

LEE COUNTY  
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

**WHITE & ASSOCIATES, PSC**  
CERTIFIED PUBLIC ACCOUNTANTS  
1407 Lexington Road  
Richmond, Kentucky 40475  
Phone (859) 624-3926 Fax (859) 625-0227

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## INDEPENDENT AUDITOR'S REPORT

To the Lee County Board of Education and  
State Committee for School District Audits  
Beattyville, 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 Lee 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 States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lee County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information as listed in the table of contents 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 Lee County School District's basic financial statements. The additional supplementary information, as listed in the table of contents, 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 additional supplementary information 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 additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Lee County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee County School District's internal control over financial reporting and compliance.

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

# LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY

## MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2013

As management of the Lee County School 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. Please consider the information presented here in conjunction with the district’s financial statements which follow.

### **FINANCIAL HIGHLIGHTS**

- During the year, the district’s revenue in governmental activities, generated from taxes and other revenues were \$10,280,858. Expenditures were \$10,288,650. These figures include On-Behalf Payments of \$1,641,633 representing payments made by KDE “on-behalf” of the district for employee health insurance, life insurance, administration fees, Kentucky Teachers’ Retirement and technology and by the School Facilities Construction Commission (SFCC) for bond principal & interest payments. (These funds are not actually received/expended by the district.) Expenditures for Fund 1 include \$15,926 in transfers out to other funds for technology matching funds and \$23,000 for debt service.
- The General Fund had a beginning balance of \$511,970 for the FY2013 year. Receipts for the year (exclusive of on-behalf) totaled \$6,073,358 and expenditures totaled \$6,007,196 (exclusive of on-behalf). Fund 1 ended the year with a fund balance of \$578,132 which is \$66,162 above the beginning balance. The current year requirement for recording sick leave payable affected the ending balance in that only the amount payable for the current year (\$708) was recorded on the balance sheet instead of the amount that would be required for all employees currently eligible to retire, resulting in an adjustment of \$89,777, and an increase to the fund balance.
- General Fund Revenue primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes.
- The district issued refunding revenue bonds in March, 2013, in the amount of \$1,460,000 which resulted in a gross savings to the district of \$171,160.
- The district did not purchase buses for the 2014 school year.
- The District Facilities Plan was adopted for the next four-year period in 2013. Beattyville Elementary was designated as a transitional school in the plan. Expectations are to expand Southside Elementary to accommodate the population of Beattyville Elementary, consolidating the schools. Student enrollment for Beattyville Elementary at the end of 2013 was 319 and Southside was 195.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This report consists of 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.

# LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY

## MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2013

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (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. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

**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 two categories: governmental and proprietary funds. The proprietary funds are made up of the food service operations. All other activities of the district are included in the governmental funds.

**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.

**Supplementary Information:** The financial statements include notes that explain some of the information in the statements and provide more detailed data.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. The district’s total in net position for the year ending June 30, 2013, is \$4,616,749.

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

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

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.

**Net Position:**

The District’s net position is a reflection of all 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. The difference between the district’s assets and liabilities is its net position. The district’s net position is reflected in Table 1 below:

Table 1

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change <u>2012-2013</u>
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	
<b>Assets</b>							
Current and Other Assets	\$ 1,188,873	\$ 1,178,582	\$ 82,861	\$ 99,607	\$ 1,271,734	\$ 1,278,189	0.508%
Capital Assets (Net of Depreciation)	\$ 9,189,886	\$ 8,990,271	\$ 33,276	\$ 26,850	\$ 9,223,162	\$ 9,017,121	-2.234%
<b>Total Assets</b>	\$ 10,378,759	\$10,168,853	\$ 116,137	\$ 126,457	\$ 10,494,897	\$ 10,295,309	-1.902%
<b>Deferred Outflows of Resources</b>	\$ -	\$ 1,301	\$ -	\$ -	\$ -	\$ 1,301	-1.902%
<b>Liabilities:</b>							
Current Liabilities	\$ 664,302	\$ 676,454	\$ 2,906	\$ 9,388	\$ 667,208	\$ 685,842	2.793%
Non-Current Liabilities	\$ 4,859,004	\$ 4,994,019	\$ -	\$ -	\$ 4,859,004	\$ 4,994,019	2.779%
<b>Total Liabilities</b>	\$ 5,523,306	\$ 5,670,473	\$ 2,906	\$ 9,388	\$ 5,526,211	\$ 5,679,861	2.780%
<b>Net Position:</b>							
Invested in Capital Assets							
Net of Debt	\$ 4,184,386	\$ 4,220,159	\$ 33,276	\$ 26,850	\$ 4,217,662	\$ 4,247,009	0.696%
Restricted	\$ 276,677	\$ 69,066	\$ 79,956	\$ 90,219	\$ 356,633	\$ 159,285	-55.336%
Unreserved Fund Balance	\$ 394,390	\$ 210,455	\$ -	\$ -	\$ 394,390	\$ 210,455	-46.638%
<b>Total Net Position</b>	\$ 4,855,454	\$ 4,499,680	\$ 113,232	\$ 117,069	\$ 4,968,685	\$ 4,616,749	-7.083%

Table 2 below reflects the operations of the governmental activities and the business-type activities of the district:

Both Revenue and Expenditures were significantly lower in 2013 in government-wide activities; revenues primarily because of mid-year adjustments of SEEK funding and the loss of Federal “stimulus” funding and expenditures because of personnel adjustments in instruction, instructional staff, administrative staff and other categories.

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

Table 2

**Change in Net Position**

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change <u>2012-2013</u>
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	
<b>Revenues:</b>							
Charges for Services	\$ 13,528	\$ 57,403	\$ 82,150	\$ 45,927	\$ 95,678	\$ 103,330	7.997%
Operating Grants and Contributions	\$ 4,324,578	\$ 2,259,408	\$ 639,261	\$ 689,378	\$ 4,963,839	\$ 2,948,786	-40.595%
Capital Grants and Contributions	\$ 378,416	\$ 375,902	\$ -	\$ -	\$ 378,416	\$ 375,902	-0.664%
General Revenues	\$ 6,080,379	\$ 7,661,506	\$ 386	\$ ( 45,381)	\$ 6,080,765	\$ 7,616,125	25.249%
<b>Total Revenue</b>	<b>\$ 10,796,901</b>	<b>\$ 10,354,219</b>	<b>\$ 721,796</b>	<b>\$ 689,924</b>	<b>\$ 11,518,698</b>	<b>\$ 11,044,143</b>	<b>-4.120%</b>
<b>Expenses:</b>							
Instruction	\$ 5,375,357	\$ 5,242,033	\$ -	\$ -	\$ 5,375,357	\$ 5,242,033	-2.480%
<b>Student</b>	\$ 555,107	\$ 577,503	\$ -	\$ -	\$ 555,107	\$ 577,503	4.035%
Instructional Staff	\$ 797,590	\$ 599,787	\$ -	\$ -	\$ 797,590	\$ 599,787	-24.800%
District Administration	\$ 525,570	\$ 418,390	\$ -	\$ -	\$ 525,570	\$ 418,390	-20.393%
<b>School Administration</b>	\$ 765,977	\$ 712,446	\$ -	\$ -	\$ 765,977	\$ 712,446	-6.989%
Business	\$ 418,905	\$ 411,895	\$ -	\$ -	\$ 418,905	\$ 411,895	-1.673%
<b>Plant Operation and Maintenance</b>	\$ 842,829	\$ 826,017	\$ -	\$ -	\$ 842,829	\$ 826,017	-1.995%
Student Transportation	\$ 473,748	\$ 586,144	\$ -	\$ -	\$ 473,748	\$ 586,144	23.725%
Other Instructional	\$ 726	\$ 723	\$ -	\$ -	\$ 726	\$ 723	-0.438%
Food Services Operations	\$ 1,308	\$ -	\$ -	\$ -	\$ 1,308	\$ -	-100.000%
Community Services Operations	\$ 203,082	\$ 201,797	\$ -	\$ -	\$ 203,082	\$ 201,797	-0.633%
Facilities Acquisition & Construction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%
Loss on Retirement of Assets	\$ 109,570	\$ -	\$ -	\$ -	\$ 109,570	\$ -	-100.000%
Amortization	\$ 7,124	\$ 145	\$ -	\$ -	\$ 7,124	\$ 145	-97.965%
Depreciation	\$ 599,578	\$ 517,064	\$ 5,001	\$ 6,426	\$ 604,578	\$ 523,490	-13.412%
Interest on Long-Term Debt	\$ 190,675	\$ 191,082	\$ -	\$ -	\$ 190,675	\$ 191,082	0.213%
Food Services Operations	\$ -	\$ -	\$ 693,942	\$ 679,661	\$ 693,942	\$ 679,661	-2.058%
<b>Total Expenses</b>	<b>\$ 10,867,145</b>	<b>\$ 10,285,026</b>	<b>\$ 698,942</b>	<b>\$ 686,087</b>	<b>\$ 11,566,087</b>	<b>\$ 10,971,112</b>	<b>-5.144%</b>
Extraordinary Item	\$ -	\$ (329,940)	\$ -	\$ -	\$ -	\$ (329,940)	100%
<b>Change in Net Position</b>	<b>\$ (70,243)</b>	<b>\$ (260,745)</b>	<b>\$ 22,854</b>	<b>\$ 3,837</b>	<b>\$ (47,389)</b>	<b>\$ (256,909)</b>	<b>-442.128%</b>

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2013:

The figures in Table 3 do not reflect the on-behalf payments of \$1,641,633.

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

Table 3

Revenues & Expenditures

	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
<b>BEG BALANCE</b>	\$ 511,970	\$ -	\$ 117,005	\$ 3,504	\$ 103,934	\$ -	\$ 113,232
<b>REVENUE</b>							
Local Revenue Sources	\$ 1,192,185	\$ 3,606	\$ -	\$ 142,567	\$ -	\$ -	\$ 46,415
State Revenue Sources	\$ 4,685,971	\$ 389,306	\$ 99,544	\$ 218,279	\$ -	\$ -	\$ 6,622
Federal Revenue	\$ 39,083	\$ 1,870,102	\$ -	\$ -	\$ -	\$ -	\$ 682,756
Other	\$ 156,118	\$ 15,926	\$ -	\$ -	\$ -	\$ 1,825,956	\$ 46,089
<b>TOTALS</b>	\$ 6,073,358	\$ 2,278,940	\$ 99,544	\$ 360,846	\$ -	\$ 1,825,956	\$ 781,882
<b>EXPENDITURES</b>							
Instruction	\$ 2,818,551	\$ 1,772,515	\$ -	\$ -	\$ -	\$ -	\$ -
Student Support Services	\$ 361,179	\$ 89,860	\$ -	\$ -	\$ -	\$ -	\$ -
Instructional Staff Support Services	\$ 295,621	\$ 217,797	\$ -	\$ -	\$ -	\$ -	\$ -
District Admin Support	\$ 362,133	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School Admin Support	\$ 540,954	\$ 13,270	\$ -	\$ -	\$ -	\$ -	\$ -
Business Support Services	\$ 275,786	\$ 39,748	\$ -	\$ -	\$ -	\$ -	\$ -
Plant Operations & Management	\$ 773,211	\$ 899	\$ -	\$ -	\$ -	\$ -	\$ -
Student Transportation	\$ 521,105	\$ 4,611	\$ -	\$ -	\$ -	\$ -	\$ -
Other Instructional	\$ 723	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Food Service Operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 778,045
Community Services	\$ 19,008	\$ 140,240	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service	\$ 23,000	\$ -	\$ -	\$ -	\$ -	\$ 1,825,956	\$ -
Fund Transfers	\$ 15,926	\$ -	\$ 82,757	\$ 354,726	\$ -	\$ -	\$ -
Architectural/Engineering	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Site Improvement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Building Renovations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTALS</b>	\$ 6,007,196	\$ 2,278,940	\$ 82,757	\$ 354,726	\$ -	\$ 1,825,956	\$ 778,045
<b>END BALANCE</b>	\$ 578,132	\$ -	\$ 133,792	\$ 9,624	\$ 103,934	\$ -	\$ 117,069

Note: Does not include On-Behalf Amounts

**THE DISTRICT’S FUNDS**

At the end of the fiscal year 2013, the General Fund reflected a fund balance of \$578,132, which is slightly more than last year’s fund balance of \$511,970. This is due to adjustments in personnel and other operating expenses. It is important to note that a portion of the balance is reserved for prior year encumbrances, site-based council allocations carried forward from the prior year and sick leave payable. The unassigned portion of the fund balance at the end of fiscal year 2013 is \$509,066 compared to \$459,736 from the preceding year.

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**CAPITAL ASSETS**

The District ended the year with \$9 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$.21 million over last year.

Table 4

Capital Assets at Year-End FY2013  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
	Land	157,410	157,410			157,410
Land Improvements	106,535	91,753			106,535	91,753
Building & Improvements	8,099,902	7,820,019			8,099,902	7,820,019
Technolgy Equipment	294,294	479,133	10,288	6,988	304,582	486,121
Vehicles	455,737	380,808			455,737	380,808
General Equipment	76,008	61,147	22,988	19,862	98,996	81,009
Construction In Progress	0	0			0	0

**DEBT**

The district’s outstanding debt at the end of FY2013 is reflected in Table 5. The Capital Lease Obligations originated with the district’s participation in the Kentucky Interlocal School Transportation Association (KISTA) program to purchase two new buses in FY2012 at cost of \$169,220. Bonds were sold for \$175,500 (which includes the deposit to Insurance Reserve fund & Cost of Issuance fund of \$6,280). This debt will be repaid over a 10-year period. The General Obligation Bonds represent the bond issues for the construction and renovation of buildings since 2003. The Board approved the sale of Refunding Revenue Bonds in 2013 to retire the debt of Revenue Bonds, Series 2003 resulting in a gross savings of \$171,160. The district participates in the School Facilities Construction Commission (SFCC) program meaning at the end of odd-numbered fiscal years, the district will escrow balances in the Capital Outlay and Building fund and the SFCC then makes an offer to the district of funding for future debt service retirement. The SFCC is currently committed to funding \$722,188 in bond principal payments of the amount below.

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

Table 5

Outstanding Debt a Year-End

	Government Activities	
	2012	2013
Capital Lease Obligations	175,500	156,412
General Obligation Bonds	4,830,000	4,615,000
Total Obligations	5,005,500	4,771,412

**COMMENTS ON BUDGET COMPARISONS**

- **Revenues:** General Fund total revenue for the fiscal year ended June 30, 2013 was \$7,655,493. This figure exceeded budgeted revenue by \$1,675,857 of which \$1,582,135 was due to payments for the District made by the State (on-behalf payments). These payments were not budgeted by the District in 2013 in accordance with KDE guidelines. These on-behalf payments are primarily for health & life insurance and teachers’ retirement contributions. Property tax revenues exceeded budgeted amounts as did utility taxes. With mid-year cuts, the SEEK revenue fell \$89,917 under projection.
- **Expenses:** General Fund expenses totaled \$7,589,331, which was \$1,097,918 more than was budgeted; again the total expenditures included \$1,582,135 of unbudgeted on-behalf payments. On-behalf payments were budgeted in the working budget for FY2014.

**BUDGETARY IMPLICATIONS**

By law, the budget must have a minimum 2.0% contingency. The District adopted a tentative budget for 2013-2014 with a 3.9% contingency.

Issues which are anticipated to impact future budgets include:

- Increased expenses to meet federal and state academic mandates such as the new Kentucky Common Core Content Standards under Senate Bill 1.
- The possibility of additional reductions in federal funding as the sequestration cuts are planned to continue.
- The district contribution rate for CERS decreased slightly in FY2014 from 19.55% to 18.89% a 0.66% reduction. With continued concern over the lack of sufficient funding of State retirement plans, it can be anticipated this rate could increase in future years.
- Continued unfunded mandates such as the “shared” KTRS contribution (which required a 1.5% district match of gross pay for all KTRS eligible employees in FY2014 and will continue to increase to a 3.0% contribution rate), initiatives moving from state-paid to district-paid (MUNIS and Infinite Campus). The reductions in funding, increased costs, along with the continuing decrease in student population, continue to tax the district’s ability to maintain programs at current levels.

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

- Continued decreasing funding of the state transportation formula.
- Reduction in student enrollment.

Questions regarding this report should be directed to the Finance Officer, Zina Gibson or Superintendent, James Evans, Jr. at (606) 464-5000 or by mail at Lee County Board of Education, P.O. Box 668, Beattyville, Kentucky 41311.

Lee County School District  
**Statement of Net Position**  
June 30, 2013

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 776,698	\$ -	\$ 776,698
Investments		20,000	20,000
Receivables (net)	274,643	51,287	325,929
Inventories		28,320	28,320
Capital assets:			
Land, improvements, and construction in progress	157,410		157,410
Other capital assets, net of depreciation	8,832,860	26,850	8,859,710
Total capital assets	8,990,271	26,850	9,017,120
Total assets	10,041,611	126,457	10,168,068
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss for the difference in reacquisition and carrying value of refunding debt	1,301		1,301
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	56,429		56,429
Accrued interest payable	48,592		48,592
Accrued salaries & benefit payable	22,351		22,351
Accrued payroll taxes payable	55,583		55,583
Cash shortage		9,388	9,388
Unearned revenue	90,787		90,787
Long-term liabilities:			
Due within 1 year:			
Bond obligations	255,000		255,000
Capital lease obligations	19,762		19,762
Sick leave	708		708
Total due within 1 year	275,470	-	275,470
Due in more than 1 year:			
Bond obligations	4,360,000		4,360,000
Capital lease obligations	136,650		136,650
KSBIT payable	329,940		329,940
Sick leave	167,429		167,429
Total due in more than 1 year	4,994,019	-	4,994,019
Total liabilities	5,543,232	9,388	5,552,620
<b>NET POSITION</b>			
Net Investment in capital assets	4,220,159	26,850	4,247,009
Restricted for:			
Expendable restricted for encumbrances	69,066		69,066
Expendable restricted for food services		90,219	90,219
Unrestricted	210,455		210,455
Total net position	\$ 4,499,680	\$ 117,069	\$ 4,616,749

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Activities**  
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 5,242,033	\$ 18,319	\$ 1,129,704	\$ -	\$ (4,094,010)		\$ (4,094,010)
Support Services							
Student	577,503	39,083	135,564		(402,855)		(402,855)
Instructional Staff	599,787		135,564		(464,222)		(464,222)
District Administration	418,390		90,376		(328,014)		(328,014)
School Administration	712,446		158,159		(554,288)		(554,288)
Business	411,895		90,376		(321,518)		(321,518)
Plant Operation & Maintenance	826,017		180,753	317,823	(327,441)		(327,441)
Student Transportation	586,144		135,564		(450,580)		(450,580)
Other Instructional	723				(723)		(723)
Community Services Operations	201,797		45,188		(156,608)		(156,608)
Amortization	145				(145)		(145)
Depreciation	517,064		112,970		(404,093)		(404,093)
Interest on long-term debt	191,082		45,188	58,079	(87,815)		(87,815)
Total governmental activities	<u>10,285,025</u>	<u>57,403</u>	<u>2,259,408</u>	<u>375,902</u>	<u>(7,592,312)</u>		<u>(7,592,312)</u>
Business-type activities:							
Food service operations	679,661	45,927	689,378			\$ 55,644	55,644
Depreciation	6,426					(6,426)	(6,426)
Total business-type activities	<u>686,087</u>	<u>45,927</u>	<u>689,378</u>	<u>-</u>	<u>-</u>	<u>49,218</u>	<u>49,218</u>
Total primary government	\$ <u>10,971,112</u>	\$ <u>103,330</u>	\$ <u>2,948,786</u>	\$ <u>375,902</u>	<u>(7,592,312)</u>	<u>49,218</u>	<u>(7,543,094)</u>
General revenues:							
Taxes:							
Property taxes					756,944		756,944
Motor vehicle taxes					166,591		166,591
Franchise taxes					5,857		5,857
Utility taxes					378,030		378,030
Revenue in lieu of taxes					3,471		3,471
State and formula grants					6,268,106		6,268,106
Unrestricted investment earnings					9,146	487	9,634
Sale of equipment					27,493		27,493
Transfers					45,869	(45,869)	-
Total general revenues					<u>7,661,506</u>	<u>(45,381)</u>	<u>7,616,125</u>
Extraordinary item					(329,940)		(329,940)
Total general revenues and extraordinary item					<u>7,331,566</u>	<u>(45,381)</u>	<u>7,286,185</u>
Change in net position					(260,745)	3,837	(256,909)
Net Position - beginning					4,855,454	113,232	4,968,685
Prior period adjustment					(95,028)		(95,028)
Restated net position - beginning					<u>4,760,426</u>	<u>113,232</u>	<u>4,873,658</u>
Net Position - ending					\$ <u>4,499,680</u>	\$ <u>117,069</u>	\$ <u>4,616,749</u>

See the accompanying notes to the financial statements.

Lee County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2013

	Governmental Funds					
	General	Special Revenue	Capital Outlay	Debt Service	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 656,589	\$ -	\$ 133,792	\$ -	\$ 113,558	\$ 903,939
Receivables, net						
Taxes-current	37,073					37,073
Taxes-delinquent	4,368					4,368
Accounts	173					173
Intergovernmental-state		16,190				16,190
Intergovernmental-federal		216,837				216,837
Total assets	698,204	233,028	133,792	-	113,558	1,178,582
<b>LIABILITIES</b>						
Accounts payable	41,430	14,999				56,429
Cash shortage		127,241				127,241
Payroll taxes payable	55,583					55,583
Accrued salaries & benefits payable	22,351					22,351
Sick leave payable	708					708
Unearned revenue		90,787				90,787
Total liabilities	120,072	233,028	-	-	-	353,100
<b>FUND BALANCE</b>						
Restricted			133,792		113,558	247,350
Assigned	69,066					69,066
Unassigned	509,066					509,066
Total fund balance	\$ 578,132	\$ -	\$ 133,792	\$ -	\$ 113,558	\$ 825,482

See the accompanying notes to the financial statements.

Lee County School District  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position**  
 June 30, 2013

<b>Total fund balance per fund financial statements</b>	\$	825,482
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>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 position.</p>		8,990,271
<p>Capitalized bond defeasance costs for the refunding of bonds less amortization over the life of the bond.</p>		1,301
<p>Certain liabilities are not reported in the fund financial statements because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(48,592)
Bonds and capital lease payables		(4,771,412)
KSBIT payable		(329,940)
Noncurrent sick leave payable		(167,429)
		(4,916,973)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>4,499,680</b>

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 614,377	\$ -	\$ -	\$ -	\$ 142,567	\$ 756,944
Motor vehicle	166,591					166,591
Franchise	5,857					5,857
Utilities	378,030					378,030
Revenue in lieu of taxes	3,471					3,471
Other local revenue	15,587	2,732				18,319
Earnings on investments	8,273	873				9,146
Intergovernmental - state	6,268,106	389,306	99,544	58,079	218,279	7,033,314
Intergovernmental - federal	39,083	1,870,102				1,909,185
Total revenues	<u>7,499,375</u>	<u>2,263,014</u>	<u>99,544</u>	<u>58,079</u>	<u>360,846</u>	<u>10,280,858</u>
<b>EXPENDITURES</b>						
Instruction	3,721,130	1,772,515				5,493,645
Support Services						
Student	487,642	89,860				577,503
Instructional Staff	381,990	217,797				599,787
District Administration	418,390					418,390
School Administration	699,177	13,270				712,446
Business	372,147	39,748				411,895
Plant Operation & Maintenance	826,117	899				827,016
Student Transportation	581,533	4,611				586,144
Other Instructional	723					723
Community Services Operations	61,557	140,240				201,797
Debt Service	23,000			436,305		459,305
Total expenditures	<u>7,573,405</u>	<u>2,278,940</u>	<u>-</u>	<u>436,305</u>	<u>-</u>	<u>10,288,650</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(74,031)	(15,926)	99,544	(378,226)	360,846	(7,793)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of equipment	27,493					27,493
Bond refunding proceeds				1,460,000		1,460,000
Bond refunding premium				11,230		11,230
Payment to refunded bond escrow				(1,446,445)		(1,446,445)
Excess savings from refunded bond				(1,285)		(1,285)
Operating transfers in	128,625	15,926		354,726		499,277
Operating transfers (out)	(15,926)		(82,757)		(354,726)	(453,409)
Total other financing sources and (uses)	<u>140,192</u>	<u>15,926</u>	<u>(82,757)</u>	<u>378,226</u>	<u>(354,726)</u>	<u>96,861</u>
<b>NET CHANGE IN FUND BALANCE</b>	66,162	-	16,787	-	6,120	89,069
<b>FUND BALANCE-BEGINNING</b>	<u>511,970</u>	<u>-</u>	<u>117,005</u>	<u>-</u>	<u>107,438</u>	<u>736,413</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 578,132</u>	<u>\$ -</u>	<u>\$ 133,792</u>	<u>\$ -</u>	<u>\$ 113,558</u>	<u>\$ 825,482</u>

See the accompanying notes to the financial statements.

Lee 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

<b>Net change in total fund balances per fund financial statements</b>	\$	89,069
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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 exceeds depreciation expense for the year.</p>		(199,616)
<p>Difference in the outstanding balance of refunded bonds and the payment to defease the refunded bond is amortized over the life of the bond.</p>		(145)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		235,533
<p>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.</p>		
<p>Accrued interest payable</p>		9,190
<p>KSBIT payable extraordinary item</p>		(329,940)
<p>Noncurrent sick leave payable</p>		(64,837)
		(260,745)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(260,745)</b>

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 483,150	\$ 510,266	\$ 614,377	\$ 104,111
Motor vehicle	160,000	165,000	166,591	1,591
Franchise		-	5,857	5,857
Utilities	360,000	365,000	378,030	13,030
Revenue in lieu of taxes	8,000	10,000	3,471	(6,529)
Other local revenue	2,600	3,300	15,587	12,287
Earnings on investments	4,000	8,000	8,273	273
Intergovernmental - state	4,794,568	4,799,568	4,685,971	(113,597)
Intergovernmental - federal	30,000	40,000	39,083	(917)
Total revenues	<u>5,842,318</u>	<u>5,901,134</u>	<u>5,917,240</u>	<u>16,106</u>
<b>EXPENDITURES</b>				
Instruction	2,904,582	2,910,011	2,767,340	142,671
Support Services				
Student	414,468	427,672	361,179	66,493
Instructional Staff	293,879	304,055	295,621	8,434
District Administration	455,204	486,725	362,133	124,592
School Administration	523,176	563,853	540,954	22,899
Business	275,278	266,722	326,997	(60,275)
Plant Operation & Maintenance	720,937	689,453	773,211	(83,758)
Student Transportation	466,254	497,732	521,105	(23,373)
Food Service Operations	1,493			-
Other Instructional		312	723	(411)
Debt Service			23,000	(23,000)
Community Services Operations	18,950	7,259	19,008	(11,749)
Total expenditures	<u>6,074,221</u>	<u>6,153,793</u>	<u>5,991,270</u>	<u>162,523</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(231,903)	(252,659)	(74,031)	178,628
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment	1,500	5,000	27,493	22,493
Operating transfers in		73,502	128,625	55,123
Operating transfers (out)	(20,000)	(17,000)	(15,926)	1,074
Total other financing sources and (uses)	<u>(18,500)</u>	<u>61,502</u>	<u>140,192</u>	<u>78,690</u>
<b>NET CHANGE IN FUND BALANCE</b>	(250,403)	(191,157)	66,162	257,319
<b>FUND BALANCE-BEGINNING</b>	<u>447,189</u>	<u>511,777</u>	<u>511,970</u>	<u>193</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 196,786</u>	<u>\$ 320,620</u>	<u>\$ 578,132</u>	<u>\$ 257,512</u>

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$1,582,135.

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES</b>				
From Local Sources				
Other local revenue	\$ -	\$ -	\$ 2,732	\$ 2,732
Earnings on investments		102	873	772
Intergovernmental - state	274,865	317,699	389,306	71,607
Intergovernmental - federal	1,099,363	1,366,263	1,870,102	503,839
Total revenues	<u>1,374,228</u>	<u>1,684,064</u>	<u>2,263,014</u>	<u>578,950</u>
<b>EXPENDITURES</b>				
Instruction	1,016,808	1,168,590	1,772,515	(603,925)
Support Services				
Student	77,135	86,896	89,860	(2,964)
Instructional Staff	113,990	277,885	217,797	60,088
School Administration			13,270	(13,270)
Business	45,000	31,954	39,748	(7,794)
Plant Operation & Maintenance			899	(899)
Student Transportation			4,611	(4,611)
Community Services Operations	141,295	134,665	140,240	(5,575)
Total expenditures	<u>1,394,228</u>	<u>1,699,990</u>	<u>2,278,940</u>	<u>(578,950)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(20,000)	(15,926)	(15,926)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	20,000	15,926	15,926	-
Total other financing sources and (uses)	<u>20,000</u>	<u>15,926</u>	<u>15,926</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Net Position**  
**Proprietary Funds**  
June 30, 2013

		<b>School Food Services</b>
<b>ASSETS</b>		
Investments	\$	20,000
Receivables (net)		51,287
Inventories		28,320
Capital assets:		
Other capital assets, net of depreciation		26,850
Total assets		126,457
<b>LIABILITIES</b>		
Cash shortage		9,388
Total liabilities		9,388
<b>NET POSITION</b>		
Net Investment in capital assets		26,850
Restricted for:		
Expendable Restricted for Food Service		90,219
Total net position	\$	117,069

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
Year Ended June 30, 2013

		<b>School Food Services</b>
<b>OPERATING REVENUES</b>		
Lunchroom sales	\$	45,927
Total operating revenues		<u>45,927</u>
<b>OPERATING EXPENSES</b>		
Depreciation		6,426
Food service operations		679,661
Total operating expenses		<u>686,087</u>
Operating income (loss)		<u>(640,160)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants		682,756
State grants		6,622
State on-behalf payments received		59,498
State on-behalf payments used		(59,498)
Commodities received		46,089
Commodities used		(46,089)
Transfers		(45,869)
Earnings from investments		487
Total nonoperating revenues		<u>643,997</u>
<b>CHANGE IN NET POSITION</b>		3,837
<b>NET POSITION-BEGINNING</b>		<u>113,232</u>
<b>NET POSITION-ENDING</b>	\$	<u><u>117,069</u></u>

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2013

	<u>School Food Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 45,927
Payments to suppliers	(376,628)
Payments to employees	(339,332)
Net cash provided (used) by operating activities	<u>(670,033)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfer for indirect cost for administrative costs	(45,869)
Operating grants and contributions	689,378
Net cash provided (used) by noncapital financing activities	<u>643,509</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	487
Net cash provided (used) by investing activities	<u>487</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(26,036)
<b>CASH AND CASH EQUIVALENTS-BEGINNING</b>	<u>16,648</u>
<b>CASH AND CASH EQUIVALENTS-ENDING</b>	<u>\$ (9,388)</u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>	
Operating income (loss)	(640,160)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	6,426
Changes in assets and liabilities:	
Receivables	(29,730)
Accounts Payable	(2,906)
Inventories	(3,664)
Net cash used by operating activities	<u>\$ (670,033)</u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$46,089 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
June 30, 2013

		<b>School Activity Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$	91,703
Investments		10,000
Accounts receivable		1,808
		103,511
Total Assets		103,511
<b>LIABILITIES</b>		
Accounts payable		2,547
Due to student groups		100,964
		103,511
Total Liabilities		103,511
<b>NET POSITION HELD IN TRUST</b>	<b>\$</b>	-

See the accompanying notes to the financial statements.

LEE COUNTY SCHOOL DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended June 30, 2013

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Lee County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Lee 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 relevant to the operation of the Lee County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

The 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:

Lee County Board Of Education Finance Corporation

The Board authorized establishment of the Lee County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Lee County Board of Education.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 segments 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) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

#### (B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that is legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is always a major fund of the District by request of the Kentucky Department of Education.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (C) Capital Project Funds

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).

#### SEEK Capital Outlay Fund

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 as identified in the District's facility plan. This is a major fund of the District.

#### Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

#### Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

### (D) Debt Service Fund

The Debt Service Fund is 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 Funds (Enterprise Funds)

### (A) Food Service Fund

The School 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.

The District applies all GASB pronouncements to proprietary funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### III. Fiduciary Fund Types

#### Agency 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 “Accounting Procedures for Kentucky School Activity Funds.”

#### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds 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. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis, on a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – 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 the 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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. The property tax rates (including exonerations) assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.29 per \$100 valuation of real property, \$.29 per \$100 valuation for business personal property and \$.523 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.

### 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 government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Interfund Balances

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

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

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

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

### Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

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

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Inventories

On government-wide financial statements inventories are stated at cost and are expended 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.

### Prepaid Assets

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 expenditure/expense is reported in the year in which services are consumed.

### 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 judgment, 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.

### Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

### Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

### Operating and Non-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.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

### 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.

## **NOTE B – CHANGE IN ACCOUNTING POLICY**

During the fiscal year ended June 30, 2013, management adopted the Governmental Accounting Standards Board Statement No. 63. This statement created the statement of net position which replaced the previous statement of net assets. The term net assets is no longer used and has been replaced with net position. The District also implemented GASB 65 early, resulting in asset and liability classifications of deferred inflows

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

and deferred outflows. This change is preferable so the District can be better prepared for the mandatory adoption in the upcoming fiscal year. The District recorded a deferred outflow of resources for the difference in reacquisition and carrying value of refunding debt. Refer to the prior period adjustment note to see the effect on the change in net position.

**NOTE C – ESTIMATES**

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

**NOTE D – CASH AND CASH EQUIVALENTS**

The District’s cash and cash equivalents are interest bearing accounts and certificates of deposits with a maturity of ninety (90) days or less. Due to the liquidity nature of these accounts the carrying value is the fair market value. Various local banks are used as depositories.

Investments are certificates of deposits of the financial institution that have a maturity of ninety (90) days or more.

	<b>Bank Balance</b>		
	<u>Demand</u>	<u>Time</u>	<u>Total</u>
FDIC	\$ 220,000	\$ 30,000	\$ 250,000
Securities pledged to district	1,183,622		1,183,622
Bank balance	<u>\$ 1,403,622</u>	<u>\$ 30,000</u>	<u>\$ 1,433,622</u>

	<b>Book Balance</b>	
	<u>Cash and cash equivalents</u>	<u>Investments</u>
Governmental Activities	\$ 776,698	
Business-type Activities	(9,388)	\$ 20,000
Fiduciary Fund		
School Activity	91,703	10,000
Total carrying amount	<u>\$ 859,013</u>	<u>\$ 30,000</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE E – CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 157,410	\$ -	\$ -	\$ 157,410
Land improvements	505,502	-	-	505,502
Buildings	15,763,084	-	-	15,763,084
Technology equipment	1,716,324	316,449	54,630	1,978,143
Vehicles	1,678,258	-	-	1,678,258
General equipment	420,432	999	1,495	419,936
Construction in progress	-	-	-	-
Total at historical cost	\$ <u>20,241,010</u>	\$ <u>317,448</u>	\$ <u>56,125</u>	\$ <u>20,502,333</u>
Less: Accumulated depreciation				
Land improvements	398,967	14,782	-	413,749
Buildings	7,663,182	279,883	-	7,943,065
Technology equipment	1,422,029	131,611	54,630	1,499,010
Vehicles	1,222,521	74,929	-	1,297,450
General equipment	<u>344,424</u>	<u>15,860</u>	<u>1,495</u>	<u>358,789</u>
Total accumulated depreciation	\$ <u>11,051,124</u>	\$ <u>517,064</u>	\$ <u>56,125</u>	\$ <u>11,512,063</u>
Governmental Activities				
Capital Assets-net	\$ <u>9,189,886</u>	\$ <u>(199,616)</u>	\$ <u>-</u>	\$ <u>8,990,271</u>
<u>Business-Type Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Technology equipment	\$ 30,503	\$ -	\$ 14,000	\$ 16,503
General equipment	<u>368,055</u>	<u>-</u>	<u>-</u>	<u>368,055</u>
Total at historical cost	\$ <u>398,558</u>	\$ <u>-</u>	\$ <u>14,000</u>	\$ <u>384,558</u>
Less: Accumulated depreciation				
Technology equipment	\$ 20,215	\$ 3,301	\$ 14,000	\$ 9,515
General equipment	<u>345,067</u>	<u>3,126</u>	<u>-</u>	<u>348,193</u>
Total accumulated depreciation	\$ <u>365,282</u>	\$ <u>6,426</u>	\$ <u>14,000</u>	\$ <u>357,708</u>
Business-Type Activities				
Capital Assets-net	\$ <u>33,276</u>	\$ <u>(6,426)</u>	\$ <u>-</u>	\$ <u>26,850</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

**NOTE F – BONDED DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bonded debt obligations represents the District’s future obligations to make payments relating to the bonds issued by the Lee County School District Finance Corporation aggregating \$4,615,000 and \$255,000 is the portion due within one year.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of outstanding issues, the issue dates, maturity dates, interest rates, and outstanding balances, at June 30, 2013 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
Issue of 2008A	\$ 1,850,000	4/1/2028	3.00-3.75%	\$ 1,725,000	\$ -	\$ 65,000	\$ 1,660,000
Issue of 2012R	1,460,000	4/1/2023	.5-2.0%	-	1,460,000	-	1,460,000
Issue of 2003	1,860,000	4/1/2023	3.00-4.00%	1,570,000		1,570,000	-
Issue of 2008B	385,000	8/1/2028	3.80-4.60%	360,000		15,000	345,000
Issue of 2010	\$ 1,200,000	8/1/2030	1.5-4%	1,175,000		25,000	1,150,000
Totals				\$ 4,830,000	\$ 1,460,000	\$ 1,675,000	\$ 4,615,000

The table following sets forth the amount to be paid by the District for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to 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:

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal</u>		<u>Interest</u>		<u>Principal Total</u>	<u>Interest Total</u>
	<u>Local</u>	<u>KSFCC</u>	<u>Local</u>	<u>KSFCC</u>		
2014	\$ 222,100	\$ 32,900	\$ 115,706	\$ 25,180	\$ 255,000	\$ 140,886
2015	226,435	33,565	111,550	24,515	260,000	136,065
2016	230,568	34,432	107,398	23,647	265,000	131,045
2017	234,495	35,505	103,113	22,574	270,000	125,688
2018	238,357	36,643	98,311	21,437	275,000	119,748
2019-2023	1,287,336	202,664	392,082	87,735	1,490,000	479,816
2024-2028	1,061,152	243,848	199,615	46,550	1,305,000	246,165
2029-2031	392,369	102,631	22,680	5,925	495,000	28,605
	\$ 3,892,812	\$ 722,188	\$ 1,150,455	\$ 257,563	\$ 4,615,000	\$ 1,408,018

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$329,940. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

### NOTE G – REFINANCING NOTE

The 2013 refunded bonds were issued to purchase an escrow scheduled to mature at such time and in such amounts as are necessary and will be adequate, with investment and reinvestments to meet the current scheduled principal and interest due beginning 10/1/2013 for the 2003 bonds and refund in advance of maturity the principal and interest of the 2003 series bonds. The series 2003 called bonds will be paid on 4/1/2023. The proceeds of \$1,445,000 will be used to retire the 2003 series bond at a gross savings to the District of \$171,160. The present value savings at a percentage of refunded principal of 10.686% is \$154,407.

### NOTE H – RETIREMENT PLANS

#### Kentucky Teachers’ Retirement System

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

KTRS was created by the 1938 General Assemble 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, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

*Funding Policy* – Contribution rates are established by KRS. Members before July 1, 2008 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%.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Medical Insurance Plan

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

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

*Funding policy* –In order to fund the post-retirement healthcare benefit, three and a 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 (0.75%) from state appropriations and one percent (1.0%) 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 Lee County School System's total payroll for the year was \$6,418,703. The payroll for employees covered under KTRS was \$4,772,391. For the year ended June 30, 2013, the Commonwealth contributed \$482,688 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the year ending June 30, 2013 were \$156,939, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$796,566, \$833,952 and \$844,568 respectively.

### County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium.

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The current District contribution rate for employees is 19.55%. The District contributed \$308,062 of the employee's compensation during the fiscal year ended June 30, 2013.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$387,605, \$404,013 and \$360,858 respectively.

### **NOTE I – COMMITMENTS**

There are no commitments of the District.

### **NOTE J - CONTINGENCIES**

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not 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 un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction the funds provided are being spent as intended and the grantors' intent to continue their program.

### **NOTE K - LITIGATION**

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time.

### **NOTE L – 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, illegal acts, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which include Workers' Compensation insurance.

### **NOTE M – RISK MANAGEMENT**

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts 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 coverage in any of the past three fiscal years.

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer.

**NOTE N - 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 O – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	KETS matching	\$ 15,926
Food Service	General Fund	Indirect Costs	45,869
FSPK Building Fund	Debt Service Fund	Debt Service	354,726
Capital Outlay Fund	General Fund	Operating	\$ 82,757

**NOTE P – DEFICIT FUND AND OPERATING BALANCES**

There were no funds that had an operating deficit at the end of the fiscal year causing a reduction in the fund balance.

**NOTE Q – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on – behalf of the Lee County School District for teacher’s retirement, health insurance, life insurance, administrative fees, technology and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$1,582,135 for the General Fund and \$59,498 for the School Food Service Fund.

**NOTE R – CAPITAL LEASE PAYABLE**

The following is an analysis of the leased property under capital lease by class:

<u>Kista Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
Issue of 2012	\$ 175,500	3/1/2022	2.0 - 2.625%	\$ 175,500	\$ -	\$ 19,088	\$ 156,412
Totals				<u>\$ 175,500</u>	<u>\$ -</u>	<u>\$ 19,088</u>	<u>\$ 156,412</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2013:

<u>Fiscal</u> <u>Year Ended</u> <u>30-Jun</u>	<u>Principal</u> <u>Local</u>	<u>Interest</u> <u>Local</u>	<u>Total</u>
2014	\$ 19,762	\$ 3,354	\$ 23,116
2015	16,592	2,959	19,551
2016	16,929	2,627	19,556
2017	17,267	2,288	19,555
2018	17,604	1,943	19,547
2019-2022	<u>68,258</u>	<u>4,064</u>	<u>72,322</u>
	\$ <u><u>156,412</u></u>	\$ <u><u>17,234</u></u>	\$ <u><u>173,646</u></u>

Total minimum lease payments	\$ 173,646
Less: Amount representing interest	(17,234)

Present Value of Net Minimum Lease Payments	\$ 156,412
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**NOTE S – RESTRICTED FUND BALANCES**

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Outlay	\$ 133,792	School Facilities Construction Commission Requirement
FSPK	9,624	School Facilities Construction Commission Requirement
Food Service	90,219	Food Service Operations
Construction	\$ 103,934	Future Construction

**NOTE T – PRIOR PERIOD ADJUSTMENT**

Bond discounts were overstated by \$49,124 and bond issue costs were overstated by \$45,904 in the prior period causing net position to be overstated as follows:

Net Position July 1, 2012	\$ 4,855,454
Prior Period Adjustment	(95,028)
Restated Net Position July 1, 2012	<u><u>\$ 4,760,426</u></u>

**NOTE U – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through October 21, 2013, the date of the audit report.

Lee County School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2013

	<b>Other Governmental Funds</b>		
	<b>FSPK Fund</b>	<b>Construction</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 9,624	\$ 103,934	\$ 113,558
Total Assets	9,624	103,934	113,558
 <b>Fund Balances</b>			
Restricted	9,624	103,934	113,558
Total Fund Balances	\$ 9,624	\$ 103,934	\$ 113,558

See the accompanying notes to the financial statements.

Lee County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor  
 Governmental Funds**  
 Year ended June 30, 2013

	<b>Other Governmental Funds</b>		
	<b>FSPK Fund</b>	<b>Construction</b>	<b>Total</b>
<b>Revenues</b>			
Property Taxes	\$ 142,567	\$ -	\$ 142,567
Intergovernmental - State	218,279		218,279
	360,846	-	360,846
<b>Total Revenues</b>			
	360,846	-	360,846
<b>Expenditures</b>			
Building Improvements			-
	-	-	-
<b>Total Expenditures</b>			
	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	360,846	-	360,846
<b>Other Financing Sources (Uses)</b>			
Transfers (Out)	(354,726)		(354,726)
	(354,726)	-	(354,726)
<b>Total Other Financing Sources (Uses)</b>			
	(354,726)	-	(354,726)
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	6,120	-	6,120
<b>Fund Balance-Beginning</b>	3,504	103,934	107,438
<b>Fund Balance-Ending</b>	\$ 9,624	\$ 103,934	\$ 113,558

See the accompanying notes to the financial statements.

Lee County School District  
**Combining Balance Sheet of Fiduciary Fund - School Activity Funds**  
As of June 30, 2013

**SCHOOL ACTIVITY FUNDS**

	<u>LEE COUNTY HIGH SCHOOL</u>	<u>LEE CO HIGH CHARITABLE GAMING ACCT</u>	<u>LEE COUNTY MIDDLE SCHOOL</u>	<u>BEATTYVILLE ELEMENTARY</u>	<u>SOUTHSIDE ELEMENTARY</u>	<u>SOUTHSIDE CHARITABLE GAMING ACCT</u>	<u>TOTAL</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 55,559	\$ -	\$ 8,401	\$ 13,535	\$ 13,020	\$ 1,188	\$ 91,703
Investments	10,000	-	-	-			10,000
Accounts receivable	962	-	846	-	-	-	1,808
Total Assets	<u>66,521</u>	<u>-</u>	<u>9,247</u>	<u>13,535</u>	<u>13,020</u>	<u>1,188</u>	<u>103,511</u>
<b>LIABILITIES</b>							
Accounts payable	2,547	-	-	-	-	-	2,547
<b>FUND BALANCE</b>							
School activities	<u>63,974</u>	<u>-</u>	<u>9,247</u>	<u>13,535</u>	<u>13,020</u>	<u>1,188</u>	<u>100,964</u>
Total Liabilities & Fund Balances	<u>\$ 66,521</u>	<u>\$ -</u>	<u>\$ 9,247</u>	<u>\$ 13,535</u>	<u>\$ 13,020</u>	<u>\$ 1,188</u>	<u>\$ 103,511</u>

See the accompanying notes to the financial statements.

Lee County School District  
**Combining Statement of Revenues, Expenses and Changes In Fund Balance**  
**- School Activity Funds**  
For the period ended June 30, 2013

**SCHOOL ACTIVITY FUNDS**

	<u>LEE COUNTY HIGH SCHOOL</u>	<u>LEE CO HIGH CHARITABLE GAMING ACCT</u>	<u>LEE COUNTY MIDDLE SCHOOL</u>	<u>BEATTYVILLE ELEMENTARY</u>	<u>SOUTHSIDE ELEMENTARY</u>	<u>SOUTHSIDE CHARITABLE GAMING ACCT</u>	<u>TOTAL</u>
<b>REVENUES</b>							
Student/Trust revenues	\$ 158,248	\$ 1,753	\$ 37,709	\$ 44,553	\$ 20,144	\$ 91	\$ 262,497
<b>EXPENSES</b>							
Student/Trust activities	<u>149,435</u>	<u>1,753</u>	<u>34,351</u>	<u>39,926</u>	<u>17,346</u>	<u>5</u>	<u>242,815</u>
Total Expenses	<u>149,435</u>	<u>1,753</u>	<u>34,351</u>	<u>39,926</u>	<u>17,346</u>	<u>5</u>	<u>242,815</u>
<b>Excess (Deficit) of Revenues Over Expenses</b>	8,813	-	3,358	4,627	2,798	86	19,682
<b>Fund Balance July 1, 2012</b>	<u>55,161</u>	<u>-</u>	<u>5,889</u>	<u>8,908</u>	<u>10,222</u>	<u>1,102</u>	<u>81,282</u>
<b>Fund Balance June 30, 2013</b>	<u>\$ 63,974</u>	<u>\$ -</u>	<u>\$ 9,247</u>	<u>\$ 13,535</u>	<u>\$ 13,020</u>	<u>\$ 1,188</u>	<u>\$ 100,964</u>

See the accompanying notes to the financial statements.

Lee County School District  
**Statement of Revenues, Expenses and Changes in the Fund Balance - Lee County High School**  
For the period ended June 30, 2013

	FUND BALANCE JULY 1, 2012	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE JUNE 30, 2013
OFFICE	\$ -	\$ 3,783	\$ 347	\$ (3,135)	\$ 301
NOW INTEREST	2,962	355	714	-	2,603
LOST TEXTBOOKS	-	-	-	-	-
BOOK RENTAL	-	654	-	-	654
CLASS OF 2015	-	296	-	-	296
STUDENT VENDING	458	2,810	2,373	(425)	470
FACULTY VENDING	385	2,080	774	-	1,690
ACADEMICS	100	-	-	-	100
BETA CLUB	4,965	6,980	6,901	(60)	4,983
PTO	-	554	-	-	554
HOME ECONOMICS CLUB	-	384	348	-	36
SOCCER	-	150	150	-	-
FFA	1,946	23,324	23,074	-	2,196
CHESS CLUB	-	2,634	2,736	102	(0)
CLASS OF 2014	-	6,048	4,357	60	1,751
STUDENT COUNCIL	370	10	-	-	380
SEW COOL	2,659	-	383	(2,000)	276
ART	835	130	-	-	965
BAND	55	-	-	-	55
COMMUNICATIONS	4,547	3,098	3,328	-	4,318
PROM	2,772	5,220	4,567	-	3,425
PROJECT GRADUATION	18	-	-	-	18
CLASS OF 2016	-	364	-	-	364
SCHOLARSHIP FUND	1,370	1,490	500	-	2,360
ATHLETIC	525	17,553	8,688	(8,662)	729
BOYS BASKETBALL	64	7,520	8,916	1,332	-
GIRLS BASKETBALL	-	-	2,880	2,880	-
BASEBALL	-	-	2,543	2,600	58
SOFTBALL	-	-	1,720	1,720	-
VOLLEYBALL	-	195	2,090	1,895	-
GOLF	-	-	275	275	-
TENNIS	6	-	363	357	-
CROSS COUNTRY	-	-	90	90	-
CHEERLEADER	-	2,722	2,002	(164)	556
SENIORS	74	1,692	2,592	401	(425)
BOYS BASKETBALL	-	-	2,010	2,010	-
PERIODICALS/NEWSPAPERS	-	-	-	-	-
AV/LIBRARY	878	168	-	-	1,047
CERTIFICATE OF DEPOSIT	11,179	-	-	-	11,179
BASEBALL BOOSTERS	1,521	5,359	4,838	-	2,041
BASKETBALL BOOSTERS	49	320	-	-	369
BAND BOOSTERS	6,871	16,968	15,495	-	8,344
SOFTBALL BOOSTERS	3,306	630	2,050	-	1,887
ARCHERY	3,818	6,364	3,258	-	6,924
UNITE CLUB	50	-	-	-	50
OTHER GRANTS	887	-	-	-	887
PRIDE CLUB	120	-	-	-	120
CLASS OF 2013	944	31,385	32,354	724	700
VOLLEYBALL BOOSTERS	270	1,369	1,329	-	310
GIRLS BASKETBALL	798	2,381	2,976	-	203
BOWLING	359	3,260	2,418	-	1,201
<b>TOTALS</b>	<b>\$ 55,161</b>	<b>\$ 158,248</b>	<b>\$ 149,435</b>	<b>\$ 0</b>	<b>\$ 63,974</b>

See the accompanying notes to the financial statements.

LEE COUNTY SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2013

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lee 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 District had received food commodities totaling \$46,089.

LEE COUNTY BOARD OF EDUCATION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education:				
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 13		7760005 13	\$ N/A	\$ 169,852
Fiscal Year 12		7760005 12	N/A	44,802
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 13		7750002 13	N/A	349,902
Fiscal Year 12		7750002 12	N/A	95,740
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 12		7690024 12	N/A	2,014
Fiscal Year 12		7740023 12	N/A	19,543
Child Nutrition Cluster Subtotal				<u>681,854</u>
<b>Fresh Fruits &amp; Vegetables</b>	10.582			
Fiscal Year 13		7720012 13	N/A	20,364
Fiscal Year 12		7720012 12	N/A	4,313
				<u>24,678</u>
Passed Through State Department of Agriculture:				
<b>Food Donation-Commodities</b>	10.565			
Fiscal year 13		510.4950	N/A	46,089
Total US Department of Agriculture				<u>752,620</u>
US Department of Commerce				
Passed Through Eastern Kentucky PRIDE, Inc.				
<b>PRIDE Environmental Education</b>	11.420			
Fiscal Year 13		2703C	746	746
Total US Department of Commerce				<u>746</u>
US Department of Education				
Passed Through State Department of Education				
* <b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 13		3100002 13	678,801	538,885
Fiscal Year 13M		3100002 13	6,969	6,969
Fiscal Year 12		3100002 12	626,252	98,963
Fiscal Year 12D		3100002 12	70,432	31,091
Fiscal Year 12M		3100002 12	7,045	3,858
Fiscal Year 11D		3100002 11	73,687	60
* <b>Title I Grants School Improvement</b>	84.010A			
Fiscal Year 13		3100202 13	55,000	26,490
Fiscal Year 12		3100202 12	77,164	77,164
Fiscal Year 11		3100202 11	121,817	16,471
				<u>799,952</u>
<b>Special Education Grants to States</b>	84.027A			
Fiscal Year 13		3810002 13	276,156	275,549
Fiscal Year 12		3810002 12	279,228	6,265
<b>Special Education-Preschool Grants</b>	84.173A			
Fiscal Year 12		3800002 12	24,503	24,035
Fiscal Year 11		3800002 11	24,500	3,053
Special Education Cluster Subtotal				<u>308,902</u>
<b>Vocation Education-Basic Grants to States</b>	84.048			
Fiscal Year 13		4621232 13	10,674	7,041
Fiscal Year 12		4621232 12	10,189	2,385
Fiscal Year 12A		4621232 12	392	392
				<u>9,818</u>
<b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 13		3230002 13	130,074	130,074
<b>Education Technology State Grants</b>	84.318X			
Fiscal Year 11		3210002 11	2,453	63
Fiscal Year 11C		3210002 11	78,865	5,447
				<u>5,509</u>
<b>Education Jobs Fund</b>	84.410			
Fiscal Year 11		EJOB00 11	285,529	52,227

LEE COUNTY BOARD OF EDUCATION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
* <b>School Improvement, Part G</b>	84.377A			
Fiscal Year 10A		3100302 10	200,000	36,035
Fiscal Year 10B		3100302 10	150,000	150,000
Fiscal Year 10C		3100302 10	100,000	93,520
				<u>279,555</u>
<b>Rural Education</b>	84.358B			
Fiscal Year 13		3140002 13	21,465	21,465
<b>Twenty-First Century Community Learning Centers</b>	84.287			
Fiscal Year 13		3400002 13	67,500	31,650
Fiscal Year 12		3400002 12	5,000	716
Fiscal Year 12B		3400002 12	1,000	756
Fiscal Year 12S		3400002 12	75,000	20,865
Fiscal Year 11J		3400002 11	5,000	5,000
				<u>58,987</u>
<b>Race to the Top</b>	84.413A			
Fiscal Year 11		3960002 11	28,378	12,148
Passed through Morehead State University				
<b>Appalachian Higher Education Network</b>	23.011			
Fiscal Year 13		6883	4,328	4,328
Fiscal Year 12		6882	4,477	672
				<u>5,000</u>
Passed through Ky Workforce Development Cabinet				
<b>Community Based Work Transition</b>	84.002			
Fiscal Year 13		3713	10,923	4,701
Fiscal Year 11		3711	10,500	140
Fiscal Year 09		3719	13,750	1,200
				<u>6,041</u>
Passed through Berea College				
* <b>Gaining Early Awareness and Readiness for Undergraduate Programs</b>	84.334A			
Fiscal Year 13A		3793A	62,920	113,869
Fiscal Year 13P		3793G	50,000	49,528
Fiscal Year 12G		3792G	137,043	14,698
Fiscal Year 12P		3792P	48,239	1,956
Fiscal Year 11G		3791G	134,732	95
Fiscal Year 09G		3799G	186,616	1,397
				<u>181,543</u>
Total US Department of Education				<u>1,871,222</u>
Appalachian Regional Commission				
<b>ARC High School Mini Grants</b>	23.011			
Fiscal Year 11		5111	8,500	1,383
Total Appalachian Regional Commission				<u>1,383</u>
Passed Through Kentucky School Board Association				
<b>Medical Assistance Program</b>	93.778			
Fiscal Year 13		110.4810	\$	N/A
Total US Department of Health and Human Services				<u>39,083</u>
<b>Total Expenditure of Federal Awards</b>				<u>\$ 2,665,053</u>

\* Major Programs

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

To the Lee County Board of Education and  
State Committee for School District Audits  
Beattyville, 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, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lee County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Lee County School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the

Kentucky Public School Districts' Audit Contract and Requirements or Appendices. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

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

To the Lee County Board of Education and  
State Committee for School District Audits  
Beattyville, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Lee 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 Lee County School District's major federal programs for the year ended June 30, 2013. Lee County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control Over Compliance**

Management of Lee 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 Lee 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 Lee 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.

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

LEE COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2013

**SUMMARY OF AUDITORS' RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	No
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	No
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title I [CFDA 84.010A] Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559] Gaining Early Awareness and Readiness for Undergraduate Programs [CFDA 84.334A] School Improvement, Part G [84.377A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No findings at the major federal award programs level.

LEE COUNTY SCHOOL DISTRICT  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2013

There were no prior year findings.

**MANAGEMENT LETTER**

Lee County School District  
Beattyville, Kentucky

In planning and performing our audit of the financial statements of the Lee County School District for the year ended June 30, 2013, we considered the District's internal controls in order 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated October 21, 2013. This letter does not affect our report dated October 21, 2013, on the financial statements of the Lee County School District. The conditions observed are as follows:

**BEATTYVILLE ELEMENTARY**

1-13

Statement of Condition: School has more than one checking account for school activity funds.

Recommendation for Correction: One checking account must be closed and the balance transferred to the approved checking account for school activity funds.

Management Response to the Recommendation: The issue of two checking accounts for Beattyville Elementary for FY2013 will be resolved by the end of November by closing one account. (One checking account is being used for deposits only (local bank) that are transferred to a checking account with a bank outside the county offering almost double the interest rate. The bank offering the higher interest rate now has a local branch that will allow us to begin depositing sometime in October, 2014.)

**SOUTHSIDE ELEMENTARY**

2-13

Statement of Condition: School has more than one checking account for school activity funds.

Recommendation for Correction: One checking account must be closed and the balance transferred to the approved checking account for school activity funds.

Management Response to the Recommendation: The issue of two checking accounts for Southside Elementary for FY2013 will be resolved by the end of November by closing one account. (One checking account is being used for deposits only (local bank) that are transferred to a checking account

with a bank outside the county offering almost double the interest rate. The bank offering the higher interest rate now has a local branch that will allow us to begin depositing sometime in October, 2014.)

SOUTHSIDE ELEMENTARY CHARITABLE GAMING ACCOUNT

No conditions

LEE COUNTY MIDDLE SCHOOL

3-13

Statement of Condition: School has more than one checking account for school activity funds.

Recommendation for Correction: One checking account must be closed and the balance transferred to the approved checking account for school activity funds.

Management Response to the Recommendation: The issue of two checking accounts for Lee County Middle School for FY2013 will be resolved by the end of November by closing one account. (One checking account is being used for deposits only (local bank) that are transferred to a checking account with a bank outside the county offering almost double the interest rate. The bank offering the higher interest rate now has a local branch that will allow us to begin depositing sometime in October, 2014.)

LEE COUNTY HIGH SCHOOL

4-13

Statement of Condition: School has more than one checking account for school activity funds.

Recommendation for Correction: One checking account must be closed and the balance transferred to the approved checking account for school activity funds.

Management Response to the Recommendation: The issue of two checking accounts for Lee County High School will be resolved by the end of November by closing one account. (One checking account is being used for deposits only {local bank} that are transferred to a checking account with a bank outside the county offering almost double the interest rate. The bank offering the higher interest rate now has a local branch that will allow us to begin depositing sometime in October, 2014.)

5-13

Statement of Condition: Checks 14359, 14360, 14361, 14362, 14636, 14364, 14365, and 14366 did not have two signatures.

Recommendation for Correction: The principal (or appointed designee) and school treasurer should insure all checks written have two signatures; one of which shall be that of the principal (or appointed designee) and the other being the school treasurer.

Management Response to the Recommendation: The principal (or appointed designee) and school treasurer will insure all checks written have two signatures; one of which will be that of the principal (or appointed designee) and the other being the school treasurer.

6-13

Statement of Condition: Instances of receipts not being deposited timely.

**Recommendation for Correction:** All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

**Management Response to the Recommendation:** All monies will be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts will be held in the Principal's office until \$100 is collected. Deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

### 7-13

**Statement of Condition:** Teachers/sponsors not turning in money collected from students or other sources timely.

**Recommendation for Correction:** All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

**Management Response to the Recommendation:** All money collected by a teacher/sponsor will be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

### 8-13

**Statement of Condition:** Instances of lack of segregation of duties in the process of ticket sales.

**Recommendation for Correction:** Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. The ticket seller gives the entire ticket to the customer and collects the fee. The ticket taker tears the ticket in half, gives half to the customer, and retains half. The ticket seller and the ticket taker must be two separate people. Both must sign the Requisition and Report of Ticket Sales (F-SA-1) form.

**Management's Response to the Recommendation:** Precautions will be taken to protect activity fund money from loss and limit the liability of persons handling money. The ticket seller gives the entire ticket to the customer and collects the fee. The ticket taker tears the ticket in half, gives half to the customer, and retains half. The ticket seller and the ticket taker will be two separate people. Both must sign the Requisition and Report of Ticket Sales (F-SA-1) form.

### 9-13

**Statement of Condition:** The bank statement is not being reconciled timely which could cause Monthly Financial Reports to be misstated.

**Recommendation for Correction:** Bank reconciliation and Monthly financial reports shall be prepared and submitted to the superintendent or finance officer no later than the 15<sup>th</sup> of the following month. The original shall be signed and reviewed for accuracy and reasonableness by the principal and submitted to

the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

Management Response to the Recommendation: Bank reconciliation and Monthly financial reports will be prepared and submitted to the superintendent or finance officer no later than the 15<sup>th</sup> of the following month. The original will be signed and reviewed for accuracy and reasonableness by the principal and submitted to the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

LEE COUNTY HIGH SCHOOL CHARITABLE GAMING ACCOUNT

No conditions

We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We would like to add that we have seen a tremendous improvement from the previous year throughout all the schools in the area of internal control compliance.

The following is a repeat condition from the prior year: 5-13 and 6-13. All other prior year conditions have been implemented and corrected. Mr. James Evans, Jr., Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

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

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
October 21, 2013