

ELLIOTT COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2014

Prepared by:

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

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INDEPENDENT AUDITOR'S REPORT

To the Elliott County Board of Education and
State Committee for School District Audits
Sandy Hook, 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 Elliott County School District as of and for the year ended June 30, 2014, 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 Elliott County School District, as of June 30, 2014, 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 Elliott 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 November 10, 2014, on our consideration of the Elliott 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 Elliott County School District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky
November 10, 2014

**ELLIOTT COUNTY PUBLIC SCHOOL DISTRICT
SANDY HOOK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

As management of the Elliott County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. 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 General Fund balance for the District was \$233,285 and ending with \$103,852.
- The district gave no raises to certified staff or classified staff for the period of July 1, 2013 – June 30, 2014.
- The General Fund had \$7.85 million in revenue, which primarily consisted of the SEEK program, property, utility and motor vehicle taxes. There were \$8.03 million expenditures in General Fund.
- The Board utilized the option provided in House Bill 269 to use Capital Outlay fund for maintenance and property insurance expenditures in the amount of \$15,042.
- The Board reviewed their bus fleet rotation schedule and chose not to purchase any new buses.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.
- Bonds were sold in August 2013 to finance additional renovation at the Lakeside Elementary for roof project totaling \$595,000. This bond sale along with prior year sale of \$4.5 million financed the Lakeside Elementary Renovation Project. Project was completed fall of 2013.
- Bonds were sold in May 2014 to finance Elliott County Guaranteed Energy Savings Project in the amount of \$1,205,000. Project includes various energy upgrades throughout the schools including a new geothermal hot and chilled water plant. The electrical scope of work will include routing power to all new mechanical equipment along with other electrical system renovations (lighting, etc).
- The Board entered into an agreement with the Kentucky Utilities Company to participate in a “Coal-Fired Boiler Replacement” Project. The grant was in the amount of \$526,943. The project consisted of replacement of one coal-fired boiler at the Elliott County High School with a geothermal heat pump system.
- The Elliott County School District continues to utilize computers as a result of a grant from the Kentucky Department of Commercialization. The computers are used to speed drug discovery research. The computers do double duty as a part of the Kentucky Dataseam Initiative, a state wide program that makes school computers available to the James Graham Brown Cancer Center of University of Louisville.

**ELLIOTT COUNTY PUBLIC SCHOOL DISTRICT
SANDY HOOK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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.

**ELLIOTT COUNTY PUBLIC SCHOOL DISTRICT
SANDY HOOK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Net Position (in millions)				
Assets	<u>2013</u>	<u>2014</u>		
Current Assets	\$ 1.33	\$ 1.19		
Noncurrent Assets	20.67	21.61		
Total Assets	22.00	22.80		
Deferred Outflows of Resources				
	.12	.09		
Liabilities				
Current Liabilities	.95	1.00		
Noncurrent Liabilities	11.88	12.73		
Total Liabilities	12.83	13.73		
Net Position				
Invested in capital assets (net of debt)	8.53	8.46		
Restricted	1.01	.99		
Unrestricted	(0.25)	(0.29)		
Total Net Position	\$ 9.29	\$ 9.16		

**ELLIOTT COUNTY PUBLIC SCHOOL DISTRICT
SANDY HOOK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

	Governmental Activities		Business-Type Activities	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Revenue				
Charges for services	\$ 110,449	\$ 181,903	\$ 51,327	\$ 49,485
Operating grants and contributions	1,517,747	1,418,978	582,141	760,495
Capital grants and contributions	799,536	899,117		
General revenues	7,932,298	7,902,769	541	364
Transfers			(45,206)	(35,000)
Total revenue	10,360,030	10,402,767	588,803	775,344
Expenses				
Instruction	5,637,265	5,810,638		
Student	148,666	147,112		
Instructional staff	410,747	237,631		
District administration	299,470	370,221		
School administration	426,168	424,757		
Business	384,451	405,166		
Plant operation & maintenance	945,388	902,300		
Student transportation	826,832	848,989		
Community service operation	196,598	190,238		
Amortization	22,648	22,648		
Loss retirement of assets	60	102,478		
Depreciation	743,914	713,457	2,165	1,445
Building Improvements		111,253		
Interest on long-term debt	283,139	337,725		
Food service operations	2,063		633,509	788,125
Total expenses	10,327,409	10,624,619	635,674	789,570
Extraordinary Item	(331,393)			
Change in net position	(298,772)	(221,850)	(46,871)	(14,225)
Net position beginning	9,636,314	9,185,247	154,097	107,226
Prior period adjustment	(152,294)	111,513		
Net position ending	\$ 9,185,247	\$ 9,074,910	\$ 107,226	\$ 93,001

Governmental Activities

Net position decreased.

Business-Type Activities

Net position declined because revenue from federal reimbursements was down due to participation and declining enrollment.

**ELLIOTT COUNTY PUBLIC SCHOOL DISTRICT
SANDY HOOK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

DEBT

Debt increased from 2013 by .98 million. Please see table below.

Outstanding Debt at Year-End (in millions)		Government Activities	
		<u>2013</u>	<u>2014</u>
General Obligation Bonds		\$ 11.45	\$ 12.59
Capital Lease		<u>.81</u>	<u>.65</u>
Total Obligations		<u>\$ 12.26</u>	<u>\$ 13.24</u>

CAPITAL ASSETS

At the end of fiscal 2014, the District had \$21.61 million invested in capital assets, including land, improvements, and construction in progress.

		Capital Assets at Year-End (Net of Depreciation, in Millions)					
		Governmental Activities		Business-Type Activities		Totals	
		<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Land and construction in progress	\$	4.12	\$.82	\$	\$	\$ 4.12	\$.82
Other capital net position		<u>16.54</u>	<u>20.78</u>	<u>0.01</u>	<u>0.01</u>	<u>16.55</u>	<u>20.79</u>
Totals		<u>\$ 20.66</u>	<u>\$ 21.61</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 20.67</u>	<u>\$ 21.61</u>

**ELLIOTT COUNTY PUBLIC SCHOOL DISTRICT
SANDY HOOK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Comments on Budget Comparisons

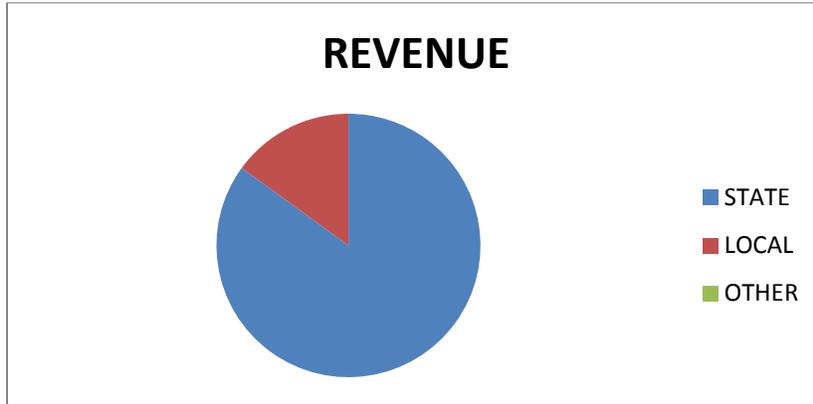
Actual revenues and expenditures for the General Fund contain \$1.56 million dollars in payments made on-behalf of the District by the State of Kentucky. Our District will remain conservative in future budgets because of the current economic climate. The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2014.

	Governmental Funds (in millions)						Proprietary Fund
	General	Special Revenue	Construction	Debt Service	Other	School	
					Governmental Funds	Food Service	
Revenue							
Local Revenue Sources	\$ 1.16	0.08			0.10	0.05	
State Revenue Sources	6.69	0.43		0.56	0.34		
Federal Revenue Sources	0.01	0.99				0.73	
Other							
Totals	7.86	1.50		0.56	0.44	0.78	
Expenditures							
Instruction	4.63	1.17					
Student Support Services	0.14						
Instruction Staff Support Services	0.08	0.15					
District Admin Support	0.37						
School Admin Support	0.42						
Business Support Services	0.38	0.02					
Plant Operation & Management	0.92	(0.01)					
Student Transportation	0.85						
Community Services	0.02	0.17					
Food Service Operations						0.79	
Site improvement							
New building construction							
Depreciation							
Building Renovations/Additions	.04		1.83				
Debt Service	0.18			0.97			
Totals	8.03	1.51	1.83	0.97	0.00	0.79	
Revenue Over (Under) Expenses	\$ (0.17)	(0.01)	(1.83)	(0.41)	0.44	(0.01)	
Other Financing Sources (Uses)	0.04	0.01	1.81	0.41	(0.44)	0.00	
Fund balances beginning	0.23	0.00	0.81	0.00	0.10	0.10	
Fund balances ending	0.10	0.00	0.79	0.00	0.10	0.09	

**ELLIOTT COUNTY PUBLIC SCHOOL DISTRICT
SANDY HOOK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

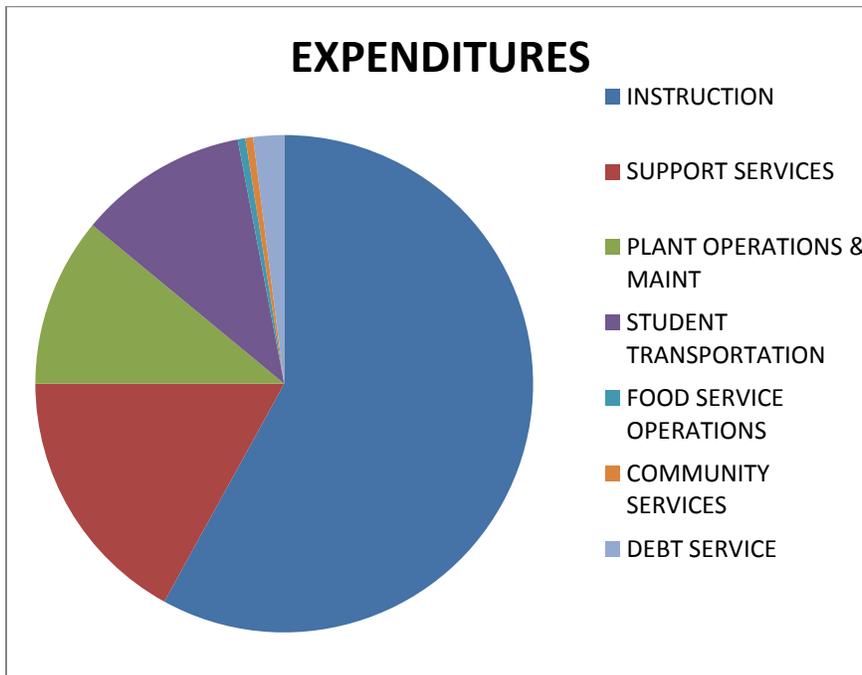
General Fund Revenue Chart 1

The majority of revenue was derived from state funding (85%), with local taxes making up 15% of total revenue.



General Fund Expenditures Chart 2

The majority of revenue is spent on instructional expenditures. This consumes 58% of the budget. The instruction function included the SBDM expenditures for staff and supplies. Support services make up 17%, which includes services for students, instructional staff, district administration, school administration and business. Plant operations and management makes up 11%. The student transportation makes up 11%. Debt Service is 2%. Food Service operations and community services make up less than one percent.



**ELLIOTT COUNTY PUBLIC SCHOOL DISTRICT
SANDY HOOK, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Special Revenue Fund Revenue/Expenditures

The majority of revenue was derived from Federal Sources (67 %) with the state revenue making up 28% and local source providing 5%. The function with the greatest expenditures is instruction being 58%.

Other Governmental Funds Revenue/Expenditures

The main other governmental funds are capital outlay fund, and building fund (FSPK). State funding makes up the capital outlay and the building fund consists of state and local revenues. During the FY14 school year these funds were used to make bond payments on existing debt, with the exception of \$15,042 which was spent on maintenance and property insurance as approved per HB 267.

School Food Service Fund Revenue/Expenditures

The revenue is received from local, state, and federal monies. The largest being federal which makes up 89% of the budget.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The beginning General fund balance for the fiscal year was \$233,285. The ending fund balance was \$103,851.

Elliott County Public Schools continued to receive the Read To Achieve grant. It has continued to provide and support teachers in the implementation of instructional strategies to address the needs of students reading at low levels at the Sandy Hook Elementary and Lakeside Elementary. The Math Achievement grant provided funds for support to teachers and the implementation of services that address the needs of students who are struggling with math. Its impact involved Sandy Hook Elementary and Lakeside Elementary.

Questions regarding this report should be directed to the Superintendent C. Thomas Potter II, Ed.D. or Kelley Deerfield, Finance Officer at 606-738-8002 or by mail at Elliott County Board of Education, PO Box 767, Sandy Hook, KY 41171.

Elliott County School District
Statement of Net Position
June 30, 2014

Primary Government

	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 651,394	\$ 77,610	\$ 729,004
Receivables (net)	446,335	192	446,527
Inventories		16,367	16,367
Capital assets:			
Land, improvements, and construction in progress	827,532		827,532
Other capital assets, net of depreciation	20,783,722	3,132	20,786,855
Total capital assets	<u>21,611,255</u>	<u>3,132</u>	<u>21,614,387</u>
Total assets	<u>22,708,983</u>	<u>97,301</u>	<u>22,806,284</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	<u>93,941</u>		<u>93,941</u>
LIABILITIES			
Accounts payable and accrued expenses	55,369	4,299	59,669
Accrued interest payable	43,684		43,684
Unearned revenue	46,325		46,325
Long-term liabilities:			
Due within 1 year:			
Bond obligations	685,000		685,000
Capital lease obligations	163,151		163,151
Total due within 1 year	<u>848,151</u>	<u>-</u>	<u>848,151</u>
Due in more than 1 year:			
Bond obligations	11,905,000		11,905,000
Capital lease obligations	486,320		486,320
KSBIT payable	219,880		219,880
Sick leave	123,284		123,284
Total due in more than 1 year	<u>12,734,484</u>	<u>-</u>	<u>12,734,484</u>
Total liabilities	<u>13,728,014</u>	<u>4,299</u>	<u>13,732,314</u>
Net Investment in capital assets	8,465,725	3,132	8,468,857
Restricted for:			
Nonexpendable for the arts	100,000		100,000
Expendable restricted for capital projects	801,545		801,545
Expendable restricted for the arts	495		495
Expendable restricted for food services		89,869	89,869
Unrestricted (deficit)	<u>(292,856)</u>		<u>(292,856)</u>
Total net position	<u>\$ 9,074,910</u>	<u>\$ 93,001</u>	<u>\$ 9,167,912</u>

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 5,810,638	\$ 181,903	\$ 1,095,191	\$ -	\$ (4,533,544)		\$ (4,533,544)
Support Services							
Student	147,113		8,948		(138,165)		(138,165)
Instructional Staff	237,631		143,311		(94,320)		(94,320)
District Administration	370,222				(370,222)		(370,222)
School Administration	424,758				(424,758)		(424,758)
Business	405,167		26,385		(378,781)		(378,781)
Plant Operation & Maintenance	902,301		(13,722)	338,002	(578,021)		(578,021)
Student Transportation	848,990		3,625		(845,365)		(845,365)
Community Services Operations	190,237		155,241		(34,996)		(34,996)
Amortization	22,648				(22,648)		(22,648)
Depreciation	713,457				(713,457)		(713,457)
Building Improvements	111,254				(111,254)		(111,254)
Loss on retirement of assets	102,478				(102,478)		(102,478)
Interest on long-term debt	337,726			561,116	223,390		223,390
Total governmental activities	<u>10,624,619</u>	<u>181,903</u>	<u>1,418,978</u>	<u>899,118</u>	<u>(8,124,620)</u>		<u>(8,124,620)</u>
Business-type activities:							
Food service operations	788,126	49,486	760,496			\$ 21,856	21,856
Depreciation	1,445					(1,445)	(1,445)
Total business-type activities	<u>789,571</u>	<u>49,486</u>	<u>760,496</u>	<u>-</u>	<u>-</u>	<u>20,411</u>	<u>20,411</u>
Total primary government	<u>\$ 11,414,190</u>	<u>\$ 231,389</u>	<u>\$ 2,179,474</u>	<u>\$ 899,118</u>	<u>(8,124,620)</u>	<u>20,411</u>	<u>(8,104,209)</u>
General revenues:							
Taxes:							
Property taxes					694,859		694,859
Motor vehicle taxes					127,814		127,814
Utility taxes					317,442		317,442
State and formula grants					6,702,816		6,702,816
Sale of equipment					7,510		7,510
Unrestricted investment earnings					17,328	364	17,692
Transfers					35,000	(35,000)	-
Total general revenues and transfers					<u>7,902,770</u>	<u>(34,636)</u>	<u>7,868,134</u>
Change in net assets					(221,850)	(14,225)	(236,075)
Net Position - beginning					9,185,247	107,226	9,292,474
Prior period adjustment					111,513		111,513
Restated net position - beginning					<u>9,296,760</u>	<u>107,226</u>	<u>9,403,987</u>
Net Position - ending					<u>\$ 9,074,910</u>	<u>\$ 93,001</u>	<u>\$ 9,167,912</u>

See the accompanying notes to the financial statements.

Elliott County School District
Balance Sheet
Governmental Funds
June 30, 2014

Governmental Funds						
	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 112,850	\$ -	\$ 797,431	\$ -	\$ 100,495	\$ 1,010,777
Receivables, net						
Taxes-current	33,697					33,697
Accounts	2,730	9,370				12,100
Intergovernmental-federal		400,538				400,538
Total assets	149,277	409,908	797,431	-	100,495	1,457,111
LIABILITIES						
Accounts payable and accrued expenses	45,425	4,200	5,744			55,369
Cash shortage		359,383				359,383
Unearned revenue		46,325				46,325
Total liabilities	45,425	409,908	5,744	-	-	461,077
FUND BALANCE						
Nonspendable					100,000	100,000
Restricted			791,687		495	792,182
Unassigned	103,852					103,852
Total fund balance	\$ 103,852	\$ -	\$ 791,687	\$ -	\$ 100,495	\$ 996,034

See the accompanying notes to the financial statements.

Elliott County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balance per fund financial statements	\$	996,034
<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>		21,611,255
<p>Capitalized the bond defeasance costs for the refunding of bonds less amortization over the life of the shorter of the refunded or new bonds.</p>		93,941
<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		(43,684)
KSBIT payable		(219,880)
Bonds payable		(12,590,000)
Capital lease payable		(649,471)
Noncurrent sick leave payable		(123,284)
		(13,226,320)
Net position of governmental activities	\$	9,074,910

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

Governmental Funds						
	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 595,555	\$ -	\$ -	\$ -	\$ 99,304	\$ 694,859
Motor vehicle	127,814					127,814
Utilities	317,442					317,442
Earnings on investments	16,880				448	17,328
Student activities		6,000				6,000
Transportation	25,000					25,000
Other local revenue	78,272	72,631				150,903
Intergovernmental - state	6,690,601	425,749		561,116	338,002	8,015,468
Intergovernmental - federal	12,216	993,229				1,005,445
Total revenues	<u>7,863,780</u>	<u>1,497,610</u>	<u>-</u>	<u>561,116</u>	<u>437,754</u>	<u>10,360,259</u>
EXPENDITURES						
Instruction	4,628,231	1,167,614				5,795,846
Support Services						
Student	137,573	9,539				147,113
Instructional Staff	84,843	152,788				237,631
District Administration	370,222					370,222
School Administration	424,758					424,758
Business	377,037	28,130				405,167
Plant Operation & Maintenance	916,930	(14,630)				902,301
Student Transportation	845,126	3,864				848,990
Community Services Operations	24,730	165,507				190,237
Building Improvements	41,806		1,831,717			1,873,523
Debt Service	184,305			971,210		1,155,515
Total expenditures	<u>8,035,562</u>	<u>1,512,813</u>	<u>1,831,717</u>	<u>971,210</u>	<u>-</u>	<u>12,351,301</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(171,782)	(15,203)	(1,831,717)	(410,094)	437,754	(1,991,042)
OTHER FINANCING SOURCES (USES)						
Sale of equipment	7,510					7,510
Sale of bonds			1,800,000			1,800,000
Transfers in	50,042	15,203	13,908	410,094		489,247
Transfers (out)	(15,203)				(439,044)	(454,247)
Total other financing sources and (uses)	<u>42,349</u>	<u>15,203</u>	<u>1,813,908</u>	<u>410,094</u>	<u>(439,044)</u>	<u>1,842,510</u>
NET CHANGE IN FUND BALANCES	(129,433)	-	(17,809)	-	(1,290)	(148,532)
FUND BALANCE-BEGINNING	<u>233,285</u>	<u>-</u>	<u>809,495</u>	<u>-</u>	<u>101,786</u>	<u>1,144,566</u>
FUND BALANCE-ENDING	<u>\$ 103,852</u>	<u>\$ -</u>	<u>\$ 791,687</u>	<u>\$ -</u>	<u>\$ 100,495</u>	<u>\$ 996,034</u>

See the accompanying notes to the financial statements.

Elliott 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, 2014

Net change in total fund balances per fund financial statements	\$	(148,532)
<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>		947,013
<p>The amortization of bond defeasance costs that are amortized over the life of the refunded or new bond whichever is shorter.</p>		(22,648)
<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>		(986,703)
<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>		4,492
<p>Noncurrent sick leave payable</p>		(15,471)
		(15,471)
Change in net position of governmental activities	\$	(221,850)

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2014

	<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				
Taxes				
Property	\$ 547,303	\$ 547,733	\$ 595,555	\$ 47,822
Motor vehicle	140,000	140,000	127,814	(12,186)
Unmined minerals	1,000	1,000		(1,000)
Utilities	275,000	310,000	317,442	7,442
Earnings on investments	4,000	14,000	16,880	2,880
Transportation		25,000	25,000	-
Other local revenue	23,649	83,200	78,272	(4,928)
Intergovernmental - state	5,241,669	5,128,834 *	5,130,553	1,719
Intergovernmental - federal	28,000	13,000	12,216	(784)
Total revenues	<u>6,260,621</u>	<u>6,262,767</u>	<u>6,303,733</u>	<u>40,966</u>
EXPENDITURES				
Instruction	3,494,422	3,519,318 *	3,461,847	57,471
Support Services				
Student	140,377	138,754	137,573	1,181
Instructional Staff	101,377	93,606	84,843	8,763
District Administration	319,372	349,265 *	339,899	9,366
School Administration	345,222	334,723 *	333,789	934
Business	293,766	299,534 *	341,176	(41,642)
Plant Operation & Maintenance	772,132	797,253 *	839,939	(42,686)
Student Transportation	711,551	707,522 *	685,606	21,916
Community Services Operations	26,850	26,925	24,730	2,195
Building Improvements			41,806	(41,806)
Debt Service	184,306	184,306	184,305	1
Total expenditures	<u>6,389,375</u>	<u>6,451,206</u>	<u>6,475,515</u>	<u>(24,309)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(128,754)	(188,439)	(171,782)	16,656
OTHER FINANCING SOURCES (USES)				
Sale of buildings/equipment	1,000	3,485	7,510	4,025
Transfers in	64,374	50,042	50,042	-
Transfers (out)	(14,751)	(15,203)	(15,203)	-
Total other financing sources and (uses)	<u>50,623</u>	<u>38,324</u>	<u>42,349</u>	<u>4,025</u>
NET CHANGE IN FUND BALANCES	(78,131)	(150,115)	(129,433)	20,681
FUND BALANCE-BEGINNING	<u>224,131</u>	<u>224,131</u>	<u>233,285</u>	<u>9,154</u>
FUND BALANCE-ENDING	<u>\$ 146,000</u>	<u>\$ 74,016</u>	<u>\$ 103,852</u>	<u>\$ 29,835</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$1,560,047

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2014

	<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				
Earnings on investments	\$ 100	\$ 100	\$ 6,000	\$ 5,900
Other local revenue	-	1,000	72,631	71,631
Intergovernmental - state	431,994	435,855	425,749	(10,106)
Intergovernmental - federal	974,888	981,209	993,229	12,020
Total revenues	<u>1,406,982</u>	<u>1,418,164</u>	<u>1,497,610</u>	<u>79,445</u>
EXPENDITURES				
Instruction	1,081,556	1,085,259	1,167,614	(82,355)
Support Services				
Student	8,233	8,233	9,539	(1,306)
Instructional Staff	137,965	148,895	152,788	(3,893)
Business	29,602	29,602	28,130	1,472
Plant Operation & Maintenance	2,452		(14,630)	14,630
Student Transportation	4,210	4,210	3,864	346
Community Services Operations	157,715	156,716	165,507	(8,790)
Total expenditures	<u>1,421,733</u>	<u>1,432,915</u>	<u>1,512,813</u>	<u>(79,897)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(14,751)	(14,751)	(15,203)	(452)
OTHER FINANCING SOURCES (USES)				
Transfers in	14,751	14,751	15,203	452
Total other financing sources and (uses)	<u>14,751</u>	<u>14,751</u>	<u>15,203</u>	<u>452</u>
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Net Position
Proprietary Funds
June 30, 2014

		School Food Services
ASSETS		
Cash and cash equivalents	\$	77,610
Receivables		192
Inventories		16,367
Capital assets:		
Other capital assets, net of depreciation		3,132
Total assets		97,301
LIABILITIES		
Accounts payable and accrued expenses		4,299
Total liabilities		4,299
NET POSITION		
Net Investment in capital assets		3,132
Restricted for:		
Expendable Restricted for Food Service		89,869
Total net position	\$	93,001

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2014

		School Food Services
OPERATING REVENUES		
Lunchroom sales	\$	49,486
Total operating revenues		<u>49,486</u>
OPERATING EXPENSES		
Depreciation		1,445
Food service operations		
Salaries and benefits		382,055
Operational		406,071
Total operating expenses		<u>789,571</u>
Operating income (loss)		(740,085)
NONOPERATING REVENUES (EXPENSES)		
Federal grants		647,122
State grants		113,373
Transfers		(35,000)
Earnings from investments		364
Total nonoperating revenues (expenses)		<u>725,860</u>
CHANGE IN NET POSITION		(14,225)
NET POSITION-BEGINNING		<u>107,226</u>
NET POSITION-ENDING	\$	<u><u>93,001</u></u>

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 49,486
Payments to suppliers	(351,818)
Payments to employees	(382,055)
Net cash provided (used) by operating activities	<u>(684,387)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants and contributions	760,496
Transfers to other funds	(35,000)
Net cash provided (used) by noncapital financing activities	<u>725,496</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	364
Net cash provided (used) by investing activities	<u>364</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	41,473
CASH BALANCE-BEGINNING	<u>36,136</u>
CASH BALANCE-ENDING	<u><u>77,610</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	(740,085)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	1,445
Changes in assets and liabilities:	
Reieivables	44,339
Inventories	6,045
Accounts payable and accrued expenses	3,869
Net cash used by operating activities	<u><u>\$ (684,387)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$45,514 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$106,932 provided by state government.

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Fiduciary Net Positions
School Activity Funds
June 30, 2014

	SCHOOL ACTIVITY FUNDS
ASSETS	
Cash and cash equivalents	\$ 55,285
Total Assets	<u>55,285</u>
LIABILITIES	
Accounts payable	1,452
Due to student groups	<u>53,833</u>
Total Liabilities	<u>55,285</u>
NET POSITION HELD IN TRUST	\$ <u>-</u>

See the accompanying notes to the financial statements.

ELLIOTT COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Elliott 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 Elliott 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 Elliott 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:

Elliott County Board of Education Finance Corporation

The Board authorized establishment of the Elliott 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 Elliott County Board of Education.

Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan.

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.

(E) Permanent Fund

Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds,” except for those accounted through the central office.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 for the year ended June 30, 2014, to finance the General Fund operations were \$.407 per \$100 valuation of real property, \$.407 per \$100 valuation for business personal property and \$.565 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:

(SEE SCHEDULE ON NEXT PAGE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<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

Inter-fund 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 when an employee leaves before year-end but is not paid for sick leave until after year-end.

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 prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, all amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

Nonspendable: Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.

Restricted Legally restricted under legislation, bond authority, or grantor contract.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 is reported in three categories: 1) net investment in capital assets – 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 net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

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

Contributions of Capital

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

The District’s cash and cash equivalents were interest bearing demand accounts at a local bank. Due to the liquidity nature of these accounts the carrying value is the fair market value. The District secures deposits with bank pledged securities in the name of the school district and FDIC insurance.

<u>Kentucky Bank</u>	<u>Bank Balance</u>
	<u>Demand</u>
FDIC	\$250,000
Securities pledged to district	<u>956,663</u>
Bank balance	<u><u>\$1,206,663</u></u>
	<u><u>Book Balance</u></u>
	<u>Cash equivalents</u>
Governmental Activities	\$651,394
Business-type Activities	77,610
Agency funds	
School Activity Funds	<u>55,285</u>
Total carrying amount	<u><u>\$784,289</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Land	\$ 452,008	\$ -	\$ -	\$ 452,008
Land improvements	622,576	-	-	622,576
Buildings	22,577,250	5,054,229	-	27,631,480
Technology equipment	631,750	679	632,429	-
Vehicles	1,979,252	-	-	1,979,252
General equipment	459,547	-	-	459,547
Construction in progress	<u>3,667,484</u>	<u>1,762,270</u>	<u>5,054,229</u>	<u>375,525</u>
Total at historical cost	\$ <u>30,389,867</u>	\$ <u>6,817,178</u>	\$ <u>5,686,659</u>	\$ <u>31,520,386</u>
Less: Accumulated depreciation				
Land improvements	\$ 495,663	\$ 23,390	\$ -	\$ 519,053
Buildings	7,155,567	473,968	-	7,629,535
Technology equipment	474,196	55,755	529,951	-
Vehicles	1,262,020	145,875	-	1,407,895
General equipment	<u>338,180</u>	<u>14,469</u>	<u>-</u>	<u>352,648</u>
Total accumulated depreciation	\$ <u>9,725,625</u>	\$ <u>713,457</u>	\$ <u>529,951</u>	\$ <u>9,909,131</u>
<u>Governmental Activities</u>				
Capital Assets-net	\$ <u>20,664,242</u>	\$ <u>6,103,720</u>	\$ <u>5,156,708</u>	\$ <u>21,611,255</u>
<u>Business-Type Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Buildings	\$ 162,717	\$ -	\$ -	\$ 162,717
Technology equipment	669	-	669	-
General equipment	<u>248,261</u>	<u>-</u>	<u>1,725</u>	<u>246,536</u>
Total at historical cost	\$ <u>411,647</u>	\$ <u>-</u>	\$ <u>2,394</u>	\$ <u>409,253</u>
Less: Accumulated depreciation				
Buildings	\$ 160,917	\$ 400	\$ -	\$ 161,317
Technology equipment	669	-	669	-
General equipment	<u>245,484</u>	<u>1,045</u>	<u>1,725</u>	<u>244,804</u>
Total accumulated depreciation	\$ <u>407,069</u>	\$ <u>1,445</u>	\$ <u>2,394</u>	\$ <u>406,121</u>
<u>Business-Type Activities</u>				
Capital Assets-net	\$ <u>4,578</u>	\$ <u>(1,445)</u>	\$ <u>-</u>	\$ <u>3,132</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE E – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Elliott County School District Finance Corporation aggregating \$12,590,000, and \$685,000 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 Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The original amount of outstanding issues, the issue dates, interest rates, maturity dates, and outstanding balances, at June 30, 2014 are summarized below:

<u>Bond Issues</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013 Bonds Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Bonds Outstanding</u>
06/21/2012	\$ 4,500,000	8/1/2032	2.0-3.25% .5 -	\$ 4,500,000	\$ -	\$ 85,000	\$ 4,415,000
1/1/2012	2,020,000	9/1/2023	2.125% 1.25-	1,930,000	-	125,000	1,805,000
2/1/2003	2,715,000	9/1/2014	3.65%	170,000	-	85,000	85,000
12/21/2005	290,000	8/1/2026	4.125%	220,000	-	15,000	205,000
1/25/2006	500,000	1/25/2021	QZAB 1.50-	500,000	-	-	500,000
03/01/2009	2,045,000	12/1/2018	3.40%	1,310,000	-	200,000	1,110,000
11/1/2007	\$ 3,470,000	11/1/2027	3.35-4.0%	2,815,000	-	145,000	2,670,000
5/1/14	1,205,000	5/1/1934	2.55-3.75	-	1,205,000	-	1,205,000
8/1/13	595,000	2/1/1934	2.25-3.75	-	595,000	-	595,000
				<u>\$ 11,445,000</u>	<u>\$ 1,800,000</u>	<u>\$ 655,000</u>	<u>\$ 12,590,000</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, 2014 for debt service, (principal and interest) are as follows:

(SEE SCHEDULE ON NEXT PAGE)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended <u>June 30th</u>	Principal		Interest		Principal <u>Total</u>	Interest <u>Total</u>
	<u>Local</u>	<u>KSFCC</u>	<u>Local</u>	<u>KSFCC</u>		
2015	304,295	380,705	177,901	172,010	685,000	349,911
2016	299,811	370,189	170,268	160,978	670,000	331,245
2017	313,485	381,515	162,455	149,639	695,000	312,094
2018	321,655	393,345	154,159	137,786	715,000	291,945
2019	336,290	383,710	145,317	125,723	720,000	271,040
2020-2024	1,759,395	2,210,605	609,736	466,578	3,970,000	1,076,313
2025-2029	1,538,741	1,441,259	411,727	178,296	2,980,000	590,023
2030 - 2034	1,691,794	463,206	147,548	28,653	2,155,000	176,202
	<u>\$ 6,565,466</u>	<u>\$ 6,024,534</u>	<u>\$ 1,979,111</u>	<u>\$ 1,419,662</u>	<u>\$ 12,590,000</u>	<u>\$ 3,398,773</u>

NOTE F – CAPITAL LEASE PAYABLE

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

<u>KISTA Issues</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	2013 Bonds			2014 Bonds
				<u>Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u>
1/1/2005	\$ 359,020	3/1/2015	3-3.625%	\$ 67,576	\$	\$ 33,222	\$ 34,354
9/1/2006 Third Series 2009	453,893	3/1/2017	3.5- 3.875%	188,916		48,739	140,177
	\$ 796,487	3/1/2020	2-3.6%	<u>551,276</u>		<u>76,336</u>	<u>474,940</u>
				<u>\$ 807,768</u>	<u>\$ -</u>	<u>\$ 158,297</u>	<u>\$ 649,471</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, 2014:

Fiscal Year Ended <u>June 30th</u>	Local		Total
	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2015	163,151	21,361	184,512
2016	123,871	16,184	140,055
2017	127,679	12,219	139,898
2018	84,618	7,989	92,607
2019-2020	<u>150,152</u>	<u>7,987</u>	<u>158,139</u>
	<u>\$ 649,471</u>	<u>\$ 65,741</u>	<u>\$ 715,212</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total minimum lease payments	\$	715,212
Less: Amount representing interest		(65,741)
Present Value of Net Minimum Lease Payments	\$	649,471

NOTE G – RETIREMENT PLANS

Kentucky Teachers’ Retirement System

Plan Description – The Elliott County School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by 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 11.355% 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 14.605%.

Medical Insurance Plan

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Funding policy –In order to fund the post-retirement healthcare benefit, four and one half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and one half percent (1.5%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Elliott County Schools' total payroll for the year was \$5,815,795. The payroll for employees covered under KTRS was \$4,639,757. For the year ended June 30, 2014, the Commonwealth contributed \$556,994 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2014, were \$60,599, 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, 2014, 2013, and 2012 were \$650,816, \$686,562 and \$733,853 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 18.89%. The District contributed \$229,888 of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$281,896, \$291,156 and \$294,044 respectively.

Recently Issued Accounting Standards

GASB Statement No. 68, Accounting and financial Reporting for Pensions, will require that unfunded portions of future pension benefit obligations shall be recorded as a liability of governments. This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. Although the data is not available from the Kentucky Teachers Retirement System or the County Employees Retirement

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

System at this time, we believe that this implementation will have a material effect on future financial statements.

NOTE H – COMMITMENTS

The District has made commitments of \$791,687 for future construction projects.

NOTE I - 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 J - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which has not been quantified and not shown as a liability in the financial statements. The attorneys for the Board are under the presumption that insurance will cover any loss from such litigation.

NOTE K – 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 L – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE M - COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Special Revenue	General	KETS Matching	\$ 15,203
Capital Outlay	Debt Service	Debt Payments	82,383
FSPK	Debt Service	Debt Payments	327,711
Food Service	General	Indirect Costs	35,000
FSPK	General	Operating Expenditures	15,042
Capital Outlay	Construction	BG1 requirement	12,170
FSPK	Construction	BG1 requirement	1,738
			<u>\$489,247</u>

NOTE O – DEFICIT FUND AND OPERATING BALANCES

The following funds 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	\$ (221,850)
Business Activities	(14,225)
General Fund	(129,433)
Construction Fund	(17,809)
Food Service Fund	(14,225)
FSPK Fund	\$ (1,738)

NOTE P – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Elliott 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 \$1,560,047 for the General Fund, \$561,116 for the Debt Service Fund and \$106,932 for the School Food Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – RESTRICTED FUND BALANCES

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 791,687	Future Construction
Food Service	89,869	Food Service Operations
Permanent Fund	\$ 495	Trust Agreement

NOTE R – PRIOR PERIOD ADJUSTMENT

Due to the Court ordered assessment of the KSBIT Payable, the liability was reduced causing Net Position to be understated as follows:

Net Position July 1, 2013	\$ 9,185,247
Prior Period Adjustment	111,513
Restated Net Position July 1, 2014	<u><u>\$ 9,296,760</u></u>

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 10, 2014, the date of the audit report.

Elliott County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2014

	Other Governmental Funds			
	Capital Outlay	FSPK Fund	Permanent	Total
Assets				
Cash and Cash Equivalents	\$ -	\$ -	\$ 100,495	\$ 100,495
Total Assets	-	-	100,495	100,495
 Fund Balances				
Nonspendable			100,000	100,000
Restricted	-		495	495
Total Fund Balances	\$ -	\$ -	\$ 100,495	\$ 100,495

See the accompanying notes to the financial statements.

Elliott County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
 Year ended June 30, 2014

	Other Governmental Funds			
	Capital Outlay	FSPK Fund	Permanent	Total
Revenues				
Taxes				
Property	\$ -	\$ 99,304	\$ -	\$ 99,304
Earnings from investments			448	448
Intergovernmental - State	94,553	243,449		338,002
Total Revenues	94,553	342,753	448	437,754
Expenditures				
Instruction				-
Total Expenditures	-	-	-	-
Excess (Deficit) of Revenues Over Expenditures	94,553	342,753	448	437,754
Other Financing Sources (Uses)				
Operating Transfers (Out)	(94,553)	(344,491)		(439,044)
Total Other Financing Sources (Uses)	(94,553)	(344,491)	-	(439,044)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	(1,738)	448	(1,290)
Fund Balance beginning	-	1,738	100,047	101,786
Fund Balance ending	\$ -	\$ (0)	\$ 100,495	\$ 100,495

See the accompanying notes to the financial statements.

Elliott County School District
**Combining Balance Sheet of Fiduciary Fund -
 School Activity Funds**
 As of June 30, 2014

	<u>ELLIOTT CO. HIGH SCHOOL</u>	<u>ISONVILLE ELEMENTARY</u>	<u>LAKESIDE ELEMENTARY</u>	<u>SANDY HOOK ELEMENTARY</u>	<u>TOTAL</u>
ASSETS					
Cash and cash equivalents	\$ 29,738	\$ 4,505	\$ 6,063	\$ 14,979	\$ 55,285
Total Assets	<u>29,738</u>	<u>4,505</u>	<u>6,063</u>	<u>14,979</u>	<u>55,285</u>
LIABILITIES					
Accounts payable	-	550	902	-	1,452
Total Liabilities	<u>-</u>	<u>550</u>	<u>902</u>	<u>-</u>	<u>1,452</u>
FUND BALANCE					
School activities	\$ 29,738	\$ 3,955	\$ 5,161	\$ 14,979	\$ 53,833

See the accompanying notes to the financial statements.

Elliott County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance
- School Activity Funds
For the period ended June 30, 2014

	<u>ELLIOTT CO. HIGH SCHOOL</u>	<u>ISONVILLE ELEMENTARY</u>	<u>LAKESIDE ELEMENTARY</u>	<u>SANDY HOOK ELEMENTARY</u>	<u>TOTAL</u>
REVENUES					
Student/Trust revenues	\$ 228,773	\$ 11,852	\$ 17,822	\$ 50,097	\$ 308,543
EXPENSES					
Student/Trust activities	221,273	11,294	15,488	49,007	297,062
Excess (Deficit) of Revenues Over Expenses	7,500	558	2,334	1,089	11,481
Fund balance July 1, 2013	<u>22,237</u>	<u>3,397</u>	<u>2,828</u>	<u>13,890</u>	<u>42,352</u>
Fund balance June 30, 2014	<u>\$ 29,738</u>	<u>\$ 3,955</u>	<u>\$ 5,161</u>	<u>\$ 14,979</u>	<u>\$ 53,833</u>

See the accompanying notes to the financial statements.

Elliott County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Elliott County High School
For the period ended June 30, 2014

	FUND BALANCE JULY 1, 2013	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE JUNE 30, 2014
GENERAL FUND	\$ 418	\$ 15,346	\$ 14,413	\$ -	\$ 1,352
CLASS "A" 2010	-	-	-	-	-
SENIOR CLASS FUNDS	205	1,066	690	(508)	73
HS SCIENCE	117	70	187	-	-
ARCHERY	502	2,440	2,338	(92)	513
ELEMENTARY BASKETBALL	430	12,036	12,343	-	122
NEWSCASS	46	-	-	-	46
LEADERSHIP CLASS	2,879	19,074	21,851	(68)	35
ANNUAL	2,535	2,330	3,255	-	1,610
SOCCER	369	4,520	2,364	-	2,525
FCA	123	3,193	3,656	508	169
HS MATH	-	4,455	933	221	3,743
DONATIONS	-	-	-	-	-
GENERAL II	25	24	-	-	49
FACULTY VENDING	127	573	660	-	39
DO SOMETHING CLUB	2,302	3,763	4,241	-	1,824
DRAMA CLUB	42	2,054	1,032	-	1,064
BETA	4,676	47,159	51,826	-	9
CHESS	28	-	-	-	28
FBLA	233	-	168	(65)	-
FRESHMAN ACCOUNT	72	-	-	-	72
SOPHOMORE FUND	-	10	-	-	10
FCCLA	25	12,784	11,190	42	1,660
FEA	82	200	191	-	91
FFA	9	175	-	-	184
7TH & 8TH BETA	184	-	-	-	184
7TH & 8TH CO-ED Y	-	-	-	-	-
7TH & 8TH SCIENCE	-	-	-	-	-
FCCLA II	81	60	60	-	81
FRENCH	3	-	-	-	3
INDUSTRIAL ARTS	164	678	757	-	86
WELDING	46	762	571	-	237
ATHLETIC	1,175	38,113	30,260	(984)	8,044
2012 DISTRICT TOURNAMENT	-	-	-	-	-
7TH & 8TH ATHLETIC	10	806	728	-	88
ATHLETIC CAMP	-	150	-	-	150
ATHLETIC EQUIPMENT	-	-	-	-	-
CLASS "A"	-	-	-	-	-
HS ATHLETIC GIRLS	320	10,732	10,434	-	618
ATH. REGIONAL 2006	18	-	-	-	18
TRACK/CROSS COUNTRY	176	2,236	2,653	241	-
CHEERLEADING	1,381	13,854	15,775	836	296
SOFTBALL	2	1,224	802	-	423
RESOURCE	897	-	-	-	897
GOLF 08-09	379	1,255	1,110	-	524
ROTC	23	4,565	4,484	-	104
LIBRARY	112	-	-	-	112
BASEBALL	28	-	-	-	28
7TH/8TH ACADEMIC TEAM	0	-	-	-	0
YEARBOOK ADS	6	550	-	-	556
ACADEMIC TEAM	1,285	-	479	-	806
SPANISH	438	211	474	-	174
JUNIOR CLASS (PROM)	104	14,508	14,018	90	683
7TH GRADE SOCIAL STUDIES	-	1,698	2,060	416	54
7TH GRADE FUNDS	161	1,545	1,250	(416)	40
8TH GRADE FUNDS	1	4,555	4,021	(221)	314
TOTALS	\$ 22,237	\$ 228,773	\$ 221,273	\$ -	\$ 29,738

See the accompanying notes to the financial statements.

ELLIOTT COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Elliott 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, 2014, the District had food commodities totaling \$45,514.

ELLIOTT COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education:				
* School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	\$ N/A	\$ 42,680
Fiscal Year 14		7760005 14	N/A	142,215
* National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	95,661
Fiscal Year 14		7750002 14	N/A	316,885
* Summer Food Service Program for Children	10.559			
Fiscal Year 13		7690024 13	N/A	436
Fiscal Year 13		7740023 13	N/A	4,096
Child Nutrition Cluster Subtotal				<u>601,974</u>
Fresh Fruits & Vegetables	10.582			
Fiscal Year 13		7720012 13	N/A	2,620
Fiscal Year 14		7720012 14		8,101
				<u>10,720</u>
Passed Through State Department of Agriculture:				
Food Donation-Commodities	10.565			
Fiscal Year 14		510.4950	N/A	45,514
Total US Department of Agriculture				<u>658,208</u>
US Department of Education				
Passed Through State Department of Education				
Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	516,287	30,276
Fiscal Year 13M		3100002 13	5,215	2,887
Fiscal Year 14		3100002 14	490,265	449,953
Fiscal Year 14M		3100002 14	5,000	4,065
Title I Grants to Local Educational Agencies, School Improvement Part A	84.010A			
Fiscal Year 12		3100202 12	22,534	11,703
				<u>498,883</u>
* Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	286,372	7,146
Fiscal Year 14		3810002 14	273,600	266,043
* Special Education-Preschool Grants	84.173A			
Fiscal Year 14		3800002 14	18,937	18,937
Special Education Cluster Subtotal				<u>292,126</u>
Perkins	84.048			
Fiscal Year 14		4621332 14	16,273	16,273
Teacher Quality	84.367A			
Fiscal Year 14		3230002 14	95,973	92,357
Rural Education	84.358			
Fiscal Year 14		3140002 14	19,143	11,500
Race To The Top	84.413A			
Fiscal Year 11		3960002 11	22,137	6,411
Passed Through Morehead State University				
Appalachian Higher Education Network (KY AHED)	23.011			
Fiscal Year 14		6884	3,991	3,991
Total US Department of Education				<u>921,541</u>
US Department of Defense				
Passed directly from the U.S. Department of the Army				
ROTC	12.000			
Fiscal Year 14		5044	51,488	51,338
Total US Department of the Army				<u>51,338</u>
US Department of Commerce				
Passed Through Eastern Kentucky PRIDE				
PRIDE-Environmental Education	11.420			
Fiscal Year 14H		2704H	1,250	1,185
Fiscal Year 14I		2704I	1,500	1,491
Fiscal Year 14L		2704L	1,500	1,491
Fiscal Year 14M		2704M	1,250	1,143
Total US Department of Health and Human Services				<u>5,310</u>
US Department of Health and Human Services				
Passed Through Kentucky School Board Association				
Medical Assistance Program	93.778			
Fiscal Year 14		110.4810	\$ N/A	12,216
Total US Department of Health and Human Services				<u>12,216</u>
Total Expenditure of Federal Awards				<u>\$ 1,648,614</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 Elliott County Board of Education and
State Committee for School District Audits
Sandy Hook, 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 Elliott County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Elliott County School District's basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Elliott 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 Elliott County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Elliott County School District's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Elliott County School District, in a separate letter dated November 10, 2014.

In addition, the results of our tests disclosed no material 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.

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
November 10, 2014

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

To the Elliott County Board of Education and
State Committee for School District Audits
Sandy Hook, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Elliott 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 Elliott County School District's major federal programs for the year ended June 30, 2014. Elliott 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 Elliott 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 Elliott 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 Elliott County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Elliott 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, 2014.

Report on Internal Control Over Compliance

Management of Elliott 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 Elliott 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 Elliott 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
November 10, 2014

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

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None reported
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?	None reported
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	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559] Special Education Cluster [CFDA 84.027A, 84.173A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

ELLIOTT COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

There were no prior year findings.