

LETCHER COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Letcher County Board of Education
Whitesburg, 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 Letcher 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 Letcher 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 Letcher 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 Letcher 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 Letcher County School District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky

October 21, 2013

LETCHER COUNTY SCHOOL DISTRICT – WHITESBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

As management of the Letcher County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning balance for Fund 1 for the district was \$2.9 million, the Fund 1 (One) ending balance was \$2.4 million.
- The district constructs and renovates facilities with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.
- The district issued bonds during the 2013 fiscal year in the amount of \$2,460,000 for the purpose of construction of a softball field at Letcher County Central High.
- The district levied the 4% increase rate in property taxes during 2013.
- Un-mined Minerals tax collections decreased from FY 2012 in the amount of \$82,372.
- The General Fund had \$25.6 million in receipts, including on behalf payments made by the state, which primarily consisted of the state program (SEEK), property, utility, and motor vehicle taxes. There were \$26.1 million in General Fund expenditures.
- During fiscal 2013 the District was impacted by high transportation costs and high utility costs. Local revenue was required to supplement transportation expenses and utility expenses unfunded by the state.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised 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.

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.

LETCHER COUNTY SCHOOL DISTRICT – WHITESBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

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.

The government-wide financial statements can be found in the table of contents of this report.

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

The basic governmental fund financial statements can be found in the table of contents of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of Letcher County Schools, assets exceeded liabilities by \$30.11 million for Governmental Activities, and \$275,184 for Business Type Activities as of June 30, 2013.

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

LETCHER COUNTY SCHOOL DISTRICT – WHITESBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

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

Table 1
Net Position
\$ (in Millions)

	Governmental Activities		Business-type Activities		Totals	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
	Current assets	5.49	3.17	0.11	0.19	5.60
Non-current assets	50.80	52.07	0.21	0.18	51.01	52.25
Total assets	56.29	55.24	0.32	0.37	56.61	55.61
Deferred Outflows	-	1.49	-	-	-	1.49
Current liabilities	2.09	1.81	0.01	0.09	2.10	1.90
Non-current liabilities	22.97	24.82	0.00	0.00	22.97	24.82
Total liabilities	25.07	26.62	0.01	0.09	25.08	26.72
Net position:						
Invested in capital assets, net of debt	26.58	28.36	0.21	0.17	26.79	28.53
Restricted	0.54	0.88	0.00	0.10	0.65	0.98
Unrestricted (deficit)	4.10	1.87	0.11	0.00	4.10	1.87
Total net position	31.22	30.11	0.32	0.27	31.54	30.39

At the end of fiscal 2013, the District had \$52.25 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions, deductions construction in progress) of \$1.24 million.

Table 2
Capital Assets at Year-End
\$ (Net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Totals	
	2012	2013	2012	2013	2012	2013
	Land	6.93	6.93	-	-	6.93
Land Improvements	1.60	1.59	-	-	1.60	1.59
Buildings	32.08	31.63	-	-	32.08	31.63
Technology Equipment	0.37	0.04	0.00	0.00	0.37	0.04
Vehicles	0.98	0.76	-	-	0.98	0.76
General Equipment	0.42	0.41	0.21	0.18	0.63	0.59
Construction in Progress	8.41	10.72	-	-	8.41	10.72
Totals	50.80	52.08	0.21	0.18	51.01	52.25

LETCHER COUNTY SCHOOL DISTRICT – WHITESBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

Table 3
 Changes in Net Position
 \$ (in Millions)

	Governmental Activities		Business-type Activities		Totals School District		Total Percentage Change 2012-2013
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	
Revenues:							
Charges for Services	0.40	0.25	0.14	0.46	0.54	0.70	(0.23)
Operating grants and contributions	4.12	10.18	1.60	1.16	5.72	11.34	(0.98)
Capital grants and contributions	1.71	1.78	-	-	1.71	1.78	(0.04)
General revenues	26.04	21.62	-	-	26.04	21.62	0.17
Total revenue	32.27	33.83	1.74	1.62	34.01	35.45	(0.04)
Expenses:							
Instruction	17.55	17.67			17.55	17.67	(0.01)
Student	1.88	2.16			1.88	2.16	(0.15)
Instructional staff	1.31	1.31			1.31	1.31	(0.00)
District administration	0.71	0.67			0.71	0.67	0.06
School administration	1.56	1.61			1.56	1.61	(0.03)
Business	0.87	0.86			0.87	0.86	0.01
Plant operation & maintenance	3.60	3.47			3.60	3.47	0.04
Student transportation	2.55	2.55			2.55	2.55	0.00
Community services operations	0.37	0.38			0.37	0.38	(0.03)
Depreciation/Amortization	0.93	1.09	0.03	0.04	0.96	1.13	(0.18)
Interest on long-term debt	0.86	0.81			0.86	1.81	1.10
Loss on retirement of assets	0.21	-			0.21	-	1.00
Food Service Operations			1.76	1.66	1.76	1.66	0.06
Total Expenses	\$32.4	\$32.57	\$1.79	\$1.70	\$34.19	\$34.51	(0.01)
Extraordinary Item	(0.96)	-	-	-	(0.96)	-	100
Change in net position	\$(1.10)	\$1.26	\$(0.05)	\$(0.08)	\$(1.15)	\$0.94	(1.82)

DEBT

Bonds were issued in fiscal year 2013 for the construction of a softball field located on the campus of the Letcher County Central High School. At this time we are anticipating there will be no bonds sold in the fiscal year 2014.

Table 4
 Outstanding Debt at Year-End
 (in Millions)

	Government Activities	
	<u>2012</u>	<u>2013</u>
General Obligation Bonds	\$24.02	\$25.12
Capital Lease Obligations	0.20	0.09
Total Obligations	\$24.22	\$25.21

LETCHER COUNTY SCHOOL DISTRICT – WHITESBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

COMMENTS ON BUDGET COMPARISONS

- Actual General Fund budget exceeded the revenues by \$513,593. This does not include the \$4.95 million of on-behalf payments made by the state for insurances, teachers' retirement, etc. for the benefit of the district and its employees. General Fund budget compared to actual revenue varied slightly in most line items. The line items that varied most significantly was taxes and state SEEK. Due to economic factors in this area the collection of local taxes was less than expected. Also a reduction in state SEEK funding occurred.
- Actual General Fund expenditures were less than the budget by \$1.64 million. General Fund budgeted expenditures compared to actual varied significantly in District Administrative Support. Workers compensation, unemployment and contingency are budgeted in District Administrative Support; however, expenditures are made from the same function as the related salary. Consequently, throughout the financial report, employee benefits exceed the budget in each function (net of on-behalf) except District Administrative Support.

THE DISTRICT'S FUNDS

As the District completed the year, its General Fund reflected a fund balance of \$2.4 million, which is less than last year's fund balance of \$2.9 million. It is important to note that a portion of the balance is reserved for prior year encumbrances. The unassigned portion of the fund balance in fiscal 2013 was \$2.2 million, compared to the \$2.9 million from the preceding year. The amount of local taxes collected in 2013 in the amount of \$6.1 million and the amount collected for 2012 was \$6.32 million which resulted in a decrease in local tax collections in the amount of \$0.22 million.

LETCHER COUNTY SCHOOL DISTRICT – WHITESBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
 YEAR ENDED JUNE 30, 2013

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2013 for selected funds.

Table 5
 Revenues & Expenditures
 \$ (in Millions)

	General Fund	Special Revenue	Debt Service FSP-K And Capital Outlay
Revenues:			
Local Sources	6.19	0.26	0.55
State Sources	19.30	1.01	1.67
Federal Sources	0.11	3.11	0.03
Fund Transfer	0.08	0.04	1.28
Total Revenues	25.68	4.42	3.53
Expenses:			
Instruction	14.58	3.00	0.00
Student Support	1.69	0.19	0.00
Instructional Support	0.63	0.68	0.00
District administration	0.71	0.00	0.00
School administration	1.55	0.01	0.00
Business Support	0.82	0.06	0.00
Plant Operations	3.60	0.00	0.00
Food Service			
Students Transportation	2.44	0.11	0.00
Community Support	0.00	0.37	0.00
Other			0.00
Facilities Acquisition & Const.	0.00	0.00	0.00
Debt Service	0.12	0.00	2.20
Fund Transfer	0.05	0.00	1.34
Total Expenses	26.19	4.42	3.54
Revenue Over (Under) Expenses	(0.51)	0.00	0.00

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools' fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2013-2014 with a 4.3% contingency as calculated by the Kentucky Department of Education. Significant Board action that impacts the finances includes a pay increase for all employees, and continued funding of Board initiatives such as Study Island and Think Link.

LETCHER COUNTY SCHOOL DISTRICT – WHITESBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

Issues which will impact future budgets include:

- Increased staffing and expenses to meet federal and state academic mandates
- Declining federal funds and federal funding not maintaining the pace of mandated pay increases
- The need of improving programming and meeting the academic audit recommendations and No Child Left Behind requirements
- Insufficient funding of the state transportation formula
- Loss of local funding due to the 4% cap on increases in property taxes imposed by House Bill 44, which in turn results in a penalty to the District in the state SEEK funding formula
- Reduction in state funding for KERA Flex Focus Funds.
- New testing standards adopted by the Kentucky Department of Education.
- Declining Seek dollars appropriated by the Kentucky General Assembly.
- Prior years settlement assessment from KSBIT for workers compensation claims.

Due to the amount of future bond payments, we will be unable to rely on Capital Outlay funds to offset General Fund expenditures for plant operation and maintenance. As funds become available the athletic fields will also be completed at the Letcher County Central High School.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Contact Brian Johnson at 606-633-4455 or mail us at Letcher County Board of Education, 224 Parks Street, Whitesburg, KY 41858.

Letcher County School District
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,677,757	\$	\$ 2,677,757
Receivables (net)	492,992	140,187	633,179
Inventories		52,930	52,930
Capital assets:			
Land, improvements, and construction in progress	17,649,696		17,649,696
Other capital assets, net of depreciation	34,423,881	177,207	34,601,088
Total capital assets	52,073,577	177,207	52,250,784
Total assets	55,244,326	370,325	55,614,651
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	1,493,416		1,493,416
LIABILITIES			
Accounts payable and accrued expenses	96,350		96,350
Accrued interest payable	159,730		159,730
Accrued salaries and benefit payable	3,229		3,229
Cash shortage		95,141	95,141
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,490,000		1,490,000
Capital lease obligations	62,508		62,508
Total due within 1 year	1,552,508	-	1,552,508
Due in more than 1 year:			
Bond obligations	23,625,000		23,625,000
Capital lease obligations	30,697		30,697
KSBIT payable	960,680		960,680
Sick leave	196,481		196,481
Total due in more than 1 year	24,812,858	-	24,812,858
Total liabilities	26,624,676	95,141	26,719,817
NET POSITION			
Net Investment in capital assets	28,358,788	177,207	28,535,996
Restricted for:			
Expendable restricted for capital projects	642,426		642,426
Expendable restricted for encumbrances	205,817		205,817
Expendable restricted for debt service	34,933		34,933
Expendable restricted for food services		97,977	97,977
Unrestricted	871,102		871,102
Total net position	\$ 30,113,066	\$ 275,184	\$ 30,388,250

See the accompanying notes to the financial statements.

Letcher 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
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 17,553,162	\$ 149,650	\$ 2,471,287	\$ -	\$ (14,932,225)		\$ (14,932,225)
Support Services							
Student	1,880,460	113,531	247,129		(1,519,800)		(1,519,800)
Instructional Staff	1,307,882		164,752		(1,143,130)		(1,143,130)
District Administration	713,149		82,376		(630,772)		(630,772)
School Administration	1,564,508		205,941		(1,358,567)		(1,358,567)
Business	874,793		123,564		(751,229)		(751,229)
Plant Operation & Maintenance	3,602,798		453,069	785,532	(2,364,197)		(2,364,197)
Student Transportation	2,548,415		329,505		(2,218,910)		(2,218,910)
Community Services Operations	367,877	140,049	41,188		(186,640)		(186,640)
Amortization	100,378				(100,378)		(100,378)
Depreciation	831,092				(831,092)		(831,092)
Loss on retirement of assets	207,644				(207,644)		(207,644)
Interest on Long-term debt	855,341			921,990	66,648		66,648
Total governmental activities	<u>32,407,498</u>	<u>403,230</u>	<u>4,118,812</u>	<u>1,707,522</u>	<u>(26,177,935)</u>		<u>(26,177,935)</u>
Business-type activities:							
Food service operations	1,759,102	143,820	1,596,281			\$ (19,002)	(19,002)
Loss on retirement of assets	3,764					(3,764)	(3,764)
Depreciation	33,896					(33,896)	(33,896)
Total business-type activities	<u>1,796,763</u>	<u>143,820</u>	<u>1,596,281</u>	<u>-</u>	<u>-</u>	<u>(56,662)</u>	<u>(56,662)</u>
Total primary government	<u>\$ 34,204,261</u>	<u>\$ 547,050</u>	<u>\$ 5,715,093</u>	<u>\$ 1,707,522</u>	<u>(26,177,935)</u>	<u>(56,662)</u>	<u>(26,234,597)</u>
General revenues:							
Taxes:							
Property taxes					3,702,257		3,702,257
Motor vehicle taxes					684,313		684,313
Utility taxes					1,442,843		1,442,843
Unmined minerals tax					823,137		823,137
State and formula grants					19,304,651		19,304,651
Sale of equipment					27,500	7,500	35,000
Unrestricted investment earnings					50,394		50,394
Total general revenues					<u>26,035,095</u>	<u>7,500</u>	<u>26,042,595</u>
Extraordinary item					(960,680)		(960,680)
Total general revenues and extraordinary item					<u>25,074,415</u>	<u>7,500</u>	<u>25,081,915</u>
Change in net position					(1,103,520)	(49,162)	(1,152,682)
Net Position - beginning					31,224,394	324,346	31,548,740
Prior period adjustment					(7,808)		(7,808)
Restated net position - beginning					<u>31,216,586</u>	<u>324,346</u>	<u>31,540,932</u>
Net position - ending					<u>\$ 30,113,066</u>	<u>\$ 275,184</u>	<u>\$ 30,388,250</u>

See the accompanying notes to the financial statements.

Letcher County School District
Balance Sheet
Governmental Funds
June 30, 2013

Governmental Funds

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 2,222,981	\$ -	\$ 680,107	\$ 34,933	\$ -	\$ 2,938,021
Receivables, net						
Current property tax	198,393					198,393
Accounts	24,938					24,938
Intergovernmental-federal		269,660				269,660
Total assets	<u>2,446,312</u>	<u>269,660</u>	<u>680,107</u>	<u>34,933</u>	<u>-</u>	<u>3,431,013</u>
LIABILITIES						
Accounts payable	49,272	9,397	37,682			96,350
Cash shortage		260,264				260,264
Accrued salaries & benefit payable	3,229					3,229
Total liabilities	<u>52,501</u>	<u>269,660</u>	<u>37,682</u>	<u>-</u>	<u>-</u>	<u>359,843</u>
FUND BALANCE						
Restricted			642,426	34,933		677,359
Assigned	205,817					205,817
Unassigned	2,187,994					2,187,994
Total fund balance	<u>\$ 2,393,811</u>	<u>\$ -</u>	<u>\$ 642,426</u>	<u>\$ 34,933</u>	<u>\$ -</u>	<u>\$ 3,071,169</u>

See the accompanying notes to the financial statements.

Letcher County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
For the Year Ended June 30, 2013

Total fund balance per fund financial statements	\$	3,071,169
<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>		52,073,577
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the refunded bond.</p>		1,493,416
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(159,730)
Bonds payable		(25,115,000)
Capital leases payable		(93,205)
KSBIT payable		(960,680)
Noncurrent sick leave payable		(196,481)
		(3,115,101)
Net position of governmental activities	\$	30,113,066

See the accompanying notes to the financial statements.

Letcher 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>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 3,151,463	\$ -	\$ -	\$ -	\$ 550,794	\$ 3,702,257
Motor vehicle	684,313					684,313
Unmined minerals tax	823,137					823,137
Utilities	1,442,843					1,442,843
Tuition	20,797					20,797
Earnings on investments	50,194	200				50,394
Community Services Operations		140,049				140,049
Other local revenue	13,853	115,000				128,853
Intergovernmental - state	19,304,651	1,006,399		885,958	785,532	21,982,539
Intergovernmental - federal	113,531	3,112,413		36,032		3,261,976
Total revenues	<u>25,604,782</u>	<u>4,374,061</u>	<u>-</u>	<u>921,990</u>	<u>1,336,326</u>	<u>32,237,158</u>
EXPENDITURES						
Instruction	14,576,379	3,006,854				17,583,232
Support Services						
Student	1,694,107	186,353				1,880,460
Instructional Staff	626,190	681,692				1,307,882
District Administration	713,149					713,149
School Administration	1,553,846	10,662				1,564,508
Business	815,085	59,708				874,793
Plant Operation & Maintenance	3,602,798					3,602,798
Student Transportation	2,441,270	107,145				2,548,415
Community Services Operations		367,877				367,877
Building Acquisition/Construction			2,231,069			2,231,069
Debt Service	112,337		79,840	2,204,781		2,396,958
Total expenditures	<u>26,135,160</u>	<u>4,420,290</u>	<u>2,310,909</u>	<u>2,204,781</u>	<u>-</u>	<u>35,071,140</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(530,379)	(46,229)	(2,310,909)	(1,282,791)	1,336,326	(2,833,982)
OTHER FINANCING SOURCES (USES)						
Bond proceeds			2,460,000			2,460,000
Sale of land	27,500					27,500
Operating transfers in	53,535	46,229		1,282,791		1,382,555
Operating transfers (out)	(46,229)				(1,336,326)	(1,382,555)
Total other financing sources and (uses)	<u>34,806</u>	<u>46,229</u>	<u>2,460,000</u>	<u>1,282,791</u>	<u>(1,336,326)</u>	<u>2,487,500</u>
NET CHANGE IN FUND BALANCES	(495,573)	-	149,091	-	-	(346,482)
FUND BALANCE, BEGINNING	<u>2,889,384</u>	<u>-</u>	<u>493,335</u>	<u>34,933</u>	<u>-</u>	<u>3,417,651</u>
FUND BALANCE, ENDING	<u>\$ 2,393,811</u>	<u>\$ -</u>	<u>\$ 642,426</u>	<u>\$ 34,933</u>	<u>\$ -</u>	<u>\$ 3,071,169</u>

See the accompanying notes to the financial statements.

Letcher County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 For the year ended June 30, 2013

Net change in total fund balances per fund financial statements	\$	(346,482)
<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>		1,272,173
<p>The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.</p>		(100,378)
<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>		(991,087)
<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>		(7,137)
<p>KSBIT payable extraordinary item</p>		(960,680)
<p>Noncurrent sick leave payable</p>		30,071
Change in net position of governmental activities	\$	(1,103,520)

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 3,408,000	\$ 3,408,000	\$ 3,151,463	\$ (256,537)
Motor vehicle	670,000	670,000	684,313	14,313
Unmined minerals tax	800,000	800,000	823,137	23,137
Utilities	1,600,000	1,600,000	1,442,843	(157,157)
Tuition	13,000	13,000	20,797	7,797
Earnings on investments	25,000	25,000	50,194	25,194
Other local revenue	57,000	57,000	13,853	(43,147)
Intergovernmental - state	14,498,077	14,498,077 *	14,357,354	(140,723)
Intergovernmental - federal	100,000	100,000	113,531	13,531
Total revenues	<u>21,171,077</u>	<u>21,171,077</u>	<u>20,657,484</u>	<u>(513,593)</u>
EXPENDITURES				
Instruction	11,494,922	11,494,922 *	11,372,820	122,101
Support Services				
Student	1,352,511	1,352,511 *	1,393,926	(41,414)
Instructional Staff	814,644	814,644 *	539,780	274,864
District Administration	1,137,508	1,137,508 *	669,273	468,234
School Administration	1,293,034	1,293,034 *	1,242,654	50,379
Business	691,921	691,921 *	725,628	(33,707)
Plant Operation & Maintenance	3,464,669	3,464,669 *	3,234,487	230,183
Student Transportation	2,471,553	2,471,553 *	1,896,958	574,596
Debt Service	112,337	112,337	112,337	-
Building Improvement	3,000	3,000	-	3,000
Total expenditures	<u>22,836,099</u>	<u>22,836,099</u>	<u>21,187,863</u>	<u>1,648,236</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,665,022)	(1,665,022)	(530,379)	1,134,643
OTHER FINANCING SOURCES (USES)				
Operating transfers in			53,535	53,535
Operating transfers (out)	(42,874)	(42,873)	(46,229)	(3,356)
Sale of land			27,500	27,500
Total other financing sources and (uses)	<u>(42,874)</u>	<u>(42,873)</u>	<u>34,806</u>	<u>77,679</u>
NET CHANGE IN FUND BALANCES	(1,707,896)	(1,707,895)	(495,573)	1,212,322
FUND BALANCE, BEGINNING	<u>2,700,000</u>	<u>2,889,384</u>	<u>2,889,384</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 992,104</u>	<u>\$ 1,181,489</u>	<u>\$ 2,393,811</u>	<u>\$ 1,212,322</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 \$4,947,297.

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Community Services Operations	\$	\$ 130,854	\$ 140,049	\$ 9,195
Earnings from investments			200	200
Other local revenue	1,067	115,000	115,000	-
Intergovernmental - state	242,501	972,580	1,006,399	33,818
Intergovernmental - federal	151,234	2,912,578	3,112,413	199,835
Total revenues	<u>394,802</u>	<u>4,131,012</u>	<u>4,374,061</u>	<u>243,048</u>
EXPENDITURES				
Instruction	306,374	2,784,792	3,006,854	(222,061)
Support Services				
Student		97,919	186,353	(88,434)
Instructional Staff	65,234	634,534	681,692	(47,158)
School Administration		10,754	10,662	92
Business		60,150	59,708	442
Plant Operation & Maintenance	1,067	4,158		4,158
Student Transportation		140,733	107,145	33,588
Debt Service	65,000	65,000		65,000
Community Services Operations		376,654	367,877	8,777
Total expenditures	<u>437,675</u>	<u>4,174,694</u>	<u>4,420,290</u>	<u>(245,595)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITUR	(42,873)	(43,682)	(46,229)	(2,547)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	42,873	42,873	46,229	3,356
Total other financing sources and (uses)	<u>42,873</u>	<u>42,873</u>	<u>46,229</u>	<u>3,356</u>
NET CHANGE IN FUND BALANCES	-	(809)	-	809
FUND BALANCE, BEGINNING	-	-	-	-
FUND BALANCE, ENDING	\$ -	\$ (809)	\$ -	\$ 809

See the accompanying notes to the financial statements.

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

		School Food Services
ASSETS		
Receivables	\$	140,187
Inventories		52,930
Capital assets:		
Other capital assets, net of depreciation		177,207
Total assets		370,325
LIABILITIES		
Cash shortage		95,141
Total liabilities		95,141
NET POSITION		
Net Investment in capital assets		177,207
Restricted for:		
Expendable Restricted for Food Service		97,977
Total net position	\$	275,184

See the accompanying notes to the financial statements.

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

	School Food Services
OPERATING REVENUES	
Lunchroom sales	\$ 143,820
Total operating revenues	143,820
OPERATING EXPENSES	
Depreciation	33,896
Loss on retirement of assets	3,764
Food service operations	1,759,102
Total operating expenses	1,796,763
Operating income (loss)	(1,652,943)
NONOPERATING REVENUES (EXPENSES)	
Federal grants	1,579,866
State grants	16,415
State on-behalf payments received	326,424
State on-behalf payments (used)	(326,424)
Sale of equipment	7,500
Donated commodities received	107,688
Donated commodities (used)	(107,688)
Total nonoperating revenues	1,603,781
CHANGE IN NET POSITION	(49,162)
NET POSITION - BEGINNING	324,346
NET POSITION - ENDING	\$ 275,184

See the accompanying notes to the financial statements.

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

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 143,820
Payments to suppliers	(1,082,201)
Payments to employees	(826,923)
Net cash provided (used) by operating activities	<u>(1,765,304)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants and contributions	<u>1,596,281</u>
Net cash provided (used) by noncapital and related financing activities	<u>1,596,281</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Retirement of assets	3,764
Sale of capital assets	7,500
Net cash provided (used) by capital and related financing activities	<u>11,264</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(157,759)
CASH BALANCE, BEGINNING	<u>62,619</u>
CASH BALANCE, ENDING	<u><u>(95,141)</u></u>
Reconciliation of operating income (loss) to net cash used	
by operating activities:	
Operating income (loss)	(1,652,943)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	33,896
Changes in assets and liabilities:	
Receivables	(140,187)
Inventories	(1,574)
Accrued liabilities	(4,496)
Net cash used by operating activities	<u>\$ (1,765,304)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$107,688 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

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

		<u>SCHOOL ACTIVITIES</u>
ASSETS		
Cash and cash equivalents	\$	327,102
Accounts receivable		<u>6,406</u>
Total Assets		<u><u>333,508</u></u>
 LIABILITIES		
Accounts payable		23,927
Due to student groups		<u>309,581</u>
Total Liabilities		<u><u>333,508</u></u>
 NET POSITION HELD IN TRUST	 \$	 <u><u>-</u></u>

See the accompanying notes to the financial statements.

LETCHER 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 Letcher 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 Letcher 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 Letcher 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:

Letcher County Board of Education Finance Corporation

The Board authorized establishment of the Letcher 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 Letcher 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) 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 are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

(C) Capital Project Funds

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.

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. This is a major fund of the District.

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

Basis of Accounting

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Property Taxes

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

The property tax rates assessed (including exonerations) for the year ended June 30, 2013, to finance the General Fund operations were \$.461 per \$100 valuation of real property, \$.461 per \$100 valuation for business personal property and \$.496 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Activities

<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

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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – CASH AND CASH EQUIVALENTS

The District maintains their cash and investments with various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value. Federal depository insurance and pledged securities cover these deposits as shown below.

	Bank Balance
	<u> </u>
<u>Whitaker Bank</u>	<u>Demand</u>
FDIC	\$ 96,164
Securities pledged to district	<u> -</u>
Bank balance	<u><u>\$ 96,164</u></u>
<u>Community Trust Bank</u>	<u>Demand</u>
FDIC	\$ 250,000
Securities pledged to district	<u> 4,794,704</u>
Bank balance	<u><u>\$ 5,044,704</u></u>
	Book Balance
	<u> </u>
	<u>Cash Equivalents</u>
Governmental Activities	\$ 2,677,757
Business-type Activities	(95,141)
Agency funds	<u> 327,102</u>
Total carrying amount	<u><u>\$ 2,909,718</u></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	\$ 6,929,842	\$ -	\$ -	\$ 6,929,842
Land improvements	1,926,894	-	-	1,926,894
Buildings	46,352,729	-	-	46,352,729
Technology equipment	2,602,679	-	2,095,331	507,348
Vehicles	5,043,479	-	-	5,043,479
General equipment	1,153,435	-	-	1,153,435
Construction in progress	<u>8,408,945</u>	<u>2,310,909</u>	<u>-</u>	<u>10,719,854</u>
Total at historical cost	\$ <u>72,418,003</u>	\$ <u>2,310,909</u>	\$ <u>2,095,331</u>	\$ <u>72,633,581</u>
Less: Accumulated depreciation				
Land improvements	\$ 329,341	\$ 9,656	\$ -	\$ 338,998
Buildings	14,266,900	452,317	-	14,719,217
Technology equipment	2,226,129	126,896	1,887,687	465,338
Vehicles	4,060,417	227,934	-	4,288,352
General equipment	<u>733,811</u>	<u>14,289</u>	<u>-</u>	<u>748,100</u>
Total accumulated depreciation	\$ <u>21,616,598</u>	\$ <u>831,092</u>	\$ <u>1,887,687</u>	\$ <u>20,560,004</u>
Governmental Activities				
Capital Assets-net	\$ <u>50,801,405</u>	\$ <u>1,479,817</u>	\$ <u>207,644</u>	\$ <u>52,073,577</u>
<u>Business-Type Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Technology equipment	\$ 21,121	\$ -	\$ 22,535	\$ (1,414)
General equipment	<u>850,160</u>	<u>-</u>	<u>2,467</u>	<u>847,693</u>
Total at historical cost	\$ <u>871,282</u>	\$ <u>-</u>	\$ <u>25,002</u>	\$ <u>846,279</u>
Less: Accumulated depreciation				
Technology equipment	16,199	1,158	18,771	(1,414)
General equipment	<u>640,216</u>	<u>32,738</u>	<u>2,467</u>	<u>670,486</u>
Total accumulated depreciation	\$ <u>656,414</u>	\$ <u>33,896</u>	\$ <u>21,238</u>	\$ <u>669,072</u>
Business-Type Activities				
Capital Assets-net	\$ <u>214,868</u>	\$ <u>(33,896)</u>	\$ <u>3,764</u>	\$ <u>177,207</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE F – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the Letcher County School District Finance Corporation aggregating \$25,115,000 and \$1,490,000 is the portion due within one year.

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 Letcher County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The 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, interest rates, and outstanding balances, at June 30, 2013 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012 Bonds</u>			<u>2013 Bonds</u>
				<u>Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u>
2010	\$ 4,560,000	8/1/2030	1.25-6%	\$ 4,368,683	\$ -	\$ 168,683	\$ 4,200,000
2012R	14,730,000	6/1/2029	2.0 - 3.375%	14,335,000		415,000	13,920,000
2011R	2,130,000	8/1/2023	1.0 - 3.125%	2,105,000		30,000	2,075,000
2005	1,800,000	6/1/2025	3.9%	1,335,000		75,000	1,260,000
2012	2,460,000	8/1/2032	.8-3.05%		2,460,000		2,460,000
2001	4,750,000	10/1/2014	2.5-4.125%	1,470,000		475,000	995,000
2003R	455,000	6/1/2014	1.7-3.9%	100,000		50,000	50,000
2003B	3,255,000	8/1/2023	2.5-5%	305,000		150,000	155,000
				<u>\$ 24,018,683</u>	<u>\$ 2,460,000</u>	<u>\$ 1,363,683</u>	<u>\$ 25,115,000</u>

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission 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:

(SEE SCHEUDLE ON NEXT PAGE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Year</u>	<u>Local</u>		<u>SFCC</u>		<u>Federal Rebate</u>	<u>Total Principal</u>	<u>Total Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>			
2014	\$ 830,215	\$ 531,686	\$ 659,785	\$ 298,340	\$ (71,282)	\$ 1,490,000	\$ 758,744
2015	854,793	505,217	585,207	279,164	(69,503)	1,440,000	714,877
2016	867,621	485,596	472,379	266,174	(67,425)	1,340,000	684,345
2017	895,296	458,898	484,704	253,852	(65,065)	1,380,000	647,685
2018	921,028	431,020	498,972	239,583	(62,402)	1,420,000	608,200
2019-2023	4,993,875	1,704,618	2,841,125	930,677	(262,654)	7,835,000	2,372,641
2024-2028	5,496,537	867,209	1,718,463	446,975	(153,660)	7,215,000	1,160,524
2029-2033	1,959,097	116,224	1,035,903	86,814	(127,313)	2,995,000	75,724
	<u>\$ 16,818,462</u>	<u>\$ 5,100,466</u>	<u>\$ 8,296,538</u>	<u>\$ 2,801,579</u>	<u>\$ (879,303)</u>	<u>\$ 25,115,000</u>	<u>\$ 7,022,742</u>

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 \$960,680. 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 – CAPITAL LEASE PAYABLE

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

<u>Capital Lease Issues</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012 Capital Lease</u>			<u>2013 Capital Lease</u>
				<u>Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u>
2003	410,266	3/1/2013	2-3.9%	\$ 38,786	\$	\$ 38,786	\$ -
2004	351,250	3/1/2014	1-3.5%	64,606		31,783	32,823
2005	\$ 320,803	3/1/2015	3-3.625%	95,043		34,661	60,382
				<u>\$ 198,435</u>	<u>\$ -</u>	<u>\$ 105,230</u>	<u>\$ 93,205</u>

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:

(SEE SCHEDULE ON NEXT PAGE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2014	\$ 62,508		\$ 3,301		\$ 65,809
2015	30,697		1,113		31,810
	<hr/>		<hr/>		<hr/>
	\$ 93,205		\$ 4,413		\$ 97,618
					<hr/>
Total minimum lease payments				\$	97,618
Less: Amount representing interest					(4,413)
Present Value of Net Minimum Lease Payments				\$	93,205

NOTE H – RETIREMENT PLANS

Kentucky Teachers’ Retirement System

Plan Description – The Somerset Independent 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 KY Department of Education (KDE).

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

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

Medical Insurance Plan

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

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, two and a half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and a quarter percent (1.25%) is paid by member contributions and .75% from state appropriation and 1.0% from the employer. Members after July 1, 2008 contribute an additional .75% to the medical insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Letcher County School System's total payroll for the year was \$19,850,403. The payroll for employees covered under KTRS was \$14,512,066. For the year ended June 30, 2013, the Commonwealth contributed \$1,692,418 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$239,913, 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 which were \$2,172,245, \$2,231,205 and \$2,389,543 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. The current District contribution rate for employees is 19.55%. The District contributed \$920,386 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 \$1,166,822, \$1,144,508 and \$1,100,003 respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE I – COMMITMENTS

The Letcher County School District committed \$642,426 in the Construction Fund for construction projects.

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. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE N – DEFICIT OPERATING BALANCES

The following fund had an operating deficit at the end of the fiscal year causing a reduction in the fund balance.

<u>Fund</u>	<u>Reduction in Fund Balance / Net position</u>
Governmental Activities	\$ (1,103,520)
General	(495,573)
Food Service	\$ (49,162)

NOTE O - 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 P – 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	\$ 46,229
Capital Outlay Fund	General Fund	Operating Expenses	53,535
Capital Outlay Fund	Debt Service Fund	Debt Payments	235,400
FSPK Fund	Debt Service Fund	Debt Payments	\$ 1,047,391

NOTE Q – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on-behalf of the Letcher County School District for teacher’s retirement, health insurance, life insurance, administrative fees, 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 \$4,947,297 for the General Fund, \$885,958 for the Debt Service Fund and \$326,424 for the School Food Services Fund.

NOTE R – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Food Service	\$ 97,977	Food Service Operations
Construction	642,426	Future Construction
Debt Service	\$ 34,933	Debt Service

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE S – PRIOR PERIOD ADJUSTMENT

Due to GASB 65, bond discounts were overstated by \$37,776, bond issue costs were overstated by \$189,686 and bond premiums were overstated by \$219,654 causing net position to be overstated as follows:

Net Position July 1, 2012	\$ 31,224,394
Prior Period Adjustment	(7,808)
Restated Net Position July 1, 2012	<u>\$ 31,216,586</u>

NOTE T – SUBSEQUENT EVENTS

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

Letcher County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

For the year ended June 30, 2013

	Other Governmental Funds		
	Capital Outlay	FSPK	Total
Revenues			
From Local Sources			
Taxes			
Property	\$ -	\$ 550,794	\$ 550,794
Intergovernmental - State	288,935	496,597	785,532
Total Revenues	288,935	1,047,391	1,336,326
Expenditures			
Debt Service			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	288,935	1,047,391	1,336,326
Other Financing Sources (Uses)			
Transfers In			-
Transfers (Out)	(288,935)	(1,047,391)	(1,336,326)
Total Other Financing Sources (Uses)	(288,935)	(1,047,391)	(1,336,326)
Net Change in Fund Balances	-	-	-
Fund Balance beginning	-	-	-
Fund Balance ending	\$ -	\$ -	\$ -

See the accompanying notes to the financial statements.

Letcher County School District
Combining Balance Sheet - School Activity Funds
As of June 30, 2013

	<u>LETCHER CENTRAL HIGH SCHOOL</u>	<u>WHITESBURG MIDDLE SCHOOL</u>	<u>LETCHER MIDDLE SCHOOL</u>	<u>ARLIE BOGGS ELEMENTARY</u>	<u>COWAN ELEMENTARY</u>	<u>FLEMING NEON ELEMENTARY</u>
ASSETS						
Cash and cash equivalents	\$ 171,809	\$ 3,192	\$ 18,155	\$ 2,288	\$ 25,005	\$ 32,675
Accounts receivable	<u>2,000</u>	<u>340</u>	<u>537</u>	<u>-</u>	<u>718</u>	<u>-</u>
Total Assets	<u><u>173,809</u></u>	<u><u>3,532</u></u>	<u><u>18,692</u></u>	<u><u>2,288</u></u>	<u><u>25,723</u></u>	<u><u>32,675</u></u>
LIABILITIES AND FUND BALANCES						
Accounts payable	<u>4,668</u>	<u>1,373</u>	<u>55</u>	<u>-</u>	<u>151</u>	<u>-</u>
Total Liabilities	<u>4,668</u>	<u>1,373</u>	<u>55</u>	<u>-</u>	<u>151</u>	<u>-</u>
Fund Balance						
School activities	<u>169,141</u>	<u>2,158</u>	<u>18,637</u>	<u>2,288</u>	<u>25,572</u>	<u>32,675</u>
Total Liabilities and Fund Balances	<u><u>\$ 173,809</u></u>	<u><u>\$ 3,532</u></u>	<u><u>\$ 18,692</u></u>	<u><u>\$ 2,288</u></u>	<u><u>\$ 25,723</u></u>	<u><u>\$ 32,675</u></u>

See the accompanying notes to the financial statements.

Letcher County School District
Combining Balance Sheet - School Activity Funds
As of June 30, 2013

	<u>LETCHER ELEMENTARY</u>	<u>MARTHA JANE POTTER ELEMENTARY</u>	<u>WEST WHITESBURG ELEMENTARY</u>	<u>SCHOOL ACTIVITY FUNDS TOTALS</u>
ASSETS				
Cash and cash equivalents	\$ 5,027	\$ 26,378	\$ 42,573	\$ 327,102
Accounts receivable	102	300	2,408	6,406
Total Assets	<u>5,129</u>	<u>26,678</u>	<u>44,982</u>	<u>333,508</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	79	5,504	12,096	23,927
Total Liabilities	<u>79</u>	<u>5,504</u>	<u>12,096</u>	<u>23,927</u>
Fund Balance				
School activities	<u>5,050</u>	<u>21,174</u>	<u>32,885</u>	<u>309,581</u>
Total Liabilities and Fund Balances	<u>\$ 5,129</u>	<u>\$ 26,678</u>	<u>\$ 44,982</u>	<u>\$ 333,508</u>

See the accompanying notes to the financial statements.

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

	LETCHER COUNTY CENTRAL HIGH SCHOOL	WHITESBURG MIDDLE SCHOOL	LETCHER MIDDLE SCHOOL	ARLIE BOGGS ELEMENTARY	COWAN ELEMENTARY	FLEMING NEON ELEMENTARY	LETCHER ELEMENTARY
REVENUES							
Student revenues	\$ 723,855	\$ 70,371	\$ 106,966	\$ 53,135	\$ 101,301	\$ 138,201	\$ 65,087
EXPENSES							
Student activities	683,164	91,564	88,587	60,685	99,115	137,527	72,261
Loss of funds		4,936					
Excess (Deficit) of Revenues Over Expenditures	40,691	(26,130)	18,379	(7,550)	2,186	674	(7,174)
Fund Balance July 1, 2012	<u>128,450</u>	<u>28,288</u>	<u>257</u>	<u>9,838</u>	<u>23,386</u>	<u>32,000</u>	<u>12,224</u>
Fund Balance June 30, 2013	<u>\$ 169,141</u>	<u>\$ 2,158</u>	<u>\$ 18,637</u>	<u>\$ 2,288</u>	<u>\$ 25,572</u>	<u>\$ 32,675</u>	<u>\$ 5,050</u>

See the accompanying notes to the financial statements.

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

	<u>MARTHA JANE POTTER ELEMENTARY</u>	<u>WEST WHITESBURG ELEMENTARY</u>	<u>AGENCY FUNDS TOTALS</u>
REVENUES			
Student revenues	\$ 100,962	\$ 59,585	\$ 1,419,464
EXPENSES			
Student activities	107,458	64,275	1,404,637
Loss of funds			
Excess (Deficit) of Revenues Over Expenditures	(6,496)	(4,690)	9,891
Fund Balance July 1, 2012	<u>27,670</u>	<u>37,575</u>	<u>299,690</u>
Fund Balance June 30, 2013	<u>\$ 21,174</u>	<u>\$ 32,885</u>	<u>\$ 309,581</u>

See the accompanying notes to the financial statements.

Letcher County School District
Statement of Revenue, Expenses, Changes in Fund Balance - Letcher Co. Central High School
For the period ended June 30, 2013

	<u>FUND BALANCE</u> <u>June 30, 2012</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> <u>June 30, 2013</u>
GENERAL FUND	\$ 7,337	\$ 18,352	\$ 15,901	\$ (2,371)	\$ 7,417
FLOWER FUND	85	231	246	-	70
BAND DISNEY TRIP	561	107,048	85,772	(3,653)	18,184
CIA	462	-	-	-	462
SCHOOL CULTURE	388	-	-	-	388
GWEN WHITAKER	-	-	-	-	-
BOYS & GIRLS PROGRAM	-	6,204	3,799	(2,405)	-
PAGES FOR PATRIOTS	501	160	-	-	661
BAND EUROPE TRIP	0	-	-	-	0
LOST & DAMAGED BOOKS	992	-	-	-	992
TESTING	3,555	2,365	2,817	-	3,103
YOUTH SERVICE CENTER	200	1,186	1,076	-	310
LCEAA	-	-	-	-	-
SOCIAL STUDIES	78	-	-	-	78
MOUNTAIN LINE	828	87	-	-	915
FUTURE EDUCATORS	227	-	287	60	-
AVID (GEAR-UP)	533	-	-	-	533
FACULTY VENDING	554	4,347	4,245	-	656
ACF	455	8,535	10,091	2,248	1,147
BUDDY ROE MEMORIAL	-	750	-	-	750
BASEBALL	15,999	39,905	41,876	800	14,828
baseball transportation	1,110	59	1,110	-	59
MIDDLE SCHOOL BASEBALL	2,097	7,466	8,812	-	751
SPEECH	1,119	934	2,040	-	12
MIDDLE SCHOOL SOFTBALL	762	787	966	-	582
BOYS BASKETBALL	17,192	47,629	37,198	4,358	31,980
BOYS BB TRANSPORTATION	275	-	1,478	1,586	384
GIRLS BASKETBALL	20,452	43,343	55,090	(971)	7,733
GIRLS BB TRANSPORTATION	22	-	3,046	3,507	484
FOOTBALL	8,523	36,821	44,870	12,357	12,832
TRAVEL ACOUNT	1,199	-	-	-	1,199
COMMUNITY BASED	8	2,500	1,761	-	746
football transportation	255	-	4,815	4,560	-
GOLF	356	4,120	3,530	-	946
SOFTBALL	575	7,474	5,079	-	2,970
softball transportation	1,712	-	1,712	-	-
TENNIS	(460)	6,790	5,561	-	769
TENNIS TRANSPORTATION	-	-	-	-	-
TRACK	0	6,104	5,331	-	774
TRACK TRANSPORTATION	-	-	-	-	-
VOLLEYBALL	1,327	12,448	12,327	179	1,627
volleyball transportation	359	-	1,514	1,155	-
CROSS COUNTRY	-	10,067	8,381	(936)	750
cross country transportation	-	-	936	936	-
CHEERLEADING	3,618	29,237	25,490	(338)	7,027
cheerleading transportation	1	-	-	-	1
wrestling transportation	54	-	1,058	1,004	-
WRESTLING	102	3,993	1,977	(1,004)	1,115
GIRLS SOCCER TRANSPORTATION	1,511	-	1,621	110	-
COUGAR DANCE TEAM	1,664	5,432	5,528	2,338	3,905
DANCE TRANSPORTATION	621	-	-	-	621
DRAMA DRINK SALES	-	14,670	8,499	(4,804)	1,366
FB VARSITY CONCESSIONS	1	8,900	4,379	(4,522)	0
FB RESERVED SEATS	4,851	7,704	1,966	(4,865)	5,725
DRAMA	857	33,573	33,726	6,804	7,508
ACTIVITY COORDINATOR	-	-	-	-	-
BIOLOGY	632	500	-	-	1,132
STLP	1,167	495	1,365	-	298
AP SPANISH	601	-	-	-	601
BOYS SOCCER TRANSPORTATION	839	-	1,704	866	2
PTO	705	-	-	-	705
SOCCER	46	-	-	-	46
BOYS SOCCER	853	5,899	5,006	(866)	880
GIRLS SOCCER	1,341	2,863	2,617	(110)	1,478
LETCHER CENTRAL STATE	200	-	-	-	200
ACADEMIC TEAM	949	3,745	3,243	-	1,451
ARCHERY	2,313	24,808	26,084	681	1,718
JUMBO TRON	2	8,163	-	(8,165)	0
FANTASY LIT	213	45	-	-	257
NATIONAL HISTORY DAY	-	-	-	-	-
BETA CLUB	387	-	-	-	387
THE DEN	7	57	-	-	64
PEER COUNSELING	1	-	-	-	1
DISTRICT PROGRAM	247	6,290	3,278	(3,258)	0
DISTRICT TOURNAMENT	228	-	-	-	228
REGIONAL TOURNAMENT	235	34,293	29,519	(4,963)	46
DANCE DRINK SALES	-	8,827	6,359	(2,000)	468
FCCLA	154	5,487	5,859	218	(0)
BIBLE CLUB	98	618	-	-	716
STUDENT GOVERNMENT	519	-	-	-	519
PEP CLUB	293	-	-	-	293
JR. ROTC	1,251	338	225	-	1,364
BAND	1,075	22,174	27,020	4,123	351
BAND TRANSPORTATION	706	-	1,206	500	-

See the accompanying notes to the financial statements.

Letcher County School District
Statement of Revenue, Expenses, Changes in Fund Balance - Letcher Co. Central High School
For the period ended June 30, 2013

BAND UNIFORMS	600	500	969	-	131
SENIOR ENG IV	443	-	-	-	443
CHOIR	-	712	637	-	75
POWDER PUFF	33	-	-	-	33
SCORETABLE ADS	3,501	5,500	-	(4,001)	5,000
LIBRARY	2,409	185	108	-	2,486
SENIOR TRIP	349	100,193	101,364	842	20
SR. JR. PROM	170	8,893	8,738	-	325
ANNUAL	<u>2,962</u>	<u>4,050</u>	<u>1,950</u>	<u>-</u>	<u>5,062</u>
	<u>\$ 128,450</u>	<u>\$ 723,855</u>	<u>\$ 683,164</u>	<u>\$ (0)</u>	<u>\$ 169,141</u>

See the accompanying notes to the financial statements.

LETCHER 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 Letcher 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 \$107,688.

LETCHER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Expended
U.S. Department of Agriculture				
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 13		510.4950	\$ N/A	\$ 107,688
Passed Through State Department of Education				
National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	696,528
Fiscal Year 12		7750002 12	N/A	217,531
School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	N/A	498,458
Fiscal Year 12		7760005 12	N/A	155,875
Summer Food Service Program for Children	10.559			
Fiscal Year 13		7690024 13	N/A	205
Fiscal Year 12		7690024 12	N/A	1,456
Summer Food Service Program for Children	10.559			
Fiscal Year 13		7740023 13	N/A	1,976
Fiscal Year 12		7740023 12	N/A	14,043
Child Nutrition Cluster Subtotal				<u>1,586,072</u>
Fresh Fruit & Vegetable Program	10.582			
Fiscal Year 12		7720012 12	N/A	59
Total US Department of Agriculture				<u>1,693,819</u>
U.S. Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	1,428,678	1,038,363
Fiscal Year 13M		3100002 13	30,000	28,605
Fiscal Year 12		3100002 12	1,617,685	480,491
* Title I School Improvement Grants, Part A	84.010A			
Fiscal Year 12		3100202 12	79,687	42,014
				<u>1,589,472</u>
Homeless Children & Youth	84.196A			
Fiscal Year 12		3990002 12	34,535	14,660
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	736,975	736,975
Special Education-Preschool Grants	84.173A			
Fiscal Year 13		3800002 13	39,783	7,282
Fiscal Year 12		3800002 12	39,954	24,845
Special Education Cluster Subtotal				<u>769,102</u>
Vocation Education-Basic Grants to States	84.048			
Fiscal Year 13		4621232 13	12,017	12,017
Fiscal Year 13		4621332 13	86,000	84,861
				<u>96,878</u>
Perkins Reserve Grant Fund	84.243			
Fiscal Year 12		4621232 12	100,000	2,472
* 21st Century Community Learning Centers Program	84.287C			
Fiscal Year 13S		3400002 13	5,000	5,000
Fiscal Year 13		3400002 13	150,000	56,697
Fiscal Year 12		3400002 12	150,000	145,090
Fiscal Year 11		3400002 11	150,000	41,068
				<u>247,855</u>
* Rural Education	84.358B			
Fiscal Year 13		3140002 13	62,330	62,166
Fiscal Year 12		3140002 12	70,523	55,748
				<u>117,914</u>
Education Technology State Grants	84.318X			
Fiscal Year 11		3210002 11	5,446	786
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 13		3230002 13	296,311	47,345
Fiscal Year 12		3230002 12	299,886	214,120
				<u>261,465</u>
Education Jobs Fund	84.410			
Fiscal Year 11		EJOB00 11	857,990	6,039
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	65,234	53,921
Total U.S. Department of Education				<u>3,160,565</u>
U.S. Department of the Army				
ROTC	12.000			
Fiscal Year 13		5043	58,577	58,577
Total U.S. Department of the Army				<u>58,577</u>

LETCHER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2013

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Expended
U.S. Department of Commerce Passed Through PRIDE KCE PRIDE Environmental Education	11.420			
Fiscal Year 13		2703	250	211
Fiscal Year 12		2702	3,750	1,746
Total U.S. Department of Commerce				<u>1,957</u>
US Department of Health and Human Services Passed Through Kentucky School Board Association Medical Assistance Program	93.778			
Fiscal Year 13		110.4810	\$ N/A	113,531
Total US Department of Health and Human Services				<u>113,531</u>
Total Federal Programs Expended				\$ <u>5,028,448</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 Letcher County Board of Education and
State Committee for School District Audits
Whitesburg, 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 Letcher County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Letcher 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 Letcher 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 Letcher County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Letcher County School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain 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 District's Audit Contract and Requirements or Appendices.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness [13-1].

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. We did not locate any significant deficiencies that were not considered to be material weaknesses

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Letcher 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.

Letcher County School District’s Response to Findings

The District’s response to the finding identified in our audit is described in the accompanying corrective action plan. The District’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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 Letcher County Board of Education and
State Committee for School District Audits
Whitesburg, Kentucky

Report on Compliance for Each Major Federal Program

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

Opinion on Each Major Federal Program

In our opinion, Letcher 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 Letcher 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 Letcher 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 Letcher 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

LETCHER 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?	Yes
If so, was any significant deficiencies material (GAGAS)?	Yes
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] Rural Education [CFDA 84.358B] 21st Century Community Learning Centers Program [CFDA 84.287C]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

13-1

Statement of the Condition: Potential misappropriation of fiduciary assets discovered by the auditor.

Criteria for Condition: Internal controls should be in place to prevent, or detect and correct misstatements on a timely basis.

Cause of the Condition: A deficiency, or combination of deficiencies, in internal control, that potentially allowed the loss of funds and was not prevented, or detected and corrected on a timely basis.

Effect of the Condition: Potential loss of funds within the fiduciary funds.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

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

No findings at the major federal award programs level.

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

Finding 12-1

Statement of the Condition: Letcher County Central High School has not complied with the following Accounting Procedures for Kentucky School Activity Funds “Redbook” for at least three consecutive years:

- (1) Activity Fund accounts ending the fiscal year with deficit balances,
- (2) The Multiple Receipt Form (F-SA-6) is not consistently being used when a teacher or sponsor is collecting money from students,
- (3) Teachers/sponsors not turning in money collected from students or other sources timely,
- (4) Fund Raiser Worksheets (F-SA-2B) are not being utilized for all fundraising events.

Criteria for Condition: (1) Activity fund accounts cannot have a deficit balance at year end. (2) Each day that money is collected from students, the teacher/sponsor must properly fill out a Multiple Receipt Form (F-SA-6) and have the student sign it when the transfer of cash occurs. This document along with the money is to be turned in to the school bookkeeper daily. (3) 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. (4) For each fundraising event, the sponsor responsible for the administration of the fundraiser shall fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor shall submit the completed Fund Raiser Worksheet to the Principal for review. After review, the Principal shall give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Cause of the Condition: The school corrective action plan has not been implemented by management for three consecutive years.

Effect of the Condition: The “Redbook” is state mandated policies and procedures for schools to ensure money collected is recorded and reported. Absence of corrective action calls in question that all money collected is being recorded.

Subsequent Review: Letcher County Central High School improved on all conditions. However, teachers/sponsors are not consistently turning in the money collected from students or other sources timely. This condition is reported in the management letter.

LETCHER COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
Year Ended June 30, 2013

Date: October 21, 2013

Oversight Agency: Kentucky Department of Education

The *Letcher County School District* respectfully submits the following corrective action plan for the year ended June 30, 2013.

Name and Address of Independent Public Accounting Firm: White & Associates, PSC, 1407 Lexington Road, Richmond, Kentucky 40475.

Audit Period: For the year ended June 30, 2013.

The findings from the year ended June 30, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Implementation: Immediate.

13-1

Recommendation for Correction: Review all internal control procedures and correct causes for deficiencies.

Management Response to the Recommendation:

All internal control procedures will be reviewed and causes for deficiencies will be corrected. Precautions will be taken to protect fiduciary funds from loss and limit the liability of persons handling money. Special attention will be given to segregations of duties. The school principal will be the administrator of each schools' activity fund. The school principal will be responsible for monitoring the duties of school treasurer. This monitoring will include reviewing bank statements, deposit tickets, disbursements, financial statements, and bank reconciliation. The school principal will also be one of the two required signatures on all school activity fund checks. The school treasurer will be responsible for collecting school activity fund money including preparation of deposit tickets, depositing money, preparing checks for disbursement, preparing financial reports and bank reconciliation. The school treasurer will be one of the two required signatures on all school activity fund checks. A third person such as club sponsors will be involved in the accounting of their specific funds by reviewing their financial statements, receiving copies of deposit tickets to compare to receipts, and copies of disbursements. All forms and receipts will be pre-numbered, all purchases will require purchase orders, all deposits will be detailed as to cash and copies of checks attached. All bank deposits will be timely. The district finance officer will provide guidance, oversight and audit of all school activity accounts as is deemed necessary. Redbook training will be given principals, treasurers, club sponsors, and coaches.

If the Kentucky Department of Education has questions regarding this plan, please call me at 606.633.4455.

Sincerely yours,

Brian Johnson

Brian Johnson, Finance Officer

MANAGEMENT LETTER

Letcher County School District
Whitesburg, Kentucky

In planning and performing our audit of the financial statements of the Letcher 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 Letcher County School District. The conditions observed are as follows:

LETCHER COUNTY CENTRAL HIGH SCHOOL

1-13

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on bookstores, pencil machines, or concessions.

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: Inventory Control Worksheets (F-SA-5) will be correctly filled out monthly on all activities that require one. Completed worksheets will be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

2-13

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 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.

3-13

Statement of Condition: Instances of lack of segregation of duties in the current process of collecting money from students.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: Precautions will be taken to protect activity fund money from loss and limit the liability of persons handling money. All money will be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

4-13

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 shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

5-13

Statement of Condition: The teacher/sponsor is not consistently dating the Multiple Receipt Form (F-SA-6).

Recommendation for Correction: The Multiple Receipt Form (F-SA-6) must be turned in daily by the teacher/sponsor. The form must be signed and dated by the teacher/sponsor and the bookkeeper.

Management Response to the Recommendation: The Multiple Receipt Form (F-SA-6) will be turned in daily by the teacher/sponsor. The form will be signed and dated by the teacher/sponsor and the bookkeeper.

6-13

Statement of Condition: There were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

7-13

Statement of Condition: Instances of advances for events that involve students being made without proper supporting documentation.

Recommendation for Correction: Make sure that all advances have supporting documentation for all monies spent. The balance in cash shall be receipted in and deposited timely. If the original invoice/receipts are not available, then a Standard Invoice (F-SA-8) shall be completed and signed by the principal, this must also have the payee's signature.

Management Response to the Recommendation: All advances will have supporting documentation for all monies spent. The balance in cash shall be receipted in and deposited timely. If the original invoice/receipts are not available, then a Standard Invoice (F-SA-8) shall be completed and signed by the principal, this must also have the payee's signature.

8-13

Statement of Condition: Checks written to "cash" for change or start-up money.

Recommendation for Correction: All checks for start-up money or change shall be written to the athletic director, sponsor or responsible person.

Management Response to the Recommendation: All checks for start-up money or change shall be written to the athletic director, sponsor or responsible person.

WHITESBURG MIDDLE SCHOOL

9-13

Statement of Condition: Instances of lack of segregation of duties in the current process of collecting money from students.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer including concession money and ticketed sales. All money shall be recorded on a Multiple Receipt Form (F-SA-6) or the appropriate form by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: All money will be collected by someone other than the school treasurer including concession money and ticketed sales. All money shall be recorded on a Multiple Receipt Form (F-SA-6) or the appropriate form by the staff member that collects it and then submitted to the school treasurer daily.

10-13

Statement of Condition: The General Fund money was used to purchase items for teachers (ie. Gift cards and staff dinners).

Recommendation for Correction: Only money generated by teachers can be spent for teachers. There should be a Flower/Teacher/Staff Account that records funds generated and spent by teachers.

Management Response to the Recommendation: Only money generated by teachers can be spent for teachers. There is a Flower and Teacher Account

11-13

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 unless the amount is less than \$100 which will be put in the school safe. 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.

12-13

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being used when a teacher or sponsor is collecting money from students.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

13-13

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 shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

14-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

15-13

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on pencil machines.

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: The pencil machine will be delegated to an individual. Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

16-13

Statement of Condition: A ticket taker at the games is being paid directly out of activity fund monies.

Recommendation for Correction: Payment for any extra duties and services performed by any person that currently works as an employee of the school district, shall be paid through payroll at the district level. The school may reimburse the district for this expense, but the check from the activity fund account is written to the school district.

Management Response to the Recommendation: Payment for any extra duties and services performed by any person that currently works as an employee of the school district, shall be paid through payroll at the district level. The school may reimburse the district for this expense, but the check from the activity fund account is written to the school district.

17-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The Principal will initial and date the front page of the bank statement after a complete review.

LETCHER MIDDLE SCHOOL

18-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer.

Management Response to the Recommendation: Letcher Middle School shall ensure that mail is opened and checks are given to the school treasurer by another person.

19-13

Statement of Condition: Purchase Orders are being utilized but not consistently.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Letcher Middle School shall make sure that a Purchase Order is issued prior to ordering.

20-13

Statement of Condition: Paid invoices are not consistently marked "Paid" with the check number and date paid noted on the invoice.

Recommendation for Correction: After the school treasurer writes/prints the check, the invoice is to be clearly marked "Paid" along with the check number and date paid noted.

Management's Response to the Recommendation: Letcher Middle School shall make sure that all invoices are marked Paid with the check number and the date paid.

21-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Letcher Middle School s Principal shall initial and date the front page of the bank statement after reviewing.

ARLIE BOGGS ELEMENTARY

22-13

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on bookstores, pencil machines, concessions and vending machines (vending machines exempt if full service).

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: Group sponsors were trained in Redbook prior to the beginning of this year. This worksheet has still been delinquent in being turned in. This year we have implemented a new procedure that requires sponsors to submit all fundraiser forms including F-SA-5 prior to a check being given to the sponsor for expenses.

23-13

Statement of Condition: The bookkeeper is not consistently signing and dating the Multiple Receipt Form (F-SA-6).

Recommendation for Correction: The Multiple Receipt Form (F-SA-6) must be turned in daily by the teacher/sponsor. The form must be signed and dated by the teacher/sponsor and the bookkeeper.

Management Response to the Recommendation: Last year as well as this year our bookkeeper position has been filled by a temporary sub. This vacant position has caused unique circumstances. One of which requires having other individuals signing checks and financial reports. The substitute bookkeeper was under the impression that they were not permitted to sign ALL documents. I have spoken with our bookkeeper and he will begin signing and dating all MR forms (F-SA-6).

COWAN ELEMENTARY

24-13

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 documentation along with money will be turned in to the office the day it is collected by the sponsor or teacher.

25-13

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Receipts should be written to the person who turns the money in and signs the Multiple Receipt Form (F-SA-6).

Management Response to the Recommendation: Receipts will be written to the person signing the Multiple Receipt Form.

26-13

Statement of Condition: The Principal is not consistently dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The Principal will initial and date the front page of the bank statement after reviewing.

FLEMING NEON ELEMENTARY

27-13

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Receipts should be written to the person who turns the money in and signs the Multiple Receipt Form (F-SA-6).

Management Response to the Recommendation: All receipts will be written to the person turning money into the school treasurer. Names will be used instead of account or vendor.

28-13

Statement of Condition: The Principal is not consistently initialing and dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The principal will always initial and date the front page of the bank statement each month.

LETCHER ELEMENTARY SCHOOL

29-13

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: Money collected by teachers and sponsors will be submitted to the school treasurer on the day it is collected. Those monies shall be counted prior by the teacher/sponsor and recorded on the appropriate form(s), then given to the school treasurer, along with appropriate documentation, on the same day it is received. If money is given to the administrator after the treasurer's work day ends, the money will be recounted by the administrator in the presence of the person submitting the money, then secured in the school vault until it may be given to the treasurer for deposit on the first work day that follows.

30-13

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: No purchases will be made unless a purchase order has been approved in advance, the money obligated, and a PO number issued; only then may the order be placed or materials be purchased.

31-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer. The receipt must be written to the person turning the money into the treasurer.

Management Response to the Recommendation: All mail is currently (and will continue to be) sorted and/or opened by the Family Resource Coordinator, a custodian or an instructional assistant (as assigned daily by the principal.) Any checks opened will continue to be recorded on the Multiple Receipt Form by the person opening the check and only then will the check be given to the school treasurer. A receipt will then be generated to the person who submitted the check to the treasurer for deposit.

32-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The principal currently reviews and initials each page of the bank statement, but will begin signing and dating the front page of the statement as well.

33-13

Statement of Condition: Instances of checks written not having two signatures (2758, 2825, 2842, 2853, 2854).

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 school treasurer will have all checks reviewed by the principal prior to mailing or paying invoices to ensure both signatures are in fact on the check.

MARTHA JANE POTTER ELEMENTARY

34-13

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: Secretary will make deposits everyday if receipts total over \$100.00

35-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer. The receipt must be written to the person turning the money into the treasurer.

Management Response to the Recommendation: Custodian always checks the mail if there are checks in the mail a multiple receipt form is filled out and submitted to the secretary with the checks. A receipt will be written to the person turning in the checks.

36-13

Statement of Condition: The Principal is not initialing and dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The principal will initial and date the bank statement after reviewing the bank statement.

WEST WHITESBURG ELEMENTARY

37-13

Statement of Condition: Activity Fund account “General” ended the fiscal year (June 30) with a deficit balance.

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to the Recommendation: The Principal will do a mid-month and end of month review of all activity accounts and all current and listed accounts shall remain with sufficient funds to keep a balance. If the account is a closed account, it will be designated as a closed account. If an account is deemed deficit, then money will transferred with proper forms and money resubmitted to the account that was transferred from as monitored by the Principal with appropriate form documentation.

38-13

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Receipts should be written to the person who turns the money in and signs the Multiple Receipt Form (F-SA-6).

Management Response to the Recommendation: All receipts shall be designated and written to the individuals that submit funds as they submit and sign the Multiple Receipt Form (F-SA-6).

39-13

Statement of Condition: School activity fund money used to provide non-instructional attendance incentives for the compulsory instructional day (inflatable’s and food).

Recommendation for Correction: Insure that all attendance incentives are considered instructional if purchased with activity fund or Board controlled monies. Non-instructional incentives shall be funded by non-tax, non-Board controlled dollars such as donations from local businesses, support/booster organizations or the PTA/PTO.

Management Response to the Recommendation: The Principal will only approve expenditures from allowed sources to ensure that Non-instructional incentives shall be funded by non-tax, non-Board controlled dollars such as donations from local businesses, support/booster organizations or the PTA/PTO.

40-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: As bank statements are opened by the Principal and signed, the statement will be dated at the same time. Date and time will be placed on each sheet along with Principal's signature.

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 are repeat conditions from the prior year: 1-13, 2-13, 6-13, 11-13, 12-13, 13-13, 14-13, 15-13, 17-13, 24-13, 27-13, 29-13, 34-13, and 39-13. All other prior year conditions have been implemented and corrected. Mr. Tony Sergent, 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