

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Spencer 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 with the jurisdiction of Spencer 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. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

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

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

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

Spencer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Spencer 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.

Basis of Presentation

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

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

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

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

SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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

The District has the following funds:

Governmental Fund Types

- The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust 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 the report on pages 34 - 35. This is a major fund of the District.
- Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law.

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 is a major fund.
- The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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. The 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 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource 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 non-exchange transactions must also be available before it can be recognized.

Revenues – 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.

Expenses/Expenditures

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

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

On Behalf payments are payments made by the state, on the behalf of the District. The most significant "on behalf" payments were for employee health insurance and for Teachers' Retirement match. The "on behalf" payments are required to be presented as part of both revenues and expenditures within these financial statements.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Property Taxes

Property tax revenues are levied each year within 45 days of the DOR certification on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General fund operations were \$0.615 per \$100 valuation for real property, \$0.615 per \$100 valuation for business personal property, and \$0.560 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Accumulated Unpaid Sick Leave Benefits – (concluded)

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 amount "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

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

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

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

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

Cash and Cash Equivalents

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

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements, inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

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.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Accrued Liabilities and Long-Term Obligations – (concluded)

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, payments made within 60 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

Following GASB 54, the District may divide its fund balance into one of the following categories:

Non-Spendable Fund Balances are amounts that are not in a spendable form nor are they required to be maintained intact. Restricted Fund Balances are amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation. Committed Fund Balances are amounts constrained to specific purposes by the board itself, using its highest level of decision-making authority. Assigned Fund Balances are amounts the board intends to use for a specific purpose, but are neither restricted nor committed. Unassigned Fund Balances are amounts that are available for any purpose.

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 and charges for before and after school child care.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating 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.

NOTE B – ESTIMATES

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014**

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits

Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$10,499,804. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, \$10,249,804 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 maturity of 90 days or less.

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

	<u>Bank Balance</u>	<u>Book Balance</u>
The Peoples Bank	<u>\$ 10,499,804</u>	<u>\$ 9,918,209</u>
Governmental Funds		\$ 9,472,133
Proprietary Funds		274,531
Subtotal		<u>\$ 9,746,664</u>
Agency Funds		171,545
Total Cash and Cash Equivalents All Funds		<u>\$ 9,918,209</u>

NOTE D – INVESTMENTS

The District held no investments on June 30, 2014.

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Spencer County School District Finance Corporation aggregating \$43,360,000.

The original amount of each issue and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2011	\$ 9,740,000	1.00% - 2.65%
2009	5,940,000	0.75% - 3.40%
2007	11,380,000	4.29%
2005	755,000	4.00%
2004	13,860,000	3.00% - 5.00%
2003	830,000	1.50% - 3.50%
1996	855,000	4.00% - 5.00%

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014**

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS – (CONTINUED)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Spencer County School District Finance Corporation to construct school facilities.

The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs.

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

		Spencer County School District		Kentucky School Facility Construction Commission		Total	Total
Year		Principal	Interest	Principal	Interest	Principal	Interest
2014	2015	\$ 1,453,444	\$ 795,288	\$ 287,317	\$ 97,292	\$ 1,740,761	\$ 892,580
2015	2016	1,495,075	744,981	287,422	89,274	1,782,497	834,255
2016	2017	1,516,786	691,615	297,511	80,865	1,814,297	772,480
2017	2018	1,559,330	643,023	303,892	71,369	1,863,222	714,392
2018	2019	1,582,481	599,673	316,715	61,644	1,899,196	661,317
2019	2020	1,603,351	551,793	157,729	51,212	1,761,080	603,005
2020	2021	1,646,803	505,570	163,419	45,522	1,810,222	551,092
2021	2022	1,710,955	450,796	169,474	39,466	1,880,429	490,262
2022	2023	1,731,825	400,705	175,917	33,026	1,907,742	433,731
2023	2024	1,741,613	348,651	182,728	26,214	1,924,341	374,865
2024	2025	1,776,834	295,184	163,166	19,472	1,940,000	314,656
2025	2026	1,899,398	225,546	125,602	13,379	2,025,000	238,925
2026	2027	1,988,615	138,204	131,385	7,596	2,120,000	145,800
2027	2028	2,076,885	46,730	103,115	2,320	2,180,000	49,050
2028	2029	-	-	-	-	-	-
2029	2030	-	-	-	-	-	-
2030	2031	-	-	-	-	-	-
Totals		\$23,783,395	\$ 6,437,759	\$2,865,392	\$ 638,651	\$26,648,787	\$ 7,076,410

NOTE F – OPERATING LEASES

The following is a schedule by year of the future payments under operating leases as of June 30, 2014:

2015	\$ 49,978.00
2016	\$ 48,925.00
2017	\$ 34,841.00
2018 and after	\$ 9,812.00
Total minimum payments	\$143,556.00

SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014

NOTE G – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:				
	Beginning Balances	Additions	Retirements	Ending Balances
Governmental Activities:				
Land	\$ 316,383	\$ -	\$ -	\$ 316,383
Buildings & Building Improvements	40,077,217	8,895	-	40,086,112
Technology Equipment	2,023,636	-	16,062	2,007,574
Vehicles	2,528,291	267,725	51,066	2,744,950
General Equipment	535,186	12,055	16,798	530,443
Construction In Progress	-	-	-	-
Total At Historical Cost	\$ 45,480,713	\$ 288,675	\$ 83,926	\$ 45,685,462
Less Accumulated Depreciation For:				
Buildings & Building Improvements	\$ 9,154,775	\$ 839,955	\$ -	\$ 9,994,730
Technology Equipment	1,584,942	193,962	16,063	1,762,841
Vehicles	1,421,242	180,075	51,066	1,550,251
General Equipment	264,358	39,245	15,422	288,181
Total Accumulated Depreciation	\$ 12,425,317	\$ 1,253,237	\$ 82,551	\$ 13,596,003
Governmental Activities Capital Net	\$ 33,055,396	\$ (964,562)	\$ 1,375	\$ 32,089,459
Proprietary Activities:				
Technology Equipment	\$ 23,583	\$ -	\$ -	\$ 23,583
General Equipment	891,449	-	-	891,449
Total At Historical Cost	\$ 915,032	\$ -	\$ -	\$ 915,032
Less Accumulated Depreciation For:				
Technology Equipment	\$ 13,692	\$ 3,080	\$ -	\$ 16,772
General Equipment	596,211	48,508	-	644,719
Total Accumulated Depreciation	\$ 609,903	\$ 51,588	\$ -	\$ 661,491
Proprietary Activities Capital Net	\$ 305,129	\$ (51,588)	\$ -	\$ 253,541

SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014

NOTE H – RETIREMENT PLANS

Classified Employees – Classified employees (substantially all full time District employees other than certified employees) are covered by the County Employees Retirement Systems ("CERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death and disability benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State Legislature.

Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. All new members hired after August 31, 2008 are required to contribute 6% of their annual covered compensation. The current rate assessed the District is 18.89% of the employee's total covered compensation. The contribution requirements of Plan members and the District are established and may be amended by the Kentucky Retirement Systems' Board of Trustees. The District's contributions to CERS for the year ended June 30, 2014 was \$698,111.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601.

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS provides retirement, death and disability benefits to Plan members. Cost of living increases are 1.5% annually. Any benefit amendments must be authorized by the State Legislature.

House Bill 540, passed April 13, 2010, provided a shared responsibility solution to fund medical benefits for retirees. The shared responsibility includes a gradual increase in the rates contributed by active and retired teachers, school districts and employers, and the state. The gradual rates for the school district begins with .25% in fiscal year 2010-11 and increases to a maximum of 3% in fiscal year 2015-16. During fiscal year 2013-14 plan members were required to contribute 11.355% of their annual covered compensation of which the Commonwealth of Kentucky provides matching contributions as required by Kentucky Revised Statutes 165.540 and 161.550 (13.105% - 14.105% of salaries). The payments made by the Commonwealth of Kentucky on behalf of the District's certified employees are reflected in the accompanying financial statements as both revenues and expenses/expenditures. The Commonwealth of Kentucky requires payments for federally funded employees to be made by such federal funds. For the fiscal year ended June 30, 2014, the combined district contributions for state and local funded employees and federally funded employees amounted to \$243,907.

KTRS issues a publicly available financial report that includes financial statements and required supplementary information on the Plan. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Taylorsville Road, Frankfort, KY 40601.

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2014, comprehensive annual financial reports.

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

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014**

NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon 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.

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Effective July 1, 2013, the District maintains workers compensation insurance coverage through Kentucky Employers Mutual Insurance. The district's general liability coverage is maintained with Ohio Casualty Insurance.

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.

NOTE L – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Construction Fund	\$ 9,084
Special Revenue Fund	\$ 16,165
Day Care Operations	\$ 3,293

NOTE M - COBRA

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2014**

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	\$ 54,663.56
Matching	General	Special Revenue	Grant Match	5,612.83
Debt Service	Capital Outlay	Debt Service	Debt Service	257,937.00
Debt Service	Building	Debt Service	Debt Service	1,766,384.87

NOTE O – INTERFUND RECEIVABLES AND PAYABLE

There were no interfund balances at June 30, 2014.

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent event through September 26, 2014. There are no material subsequent events to disclose.

NOTE Q – ON BEHALF PAYMENTS

State agencies make payments on behalf of local school districts for the employer's portion of health benefits, vocational education, Kentucky Teachers' Retirement System, technology and debt services, along with receiving federal reimbursement payments from districts for the employer's portion of health benefits paid for federally funded district employees. The total amount of on behalf payments paid on behalf of the district for the year ended June 30, 2014 is \$3,774,492.60.

NOTE R – KENTUCKY SCHOOL BOARDS INSURANCE TRUST ASSESSMENT

KSBIT filed an assessment and wind up plan, 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. The estimated liability to be assessed to the District is \$486,172. The assessment is not recorded as a liability on the fund financial statements because it has not met the GASB criteria under interpretation 6 for accrual. However, an estimate is recorded on the government-wide financial statements in the amount of \$253,862 which represents the current amount due within the fiscal year, because under GASB 10 the criteria that it is probable that a liability has been incurred and the amount can be reasonably estimated have been met. As of June 30, 2013 the District had an estimated KSBIT assessment of \$428,172 which was recorded in the District-Wide Statement of Position. As of June 30, 2014, the reporting standard changed to recognize only the current portion of the liability. The difference of \$174,674 is recognized as a prior period adjustment in the District-Wide Statement of Activities.

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Taxes:			
Property	\$ 4,490,500.00	\$ 4,632,163.69	\$ 141,663.69
Motor Vehicle	700,000.00	763,411.92	63,411.92
Utilities	725,000.00	770,656.09	45,656.09
Tuition	12,800.00	17,400.00	4,600.00
Transportation	3,710.00	4,959.32	1,249.32
Earnings On Investments	20,000.00	22,825.09	2,825.09
Other Local Revenues	83,500.00	124,046.71	40,546.71
Intergovernmental - State	13,958,230.00	14,050,621.59	92,391.59
Intergovernmental - Direct Federal	16,000.00	36,650.94	20,650.94
Indirect Cost Transfer	-	-	-
Total Revenues	<u>\$ 20,009,740.00</u>	<u>\$ 20,422,735.35</u>	<u>\$ 412,995.35</u>
Expenditures:			
Instruction	\$ 11,328,747.00	\$ 11,126,913.90	\$ 201,833.10
Support Services:			
Student	972,192.00	968,277.77	3,914.23
Instruction Staff	1,075,234.00	1,099,073.09	(23,839.09)
District Administration	724,315.00	677,336.22	46,978.78
School Administration	1,453,611.00	1,438,930.95	14,680.05
Business	724,718.00	622,693.70	102,024.30
Plant Operation & Maintenance	2,086,824.00	1,926,941.85	159,882.15
Student Transportation	2,179,292.00	2,252,246.13	(72,954.13)
Adult Education	-	40.29	(40.29)
Community Service Activities	2,000.00	2,210.70	(210.70)
Other Uses Of Funds	214,098.00	213,953.75	144.25
Total Expenditures	<u>\$ 20,761,031.00</u>	<u>\$ 20,328,618.35</u>	<u>\$ 432,412.65</u>
Excess (Deficit) Of Revenues Over Expenditures	<u>\$ (751,291.00)</u>	<u>\$ 94,117.00</u>	<u>\$ 845,408.00</u>
Other Financing Sources (Uses)			
Proceeds From Bonds / Leases	\$ -	\$ 255,225.00	\$ 255,225.00
Proceeds From Sale Of Fixed Assets	-	7,022.29	7,022.29
Contingency	(2,669,576.00)	-	2,669,576.00
Operating Transfers In	6,428.00	5,612.83	(815.17)
Operating Transfers Out	(66,509.00)	(54,663.56)	11,845.44
Total Other Financing Sources (Uses)	<u>\$ (2,729,657.00)</u>	<u>\$ 213,196.56</u>	<u>\$ 2,942,853.56</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ (3,480,948.00)</u>	<u>\$ 307,313.56</u>	<u>\$ 3,788,261.56</u>
Fund Balance, July 1, 2013	<u>3,480,948.00</u>	<u>3,931,728.10</u>	<u>450,780.10</u>
Fund Balance, June 30, 2014	<u><u>\$ -</u></u>	<u><u>\$ 4,239,041.66</u></u>	<u><u>\$ 4,239,041.66</u></u>

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

	<u>CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Disbursements</u>
<u>U.S. Department Of Education</u>			
Passed through the Kentucky Department of Education			
Title I	84.010	3100002-12	\$ 16,202.68
Title I	84.010	3100002-12	95,002.42
Title I	84.010	3100002-13	211,210.38
Title I - Education Recovery Specialists	84.010	3100202-12	187.90
Title I - Education Recovery Specialists	84.010	3100202-13	105,438.00
Total Title I Cluster			<u>\$ 428,041.38</u>
 Title II - Teacher Quality	84.367	3230002-12	\$ 9,896.59
Title II - Teacher Quality	84.367	3230002-13	64,433.87
Total Title II - Teacher Quality Cluster			<u>\$ 74,330.46</u>
 IDEA Basic	84.027	3810002-12	\$ 180,165.53
IDEA Basic	84.027	3810002-13	360,625.50
IDEA Basic - Preschool	84.173	3810002-12	3,657.90
IDEA Basic - Preschool	84.173	3810002-13	30,779.87
IDEA Basic - Preschool	84.173	3810002-13	9,365.52
Total IDEA Cluster			<u>\$ 584,594.32</u>
 Perkins Career & Technical	84.048	3710001-13	\$ 1,167.00
Perkins Career & Technical	84.048	3710002-13	22,389.00
Adult Education	84.002	3710002-13	4,658.47
Adult Education - Community Work Based Program	84.002	3710002-13	18,012.90
Adult Education	84.002	3710002-13	26,134.03
Adult Education	84.002	3710002-13	200.00
Total Adult Education Cluster			<u>\$ 72,561.40</u>
 Race To The Top - Kid Friendly Grant	84.416	N/A	\$ 33,726.70
Race To The Top	84.413	3960002-11	2,929.86
21st Century Program - Summer	84.287	N/A	2,081.62
21st Century Program	84.287	N/A	15,414.14
Total Other Programs			<u>\$ 54,152.32</u>
 Total U.S. Department Of Education Expenditures			<u>\$ 1,213,679.88</u>
<u>U.S. Department Of Health & Human Services</u>			
Chronic Disease Prevention & Control	93.945	N/A	\$ 3,000.00
<u>U.S. Department Of Agriculture</u>			
National School Lunch	10.555	7750002-13	\$ 748,587.87
Commodities Received	10.565	N/A	63,451.51
Total U.S. Department Of Agriculture Expenditures			<u>\$ 812,039.38</u>
 Grand Total - All Federal Program Expenditures			<u><u>\$ 2,028,719.26</u></u>

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

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. During the fiscal year ended June 30, 2014, the District received and consumed \$63,452 in donated food commodities.

**SPENCER COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2014**

	Capital Outlay Fund	Building Fund	District Activity	Debt Service	Totals
Assets & Resources:					
Cash & Cash Equivalents	\$ -	\$ 5,196,834.61	\$ 194,608.07	\$ -	\$ 5,391,442.68
Accounts Receivable	-	-	-	-	-
Investments	-	-	-	-	-
Total Assets & Resources	<u>\$ -</u>	<u>\$ 5,196,834.61</u>	<u>\$ 194,608.07</u>	<u>\$ -</u>	<u>\$ 5,391,442.68</u>
Liabilities & Fund Balances:					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ 2,053.81	\$ -	\$ 2,053.81
Deferred Revenue	-	-	-	-	-
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,053.81</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:					
Reserved:					
Restricted For SFCC	\$ -	\$ 4,487,883.60	\$ -	\$ -	\$ 4,487,883.60
Restricted Other	-	708,951.01	192,554.26	-	901,505.27
Total Fund Balances	<u>\$ -</u>	<u>\$ 5,196,834.61</u>	<u>\$ 192,554.26</u>	<u>\$ -</u>	<u>\$ 5,389,388.87</u>
Total Liabilities & Fund Balances	<u>\$ -</u>	<u>\$ 5,196,834.61</u>	<u>\$ 194,608.07</u>	<u>\$ -</u>	<u>\$ 5,391,442.68</u>

SPENCER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2014

	Capital Outlay Fund	Building Fund	District Activity	Debt Service	Totals
Revenues:					
From Local Sources:					
Taxes:					
Property	\$ -	\$ 1,762,770.00	\$ -	\$ -	\$ 1,762,770.00
Motor Vehicle	-	-	-	-	-
Utilities	-	-	-	-	-
Tuition And Fees	-	-	-	-	-
Earnings On Investments	-	17,629.47	-	-	17,629.47
Other Local Revenues	-	72.41	198,286.94	-	198,359.35
Intergovernmental - Intermediate	-	-	-	-	-
Intergovernmental - State	257,937.00	694,864.00	-	448,706.85	1,401,507.85
Intergovernmental - Federal	-	-	-	-	-
Total Revenues	\$ 257,937.00	\$ 2,475,335.88	\$ 198,286.94	\$ 448,706.85	\$ 3,380,266.67
Expenditures:					
Instruction	\$ -	\$ -	\$ 2,688.17	\$ -	\$ 2,688.17
Support Services:					
Student	-	-	-	-	-
Instruction Staff	-	-	3,044.51	-	3,044.51
District Administration	-	-	-	-	-
School Administration	-	-	-	-	-
Business	-	-	-	-	-
Plant Operation & Maintenance	-	-	-	-	-
Student Transportation	-	-	-	-	-
Central Office	-	-	-	-	-
Facilities Acquisition & Maintenance	-	-	-	-	-
Community Service Activities	-	-	-	-	-
Debt Service	-	-	-	2,473,028.72	2,473,028.72
Total Expenditures	\$ -	\$ -	\$ 5,732.68	\$ 2,473,028.72	\$ 2,478,761.40
Excess (Deficit) Of Revenues Over Expenditures	\$ 257,937.00	\$ 2,475,335.88	\$ 192,554.26	\$ (2,024,321.87)	\$ 901,505.27
Other Financing Sources (Uses)					
Sale Of Equipment	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Transfers In	-	-	-	2,024,321.87	2,024,321.87
Operating Transfers Out	(257,937.00)	(1,766,384.87)	-	-	(2,024,321.87)
Total Other Financing Sources (Uses)	\$ (257,937.00)	\$ (1,766,384.87)	\$ -	\$ 2,024,321.87	\$ -
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	\$ -	\$ 708,951.01	\$ 192,554.26	\$ -	\$ 901,505.27
Fund Balance, July 1, 2013	\$ -	\$ 4,487,883.60	\$ -	\$ -	\$ 4,487,883.60
Fund Balance, June 30, 2014	\$ -	\$ 5,196,834.61	\$ 192,554.26	\$ -	\$ 5,389,388.87

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Cash Balance July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance June 30, 2014</u>
Spencer County Elementary	\$ 89,187.82	\$ 130,719.52	\$ 215,823.45	\$ 4,083.89
Spencer County Middle	51,427.15	238,352.48	258,388.10	31,391.53
Taylorsville Elementary	43,681.26	66,308.22	100,142.07	9,847.41
Spencer County High	<u>145,939.18</u>	<u>586,045.50</u>	<u>605,762.51</u>	<u>126,222.17</u>
Totals	<u>\$ 330,235.41</u>	<u>\$1,021,425.72</u>	<u>\$1,180,116.13</u>	<u>\$ 171,545.00</u>

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balance July 1, 2013	Receipts	Disbursements	Transfers	Cash Balance June 30, 2014
Charitable Fundraising	\$ -	\$ 297.39	\$ (297.39)	\$ -	\$ -
Fees	4,468.61	27,727.73	(18,928.84)	(13,267.50)	-
Instructional Progr	2,891.81	3,740.00	(6,631.81)	-	-
ESS Summer Schl	4,212.62	4,165.00	(8,972.62)	595.00	-
YCLUB/KUNA	265.22	2,179.70	(1,781.71)	-	663.21
World's Travelers	362.04	-	-	-	362.04
Art Club	21.31	60.00	-	-	81.31
Art I	322.16	-	(2,002.16)	1,680.00	-
Piano / Keyboard	-	-	-	-	-
Band	679.86	1,815.75	(4,499.60)	2,390.00	386.01
FBLA	803.29	5,892.56	(6,055.41)	(2.00)	638.44
Chorus	303.96	16,246.31	(14,582.43)	817.39	2,785.23
Con Family Sci	93.42	-	(1,500.02)	1,406.60	-
Family Consumer Science	1,697.10	55.00	(2,052.10)	300.00	-
FCCLA	2,305.73	5,406.89	(6,568.85)	205.00	1,348.77
Beta Club	618.55	2,253.00	(2,569.53)	(9.00)	293.02
Technology Education	147.13	-	(2,244.53)	2,097.40	-
TSA	797.65	5,211.11	(4,059.70)	127.30	2,076.36
Language	34.08	-	(30.28)	(3.80)	-
Latin / German	-	-	-	-	-
Mathematics	1,149.00	35.00	(1,440.20)	256.20	-
Mu Alpha Theta	-	260.00	(255.00)	-	5.00
Math Text Books	315.00	-	(435.00)	120.00	-
Media	325.27	215.70	(829.97)	289.00	-
Health Career	-	1,127.50	(1,672.50)	545.00	-
HOSA	-	3,287.50	(2,932.83)	-	354.67
Science	92.00	-	(260.00)	168.00	-
Science Text Books	315.00	-	(365.00)	50.00	-
Social Studies	377.83	-	(340.53)	(37.30)	-
Spanish	154.59	121.25	(869.04)	593.20	-
Spanish Text Books	40.00	1,172.00	(1,212.00)	-	-
Field Trips	636.01	2,796.00	(2,767.70)	-	664.31
FFA Truck FR Dairy	-	6,771.00	(1,319.00)	55.00	5,507.00
Career Ag	2,106.49	5,483.19	(8,061.20)	520.00	48.48
Dairy Team	11,793.88	78,198.45	(77,322.57)	(55.00)	12,614.76
FFA	14,721.11	78,413.25	(71,983.99)	(2,528.42)	18,621.95
Greenhouse	22,020.56	17,278.45	(39,759.01)	460.00	-
Yearbook	9,738.48	11,639.20	(21,377.68)	-	-
Chess	141.45	-	(43.54)	-	97.91
National Honor Society	482.66	1,440.50	(1,021.72)	(270.50)	630.94
Music Club	35.92	-	-	-	35.92
Spanish Honor Society	94.14	660.00	(930.00)	270.50	94.64
Environmental Club	210.00	-	-	-	210.00
Student Council	997.71	5,019.65	(4,893.08)	(149.60)	974.68

SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Transfers	Cash Balance June 30, 2014
Cadette Core	\$ 11.84	\$ -	\$ -	\$ -	\$ 11.84
Academic Team	245.85	-	-	-	245.85
MF Brown Memorial Fund	380.07	646.50	(900.00)	(86.00)	40.57
Klefot Art Scholars	1,255.00	790.00	(1,000.00)	-	1,045.00
Coca Cola Public	164.29	549.67	(51.36)	-	662.60
Coca Cola Student	371.13	522.03	-	-	893.16
Coca Cola Faculty	90.94	697.62	(787.36)	(1.20)	-
Pictures	1,500.00	-	(1,400.00)	(100.00)	-
General	1,244.93	3,178.06	(2,984.02)	453.42	1,892.39
Guidance	2,064.46	11,061.90	(14,675.36)	1,605.00	56.00
Memorial Fund	307.02	-	(307.02)	-	-
Prom	1,727.01	17,200.00	(20,528.62)	1,665.00	63.39
Class of 2014	1,502.77	8,138.13	(8,197.56)	(1,443.34)	-
Class of 2016	-	694.90	-	-	694.90
Class of 2015	6,706.58	4,053.00	(2,516.06)	408.17	8,651.69
Senior Trip	-	42,480.84	(41,475.32)	(1,005.52)	-
Fellow of Christ	520.17	-	(32.76)	-	487.41
Athletics	35.00	49,416.13	(49,469.30)	1,037.83	1,019.66
District Tournament	-	784.00	(569.15)	(214.85)	-
Concessions	6,094.08	23,035.82	(14,078.87)	(5,942.53)	9,108.50
Charitable Gaming	-	1,179.00	(100.00)	(1,079.00)	-
Baseball	5,124.91	11,838.62	(9,401.17)	726.13	8,288.49
Basketball Boys	230.00	20,059.13	(14,355.44)	7,557.68	13,491.37
Basketball Girls	2,241.75	15,510.97	(15,041.79)	1,493.33	4,204.26
Dance Team	1,719.62	350.00	(1,979.00)	2,013.00	2,103.62
Cheerleader	823.67	14,248.53	(11,085.23)	(141.00)	3,845.97
Cross Country	27.36	1,025.00	(561.79)	(21.00)	469.57
Golf Boys	-	-	-	-	-
Golf Girls	54.83	-	-	-	54.83
Soccer Boys	1,317.99	794.10	(1,079.51)	150.00	1,182.58
Soccer Girls	2,442.19	6,333.45	(6,624.85)	289.00	2,439.79
Softball	3,129.83	11,050.68	(8,616.81)	735.41	6,299.11
Swim	25.79	440.15	(307.02)	(108.00)	50.92
Tennis Boys	414.50	324.00	(696.78)	186.48	228.20
Tennis Girls	262.29	677.00	(508.97)	(186.48)	243.84
Volleyball	9,848.63	6,937.39	(11,282.02)	(645.76)	4,858.24
Track	62.00	1,162.00	(1,145.00)	21.00	100.00
Football	7,790.36	40,511.48	(38,824.93)	(4,608.18)	4,868.73
Wrestling	330.68	422.19	(1,314.90)	618.94	56.91
Archery	100.00	814.13	(846.00)	-	68.13
District Softball	-	150.00	(150.00)	-	-
Group Total	<u>\$ 145,939.18</u>	<u>\$ 586,045.50</u>	<u>\$ (605,762.51)</u>	<u>\$ -</u>	<u>\$ 126,222.17</u>

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

Section I - Summary of Auditor's Results

Financial Statements

Type of audit issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A -133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027 & 84.173

IDEA Basic & Preschool Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2014**

No Prior Audit Findings

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

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

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

Kentucky State Committee for School District Audits
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendices I through IV of the Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District (District) as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 26, 2014.

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 opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion of 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*. In addition,

the results of our tests disclosed no instances of material noncompliance with specific state statutes or regulations identified in *Appendix II of the Independent Auditors' Contract – State Audit Requirements*.

Purpose of this Report

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

Brown & Company CPA's

Bardstown, Kentucky
September 26, 2014

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

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

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

Report on Compliance for Each Major Federal Program

We have audited Spencer County School District's (District) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The 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 the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. 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 the 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 the District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the 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 a 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 the 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 control deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Brown & Company CPA's

Bardstown, Kentucky
September 26, 2014

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William G. Brown, CPA - W. Gilbert Brown III, CPA

MANAGEMENT LETTER

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

Kentucky State Committee for School District Audits
Frankfort, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District (District) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our 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.

Current Year Management Letter Points – 2013-2014 Audit

None

Prior Year Management Letter Point – 2012-2013 Audit

During the course of our audit, we examined the documentation that supports the District's expenditures. While examining the documentation, we became aware of several purchase orders that gave the appearance that necessary authorizations had not been granted for certain expenditures. After further examination, it was made very clear to us that these expenditures were correctly authorized. It is our recommendation that the District implement some "Best Practice" methods that will better document the authorization process of these expenditures in a more transparent manner.

Management Response:

Management will initiate a purchase order for all expenditures, to include board approved contracts, lease agreements, insurance premiums and utilities. All authorized approvals will be on the face of the purchase order.

Audit Follow Up

Our follow up revealed that the District implemented methods to better document the authorization process as suggested in last year's management letter.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

This communication is intended solely for the information and use of management, the Board of Education, the Kentucky Department of Education, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company CPA's

Bardstown, Kentucky
September 26, 2014

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William G. Brown, CPA - W. Gilbert Brown III, CPA

LETTER TO THOSE CHARGED WITH GOVERNANCE

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Spencer County School District for the year ended June 30, 2014, and have issued our report thereon dated September 26, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133:

As stated in our engagement letter dated September 10, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Spencer County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Spencer County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Spencer County School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Spencer County School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Spencer County School District's compliance with those requirements.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Spencer County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" or certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statement or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Spencer County Board of Education and management of Spencer County School District and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company CPA's

Bardstown, Kentucky
September 26, 2014