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The District reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$211,000. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2016	\$ 42,200
2017	42,200
2018	42,200
2019	42,200
2020	42,200
	<u>\$ 211,000</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected

rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7.00%
Core U.S. Fixed Income	10.0%	5.25%
High Yield Fixed Income	5.0%	7.25%
Non U.S. Fixed Income	5.0%	5.5%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014 is based on the June 30, 2014 actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 %, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 %) or 1-percentage-point higher (8.75 %) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current discount rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
District's proportionate share of the net pension liability	\$ 2,487,000	\$ 1,890,000	\$ 1,362,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2015 and 2014, there were no payables to CERS.

(8) CONTINGENCIES

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

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

(9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Employer's Mutual Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

(10) COBRA

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

(11) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 24,494
Operating	Building	Debt Service	Debt Service	782,631
Operating	Capital Outlay	Debt Service	Debt Service	64,518
Operating	Capital Outlay	Construction	Construction	101,101

(12) ON-BEHALF PAYMENTS

For the year ended June 30, 2015, total payments of \$2,753,278 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance.

On-behalf payments at June 30, 2015 consisted of the following:

Teacher Retirement	\$ 532,755
Health & Life Insurance	1,091,881
Life Insurance	1,912
Admin Fee	13,153
HRA/Dental/Vision	51,100
Federal Reimbursement	(87,615)
Technology	42,634
Debt Service	186,496
Recognized at the fund level	<u>1,832,316</u>
Additional pension expense recognized at the Government-wide level	880,962
Total on-behalf	<u>\$ 2,713,278</u>

(13) PRIOR PERIOD ADJUSTMENTS

Net position as of June 30, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Position as previously reported at June 30, 2014	\$ 3,836,692	\$ 544,591	\$ 4,381,283
Prior period adjustment implementation of GASB 68:			
Net pension liability (measurement date as of June 30, 2013)	(1,918,702)	(283,710)	(2,202,412)
Deferred outflows District contributions made during fiscal year 2014	219,897	32,515	252,412
Total prior period adjustment for GASB 68	<u>(1,698,805)</u>	<u>(251,195)</u>	<u>(1,950,000)</u>
Net position as restated, June 30, 2014	<u>\$ 2,137,887</u>	<u>\$ 293,396</u>	<u>\$ 2,431,283</u>

REQUIRED SUPPLEMENTARY INFORMATION

**NICHOLAS COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

	Reporting Fiscal Year (Measurement Date)
	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:	
District's proportion of the net pension liability	0.05824%
District's proportionate share of the net pension liability	\$ 1,890,000
District's covered-employee payroll	\$ 1,336,220
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.444%
Plan fiduciary net position as a percentage of the total pension liability	66.800%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:	
District's proportion of the net pension liability	0.140%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	\$ 28,850,987
Total	\$ 28,850,987
District's covered-employee payroll	\$ 4,399,936
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.590%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**NICHOLAS COUNTY SCHOOL DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
Contractually required contribution	\$ 241,050	\$ 252,412
Contributions in relation to the contractually required contribution	<u>241,050</u>	<u>252,412</u>
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 1,364,173	\$ 1,336,220
District's contributions as a percentage of its covered-employee payroll	17.67%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 4,408,979	\$ 4,399,936
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years be displayed as they become available.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

(1) CHANGES OF ASSUMPTIONS

KTRS

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

CERS

There were no changes of assumptions.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

KTRS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.0% to 8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for KTRS or CERS.

SUPPLEMENTARY INFORMATION

NICHOLAS COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ -	\$ 147,635	\$ 121,500	\$ 154	\$ 269,289
Accounts receivable	-	-	-	-	-
Total assets	\$ -	\$ 147,635	\$ 121,500	\$ 154	\$ 269,289
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-
Fund Balances:					
Restricted	-	147,635	121,500	154	269,289
Total fund balance	-	147,635	121,500	154	269,289
Total liabilities and fund balances	\$ -	\$ 147,635	\$ 121,500	\$ 154	\$ 269,289

**NICHOLAS COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES:					
From local sources -					
Taxes -					
Property	\$ -	\$ 288,814	\$ -	\$ -	\$ 288,814
Other local revenues	-	-	-	6	6
Intergovernmental - State	102,058	477,686	-	186,496	766,240
Total revenues	<u>102,058</u>	<u>766,500</u>	<u>-</u>	<u>186,502</u>	<u>1,055,060</u>
EXPENDITURES:					
Current -					
Instruction	-	-	-	-	-
Debt service	-	-	93,601	1,033,645	1,127,246
Total expenditures	<u>-</u>	<u>-</u>	<u>93,601</u>	<u>1,033,645</u>	<u>1,127,246</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>102,058</u>	<u>766,500</u>	<u>(93,601)</u>	<u>(847,143)</u>	<u>(72,186)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	-	101,101	847,149	948,250
Operating transfers out	(165,619)	(782,631)	-	-	(948,250)
Total other financing sources (uses)	<u>(165,619)</u>	<u>(782,631)</u>	<u>101,101</u>	<u>847,149</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(63,561)	(16,131)	7,500	6	(72,186)
FUND BALANCE JUNE 30, 2014	<u>63,561</u>	<u>163,766</u>	<u>114,000</u>	<u>148</u>	<u>341,475</u>
FUND BALANCE JUNE 30, 2015	<u>\$ -</u>	<u>\$ 147,635</u>	<u>\$ 121,500</u>	<u>\$ 154</u>	<u>\$ 269,289</u>

NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Cash Balance June 30, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Deposits Held in Custody for Students June 30, 2015
Nicholas County High School	\$ 126,123	\$ 408,097	\$ 416,358	\$ 117,862	\$ -	\$ 117,862
Nicholas County Elementary	23,236	74,083	74,244	23,075	-	23,075
	<u>\$ 149,359</u>	<u>\$ 482,180</u>	<u>\$ 490,602</u>	<u>\$ 140,937</u>	<u>\$ -</u>	<u>\$ 140,937</u>

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
NICHOLAS COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance June 30, 2014	Receipts	Disburse- ments	Cash Balance June 30, 2015	Accounts Receivable	Custody for Students June 30, 2015
General	\$ 3,651	\$ 12,444	\$ 14,378	\$ 1,717	\$ -	\$ 1,717
JR Class 2016	4,143	6,779	8,236	2,686	-	2,686
Health-PE	401	-	-	401	-	401
Testing Incentives	1,752	4,416	4,998	1,170	-	1,170
Class 2015 SR	4,045	400	4,413	32	-	32
Drama Club	1,948	986	440	2,494	-	2,494
Band	882	9,279	9,647	514	-	514
Class 2018 FR	-	4,862	3,012	1,850	-	1,850
Hunter Fund	-	403	403	-	-	-
Interact	-	415	205	210	-	210
Project Grad	2,387	13,139	12,677	2,849	-	2,849
Chess Club	62	-	62	-	-	-
KYA/KUNA	100	2,580	2,580	100	-	100
Science Lab/Chemistry	1,338	1,389	938	1,789	-	1,789
Senior Trip	1,196	-	325	871	-	871
Poster Machine	120	398	49	469	-	469
Hot Shot Club	192	-	143	49	-	49
Blue Jacket Madness	-	5,726	5,726	-	-	-
Class of 2017	388	11,607	7,399	4,596	-	4,596
FFA	1,577	19,721	19,820	1,478	-	1,478
FFA Camp	46	600	40	606	-	606
FCCLA	459	4,106	3,876	689	-	689
Home Ec	30	100	90	40	-	40
Industrial Arts	344	731	859	216	-	216
Class of 2014	47	-	43	4	-	4
School Newspaper	128	-	128	-	-	-
Fall Festival	20	750	720	50	-	50
Embroidery Shop	22	-	22	-	-	-
Library	831	23	25	829	-	829
Academic Club	27	-	27	-	-	-
Yearbook	14,879	8,407	20,477	2,809	-	2,809
Student Council	23	-	-	23	-	23
Art Club	282	-	135	147	-	147
Science Fair/Biology	592	985	1,350	227	-	227
Twin Towers	25	-	25	-	-	-
FBLA	1,286	11,392	8,241	4,437	-	4,437
Scrapbooking	73	-	73	-	-	-
Angel Tree	26	-	25	1	-	1
FCA	55	-	55	-	-	-
College Classes	216	9,765	8,618	1,363	-	1,363
NCHS Honor Society	463	562	450	575	-	575
Cheer Competition	634	4,561	3,673	1,522	-	1,522
Drive for Perfection	1,474	-	1,474	-	-	-
Athletic Fund	15,287	56,198	56,371	15,114	-	15,114
Uniforms	668	-	668	-	-	-
All A	4,547	656	48	5,155	-	5,155
Volleyball 38th	273	2,804	2,295	782	-	782
38th District BB	3,876	1,139	477	4,538	-	4,538
38th SB	-	1,080	739	341	-	341
Region 10 Girls	6,873	-	3,533	3,340	-	3,340
38th GBB	1,131	924	21	2,034	-	2,034
REC Bowl	3,756	-	2,964	792	-	792
Region 10 FB	1,954	1,217	257	2,914	-	2,914
Region 10 Boys BB	3,345	-	1,257	2,088	-	2,088
Hall of Fame FB	2,449	-	-	2,449	-	2,449
Shoot for Cure	250	3,837	2,950	1,137	-	1,137

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS (CONCLUDED)
NICHOLAS COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance June 30, 2014	Receipts	Disburse- ments	Cash Balance June 30, 2015	Accounts Receivable	Custody for Students June 30, 2015
Basketball Camp	-	1,360	625	735	-	735
Volleyball Booster	2	19,473	17,969	1,506	-	1,506
Football Booster	4,061	19,809	19,733	4,137	-	4,137
Baseball Booster	1,953	8,296	8,805	1,444	-	1,444
Boys Basketball Booster	2,648	9,446	9,956	2,138	-	2,138
Girls Basketball Booster	1,874	6,812	7,555	1,131	-	1,131
Softball Booster	2,668	14,630	10,618	6,680	-	6,680
Training Facilities	573	-	-	573	-	573
HS Cheerleaders	2,295	38,297	37,186	3,406	-	3,406
Cross Country	1,598	240	1,664	174	-	174
MS Football	1,360	7,668	8,279	749	-	749
MS Girls BB	786	6,007	6,375	418	-	418
MS Boys BB	1,062	3,248	2,601	1,709	-	1,709
MS Volleyball	791	4,185	4,828	148	-	148
MS Softball	1,044	4,048	4,258	834	-	834
MS Baseball	-	2,043	728	1,315	-	1,315
MS Cheerleaders	-	5,377	3,457	1,920	-	1,920
OVC Girls	3,154	-	3,154	-	-	-
OVC Boys	-	2,791	1,640	1,151	-	1,151
Bluegrass Conference BBB	-	360	341	19	-	19
M/S Athletic	7,452	27,024	26,402	8,074	-	8,074
ORVC VB	-	698	382	316	-	316
7th Science Fees	1,149	610	822	937	-	937
M/S Honor Society	1,013	16,145	17,158	-	-	-
MS FCA	5	-	-	5	-	5
MS Classroom	62	4,459	3,738	783	-	783
8th Science Fees	-	690	627	63	-	63
	<u>\$ 126,123</u>	<u>\$ 408,097</u>	<u>\$ 416,358</u>	<u>\$ 117,862</u>	<u>\$ -</u>	<u>\$ 117,862</u>

**NICHOLAS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
U.S. Department of Education				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100002-14	364,635	\$ 265,640 *
Title I Grants to Local Educational Agencies	84.010	3100002-13	328,272	66,864 *
				<u>332,504 *</u>
Migrant Education - State Grant Program	84.011	310002-13	107,272	60,233
Migrant Education - State Grant Program	84.011	310002-14	166,233	106,865
				<u>167,098</u>
Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA, Part B	84.027	3810002-14	216,071	216,071
Special Education Grants to States - IDEA, Part B	84.027	3810002-12	208,511	48
Special Education Grants to States - IDEA, Part B, Preschool	84.173	3800002-14	7,769	7,769
				<u>223,888</u>
Rural Education	84.358	3140002-12	22,060	10,945
Rural Education	84.358	3140002-13	20,268	20,268
Rural Education	84.358	3140002-14	20,217	20,217
				<u>51,430</u>
Improving Teacher Quality State Grants	84.367	3230002-13	75,339	229
Improving Teacher Quality State Grants	84.367	3230002-14	75,235	75,235
				<u>75,464</u>
Vocational Education Basic Grants to States	84.048	3710002-14	13,817	13,817
Vocational Education Basic Grants to States	84.048	4621332-14	509	509
				<u>14,326</u>
 Total U.S. Department of Education				 <u>864,710</u>

**NICHOLAS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
U.S. Department of Agriculture				
Passed through State Department of Education:				
Cash Assistance:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-14		67,818 *
National School Lunch Program	10.555	7750002-15		271,273 *
School Breakfast Program	10.553	7760005-14		27,249 *
School Breakfast Program	10.553	7760005-15		103,903 *
				<u>470,243</u> *
Non-cash Assistance:				
Food Donation	10.555	057502-02		38,125 *
Total Child Nutrition Cluster				<u>508,368</u> *
Total U.S. Department of Agriculture				<u>508,368</u>
 Total expenditures of Federal Awards				 <u><u>\$ 1,373,078</u></u>

* Denotes major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Nicholas County School District under the programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Nicholas County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2015, commodities on hand are included in the total inventory of \$17,064.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nicholas County School District (the "District") as of and for the year ended June 30, 2015, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 19, 2015. 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 the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements.

Internal Control Over Financial Reporting

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

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

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

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 19, 2015.

Purpose of this Report

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

Kelley Dalloway & Smith Goolsby, PSC

October 19, 2015
Ashland, Kentucky



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

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

Report on Compliance for Each Major Federal Program

We have audited Nicholas County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. Nicholas County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Kelley Dalloway & Smith Gosby, PSC

October 19, 2015
Ashland, Kentucky

**NICHOLAS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

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

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

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

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

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

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

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2015:

Nutrition Cluster (10.553 & 10.555)
Title I (84.010)

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

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

(B) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

**NICHOLAS COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no findings in the prior year.

**NICHOLAS COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2015**

No corrective action plan needed in the current year.



Kelley **G**alloway
Smith **G**oolsby, PSC

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

In planning and performing our audit of the financial statements of Nicholas County School District (the "District") as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 19, 2015, on the financial statements of the District.

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

Kelley Galloway Smith Goolsby PSC

October 19, 2015
Ashland, Kentucky

NICHOLAS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2015

2015-1 Purchase Orders

Statement of Condition: We noted 9 instances in which a purchase order was required, but not prepared. Also, we noted 9 instances where the purchase order was incomplete or prepared after the purchase was already complete.

Criteria for Condition: Purchase orders are required for all purchases.

Cause of Condition: Oversight.

Effect of the Condition: Purchase orders not properly utilized as required.

Recommendation of the Condition: We recommend that further procedures be implemented to ensure purchase orders are completed for all purchases as required.

Management Response: Better diligence will be executed to make sure that purchase orders are properly completed as required.

2015-2 Food Service Reimbursements

Statement of Condition: We noted January 2015's reimbursement form was completed incorrectly. Meal count numbers were entered incorrectly.

Criteria for Condition: Guidelines provided by the Kentucky Department of Education for the School Nutrition Program.

Cause of Condition: Oversight.

Effect of the Condition: This resulted in the District getting under-reimbursed by \$916.

Recommendation of the Condition: We recommend that an independent person review the reimbursement request before submission for accuracy.

Management Response: The District plans to amend the report to request the additional amount. More care will be taken in the future to ensure that the reimbursement reports are filed accurately.

2015-3 High School Activity Fund - Prescribed Forms

Statement of Condition: We noted that all prescribed forms are not utilized, such as multiple receipt forms, fundraiser worksheets, purchase orders, and credit card logs.

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

Cause of Condition: Lack of knowledge of Redbook requirements.

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

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

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

2015-4 High School Activity Fund - Receipts

Statement of Condition: We noted that receipt numbers are not included on the deposit slips as required by the Redbook. In addition, deposits are not being made timely.

Criteria for Condition: The Redbook requires that receipt numbers be included on the deposit slip. In addition, Redbook requires that all monies collected shall be deposited on a daily basis when the deposit amount reaches \$100 or the following business day.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Unable to easily determine what was included in the deposit.

Recommendation of the Condition: We recommend that all deposit tickets include the receipt numbers to comply with the Redbook and that daily deposits be made when the amount reaches \$100.

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

2015-5 Purchase Orders/Standard Invoices - High School

Statement of Condition: We noted 10 instances in which a purchase order and/or standard invoice was incomplete or prepared after the purchase was already complete.

Criteria for Condition: Purchase orders and/or standard invoices are required for all purchases.

Cause of Condition: Oversight.

Effect of the Condition: Purchase orders and/or standard invoices not properly completed as required.

Recommendation of the Condition: We recommend that further procedures be implemented to ensure purchase orders and/or standard invoices are completed for all purchases as required.

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

2015-6 Athletic Gate Receipts - High School

Statement of Condition: We noted that the Requisition and Report of Ticket Sales (Form F-SA-1)

is not being completed correctly. While all amounts received did reconcile to the number of tickets sold, we noted several instances in which the form was not signed by each of the following individuals; the person in charge of sales, the ticket taker and the ticket seller. In most of these instances, the same person signed as being both the ticket taker and the ticket seller. Additionally, we noted several instances in which the amount of change given and/or received was left blank.

Criteria for Condition: The Requisition and Report of Ticket Sales (Form F-SA-1) is required to be properly completed under the Redbook. This includes the requirement that the form be fully and properly completed. Additionally, the ticket taker and ticket seller are required to be separate individuals. Likewise, payments for ticket related duties are required to be made by check.

Cause of Condition: This matter resulted from personnel being unaware of the requirements.

Effect of Condition: Noncompliance with Redbook provisions and inadequate segregation of duties over athletic gate receipt collection.

Recommendation for Correction: We recommend that additional training be provided to responsible staff on Redbook provisions.

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

2015-7 Budgets - High School

Statement of Condition: We noted budgets were not turned in for all individual activity accounts or for the external boosters.

Criteria for Condition: Each club, organization and activity account shall prepare a tentative budget for the next school year by April 15. In addition, each external booster organization must submit an annual budget within the first thirty days of the school year or within thirty days of the first transaction of the group.

Cause of Condition: Oversight.

Effect of the Condition: Noncompliance with Redbook provisions.

Recommendation of the Condition: We recommend that further procedures be implemented to ensure annual budgets are submitted as required for all individual activity accounts and by external booster organizations.

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

2015-8 Segregation of Duties - High School

Statement of Condition: We noted the school bookkeeper opens the mail, writes checks, creates invoices, makes deposits, and records all activity in the accounts.

Criteria for Condition: Proper segregation of duties demands that more than one person be involved in satisfying accounting procedures.

Cause of Condition: Limited staff.

Effect of the Condition: Noncompliance with Redbook provisions.

Recommendation of the Condition: We recommend that the principal open the monthly bank statements and initial and date them indicating his review to provide better oversight of the activity fund account monies.

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

Status of Prior Year Management Points

Prior year conditions #14-2, 14-3, 14-9, and 14-10 have been implemented and corrected in the current year. All others are repeated above. Mr. Marty Feltner, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective actions plan is the management response for each condition.