LAWRENCE COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year ended June 30, 2013

Daniel S. Howard, P.S.C.
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Louisa, Kentucky

LAWRENCE COUNTY SCHOOL DISTRICT

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LAWRENCE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Lawrence County School District
Louisa, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lawrence County School District, as of and for the year ended June 30, 2013, 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 State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. 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 Lawrence County School District as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note T to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* 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 and budgetary comparison information on pages 4-8 and 41-42 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 Lawrence County School District's basic financial statements. The budget comparison and the combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, on our consideration of the Lawrence County School District's internal control over financial reporting and on our test 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 Lawrence County School District's internal control over financial reporting and compliance.

David L. Howard, CPA

December 10, 2013

LAWRENCE COUNTY SCHOOL DISTRICT - LOUISA, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

As management of the Lawrence County School District (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, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was $4,780,659
- The ending cash balance for the District was $4,449,137.
- The General Fund had $17,286,061 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there was $17,680,528 in General Fund expenditures. Included in both revenue and expenditures was an offsetting entry for on-behalf payments made by the state in the amount of $3,240,046.
- The fundable average daily attendance decreased from 2,122.7 in 2011-2012 to 2,116.48 in 2012-2013 resulting in reduced state funding levels-SEEK in the general fund.
- Bonds are issued as the local Facilities Planning Committee developed a long-range facilities plan in accordance with KAR1:001. Bonds are issued as the District renovates facilities consistent with the long-range plan. The District's total debt increased by $3,992,164 during the current fiscal year. As of the date of this report the District's current bonding potential is a little over $2.7 million. The District's credit rating as stated in Moody's Rating Service is Aa3.
- The District remains committed to maintaining an excellent fleet of buses. Two new buses were ordered during the 2012-13 school year with delivery in the 2013-14 school year at a cost of $237,714.
- At the end of the 2012-2013 school year, the District has one major construction project underway while two major projects were completed during the year.

    1. The partial roof replacement at Blaine Elementary, Fallsburg Elementary, Louisa East Elementary, and Louisa Middle School was completed at a cost of $1,514,653.
    2. The energy conservation project with Honeywell, to optimize energy usage, was completed at a total cost of $4,326,350. Honeywell has guaranteed energy savings of $2,835,000 to be applied to the cost of this project
    3. The major renovation project for the Lawrence County High School continues with a total cost to date as of June 30, 2013 in the amount of $4,005,142. The total projected cost for this project is $5,582,143.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 9-10 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, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $14.4 million as of June 30, 2013.

The largest portion of the District's net assets 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, 2013

The District's combined net position decreased 1.50% from the prior year. They decreased from $14,615,610 to $14,396,059. Our analysis below focuses on the net position (Table I) and changes in net position (Table 2) of the District's combined governmental & business activities.

Table 1	JUNE 30		Percent
	2013	2012	Change
Current Assets	$ 5,200,050	$ 5,651,400	-7.99%
Noncurrent Assets	28,740,568	23,731,398	21.11%
Total Assets	33,940,618	29,382,798	15.51%
Deferred Outflows of Resources	365,793	386,836	-5.44%
Current Liabilities	2,521,434	1,870,048	34.83%
Non Current Liabilities	17,388,918	13,283,976	30.90%
Total Liabilities	19,910,352	15,154,024	31.39%
Net Position			
Investment in capital assets (net of debt)	11,144,933	10,095,483	10.40%
Restricted	1,892,625	2,501,693	-24.35%
Unreserved Fund Balance	1,358,501	2,018,434	-32.70%
Total Net Position	$ 14,396,059	$ 14,615,610	-1.50%

The following are significant current year transactions that have had an impact on the Statement of Net Position.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2013, net of Interfund transfers, were $24.51 million.
- General fund budget compared to actual revenue (net of on-behalf payments) varied slightly from line item to line item with the ending actual balance being $215,422 more than budget or approximately 1.56%.
- The total cost of all programs and services was $24.73 million net of debt service.
- General fund budget revenues and expenditures compared to actual varied significantly in several categories due to on-behalf payments in the amount of $3,240,046 which were included in expenditures and revenue while the budget was not amended to reflect the on-behalf payments. Property taxes were over budget in the amount of $72,562. Motor vehicle taxes were over budget by $19,316. Utility taxes were over budget in the amount of $27,687. Unmined mineral was over budget by $16,710. Interest income was over budget by $4,762. Other local revenues were over budget by $23,097. Intergovernmental state revenue (net of on-behalf payments) was over budget by $28,724. Indirect federal revenue was over budget by $26,364. In expenditures, instruction (net of on-behalf payments) was under budget by $621,906. Instruction staff (net of on-behalf payments) was under budget by $49,276. District administrative (net of on-behalf payments) was under budget by $88,086. Business (net of on-behalf payments) was over budget by $35,298. Plant operation & maintenance (net of on-behalf payments) was over budget by $94,163. Student transportation (net of on-behalf payments) was under budget by $136,967. Other expenditures (net of on-behalf payments) did not vary significantly.

The following table presents a district wide summary of revenue and expense for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2	YEAR ENDED 6/30/2013	YEAR ENDED 6/30/2012	Percent Change
Revenue:			
Charges for services	$ 275,674	$ 286,582	-3.81%
Operating Grants & Contributions	5,208,650	5,611,350	-7.18%
Capital Grants & Contributions	134,608	177,856	-24.32%
Taxes	4,251,544	4,356,967	-2.42%
State & formula grants	14,219,626	14,365,893	-1.02%
Investment earnings	28,234	25,928	8.89%
Miscellaneous	389,933	141,444	175.68%
Total revenue	24,508,269	24,966,020	-1.83%
Expenses:			
Instruction	12,591,172	13,377,009	-5.87%
Support services:	9,910,622	9,292,734	6.65%
Facilities acquisitions & construction	-	12,798	-100.00%
Community service activities	251,236	253,756	-0.99%
Other	28,578	-	100.00%
Interest on long term debt	444,400	310,001	43.35%
Food service expense	1,501,812	1,393,732	7.75%
Total expense	24,727,820	24,640,030	0.36%
Revenues in excess of expenses	$ (219,551)	$ 325,990	-167.35%

General Fund Revenue

The majority of revenue was derived from state funding, net of on- behalf payments, which made up 74% of total revenue with local taxes making up 26% of the total.

Budget Allocation

Board paid and Site Based Decision Making Councils expended $8.98 million of the general fund budget. The remaining general fund was expended by special needs, which spent $1.82 million, transportation cost were $2.08 million, plant operations $3.31 million, and other support services $1.91 million.

School Allocation

Regular Instruction accounts for 73% of the school level expenditures.

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, however the state recommends 5-10%. The district adopted a budget with a 3.56% contingency ($788,213). The beginning cash balance for the beginning of this fiscal year was $2,203,079.

Questions regarding this report should be directed to Superintendent, Mike Armstrong (606) 638-9671 or to Edris Humphrey, Director of Finance (606) 638-9671 or by mail at 50 Bulldog Lane, Louisa, Kentucky 41230.

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

Assets	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and cash equivalents	$ 4,307,169	$ 141,968	$ 4,449,137
Inventory	-	41,787	41,787
Accounts receivable			
Taxes - current	147,415	-	147,415
Taxes - delinquent	7,734	-	7,734
Accounts receivable	34,164	-	34,164
Intergovernmental - State	40,764	-	40,764
Intergovernmental - Indirect Federal	375,729	95,519	471,248
Intergovernmental - Direct Federal	7,801	-	7,801
Total current assets	4,920,776	279,274	5,200,050
Noncurrent Assets			
Capital assets, net of accumulated depreciation	28,683,129	57,439	28,740,568
Total noncurrent assets	28,683,129	57,439	28,740,568
Total assets	33,603,905	336,713	33,940,618
Deferred Outflows of Resources			
Debt discount	99,381	-	99,381
Deferred charge on bond refunding	266,412	-	266,412
Total deferred outflows of resources	365,793	-	365,793
Liabilities			
Current Liabilities			
Accounts payable	961,716	1,852	963,568
Accrued payroll and related expenses	191,685	1,290	192,975
Unearned revenue	97,247	-	97,247
Current portion of bond obligations	1,043,754	-	1,043,754
Current portion of capital leases	33,324	-	33,324
Current portion of accrued sick leave	69,089	-	69,089
Interest payable	121,477	-	121,477
Total current liabilities	2,518,292	3,142	2,521,434
Noncurrent Liabilities			
Noncurrent portion of bond obligations	16,348,289	-	16,348,289
Noncurrent portion of capital leases	170,268	-	170,268
Noncurrent portion of KSBIT assessment	217,662	-	217,662
Noncurrent portion of accrued sick leave	652,699	-	652,699
Total noncurrent liabilities	17,388,918	-	17,388,918
Total liabilities	19,907,210	3,142	19,910,352
Net Position			
Invested in capital assets, net of related debt	11,087,494	57,439	11,144,933
Restricted for:			
Future construction	889,949	-	889,949
SFCC escrow	17,562	-	17,562
Inventory	-	41,787	41,787
Unrestricted	2,067,483	234,345	2,301,828
Total net position	$ 14,062,488	$ 333,571	$ 14,396,059

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

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	$ 12,591,172	$ 32,472	$ 3,999,361	$ 134,608	$ (8,424,731)	$ -	$ (8,424,731)
Support services:							
Student	721,550	-	-	-	(721,550)	-	(721,550)
Instruction staff	1,751,160	-	-	-	(1,751,160)	-	(1,751,160)
District administrative	484,578	-	-	-	(484,578)	-	(484,578)
School administrative	1,055,561	-	-	-	(1,055,561)	-	(1,055,561)
Business	294,735	-	-	-	(294,735)	-	(294,735)
Plant operation and maintenance	3,384,590	-	-	-	(3,384,590)	-	(3,384,590)
Student transportation	2,218,448	-	-	-	(2,218,448)	-	(2,218,448)
Central office	-	-	-	-	-	-	-
Non-instructional	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-
Community service activities	251,236	-	-	-	(251,236)	-	(251,236)
Other	28,578	-	-	-	(28,578)	-	(28,578)
Interest on long-term debt	444,400	-	-	-	(444,400)	-	(444,400)
Total governmental activities	23,226,008	32,472	3,999,361	134,608	(19,059,567)	-	(19,059,567)
Business-Type Activities:							
Food service	1,501,812	243,202	1,209,289	-	-	(49,321)	(49,321)
Total business-type activities	1,501,812	243,202	1,209,289	-	-	(49,321)	(49,321)
Total primary government	$ 24,727,820	$ 275,674	$ 5,208,650	$ 134,608	(19,059,567)	(49,321)	(19,108,888)
			General Revenues:				
			Taxes:				
			Property taxes		3,086,328	-	3,086,328
			Motor vehicle taxes		211,841	-	211,841
			Utility taxes		854,165	-	854,165
			Unmined mineral		99,210	-	99,210
			Investment earnings		27,441	793	28,234
			State and formula grants		14,154,981	64,645	14,219,626
			Gain (loss) on sale of fixed assets		10,267	-	10,267
			Miscellaneous		379,666	-	379,666
			Change in net position		(235,668)	16,117	(219,551)
			Net position-beginning-restated		14,298,156	317,454	14,615,610
			Net position-ending		$ 14,062,488	$ 333,571	$ 14,396,059

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

LAWRENCE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Special Revenue	Construction Fund	DEBT SERVICE FUND	Other Governmental Funds	Total Governmental Funds
Assets and Resources:						
Cash and cash equivalents	$ 1,866,594	$ (287,270)	$ 2,655,554	$ -	$ 72,291	$ 4,307,169
Inventory	-	-	-	-	-	-
Accounts receivable						-
Taxes - current	147,415	-	-	-	-	147,415
Taxes - delinquent	7,734	-	-	-	-	7,734
Accounts receivable	34,164	-	-	-	-	34,164
Intergovernmental - State	-	40,764	-	-	-	40,764
Intergovernmental - Indirect Federal	-	375,729	-	-	-	375,729
Intergovernmental - Direct Federal	-	7,801	-	-	-	7,801
Prepaid expenses	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Total assets and resources	$ 2,055,907	$ 137,024	$ 2,655,554	$ -	$ 72,291	$ 4,920,776
Liabilities and Fund Balances:						
Liabilities						
Accounts payable	$ 111,845	$ 14,651	$ 835,220	$ -	$ -	$ 961,716
Accrued payroll and related expenses	166,559	25,126	-	-	-	191,685
Due to other funds	-	-	-	-	-	-
Current portion of accumulated sick leave	69,089	-	-	-	-	69,089
Unearned revenue	-	97,247	-	-	-	97,247
Total liabilities	347,493	137,024	835,220	-	-	1,319,737
Fund Balances						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	1,820,334	-	72,291	1,892,625
Committed	-	-	-	-	-	-
Assigned:						
Purchase obligations	960,604	-	-	-	-	960,604
Subsequent year's budget	108,222	-	-	-	-	108,222
Unassigned	639,588	-	-	-	-	639,588
Total fund balances	1,708,414	-	1,820,334	-	72,291	3,601,039
Total liabilities and fund balances	$ 2,055,907	$ 137,024	$ 2,655,554	$ -	$ 72,291	$ 4,920,776

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

LAWRENCE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2013

Total fund balance per fund financial statements	$ 3,601,039
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	28,683,129
Deferred outflows of resources are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the Statement of Net Position	365,793
Certain liabilities (such as bonds payable, capital leases payable, the long-term portion of accrued sick leave, KSBIT assements, and accrued interest) are not reported in this fund financial statement because the are not due and payable, but they are presented in the statement of net assets.	(18,587,473)
Net position for governmental activities	$ 14,062,488

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

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2013

	General Fund	Special Revenue	Construction Fund	DEBT SERVICE FUND	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources						
Taxes						
Property	$ 3,086,328	$ -	$ -	$ -	$ -	$ 3,086,328
Motor vehicle	211,841	-	-	-	-	211,841
Utilities	477,687	-	-	-	376,478	854,165
Unmined mineral	99,210	-	-	-	-	99,210
Tuition and fees	1,200	-	-	-	-	1,200
Earnings on investments	10,762	94	14,065	-	2,520	27,441
Other local revenues	161,297	3,910	74,769	-	2,250	242,226
Intergovernmental - state	13,161,372	1,216,998	-	372,226	621,383	15,371,979
Intergovernmental - indirect federal	76,364	2,760,718	-	-	-	2,837,082
Intergovernmental - direct federal	-	73,729	-	-	-	73,729
Total revenues	17,286,061	4,055,449	88,834	372,226	1,002,631	22,805,201
Expenditures:						
Instruction	9,398,017	2,712,340	-	-	-	12,110,357
Support services:						
Student	604,851	55,937	-	-	-	660,788
Instruction staff	788,854	997,810	-	-	-	1,786,664
District administrative	503,277	-	-	-	-	503,277
School administrative	1,045,701	-	-	-	-	1,045,701
Business	285,004	-	-	-	-	285,004
Plant operation and maintenance	2,964,151	97,745	-	-	-	3,061,896
Student transportation	2,044,796	-	-	-	-	2,044,796
Central office	-	-	-	-	-	-
Non-instructional	-	-	-	-	-	-
Facilities acquisition and construction	-	-	5,921,959	-	-	5,921,959
Community service activities	5,598	242,982	-	-	2,250	250,830
Other	40,279	-	-	1,434,043	-	1,474,322
Total expenditures	17,680,528	4,106,814	5,921,959	1,434,043	2,250	29,145,594
Excess (deficit) of revenues over expenditures	(394,467)	(51,365)	(5,833,125)	(1,061,817)	1,000,381	(6,340,393)
Other Financing Sources (Uses)						
QZAB Bond Series of 2012	-	-	-	5,000,000	-	5,000,000
Sale or compensation for loss of assets	167,005	-	19,350		-	186,355
Operating transfers in	84,107	51,365	5,233,672	953,155	-	6,322,299
Operating transfers out	(352,098)	-	-	(4,904,913)	(1,015,771)	(6,272,782)
Total other financing sources (uses)	(100,986)	51,365	5,253,022	1,048,242	(1,015,771)	5,235,872
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	(495,453)	-	(580,103)	(13,575)	(15,390)	(1,104,521)
Fund balance, July 1, 2012, as originally stated	2,203,867	-	2,400,437	13,575	87,681	4,705,560
Prior period adjustment	-	-	-	-	-	-
Fund balance, June 30, 2013	$ 1,708,414	$ -	$ 1,820,334	$ -	$ 72,291	$ 3,601,039

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

LAWRENCE 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, 2013

Net change in total fund balances per fund financial statements	$	(1,104,521)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays is over or (under) depreciation expense for the year.		5,022,168
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 assets.		1,040,280
Proceeds from the issue of Bonds are recorded in the statement of net assets and are not refected in the statement of net activities.		(4,954,000)
Proceeds from the sale of fixed assets are recorded in the fund financial statements but this amount is reduced by the undepreciated basis of the assets in the Statement of Activities.		(1,216)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		(238,379)
Change in net position of governmental activities	$	(235,668)

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

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Food Service Fund
Assets	
Current Assets	
Cash and cash equivalents	$ 141,968
Inventory	41,787
Accounts receivable	
Taxes - current	-
Taxes - delinquent	-
Accounts receivable	-
Intergovernmental - state	-
Intergovernmental - indirect federal	95,519
Intergovernmental - direct federal	-
Interest receivable	-
Investments	-
Total current assets	279,274
Noncurrent Assets	
Capital assets, net	57,439
Total noncurrent assets	57,439
Total assets	336,713
Liabilities	
Current Liabilities	
Accounts payable	1,852
Accrued payroll and related expenses	1,290
Due to other funds	-
Deferred revenue	-
Current portion of long-term obligations	-
Accrued sick leave	-
Total current liabilities	3,142
Net Position	
Net investment in capital assets	57,439
Restricted for inventory	41,787
Unrestricted	234,345
Total net position	$ 333,571

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

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year ended June 30, 2013

	Food Service Fund
Operating Revenues:	
Lunchroom sales	$ 243,202
Other operating revenues	-
Total operating revenues	243,202
Operating Expenses:	
Milk and food	517,192
Payroll and benefits	799,112
Supplies	51,174
Services	44,458
Depreciation	11,782
Indirect costs	78,094
Total operating expenses	1,501,812
Operating loss	(1,258,610)
Non-Operating Revenues (Expenses):	
Federal grants	919,631
State grants	12,452
Revenue for/on behalf payments	248,628
Retirement of Capital Assets	-
Interest income	793
Other services	-
Fund Transfers In	28,578
Donated commodities	64,645
Total non-operating revenues	1,274,727
Net income (loss)	16,117
Net Position Beginning of Year	317,454
Prior period adjustment	-
Net Position End of Year	$ 333,571

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

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2013

Cash Flows from Operating Activities		
Cash received from:		
Lunchroom sales	$	243,202
Government grants		901,209
Other activities		28,578
Cash paid to/for:		
Employees		(549,194)
Supplies		(566,335)
Indirect costs		(78,094)
Other activities		(45,576)
Net cash provided by operating activities		(66,210)
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets		-
Net cash provided by capital and related financing activities		-
Cash Flows from Investing Activities		
Receipt of interest income		793
Net increase in cash and cash equivalents		(65,417)
Balances, beginning of year		207,385
Balances, end of year	$	141,968
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income	$	16,117
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation		11,782
Interest		(793)
Insured Loss Receipt on Equipment		-
Change in assets and liabilities		
Receivables		(95,520)
Inventory		224
Accounts payable		690
Accrued payroll & benefits		1,290
Net cash provided by operating activities	$	(66,210)
Schedule of non-cash transactions:		
Donated commodities received from federal government	$	64,645
Depreciation		11,782

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

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2013

	Agency Fund
Assets	
Cash and cash equivalents	$ 126,524
Accounts receivable	1,390
Total assets	127,914
Liabilities	
Accounts payable	10,456
Due to student groups	117,458
Total liabilities	127,914
Net Assets Held in Trust	$ -

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lawrence County School District have been prepared to conform with Accounting Principles General Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Superintendent of Schools is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The following is a summary of the more significant of these policies.

Reporting Entity

The Lawrence 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 Lawrence County Board of Education ("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 Lawrence 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 statements of the following organization are included in the accompanying financial statements:

Lawrence County Board of Education Finance Corporation – On June 17, 1991, the Lawrence County, Kentucky, Board of Education resolved to authorize the establishment of the Lawrence 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 Lawrence County Board of Education also comprise the Corporation's Board of Directors.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

The District has the following funds:

I. Governmental Fund Types

(A) 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of 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 on page 38. This is a major fund of the District.

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

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 cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the district.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

II. Proprietary Fund Type (Enterprise Fund) - continued

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.

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Due to GASB, this now has been re-characterized as unearned revenue.

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

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were $.488 per $100 valuation for property, and $.22 per $100 valuation for motor vehicles.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of: $50,000-land improvements; $50,000-buildings & building improvements; $5,000-software; $50,000-leasehold improvements; $5,000-vehicles and $5,000 equipment. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
Other	7-10 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the vesting payment method. The District estimates it's accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such 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.

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 expenditure in the governmental fund types when purchased.

The food service fund uses the first-in, first-out method.

Prepaid Assets

On government-wide financial statements, payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

On fund financial statements, expenditures for insurance and similar services extending over more than one accounting period are accounted for as expenditures of the period of acquisition.

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, 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has two items that qualifies for reporting in this category. It is the deferred charge on debt discount and on bond refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The debt discount is deferred and amortized over the life of the debt.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Balances

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

- Non-spendable-permanently nonspendable by decree of the donor, such as an endowment, or items, which may not be used for another purpose, such as amounts used to prepay future expenses or already-purchased inventory on hand
- Restricted-legally restricted under federal or state law, bond authority, or grantor contract
- Committed-commitments passed by the board
- Assigned-Funds assigned to management priority including issued encumbrances
- Unassigned-Funds available for future operations.

GASB statement 54 provides that when governments have not established a spending policy, the committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those classifications could be used.

Encumbrances are not liabilities and, therefore are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013, in the governmental funds balance sheet.

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions 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 positions are 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. Net positions reported as unrestricted is the net position that does not meet the definition of "net investments in capital assets" or "restricted net position".

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Recently Issued and Adopted Accounting Pronouncements

The Governmental Accounting Standards Board has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* is effective for periods beginning after December 15, 2011. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has implemented this reporting for the year ended June 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

In March 2012, the GASB issued Statement 66, *Technical Corrections-2012-an amendment to GASB Statements No. 10 and No 62.* GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.* This Statement is effective for periods beginning after December 15, 2012. The adoption of GASB 66 does not have any impact on the District's financial statements.

In March 2012 the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities.* GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASB 65 resulted in a restatement of net position-beginning on the Statement of Activities.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting For Pension Plans-an amendment of GASB Statement 25.* GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily though enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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

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.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was $4,575,661. Of the total cash balance, $267,398 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.

NOTE C – CASH AND CASH EQUIVALENTS-CONTINUED

Cash and cash equivalents at June 30, 2013 consisted of the following

	Bank Balance	Book Balance
Inez Deposit	$ 4,670,617	$ 4,558,309
Peoples Security	17,398	17,352
	$ 4,688,015	$ 4,575,661
Breakdown per financial statements:		
Governmental		$ 4,307,169
Business type activities		141,968
Activity funds		126,524
		$ 4,575,661

NOTE D - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

Governmental Activities	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Land	$ 334,650	$ -	$ -	$ 334,650
Buildings and improvements	28,310,951	6,064,420	-	34,375,371
Technology equipment	3,027,922	5,482	57,388	2,976,016
Vehicles	3,445,976	27,077	62,625	3,410,428
General equipment	1,199,707	6,040	53,410	1,152,337
Construction in progress	3,997,736	4,005,142	3,997,736	4,005,142
Totals at historical cost	40,316,942	10,108,161	4,171,159	46,253,944
Less: accumulated depreciation				
Buildings and improvements	10,607,751	673,728	-	11,281,479
Technology equipment	2,559,916	175,086	56,171	2,678,831
Vehicles	2,558,972	184,438	62,625	2,680,785
General equipment	928,125	55,005	53,410	929,720
Total accumulated depreciation	16,654,764	1,088,257	172,206	17,570,815
Governmental Activities Capital Assets - Net	$ 23,662,178	$ 9,019,904	$ 3,998,953	$ 28,683,129
Business-Type Activities				
Food service equipment	$ 705,539	$ -	$ -	$ 705,539
Food service technology	6,544	-	-	6,544
Totals at historical cost	712,083	-	-	712,083
Less: accumulated depreciation				
Food service equipment	639,283	10,847	-	650,130
Food service technology	3,577	935	-	4,512
Total accumulated depreciation	642,860	11,782	-	654,642
Business-Type Activities Capital Assets - Net	$ 69,223	$ (11,782)	$ -	$ 57,441

Depreciation expense has been charged to the following functions in the statement of activities:

Instruction	$ 480,815
Student support services	60,762
Instruction staff	138
District Administration	8,378
School administration	9,860
Business	9,731
Plant operation & maintenance	344,515
Student transportation	173,652
Community service activities	406
Food service	11,782
TOTAL	$ 1,100,039

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

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

Issue Date		Amount of Issue	Rates
2008	Refinancing	4,285,000	3.350%
2009	Refinancing	306,631	1.000% - 3.000%
2010	Refinancing	1,815,000	0.700% - 1.500%
2012	Refinancing	2,020,000	0.500% - 1.900%
2012	Energy Bonds	4,265,000	0.800% - 2.650%
2012		1,635,000	0.700% - 3.000%
2012	QZAB	5,000,000	4.000%

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

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The December 01, 2012 bond issue, in the amount of $5,000,000, is a tax credit Qualified Zone Academy Bond. The Kentucky School Facility Construction Commission is to make equal annual sinking fund payments to The Bank of New York Mellon Trust Company, an escrow agent, in the amount of $162,638 commencing December 1, 2013 and such amount shall be held and invested by the escrow agent for payment of $5,000,000 at the bonds maturity on December 1, 2035. The interest subsidy will be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on bonds or reimbursement to the issuer for such payment.

On January 1, 2012, the Lawrence County School District issued $2,020,000 in School Building Refunding Revenue Bonds with an interest rate ranging from 0.500% to 1.900% to advance refund $1,870,000 of outstanding 2003 Series Revenue Bonds with an average interest rate of 4.063%. The net proceeds of $1,988,403 (after payment of $31,880 fiscal agency fees and $2,775 of discount on bonds plus $3,058 of accrued interest) were used to provide $7,505 to open the Bond and Interest Redemption Fund for the 2012 issue, and $1,980,898 to partially refund the 2003 Series Revenue Bond Issue. As a result, $1,870,000 of 2003 Series Revenue Bonds are considered to be defeased. The School Facilities Construction Commission participation in this issue is $619,824 while the district portion is $1,400,176.

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

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS – CONTINUED

The district advance refunded the 2003 Series Revenue Bonds to reduce its total debt service payments over the next 12 (twelve) years by approximately $174,731 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $152,184

On January 1, 2012, the District issued $1,635,000 in School Building Revenue Bonds, (Series 2012) with an average interest rate of 2.22% to fund roof projects at Blaine Elementary, Fallsburg Elementary, Louisa East Elementary, and Louisa Middle School. This issue is funded 100% by SFCC.

On February 1, 2012, the District issued $4,265,000 in Energy Conservation Bonds, (Series 2012) with an average interest rate of 1.725% to fund an energy conservation project with Honeywell. Honeywell has guaranteed energy savings of $2,835,000 to be applied to the funding of this project. The School Facilities Construction Commission did not participate in this issue.

On March 1, 2008 the district advance refunded $3,915,000 of the outstanding 2000 Series Revenue Bonds to reduce its total debt service payments over the next 13 (thirteen) years by approximately $265,545 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $213,382.

On December 29, 2009 the School Facilities Construction Commission advance refunded the Series of 1998 H-1 KISTA SILP Loan. The School Facilities Construction Commission will pay 100% of the Debt Service. Following the refinancing, a total savings of $34,914 was realized by the Commission and will be available to be applied toward the District's next Bond Issue.

On September 28, 2010, the district issued $1,815,000 in School Building Refunding Revenue Bonds with an average interest rate 1.211% to advance refund $1,765,000 of outstanding 1999 Series Revenue Bonds with an average interest rate of 4.101%. The School Facilities Construction Commission participation in this issue is $154,196 while the district portion is $1,660,804.

The district advanced refunded the 1999 Series Refunding Revenue Bonds to reduce its total debt service payments over the next 4 (four) years by approximately $86,242 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of $83,816.57.

The following is a summary of the District's bonded debt transactions for the year ended June 30, 2013.

Bonded debt July 1, 2012	$ 13,399,879
New debt issued	5,000,000
Scheduled principal payments	(1,007,836)
Bonded debt June 30, 2013	$ 17,392,043

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service (principal and interest) are as follows:

	Lawrence County School District		Federal Interest	Kentucky School Facilities Construction Commission		
Year	Principal	Interest	Rebate	Principal	Interest	Total
2013-14	$ 746,268	$ 421,018	$ (200,000)	$ 297,486	$ 78,460	$ 1,343,232
2014-15	774,171	406,482	(200,000)	290,571	72,461	1,343,684
2015-16	789,438	390,500	(200,000)	266,332	66,276	1,312,546
2016-17	815,976	370,070	(200,000)	271,801	60,016	1,317,862
2017-18	841,880	348,948	(200,000)	238,120	53,670	1,282,618
2018-19	877,007	326,777	(200,000)	242,993	47,586	1,294,364
2019-20	907,353	303,261	(200,000)	247,647	41,213	1,299,474
2020-21	940,582	279,033	(200,000)	219,418	35,250	1,274,284
2021-22	501,191	260,878	(200,000)	143,809	31,128	737,006
2022-23	519,914	250,042	(200,000)	145,086	28,152	743,194
2023-24	350,000	238,144	(200,000)	85,000	25,069	498,213
2024-25	365,000	229,831	(200,000)	85,000	22,838	502,669
2025-26	375,000	220,706	(200,000)	85,000	20,606	501,313
2026-27	395,000	210,863	(200,000)	90,000	18,375	514,238
2027-28	-	200,000	(200,000)	90,000	15,675	105,675
2028-29	-	200,000	(200,000)	95,000	12,975	107,975
2029-30	-	200,000	(200,000)	95,000	10,125	105,125
2030-31	-	200,000	(200,000)	100,000	6,919	106,919
2031-36	-	900,000	(900,000)	5,105,000	3,544	5,108,544
TOTALS	$ 9,198,780	$ 5,956,553	$ (4,500,000)	$ 8,193,263	$ 650,337	$ 19,498,933

NOTE F – CAPITAL LEASE PAYABLE

On January 1, 2009 the Kentucky Interlocal School Transportation Association (KISTA) entered into an equipment lease and security agreement with the Lawrence County School District. The District received $340,914 in transportation equipment (four school buses} and is required to make payments over a ten year period at an average interest yield of 3.2465%.

The following is a schedule of equipment lease payments, by years of the future minimum lease payments under capital lease:

Year	Principal	Interest	Total Requirements
2013-14	$ 33,324	$ 6,943	$ 40,267
2014-15	34,456	5,943	40,399
2015-16	35,462	4,875	40,337
2016-17	36,594	3,705	40,299
2017-18	31,312	2,424	33,736
2018-19	32,444	1,265	33,709
TOTALS	$ 203,592	$ 25,155	$ 228,747

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District entered into a lease on October 1, 2012 for one acre of property located behind the Fallsburg Elementary School. The term of the lease is for five years with an annual lease amount of $4,200. The District has the option to renew at the end of the lease for an additional five-year term.

Commitments under operating lease agreements provide the minimum future rental payments as of June 30, 2013 as follows:

Year ending June 30:	2014	$ 4,200
	2015	4,200
	2016	4,200
	2017	4,200
	2018	1,050
	Total minimum payments	$ 17,850

NOTE H – RETIREMENT PLANS

Pension Plan

The Lawrence County School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring a four (4) year college degree or certification by KY Department of Education (KDE).

NOTE H – RETIREMENT PLANS-CONTINUED

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

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program, for any salaries paid by that program, pays the matching contribution of 14.105%.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance 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 Employee 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, three and one half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation one percent (1.00%) 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.

The Lawrence County School District's total payroll for the year was $13,935,496. The payroll for employees covered under KTRS was $10,662,346. For the year ended June 30, 2013, the Commonwealth contributed $1,227,982 to KTRS for the benefit of participating employees. The School District's contributions to KTRS for the year ending June 30, 2013 were $200,150, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholding of 5.00% with an additional I% for health insurance for employees who began participating on September 01, 2008 or after and a district contribution of 19.55% of the employee's total compensation subject to contribution. The District's contribution for CERS for the year ended June 30, 2013 was $721,375, which consisted of $570,863 from the District and $150,5126 from the employees. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan Documents.

Additional information and historical trend information can be obtained from the Annual Financial Report issued by the Kentucky Retirement System at Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE I – DEFERRED COMPENSATION

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457, 401(k), and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its financial statements.

NOTE J – COMMITMENTS

The Board has one construction projects underway at June 30, 2013. .

1. Major renovation project for the Lawrence County High School with a total cost to date, as of June 30, 2013, in the amount of $4,005,142. The total projected cost for this project is $5,582,143.

   The District issued $5,000,000, in Qualified Zone Academy Bonds, to fund this project in the 2012-2013 school year.

NOTE K - 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 L - LITIGATION

As of the date of this audit, the District is not involved in any material pending or threatened litigation.

NOTE M - INSURANCE AND RELATED ACTIVITIES

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

NOTE N - RISK MANAGEMENT

The District is exposed to various risks of loss of torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, property, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards' Insurance Trust. 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 Board 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 modification 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 liability coverage and for any reason by giving a ninety (90) day 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 Kentucky School Board Insurance Trust has incurred losses resulting in an excess of claims over assets. The District's projected pro rata share of these losses is $217,662 and has been recorded as a noncurrent liability on the statement of net position.

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 O - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance.

NOTE P - COBRA

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

NOTE Q- TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose		Amount
Matching	General	Special Revenue	Technology Match	$	51,365
Operating	General	Debt Service	Debt Service		195,464
Operating	General	Construction	Construction		76,691
Operating	General	Food Service	Operations		28,578
Operating	Seek	General	Plant operation & maint.		5,099
Operating	Seek	Construction	Construction		214,895
Operating	FSPK	Construction	Construction		38,086
Operating	FSPK	Debt Service	Debt Service		757,691
Capital	Debt Service	Construction	Bond proceeds		4,904,000
Operating	Debt Service	General	Operations		914
Operating	Food Service	General	Indirect Costs		78,094
				$	6,350,877

There were no interfund receivables or payable at June 30, 2013

NOTE R – ON-BEHALF PAYMENTS

The following on-behalf payments for employee fringe benefits and retirement were made by the State for the Lawrence County School District during the year:

- Health & life insurance: $2,196,116
- KTRS employer contributions: $1,227,982
- SFCC contributions: $436,802

The net amount of these payments was $3,860,901 and was recorded as revenue under State Aid-Formula Grants and as an offsetting expense for each salary function. Of this amount, $3,240,046 was recorded in the General Fund financial statements, $372,227 was recorded in the Debt Fund financial statements, and $248,628 was recorded in the Food Service financial statements.

NOTE S – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 2013, the date on which the financial statements were available to be issued.

NOTE T – CHANGE IN ACCOUNTING PRINCIPLE-PRIOR PERIOD ADJUSTMENT

The District implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 65, *Reporting Items Previously Reported As Assets and Liabilities,* which reclassifies certain items previously reported as assets and liabilities to deferred outflows of resources, or deferred inflows of resources, or in other cases to expense/expenditure. The implementation resulted in a restatement (prior period adjustment) to beginning net position of the Statement of Activities as follows:

Changes were made to reflect the effect of implementing GASB Statement No.65 - Items Previously Reported as Assets and Liabilities. This statement requires that bond issue costs be shown as current period outflows of resources (expenses).	$155,876

SUPPLEMENTARY INFORMATION

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources				
Taxes				
Property	$ 2,868,537	$ 3,013,766	$ 3,086,328	$ 72,562
Motor vehicle	188,226	192,525	211,841	19,316
Utilities	450,000	450,000	477,687	27,687
Unmined mineral	81,000	82,500	99,210	16,710
Tuition and fees	5,000	5,000	1,200	(3,800)
Earnings on investments	6,000	6,000	10,762	4,762
Other local revenues	138,200	138,200	161,297	23,097
Intergovernmental - state	9,949,223	9,892,602	13,161,372	3,268,770
Intergovernmental - indirect federal	50,000	50,000	76,364	26,364
Intergovernmental - direct federal	-	-	-	-
Total revenues	13,736,186	13,830,593	17,286,061	3,455,468
Expenditures:				
Instruction	7,740,813	7,863,608	9,398,017	(1,534,409)
Support services:				
Student	405,061	511,729	604,851	(93,122)
Instruction staff	442,013	676,702	788,854	(112,152)
District administrative	418,644	550,161	503,277	46,884
School administrative	857,516	863,165	1,045,701	(182,536)
Business	211,687	208,504	285,004	(76,500)
Plant operation and maintenance	2,265,110	2,687,621	2,964,151	(276,530)
Student transportation	1,650,358	1,921,047	2,044,796	(123,749)
Central office	-	-	-	-
Non-instructional	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Community service activities	-	5,600	5,598	2
Other	479,142	756,037	40,279	715,758
Total expenditures	14,470,344	16,044,174	17,680,528	(1,636,354)
Excess (deficit) of revenues over expenditures	(734,158)	(2,213,581)	(394,467)	1,819,114
Other Financing Sources (Uses)				
QZAB Bond Series of 2012	-	-	-	-
Sale or compensation for loss of assets	-	-	167,005	-
Operating transfers in	61,579	61,579	84,107	22,528
Operating transfers out	(27,421)	(51,865)	(352,098)	(300,233)
Total other financing sources (uses)	34,158	9,714	(100,986)	(277,705)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(700,000)	(2,203,867)	(495,453)	1,708,414
Fund balance, July 1, 2012, as originally stated	700,000	2,203,867	2,203,867	-
Prior period adjustment	-	-	-	-
Fund balance, June 30, 2013	$ -	$ -	$ 1,708,414	$ 1,708,414

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

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE
Year ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources				
Taxes				
Property	$ -	$ -	$ -	$ -
Motor vehicle	-	-	-	-
Utilities	-	-	-	-
Unmined mineral	-	-	-	-
Tuition and fees	-	-	-	-
Earnings on investments	-	13	94	81
Other local revenues	-	2,000	3,910	1,910
Intergovernmental - state	1,087,015	1,278,076	1,216,998	(61,078)
Intergovernmental - indirect federal	1,940,709	2,803,493	2,760,718	(42,775)
Intergovernmental - direct federal	60,098	60,098	73,729	13,631
Total revenues	3,087,822	4,143,680	4,055,449	(88,231)
Expenditures:				
Instruction	2,104,952	2,772,424	2,712,340	60,084
Support services:				
Student	11,500	83,537	55,937	27,600
Instruction staff	758,686	982,895	997,810	(14,915)
District administrative	-	-	-	-
School administrative	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	96,500	97,745	(1,245)
Student transportation	-	-	-	-
Central office	-	-	-	-
Non-instructional	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Community service activities	240,105	242,707	242,982	(275)
Other	-	-	-	-
Total expenditures	3,115,243	4,178,063	4,106,814	71,249
Excess (deficit) of revenues over expenditures	(27,421)	(34,383)	(51,365)	(16,982)
Other Financing Sources (Uses)				
QZAB Bond Series of 2012	-	-	-	-
Sale or compensation for loss of assets	-	-	-	-
Operating transfers in	27,421	34,383	51,365	16,982
Operating transfers out	-		-	-
Total other financing sources (uses)	27,421	34,383	51,365	16,982
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2012, as originally stated	-	-	-	-
Prior period adjustment	-	-	-	-
Fund balance, June 30, 2013	$ -	$ -	$ -	$ -

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

LAWRENCE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

	SEEK Capital Outlay Fund	FSPK FUND	SCHOLARSHIP FUND	Total Nonmajor Governmental Funds
Assets and Resources:				
Cash and cash equivalents	$ 54,729	$ 17,562	$ -	$ 72,291
Inventory	-	-	-	-
Accounts receivable				-
Taxes - current	-	-	-	-
Taxes - delinquent	-	-	-	-
Accounts receivable	-	-	-	-
Intergovernmental - State	-	-	-	-
Intergovernmental - Indirect Federal	-	-	-	-
Intergovernmental - Direct Federal	-	-	-	-
Prepaid expenses	-	-	-	-
Due from other funds	-	-	-	-
Interest receivable	-	-	-	-
Investments	-	-	-	-
Furniture and equipment, net	-	-	-	-
Total Assets and Resources	$ 54,729	$ 17,562	$ -	$ 72,291
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	$ -	$ -	$ -	$ -
Due to other funds	-	-	-	-
Total Liabilities	-	-	-	-
Fund Balances				
Nonspendable	-	-	-	-
Restricted	54,729	17,562	-	72,291
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	54,729	17,562	-	72,291
Total Liabilities and Fund Balances	$ 54,729	$ 17,562	$ -	$ 72,291

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

LAWRENCE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR FUNDS
Year ended June 30, 2013

	SEEK Capital Outlay Fund	FSPK FUND	SCHOLARSHIP FUND	Total Nonmajor Governmental Funds
Revenues				
From local sources				
Taxes				
Property	$ -	$ -	$ -	$ -
Motor vehicle	-	-	-	-
Utilities	-	376,478	-	376,478
Occupational license fee	-	-	-	-
Tuition and fees	-	-	-	-
Earnings on investments	270	2,250	-	2,520
Other local revenues	-	-	2,250	2,250
Intergovernmental - State	215,754	405,629	-	621,383
Intergovernmental - Indirect Federal	-	-	-	-
Intergovernmental - Direct Federal	-	-	-	-
Total Revenues	216,024	784,357	2,250	1,002,631
Expenditures				
Instruction	-	-	-	-
Support services:				
Student	-	-	-	-
Instruction staff	-	-	-	-
Direct administrative	-	-	-	-
School administrative	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Facilities and construction	-	-	-	-
Community service activities	-	-	2,250	2,250
Other	-	-	-	-
Total Expenditures	-	-	2,250	2,250
Excess (deficit) of revenues over expenditures	216,024	784,357	-	1,000,381
Other Financing Sources (Uses)				
Proceeds from sale of bonds	-	-	-	-
Capital lease proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(219,994)	(795,777)	-	(1,015,771)
Total Other Financing Sources (Uses)	(219,994)	(795,777)	-	(1,015,771)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(3,970)	(11,420)	-	(15,390)
Fund balance, July 1, 2012 as originally stated	58,699	28,982	-	87,681
Prior period adjustment	-	-	-	-
Fund balance, June 30, 2013	$ 54,729	$ 17,562	$ -	$ 72,291

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

LAWRENCE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
LAWRENCE COUNTY SCHOOL DISTRICT ACTIVITY FUNDS
For the year ended June 30, 2013

Lawrence County High School

Activity Fund	Cash Balance June 30, 2012	Receipts	Disburse-ments	Cash Balance June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balance June 30, 2013
Academic Team	$ 50	$ 0	$ 0	$ 50	$ 0	$ 0	$ 50
Archery	375	0	0	375	0	0	375
Art	644	286	757	173	0	0	173
Athletic	5,390	122,895	115,645	12,640	305	0	12,945
Carpentry	24	0	0	24	0	0	24
Class of 2013	3,814	30,211	34,025	0	0	0	0
Class of 2014	14	5,232	4,783	463	0	0	463
Class of 2015	247	1,488	1,537	198	0	0	198
Class of 2016	0	678	440	238	0	0	238
Coke (Sudent)	1,040	4,509	4,437	1,112	0	0	1,112
Coke (Teacher)	24	1,558	1,549	33	0	0	33
Co-op	4	0	4	0	0	0	0
Culinary	77	412	204	285	0	0	285
D.E.C.A.	6	0	0	6	0	0	6
Drama Club	763	185	515	433	0	0	433
EFT Tours	1	0	1	0	0	0	0
F.C.C.L.A.	160	400	356	204	0	0	204
F.F.A	1,738	6,226	7,225	739	275	0	1,014
H.O.S.A.	1,025	195	868	352	0	0	352
Humanities	892	0	0	892	0	0	892
Library	4,792	1,319	706	5,405	0	0	5,405
Locker	731	3,322	753	3,300	0	0	3,300
Miscellaneous	962	10,852	10,907	907	20	0	927
Music	2,497	3,406	3,950	1,953	0	0	1,953
National Honor Society	210	780	453	537	0	0	537
Pep Club	22	3,322	3,243	101	0	0	101
R.O.T.C.	342	2,198	1,712	828	30	0	858
Science	131	0	0	131	0	0	131
Skills USA	453	1,805	1,865	393	0	0	393
Text Book	0	11,869	11,869	0	0	0	0
TSA	71	0	0	71	0	0	71
Vending Machine	694	4,700	5,146	248	0	0	248
Yearbook 2	1,336	2,865	2,008	2,193	0	0	2,193
Youth Service Center	693	1,416	2,105	4	0	0	4
Subtotals	29,222	222,129	217,063	34,288	630	0	34,918
Less Inter-Fund Transfers		(10,153)	(10,153)				
Lawrence Co. High School Totals	29,222	211,976	206,910	34,288	630	0	34,918
Other Schools							
Louisa Middle School	34,879	84,139	84,631	34,387	485	3,031	31,841
Louisa Elementary East	22,082	100,106	107,657	14,531	75	4,396	10,210
Louisa Elementary West	9,875	23,293	22,732	10,436	0	1,854	8,582
Blaine Elementary	14,496	37,733	34,877	17,352	200	1,175	16,377
Fallsburg Elementary	11,229	64,205	59,904	15,530	0	0	15,530
Totals	$ 121,783	$ 521,452	$ 516,711	$ 126,524	$ 1,390	$ 10,456	$ 117,458

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

LAWRENCE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ Program title	Federal CFDA Number	Pass-thru Grantor's Number		Federal Expenditures
Direct Programs:				
U S Dept of Defense				
Reserve Officer Training Corp	12.000	Proj 5043		$ 73,729
TOTAL U.S. DEPT. OF DEFENSE				73,729
Indirect Programs:				
Child Nutrition Cluster:				
US Department of Agriculture				
Passed through State Dept of Education:				
National School Lunch Program	10.555	0575-12-02	144,092	
National School Lunch Program	10.555	0575-13-02	507,074	651,166
School Breakfast Program	10.553	0576-12-05	58,968	
School Breakfast Program	10.553	0576-13-05	197,017	255,985
Fresh Fruit and Vegtable Program	10.582	Proj 2153	956	
Fresh Fruit and Vegtable Program	10.582	Proj 2153	11,524	12,480
Passed through State Dept of Ag:				
National School Lunch Program- Food Distrib(In-Kind Commodities)	10.555	N/A		64,645
Total Pass Through Programs				984,276
Total Child Nutrition Cluster				984,276
TOTAL U.S. DEPT. OF AGRICULTURE				984,276
US Department of Education				
Passed through State Dept of Education:				
Title I Grants to Local Educational Agencies	84.010A	0531-02-01	257,958	
Title I Grants to Local Educational Agencies	84.010A	0531-03-01	671,355	929,313
Title I Professional Development	84.010	Proj 3102 D	73,006	
Title I Professional Development	84.010	Proj 3103 D	188,595	261,601
Title I Parent Involvement	84.010	Proj 3102 M	1,183	
Title I Parent Involvement	84.010	Proj 3103 M	13,511	14,694
Title I Grants to Local Educational Agencies				
Title I Tier 3 Deferred Amount	84.010	Proj 3102 T		3,930
Vocational Education Basic Grants to States-Title II C	84.048	5462-02-32	17,924	
Vocational Education Basic Grants to States-Title II C	84.048	5462-03-32	24,468	42,392
Perkins Title I Part C Vocational	84.048	Proj 3480A	337	
Perkins Title I Part C Vocational	84.048	Proj 3482A	1,746	2,083
Rural Education-Title 6	84.358B	0350-03-02		45,112
SPECIAL EDUCATION CLUSTER (IDEA)				
Special Education-IDEA-B	84.027A	0581-02-02	50,798	
Special Education-IDEA-B	84.027A	0581-03-02	515,233	
Special Education-Preschool Grants-IDEA-B-P	84.173A	0587-02-02	5,888	571,919

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

LAWRENCE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS-CONTINUED
Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ Program title	Federal CFDA Number	Pass-thru Grantor's Number		Federal Expenditures
Twenty-First Century Community Learning Centers	84.287	Proj 5501 C,Q & S	49,900	
Twenty-First Century Community Learning Centers	84.287	Proj 5502 C,Q & S	148,798	198,698
Improving Teacher Quality State Grants	84.367A	0710-01-02	4,283	
Improving Teacher Quality State Grants	84.367A	0710-02-02	220,049	224,332
Title I School Improvement ARRA BES	84.010A	Proj 3201	5,622	
Title I School Improvement ARRA BES	84.010A	Proj 3202	31,135	36,757
Title I School Improvement ARRA LCHS	84.388A	Proj 5600B	34,692	
Title I School Improvement ARRA LCHS	84.388A	Proj 5600C	289,811	324,503
Education Jobs Fund ARRA	84.410	Proj 4411		3,966
Adult Education Federal	84.002A	Proj 3733		67,608
Race to the Top	84.413A	Proj 4521		13,047
Passed through State Dept of Voc Rehab:				
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	Proj 3762	710	
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	Proj 3763	19,350	20,060
TOTAL U.S. DEPT OF EDUCATION				2,760,015
Appalachian Regional Commission				
Passed through Morehead State University:				
Kentucky AHED Grant	23.011	Proj 13764-C1		703
TOTAL APPALACHIAN REGIONAL COMMISSION				703
TOTAL FEDERAL FINANCIAL ASSISTANCE				$ 3,818,723

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

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lawrence 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 disbursed. At June 30, 2013, the organization had total inventory of $41,787.

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

Members of the Board of Education
Lawrence County School District
Louisa, Kentucky

We have audited, in accordance with the 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, the provisions of Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract-General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report; The financial statements of the governmental activities, the business – type activities, each major fund, and the aggregate remaining fund information of Lawrence County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Lawrence County School District's Basic financial statements, and have issued our report thereon dated December 10, 2013.

Internal Control Over Financial Reporting

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

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 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 Lawrence County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of finding and questioned costs as item 13-1.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements.*

We noted certain matters that we reported to management of the Lawrence County School District in a separate letter dated December 10, 2013.

Lawrence County School District's Response to Findings

Lawrence County School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs.

Purpose of this Report

This 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.

This report is intended solely for the information and use of management, others within the entity, Kentucky Department of Education, the Department for Local Government and federal awarding agencies and pass-through entities, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Daniel S. Howard, CPA

December 10, 2013

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Louisa, Kentucky 41230
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Members of the Board of Education
Lawrence County School District
Louisa, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Lawrence 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 Lawrence County School District's major federal programs for the year ended June 30, 2013. Lawrence 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 cost.

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 Lawrence 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*, issues 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 Appendix I to the Independent Auditor's Contract – General Audit Requirements, and Appendix II to the Independent Auditor's Contract - State Audit 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 Lawrence 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 Lawrence County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Lawrence County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended on June 30, 2013.

Report on Internal Control Over Compliance

Management of Lawrence 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 Lawrence County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lawrence County School District's internal control over compliance.

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

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

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

This report is intended solely for the information and use of management, others within the entity, Kentucky Department of Education, the Department for Local Government and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and it distribution is not limited.

Daniel S Hovland, CPA

December 10, 2013

LAWRENCE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED June 30, 2013

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements
Type of Auditor's report issued: *Unqualified*

Internal control over financial reporting:
Material weakness(es) identified? _____yes ___x___no
Significant deficiency(ies) identified? _____yes ___x___none reported

Noncompliance material to financial statements noted? ___x___yes _____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 auditor's reports issued on compliance for major programs : *Unqualified*

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

Identification of major programs

Federal Grantor/Program Title	CFDA Number
U.S Department of Agriculture	
National School Lunch Program	10.555
School Breakfast Program	10.553
Fresh Fruit and Vegetable Program	10.582
U.S, Department of Education	
Title I Grants to Local Educational Agencies	84.010A
Special Education-IDEA-B	84.027A
Special Education-Preschool Grants-IDEA-B-P	84.173A
Title I School Improvement- ARRA LCHS	84.388A

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? ___x___yes _____no

Section 2: Audit Findings On Compliance And Internal Control Over Financial Reporting In Accordance With Government Auditing Standards

13-01: CONSTRUCTION PROJECTS

Condition: Two small construction projects in excess of $50,000 were undertaken without BG-1s being completed.

Criteria: Construction projects generally require BG-1s to be submitted to state.

Cause of Condition: Uncertainty by administration about whether a BG-1 is required on small projects.

Effect: Construction projects being completed that might not meet state standards.

Recommendation: Always contact the state before undertaking any construction project.

Management's Response: Management agrees with the recommendation.

Section 3: Audit Findings On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133.

No new findings.

LAWRENCE COUNTY SCHOOL SYSTEM
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AUDITEE'S SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Audit findings: There were no audit findings in the prior year.

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December 10, 2013

Members of the Board of Education
Lawrence County School District
Louisa, Kentucky

In planning and performing our audit of the financial statements of Lawrence County School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of instances that are opportunities for strengthening internal controls and operating efficiency, which were not material to the financial statements. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated December 10, 2013 contains our 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. This letter does not affect that report or our report dated December 10, 2013 on the financial statements of the Lawrence County School District.

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

Respectfully,

Daniel S. Howard, CPA

Daniel S. Howard, P.S.C.
Certified Public Accountant

STATUS OF PRIOR YEARS FINDINGS:

Prior years findings have been addressed and corrective action is being taken by the District.

Current year finding 13-02, 13-03, 13-04, and 13-05 are repeat findings from the prior year.

Current year finding 13-02 is the same as finding 12-01 from the prior year. Because it is impractical to hire additional employees and principal and assistant principals are not always available, this will be an ongoing condition.

CURRENT YEAR FINDINGS:

13-02: Segregation of Duties in Activity Funds

Condition: Presently, the various activity funds have an absence of appropriate segregation of duties consistent with appropriate internal control objectives.

Criteria: The Activity Funds should have appropriate segregation of duties to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to the small size of office staff at the individual schools there are limited options for establishing adequate segregation of duties.

Effect of Deficiency: Cash or inventory items could be misappropriated without being detected on a timely basis.

Recommendation: Principals or assistant principals should be utilized more with the cash receipt process and preparing bank deposits.

Management Comment: This finding has already been addressed. Internal audits are being utilized to monitor this condition.

13-03: Activity Fund Bank Statements do not show Endorsement of Checks

Condition: Presently, banks statements do not include copies of the endorsement side of checks.

Criteria: The banks statements should show endorsements to provide reasonable assurance that the safeguarding of cash be maximized.

Cause of Condition: It is not normal practice for banks to include endorsement side of checks.

Effect of Deficiency: Cash could be misappropriated without being detected on a timely basis.

Recommendation: Contact bank and have them include copies of endorsement side of checks.

Management Comment: This finding has already been addressed. Internal audits are being utilized to monitor this condition.

13-04: Fundraiser Worksheets not being utilized at High School

Condition: Previously, the various activity funds that engaged in fundraising activities did not complete fundraising or inventory control worksheets.

Criteria: The Activity Funds engaging in fundraising activities should complete worksheets to provide reasonable assurance that the safeguarding of cash, inventory and financial records be maximized.

Cause of Condition: Sponsors engaging in fundraising are not fulfilling their duty to provide a summary of individual fundraising activities.

Effect of Deficiency: Cash or inventory items could be misappropriated without being detected on a timely basis.

Recommendation: Fundraisers should not be approved for sponsors who disregard their duty to complete control worksheets, additionally invoices for fundraisers should not be paid until worksheets have been completed.

Management Comment: This finding has already been addressed. New secretaries are in place and have been instructed not to disburse funds until worksheets have been completed.

13-05: Invoices Missing at West Elementary

Condition: Previously, the school secretary responsible for activity fund records was failing to acquire and maintain invoices.

Criteria: The Activity Funds should maintain records to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to a lack of oversight, invoices were either not acquired or lost.

Effect of Deficiency: Cash, inventory items or assets could be misappropriated without being detected on a timely basis.

Recommendation: Principals and assistant principals should oversee activity fund records to make sure they are complete. Additionally, training will help ensure proper record maintenance.

Management Comment: This finding has already been addressed. A new secretary has been hired and trained.

13-06: Receipt Book Missing at West Elementary

Condition: The school secretary responsible for activity fund records failed to maintain receipt records.

Criteria: The Activity Funds should maintain records to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to a lack of oversight, receipt records were lost.

Effect of Deficiency: Cash, inventory items or assets could be misappropriated without being detected on a timely basis.

Recommendation: Principals and assistant principals should oversee activity fund records to make sure they are complete. Additionally, training will help ensure proper record maintenance.

Management Comment: This finding has already been addressed. A new secretary has been hired and trained.