

FLEMING COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky 41041

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 the Fleming County School District (the "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 Fleming County School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity 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 on pages 6 through 9 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 Fleming County School District's basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial

statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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 Fleming 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 the District's internal control over financial reporting and compliance.

Kelley Galloway Smith Doolshy, PSC

November 10, 2014

**FLEMING COUNTY SCHOOL DISTRICT
FLEMINGSBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2014**

As management of the Fleming County School District ("the 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 financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$6,302,839 and the ending balance was approximately \$2,690,584, a decrease of approximately \$3,612,255 for the year, principally due to construction in the current year.
- The General Fund had \$16,147,173 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$15,885,191 in General Fund expenditures.
- 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. The District's total debt decreased by \$1,223,798 during the current fiscal year.

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 (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 and 11 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 funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The primary proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic fund financial statements can be found on pages 12 through 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$8.6 million as of June 30, 2014.

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

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

Net Position for the period ending June 30, 2014

	2014	2013
Current Assets	\$ 3,741,102	\$ 8,888,171
Noncurrent Assets	37,781,955	35,350,109
Total Assets	<u>41,523,057</u>	<u>44,238,280</u>
Deferred outflows	395,271	445,364
Current Liabilities	3,013,449	5,019,656
Noncurrent Liabilities	30,325,445	31,551,782
Total Liabilities	<u>33,338,894</u>	<u>36,571,438</u>
Net Position		
Investment in capital assets (net of debt)	7,573,367	4,138,600
Restricted	549,792	5,121,960
Unrestricted	456,275	(1,148,354)
Total Net Position	<u>\$ 8,579,434</u>	<u>\$ 8,112,206</u>

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2014, with comparison to 2013.

	<u>2014</u>	<u>2013</u>
Revenues:		
Local Revenue Sources	\$ 5,537,833	\$ 6,135,343
State Revenue Sources	15,681,259	16,323,568
Federal Revenue	2,438,606	2,685,609
Other Sources	-	(15,244)
Total Revenues	<u>23,657,698</u>	<u>25,129,276</u>
Expenses:		
Instruction	12,923,003	14,665,794
Student Support Services	1,009,850	1,194,224
Instructional Support	899,472	1,071,777
District Administration	872,666	1,043,241
School Administration	546,473	894,514
Plant Operations	2,323,890	2,421,781
Student Transportation	1,310,037	1,443,853
Business and Other Support Services	222,935	228,608
Community Services	197,118	231,694
Debt Service	1,072,969	1,257,954
Food Services	1,812,057	1,687,778
Total Expenses before KSBIT	<u>23,190,470</u>	<u>26,141,218</u>
Extraordinary item – KSBIT	-	500,138
Total Expenses	<u>23,190,470</u>	<u>26,641,356</u>
Deficiency of Revenues under Expenses	<u>\$ 467,228</u>	<u>\$ (1,512,080)</u>

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 66.1% and federal funding of 10.4% of total revenue. Local revenues make up 23.5% of total revenue (24.5% in 2013).

District-Wide Support Allocation

District-wide support services expenditures were Transportation 5.7%, Maintenance & Operations 10.1%, and Business Functions 1.0% (as compared to 5.4%, 9.1%, and .9% in 2013, respectively).

The total cost of all programs and services for governmental activities was \$21,261,427 compared with \$24,453,440 in 2013.

Funds Analysis

The District's total revenues for the governmental funds for the fiscal year ended June 30, 2014 and 2013, net of inter-fund transfers and bond proceeds, was approximately \$21.9 million and \$23.5 million, respectively.

Comments on Budget Comparisons

- After adjustments for contingency, the General fund budget compared to actual expenditures varied somewhat from line item to line item with the ending actual balance being \$813,051 less than budget or approximately 4.9%. This variance was due to decreases in personnel costs.
- General Fund revenue compared to budget varied from line item to line item due to state funding being lower in the General Fund than anticipated.

Capital Assets

At the end of June 30, 2014, the District's investment in capital assets for its governmental and business type activities was \$37,781,955, representing an increase of \$2,431,846, net of depreciation, from the prior year.

Debt Service

At year-end, the District had approximately \$31.0 million in outstanding debt, compared to \$31.7 million last year. The District continues to maintain favorable debt ratings from Moody's and Standard & Poor's.

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 District adopted a budget with approximately \$358,102 in contingency which is above the 2% requirement for FY 2015. The general fund cash balance for beginning the next fiscal year is \$1,556,420. The Board continues to look for ways to cut spending for the next fiscal year.

Questions regarding this report should be directed to the Superintendent Brian Creasman or by mail at:

Fleming County School District
211 West Water Street
Flemingsburg, Kentucky 41041

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,874,696	\$ 166,492	\$ 3,041,188
Investments	2,661	45,447	48,108
Receivables (net of allowances for uncollectibles):			
Taxes	93,080	-	93,080
Other	-	-	-
Intergovernmental - state	530,335	-	530,335
Intergovernmental - federal	-	-	-
Inventories	-	28,391	28,391
Capital assets, not being depreciated	572,899	-	572,899
Capital assets, being depreciated, net	37,081,748	127,308	37,209,056
Total assets	<u>41,155,419</u>	<u>367,638</u>	<u>41,523,057</u>
Deferred Outflows of Resources			
Deferred savings from refunding bonds	395,271	-	395,271
Total deferred outflows of resources	<u>395,271</u>	<u>-</u>	<u>395,271</u>
Liabilities			
Accounts payable	92,011	3,021	95,032
Cash deficit balance	350,604	-	350,604
Accrued salaries and benefits	1,058,850	-	1,058,850
Deferred revenue	151,260	-	151,260
Accrued interest payable	93,685	-	93,685
Portion due or payable within one year:			
Debt obligations	1,089,594	-	1,089,594
Accrued sick leave	174,424	-	174,424
Noncurrent liabilities:			
Portion due or payable after one year:			
Debt obligations	29,514,265	-	29,514,265
KSBIT payable	351,803	-	351,803
Accrued sick leave	459,377	-	459,377
Total liabilities	<u>33,335,873</u>	<u>3,021</u>	<u>33,338,894</u>
Net Position			
Net investment in capital assets	7,446,059	127,308	7,573,367
Restricted for:			
Capital projects	312,483	-	312,483
Other purposes	-	237,309	237,309
Unrestricted	456,275	-	456,275
Total net position	<u>\$ 8,214,817</u>	<u>\$ 364,617</u>	<u>\$ 8,579,434</u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 12,923,003	\$ -	\$ 1,901,413	\$ -	\$ (11,021,590)	\$ -	\$ (11,021,590)
Support services:							
Students	1,009,850	-	325,959	-	(683,891)	-	(683,891)
Instructional staff	899,472	-	509,335	-	(390,137)	-	(390,137)
District administration	872,666	-	-	-	(872,666)	-	(872,666)
School administration	546,473	-	41,935	-	(504,538)	-	(504,538)
Business and other support services	222,935	-	-	-	(222,935)	-	(222,935)
Operation and maintenance of plant	2,323,890	-	54,956	-	(2,268,934)	-	(2,268,934)
Student transportation	1,310,037	-	-	-	(1,310,037)	-	(1,310,037)
Community services	197,118	-	197,118	-	-	-	-
Debt service	1,072,969	-	-	1,141,183	68,214	-	68,214
Total governmental activities	21,378,413	-	3,030,716	1,141,183	(17,206,514)	-	(17,206,514)
Business-type activities:							
Food service	1,812,057	426,324	1,172,016	-	-	(213,717)	(213,717)
Total business-type activities	1,812,057	426,324	1,172,016	-	-	(213,717)	(213,717)
Total primary government	\$ 23,190,470	\$ 426,324	\$ 4,202,732	\$ 1,141,183	\$ (17,206,514)	\$ (213,717)	\$ (17,420,231)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 2,214,377	\$ -	\$ 2,214,377
Motor vehicle					547,146	-	547,146
Utilities					754,814	-	754,814
Intergovernmental revenues:							
State					14,042,738	-	14,042,738
Investment earnings					38,939	1,074	40,013
Gain (loss) on sale of assets					-	(182)	(182)
Other local revenues					288,553	-	288,553
Total general revenues and transfers					17,886,567	892	17,887,459
Change in net position					680,053	(212,825)	467,228
Net position, June 30, 2013, as restated					7,534,764	577,442	8,112,206
Net position, June 30, 2014					\$ 8,214,817	\$ 364,617	\$ 8,579,434

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,556,420	\$ -	\$ 312,483	\$ 1,005,793	\$ -	\$ 2,874,696
Investments	2,661	-	-	-	-	2,661
Receivables (net of allowances for uncollectibles):						
Property taxes	93,080	-	-	-	-	93,080
Other	-	-	-	-	-	-
Intergovernmental - state	-	530,335	-	-	-	530,335
Intergovernmental - federal	-	-	-	-	-	-
Total assets	<u>\$ 1,652,161</u>	<u>\$ 530,335</u>	<u>\$ 312,483</u>	<u>\$ 1,005,793</u>	<u>\$ -</u>	<u>\$ 3,500,772</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 63,540	\$ 28,471	\$ -	\$ -	\$ -	\$ 92,011
Cash deficit balance	-	350,604	-	-	-	350,604
Accrued salaries and benefits	1,058,850	-	-	-	-	1,058,850
Deferred revenue	-	151,260	-	-	-	151,260
Total liabilities	<u>1,122,390</u>	<u>530,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652,725</u>
Fund balances:						
Assigned	-	-	-	-	-	-
Restricted	-	-	312,483	1,005,793	-	1,318,276
Non-spendable	-	-	-	-	-	-
Unassigned	529,771	-	-	-	-	529,771
Committed	-	-	-	-	-	-
Total fund balances	<u>529,771</u>	<u>-</u>	<u>312,483</u>	<u>1,005,793</u>	<u>-</u>	<u>1,848,047</u>
Total liabilities and fund balances	<u>\$ 1,652,161</u>	<u>\$ 530,335</u>	<u>\$ 312,483</u>	<u>\$ 1,005,793</u>	<u>\$ -</u>	<u>\$ 3,500,772</u>

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2014**

Fund balances—total governmental funds	\$ 1,848,047
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	37,654,647
Certain other liabilities are not due and payable in the current period and therefore are not reported in the funds.	(93,685)
Savings from refunding bonds are not available to pay current period expenditures and therefore are not reported in the funds.	395,271
Some liabilities, including debt obligations, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(31,589,463)</u>
Net position of governmental activities	<u><u>\$ 8,214,817</u></u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes -						
Property	\$ 1,564,579	\$ -	\$ -	\$ -	\$ 649,798	\$ 2,214,377
Motor vehicles	547,146	-	-	-	-	547,146
Utilities	754,814	-	-	-	-	754,814
Interest income	12,637	75	-	26,227	-	38,939
Other local revenues	288,553	94,772	-	-	-	383,325
Intergovernmental - State	12,942,311	1,088,658	-	586,996	1,063,294	15,681,259
Intergovernmental - Indirect federal	37,133	1,847,286	-	-	-	1,884,419
Intergovernmental - Federal subsidy	-	-	-	554,187	-	554,187
Total revenues	<u>16,147,173</u>	<u>3,030,791</u>	<u>-</u>	<u>1,167,410</u>	<u>1,713,092</u>	<u>22,058,466</u>
Expenditures:						
Current:						
Instruction	10,258,996	1,922,128	-	-	-	12,181,124
Support services:						
Students	669,656	325,959	-	-	-	995,615
Instructional staff	383,663	509,335	-	-	-	892,998
District administration	869,729	-	-	-	-	869,729
School administration	501,582	41,935	-	-	-	543,517
Business and other support services	221,576	-	-	-	-	221,576
Operation and maintenance of plant	1,777,363	54,956	-	-	-	1,832,319
Student transportation	1,156,183	-	-	-	-	1,156,183
Community services	-	197,118	-	-	-	197,118
Facilities acquisition and construction	-	-	3,894,742	-	-	3,894,742
Debt service	46,443	-	-	2,100,452	81,999	2,228,894
Total expenditures	<u>15,885,191</u>	<u>3,051,431</u>	<u>3,894,742</u>	<u>2,100,452</u>	<u>81,999</u>	<u>25,013,815</u>
Excess (deficiency) of revenues over expenditures	<u>261,982</u>	<u>(20,640)</u>	<u>(3,894,742)</u>	<u>(933,042)</u>	<u>1,631,093</u>	<u>(2,955,349)</u>
Other financing sources (uses):						
Transfers in	182,041	20,640	-	1,449,052	-	1,651,733
Transfers out	<u>(20,640)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,631,093)</u>	<u>(1,651,733)</u>
Total other financing sources and uses	<u>161,401</u>	<u>20,640</u>	<u>-</u>	<u>1,449,052</u>	<u>(1,631,093)</u>	<u>-</u>
Net change in fund balances	423,383	-	(3,894,742)	516,010	-	(2,955,349)
Fund balances, June 30, 2013	<u>106,388</u>	<u>-</u>	<u>4,207,225</u>	<u>489,783</u>	<u>-</u>	<u>4,803,396</u>
Fund balances, June 30, 2014	<u>\$ 529,771</u>	<u>\$ -</u>	<u>\$ 312,483</u>	<u>\$ 1,005,793</u>	<u>\$ -</u>	<u>\$ 1,848,047</u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING 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 fund balances—total governmental funds \$ (2,955,349)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	3,783,392	
Depreciation expense	(1,326,364)	2,457,028

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave	22,449
Accrued interest payable	4,669
KSBIT liability	148,335
Capitalized savings from bond refundings amortization expense	(50,093)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.

1,053,014

Change in net position of governmental activities \$ 680,053

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014**

	<u>Food Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 166,492
Investments	45,447
Receivables (net of allowances for uncollectibles)	
Intergovernmental - federal	-
Other	-
Inventories	<u>28,391</u>
Total current assets	<u>240,330</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>127,308</u>
Total noncurrent assets	<u>127,308</u>
Total assets	<u><u>\$ 367,638</u></u>
Liabilities	
Current liabilities:	
Accounts payable	<u>\$ 3,021</u>
Total current liabilities	<u>3,021</u>
Total liabilities	<u>3,021</u>
Net Position	
Net investment in capital assets	127,308
Restricted	<u>237,309</u>
Total net position	<u>364,617</u>
	<u><u>\$ 367,638</u></u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund
Operating revenues:	
Lunchroom sales	\$ 426,324
Total operating revenues	426,324
Operating expenses:	
Salaries and wages	480,577
Employee benefits	325,298
Materials and supplies	945,583
Depreciation	25,000
Other operating expenses	35,599
Total operating expenses	1,812,057
Operating loss	(1,385,733)
Nonoperating revenues :	
Federal grants	917,588
Investment income	1,074
Donated commodities	79,367
Loss on disposal of asset	(182)
On-behalf payments	161,198
State grants	13,863
Total nonoperating revenue	1,172,908
Decrease in net position	(212,825)
Net position, June 30, 2013	577,442
Net position June 30, 2014	\$ 364,617

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Food Service Fund
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 524,549
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(873,079)
Payments to employees	(644,677)
Other payments	(35,599)
Net cash used for operating activities	<u>(1,028,806)</u>
Cash flows from noncapital financing activities:	
Government grants	931,451
Net cash provided by noncapital and related financing activities	<u>931,451</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	-
Net cash used for capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest received on investments	983
Net cash provided by investing activities	<u>983</u>
Net decrease in cash and cash equivalents	(96,372)
Cash and cash equivalents, June 30, 2013	<u>262,864</u>
Cash and cash equivalents, June 30, 2014	<u><u>\$ 166,492</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,385,733)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	25,000
Donated commodities	79,367
On-behalf payments	161,198
Change in assets and liabilities:	
Accounts receivable	98,225
Inventory	(9,397)
Accounts payable	2,534
Net cash provided by (used for) operating activities	<u><u>\$ (1,028,806)</u></u>
Non-cash items:	
Donated commodities	\$ 79,367
On-behalf payments	161,198

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	<u>Scholarship Trust Funds</u>	<u>Activity Funds</u>
Assets		
Cash and cash equivalents	\$ 952	\$ 233,573
Accounts receivable	28,433	-
Total assets	<u>29,385</u>	<u>233,573</u>
Liabilities		
Accounts payable	-	17,397
Interfund payable	-	-
Due to students	-	216,176
Total liabilities	<u>-</u>	<u>233,573</u>
Net position held in trust	<u>\$ 29,385</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Scholarship Trust Funds</u>
Additions -	
Interest income	\$ 9
Other local revenues	30,376
	<u>30,385</u>
Deductions -	
Operating expenses	-
Community services	1,000
	<u>1,000</u>
Change in net position	29,385
Restricted net position, June 30, 2013	<u>-</u>
Restricted net position, June 30, 2014	<u>\$ 29,385</u>

The accompanying notes to financial statements are an integral part of this statement.

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 1,577,000	\$ 1,577,000	\$ 1,564,579	\$ (12,421)
Motor vehicles	468,000	468,000	547,146	79,146
Utilities	710,000	710,000	754,814	44,814
Interest income	30,000	30,000	12,637	(17,363)
Other local revenues	1,150	283,532	288,553	5,021
Intergovernmental - State	9,631,190	13,330,831	12,942,311	(388,520)
Intergovernmental - Indirect federal	35,000	35,000	37,133	2,133
Total revenues	<u>12,452,340</u>	<u>16,434,363</u>	<u>16,147,173</u>	<u>(287,190)</u>
Expenditures:				
Current:				
Instruction	7,556,799	10,397,553	10,258,996	138,557
Support services:				
Students	624,061	680,045	669,656	10,389
Instructional staff	329,565	481,622	383,663	97,959
District administration	655,850	856,732	869,729	(12,997)
School administration	639,363	890,337	501,582	388,755
Business and other support services	158,088	150,554	221,576	(71,022)
Operation and maintenance of plant	1,526,337	1,916,199	1,777,363	138,836
Student transportation	999,314	1,205,214	1,156,183	49,031
Debt service	-	3,000	46,443	(43,443)
Contingency	473,469	1	-	1
Total expenditures	<u>12,962,846</u>	<u>16,581,257</u>	<u>15,885,191</u>	<u>696,066</u>
Excess (deficiency) of revenues over expenditures	<u>(510,506)</u>	<u>(146,894)</u>	<u>261,982</u>	<u>408,876</u>
Other financing sources (uses):				
Gain (loss) on sale of assets	10,000	10,000	-	(10,000)
Transfers in	506	60,506	182,041	121,535
Transfers out	-	(30,000)	(20,640)	9,360
Total other financing sources and uses	<u>10,506</u>	<u>40,506</u>	<u>161,401</u>	<u>120,895</u>
Net change in fund balances	<u>(500,000)</u>	<u>(106,388)</u>	<u>423,383</u>	<u>529,771</u>
Fund balances, June 30, 2013	<u>500,000</u>	<u>106,388</u>	<u>106,388</u>	<u>-</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 529,771</u>	<u>\$ 529,771</u>

The accompanying notes to financial statements are an integral part of this statement.

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

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest income	\$ 42	\$ -	\$ 75	\$ 75
Other local revenues	-	57,223	94,772	37,549
Intergovernmental - State	1,031,028	261,890	1,088,658	826,768
Intergovernmental - Indirect federal	2,025,307	1,141,066	1,847,286	706,220
Total revenues	<u>3,056,377</u>	<u>1,460,179</u>	<u>3,030,791</u>	<u>1,570,612</u>
Expenditures:				
Current:				
Instruction	1,917,284	1,321,342	1,922,128	(600,786)
Support services:				
Students	315,632	7,490	325,959	(318,469)
Instructional staff	584,447	75,899	509,335	(433,436)
School administration	26,700	-	41,935	(41,935)
Operation and maintenance of plant	7,725	54,942	54,956	(14)
Student transportation	1,373	-	-	-
Community services	202,710	-	197,118	(197,118)
Total expenditures	<u>3,055,871</u>	<u>1,459,673</u>	<u>3,051,431</u>	<u>(1,591,758)</u>
Excess (deficiency) of revenues over expenditures	<u>506</u>	<u>506</u>	<u>(20,640)</u>	<u>(21,146)</u>
Other financing sources (uses):				
Transfers in	-	-	20,640	20,640
Transfers out	(506)	(506)	-	506
Total other financing sources and uses	<u>(506)</u>	<u>(506)</u>	<u>20,640</u>	<u>21,146</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

(1) REPORTING ENTITY

The Fleming 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 Fleming County School District (“District”). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Fleming County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of this organization’s financial statements may be obtained from the District’s Finance Office at 211 West Water Street, Flemingsburg, Kentucky 41041.

Fleming County Board of Education Finance Corporation - In a prior year the Board of Education resolved to authorize the establishment of the Fleming County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

Basis of Presentation

The accounting policies of the Fleming County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and 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 position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

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

periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

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

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund.

D. Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund.

II. Proprietary Fund Types (Enterprise Fund)

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

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue

from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources 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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.411 per \$100 valuation for real property, \$.419 per \$100 valuation for business personal property and \$.559 per \$100 valuation for motor vehicles. The assessed value of property upon which the levy for the 2014 fiscal year was based, was \$564,288,459.

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 telegraphic communications services, cablevision services, electric power, water, and gas.

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The District also receives commodities from USDA. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund 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 (\$1,000) 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 capitalized.

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

<u>Description</u>	<u>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
Other	10 years

Interfund Balances

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

Budgetary Process

The District is required by state law to adopt annual budgets. Each budget is presented on the modified accrual basis of accounting which is consistent with the fund financial statement presentation. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 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.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all 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 Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, increased by the deferred savings from refunding bonds, and reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the vesting method of calculation and that the assumption that it is probable that all vested employees with ten years of experience will eventually retire from the District and become eligible for termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District adopted GASB 65 for the year ended June 30, 2014. See Note 13.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015. Management has not yet determined the effect this statement will have on the financial statements.

(3) ESTIMATES

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

(4) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$2,925,109 and the related bank balances totaled \$3,282,923. Of the total cash balance, \$948,160 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Education Building Fund, Special Revenue (Grant) Funds, Bond and Interest Redemption Fund, School Food Service Funds, and School Activity Funds.

Kentucky Revised Statutes authorizes the District to invest in the following: obligations of the United States Government and of its agencies and instrumentalities, repurchase agreements and specially approved AAA rated corporate bonds; bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities; certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution up to FDIC insured amount, and in larger amounts provided that the bank pledges as security obligations having a current market value at least equal to any uninsured deposits.

During the year, the District's temporary investments were comprised of certificates of deposit held at various banks located within the county. At year-end, \$48,108 in certificates of deposits with an interest rate of .20% and maturity dates of 180 days were held at one bank. Such investments are stated at cost, which approximates market value. These investments were covered by FDIC insurance of \$45,356 and \$2,752 was covered by collateral agreements and collateral held by pledging bank's trust department in the District's name.

(5) CAPITAL ASSETS

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

	Balance			Balance
	June 30, 2013	Additions	Deductions	June 30, 2014
<u>Governmental Activities</u>				
Land	\$ 572,899	\$ -	\$ -	\$ 572,899
Construction in progress	11,569,595	3,715,137	15,284,732	-
Land improvements	1,346,341	-	-	1,346,341
Buildings and improvements	31,847,670	15,284,732	-	47,132,402
Technology equipment	1,614,571	69,309	25,586	1,658,294
General equipment	390,299	-	11,756	378,543
Vehicles	2,555,609	-	-	2,555,609
Totals	<u>49,896,984</u>	<u>19,069,178</u>	<u>15,322,074</u>	<u>53,644,088</u>
Less: accumulated depreciation				
Land improvements	842,414	50,433	-	892,847
Buildings and improvements	10,626,940	892,733	-	11,519,673
Technology equipment	1,235,110	197,670	25,585	1,407,195
General equipment	278,550	21,701	10,703	289,548
Vehicles	1,716,351	163,827	-	1,880,178
Total accumulated depreciation	<u>14,699,365</u>	<u>1,326,364</u>	<u>36,288</u>	<u>15,989,441</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 35,197,619</u>	<u>\$ 17,742,814</u>	<u>\$ 15,285,786</u>	<u>\$ 37,654,647</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 527,785	\$ 5,627	\$ 14,379	\$ 519,033
Food service technology equipment	1,420	-	-	1,420
	<u>529,205</u>	<u>5,627</u>	<u>14,379</u>	<u>520,453</u>
Less: accumulated depreciation				
Food service equipment	375,412	25,000	8,570	391,842
Food service technology equipment	1,303	-	-	1,303
	<u>376,715</u>	<u>25,000</u>	<u>8,570</u>	<u>393,145</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 152,490</u>	<u>\$ (19,373)</u>	<u>\$ 5,809</u>	<u>\$ 127,308</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 652,978
Student support services	14,235
Instructional staff support services	6,474
District administration	2,937
School administration	2,956
Business support	1,359
Plant operation & maintenance	491,571
Student transportation	153,854
	<u>\$ 1,326,364</u>

(6) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as debt obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fleming County School District Finance Corporation, with original amounts of issues totaling \$37,543,000 and notes payable to Kentucky Interlocal School Transportation Association with original amounts of issues totaling \$1,888,130.

Bonds and Notes

The General Fund, including utility taxes, the Facility Support Program Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide, among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Fleming County School District Finance Corporation, and Kentucky School Facility Construction Commission (KSFCC) to construct school facilities and (2) the District with the option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of present outstanding issues, the issue dates, and interest rates are summarized below:

<u>ORIGINAL ISSUE</u>	<u>ISSUER</u>	<u>AMOUNT</u>	<u>INTEREST RATES</u>
Issue of 1998-K	Fleming County School District & KSFCC	\$ 400,180	4.00% to 5.40%
Issue of 2003R	Fleming County School District Finance Corporation & KSFCC	2,970,000	1.10% to 3.50%
Issue of 2004	Fleming County School District Finance Corporation & KSFCC	855,000	3.00% to 4.90%
Issue of 2004B	Fleming County School District Finance Corporation	2,725,000	2.00% to 4.30%
Issue of 2006	Fleming County School District Finance Corporation & KSFCC	1,545,000	3.65% to 4.30%
Issue of 2008R	Fleming County School District Finance Corporation & KSFCC	2,320,000	3.00% to 3.30%
Issue of 2008	Fleming County School District Finance Corporation & KSFCC	2,330,000	4.05%
Issue of 2010R	Fleming County School District Finance Corporation	2,875,000	1.00% to 2.50%
Issue of 2011	Fleming County School District Finance Corporation	2,665,000	1.20% to 4.25%
Issue of 2011-QSCB	Fleming County School District Finance Corporation & KSFCC	11,918,000	4.65%
Issue of 2012R	Fleming County School District Finance Corporation & KSFCC	2,820,000	.50% to 2.40%
Issue of 2012-K	Fleming County School District	1,000,000	2.00% to 3.375%
Issue of 2013	Fleming County School District Finance Corporation & KSFCC	4,520,000	1.40% to 3.00%
Issue of 2013-K	Fleming County School District	157,950	2.00%
Issue of 2013-K	Fleming County School District	330,000	1.50% to 3.625%

The bonds may be called prior to maturity dates at redemption premiums specified in each issue.

In connection with the bond issues, the District entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the District notice of its intention not to participate within sixty days prior to the expiration of the two year period.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2014, for debt service, (principal and interest) are as shown below:

Year	Kentucky School Facilities Construction Commission		Fleming County School District		Total
	Principal	Interest	Principal	Interest	
2015	\$ 309,169	\$ 128,610	\$ 780,425	\$ 417,783	\$ 1,635,987
2016	293,032	119,715	799,984	396,237	1,608,968
2017	301,164	111,094	819,132	377,969	1,609,359
2018	310,111	101,842	805,465	357,963	1,575,381
2019	319,748	92,156	826,221	338,790	1,576,915
2020-2024	1,376,814	321,883	4,019,372	1,370,101	7,088,170
2025-2029	926,419	106,869	3,928,581	801,508	5,763,377
2030-2032	3,101,196	16,171	11,746,804	197,632	15,061,803
	<u>\$6,937,653</u>	<u>\$ 998,340</u>	<u>\$ 23,725,984</u>	<u>\$ 4,257,983</u>	<u>\$ 35,919,960</u>

On October 1, 2011, the District issued \$11,918,000 in Qualified School Construction Bonds (QSCB). Of this amount, the Kentucky School Facilities Construction Commission has a participation agreement with the Board to pay \$2,888,709 of the debt. Interest on the bond accrues at 4.65% annually; however, the interest payments are being made with a Federal Interest Subsidy by the United States Treasury in the amount of \$554,187 annually. Thus, the District does not actually have an interest payment. Principal payments are made each year by the District and the SFCC into a Sinking Fund account, which will accumulate and earn interest until the bonds are due on October 1, 2030.

KSBIT Payable

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during fiscal year 2013 that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance (“KEMI”). As a result, the District’s workers’ compensation portion of the liability was estimated at \$351,803. The District took the option of financing the liability over 10 years in the form of a future bond issuance through the Kentucky Interlocal School Transportation Association (KISTA). The projected annual payment is expected to be \$43,456 beginning on September 1, 2014 and total \$434,563 over the 10-year period.

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2014</u>
General obligation bonds – \$37,543,000 originally issued with interest rates ranging from 0.50% to 4.90%	\$ 30,123,000	\$ -	\$ 990,000	\$ 29,133,000
KISTA Loans	1,598,950	-	68,313	1,530,637
KSBIT Liability	500,138	-	148,335	351,803
Accumulated unpaid sick leave benefits	656,250	-	22,449	633,801
Less: Discount on bonds	(65,077)	-	(5,299)	(59,778)
	<u>\$ 32,813,261</u>	<u>\$ -</u>	<u>\$ 1,223,798</u>	<u>\$ 31,589,463</u>

(7) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

Pension Plan - The Fleming 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 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).

The 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 may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://www.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%.

B. Medical Insurance Plan:

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

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

and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy - In order to fund the post-employment 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 Fleming County School System's total payroll for the year was \$12,290,860. The payroll for employees covered under KTRS was \$9,608,629. For the year ended June 30, 2014, the Commonwealth of Kentucky contributed \$1,126,156 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ending June 30, 2014, were \$158,424, which represents those employees covered by federal programs.

C. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or from the KRS website at <https://kyret.ky.gov>.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to 18.89% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's total payroll for the year was \$12,290,860. The payroll for employees covered under CERS was \$2,810,469. The District's contributions to CERS for the year ending June 30, 2014, 2013, and 2012 were \$530,897, \$632,189, and \$561,258, respectively, equal to the required contributions for the year.

(8) CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements.

The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

On October 15, 2012, the Board and the Peoples Bank of Kentucky, Inc. (referred to as “Booster”) entered into a “FFA School Farm - Agricultural Complex” booster agreement whereby the Booster can effectively donate \$139,688 plus accrued interest over a period of ten years to the Board for the construction of structural facilities upon premises leased by the Board. The Booster agrees to forgive on an annual basis both the principal and interest needed to amortize a loan as long as the Board satisfies certain conditions.

(9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Employers' Mutual Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is managements' opinion that the District is in compliance with the COBRA requirements.

(11) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 20,640
Operating	Capital Outlay	General	Capital Funds Request/ Operating	182,041
Operating	Building	Debt Service	Debt Service	1,449,052

(12) ON-BEHALF PAYMENTS

For the year ended June 30, 2014, total payments of \$4,049,688 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, debt service, and KTRS matching and administrative fees, and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance. The On-Behalf payments are not budgeted in the Statement of Revenues, Expenditures, and Changes in Fund balance - Budget and Actual.

On-behalf payments at June 30, 2014 consisted of the following:

Teacher Retirement	\$ 1,126,156
Health & Life Insurance	2,375,467
Technology	78,055
Debt Service	576,996

(13) PRIOR PERIOD ADJUSTMENTS

The District adopted a change in accounting principle for the year ending June 30, 2014. GASB 65, *Items Previously Reported as Assets and Liabilities* amends or supersedes accounting principles which required debt issuance costs to be amortized over the life of the debt issuance. Under GASB 65, the Board is required to recognize debt issuance costs as an expense of the current period. While there were costs being amortized from prior periods, the removal of these costs reduced net position at June 30, 2013 by \$411,157.

(14) RECLASSIFICATIONS

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

SUPPLEMENTARY INFORMATION

FLEMING COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Capital Project Funds	Total Non-Major Governmental Funds
ASSETS:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	-	-
Total assets	\$ -	\$ -
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
Fund Balances:		
Assigned	-	-
Restricted	-	-
Total fund balance	-	-
Total liabilities and fund balances	\$ -	\$ -

**FLEMING COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Capital Project Funds</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES:		
From local sources -		
Property taxes	\$ 649,798	\$ 649,798
Intergovernmental - State	1,063,294	1,063,294
Intergovernmental - Federal Subsidy	-	-
Interest income	-	-
Total revenues	<u>1,713,092</u>	<u>1,713,092</u>
EXPENDITURES:		
Current -		
Debt service	<u>81,999</u>	<u>81,999</u>
Total expenditures	<u>81,999</u>	<u>81,999</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,631,093</u>	<u>1,631,093</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in	-	-
Operating transfers out	<u>(1,631,093)</u>	<u>(1,631,093)</u>
Total other financing sources (uses)	<u>(1,631,093)</u>	<u>(1,631,093)</u>
NET CHANGE IN FUND BALANCES	-	-
FUND BALANCE JUNE 30, 2013	<u>-</u>	<u>-</u>
FUND BALANCE JUNE 30, 2014	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

FLEMING COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR CAPITAL PROJECT FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	SEEK Funds	FSPK Fund	Total Capital Project Funds
REVENUES:			
From local sources -			
Property taxes	\$ -	\$ 649,798	\$ 649,798
Intergovernmental - State	207,320	855,974	1,063,294
Total revenues	<u>207,320</u>	<u>1,505,772</u>	<u>1,713,092</u>
EXPENDITURES:			
Current -			
Debt Service	25,279	56,720	81,999
Total expenditures	<u>25,279</u>	<u>56,720</u>	<u>81,999</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>182,041</u>	<u>1,449,052</u>	<u>1,631,093</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	-	-	-
Operating transfers out	(182,041)	(1,449,052)	(1,631,093)
Total other financing sources (uses)	<u>(182,041)</u>	<u>(1,449,052)</u>	<u>(1,631,093)</u>
NET CHANGE IN FUND BALANCES	-	-	-
FUND BALANCE JUNE 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE JUNE 30, 2014	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

**FLEMING COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2014**

	KISTA Energy	2003R Bond Fund	2004 Bond Fund	2004B Bond Fund	2006 Bond Fund	2008R Bond Fund	2008 Bond Fund	2010R Bond Fund	2011 Bond Fund	2011 QSCB Bond Fund	2012R Bond Fund	2013 Bond Fund	Totals Debt Service Fund
ASSETS:													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,005,793	\$ -	\$ -	\$ 1,005,793
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,005,793</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,005,793</u>
LIABILITIES AND FUND BALANCE:													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:													
Assigned	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted for debt service	-	-	-	-	-	-	-	-	-	1,005,793	-	-	1,005,793
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,005,793</u>	<u>-</u>	<u>-</u>	<u>1,005,793</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,005,793</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,005,793</u>

**FLEMING COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	KISTA Energy	2003R Bond Fund	2004 Bond Fund	2004B Bond Fund	2006 Bond Fund	2008R Bond Fund	2008 Bond Fund	2010R Bond Fund	2011 Bond Fund	2011 QSCB Bond Fund	2012R Bond Fund	2013 Bond Fund	Totals Debt Service Fund
REVENUES:													
Intergovernmental - State	\$ 28,997	\$ 25,479	\$ 39,106	\$ -	\$ 113,409	\$ 84,544	\$ 94,982	\$ -	\$ -	\$ 120,609	\$ 22,706	\$ 57,164	\$ 586,996
Intergovernmental - Federal subsidy	-	-	-	-	-	-	-	-	-	554,187	-	-	554,187
Interest income	-	-	-	-	-	-	-	-	-	26,227	-	-	26,227
Total revenues	<u>28,997</u>	<u>25,479</u>	<u>39,106</u>	<u>-</u>	<u>113,409</u>	<u>84,544</u>	<u>94,982</u>	<u>-</u>	<u>-</u>	<u>701,023</u>	<u>22,706</u>	<u>57,164</u>	<u>1,167,410</u>
EXPENDITURES:													
Debt service	28,997	305,125	41,640	89,505	113,409	257,815	139,544	154,625	142,513	554,187	93,013	180,079	2,100,452
Total expenditures	<u>28,997</u>	<u>305,125</u>	<u>41,640</u>	<u>89,505</u>	<u>113,409</u>	<u>257,815</u>	<u>139,544</u>	<u>154,625</u>	<u>142,513</u>	<u>554,187</u>	<u>93,013</u>	<u>180,079</u>	<u>2,100,452</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES													
	-	(279,646)	(2,534)	(89,505)	-	(173,271)	(44,562)	(154,625)	(142,513)	146,836	(70,307)	(122,915)	(933,042)
OTHER FINANCING SOURCES (USES):													
Operating transfers in	-	279,646	2,534	89,505	-	173,271	44,562	154,625	142,513	369,174	70,307	122,915	1,449,052
Total other financing sources (uses)	<u>-</u>	<u>279,646</u>	<u>2,534</u>	<u>89,505</u>	<u>-</u>	<u>173,271</u>	<u>44,562</u>	<u>154,625</u>	<u>142,513</u>	<u>369,174</u>	<u>70,307</u>	<u>122,915</u>	<u>1,449,052</u>
NET CHANGE IN FUND BALANCES													
	-	-	-	-	-	-	-	-	-	516,010	-	-	516,010
FUND BALANCE JUNE 30, 2013													
	-	-	-	-	-	-	-	-	-	489,783	-	-	489,783
FUND BALANCE JUNE 30, 2014													
	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,005,793</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,005,793</u>						

**FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Cash Balance June 30, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2014
Fleming County High School	\$ 98,763	\$ 519,569	\$ 489,757	\$ 128,575	\$ -	\$ 9,411	\$ 119,164
Simon Middle School	31,260	135,390	141,194	25,456	-	5,197	20,259
Flemingsburg Elementary	21,869	92,139	83,030	30,978	-	1,973	29,005
Ewing Elementary	12,433	22,579	21,387	13,625	-	156	13,469
Hillsboro Elementary	20,733	26,024	29,487	17,270	-	-	17,270
Ward Elementary	9,764	37,142	29,237	17,669	-	660	17,009
	<u>\$ 194,822</u>	<u>\$ 832,843</u>	<u>\$ 794,092</u>	<u>\$ 233,573</u>	<u>\$ -</u>	<u>\$ 17,397</u>	<u>\$ 216,176</u>

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FLEMING COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance June 30, 2013	Receipts	Disbursements	Cash Balance June 30, 2014	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2014
General Fund	\$ 125	\$ 3,600	\$ 3,644	\$ 81	\$ -	\$ 81
Math-Grant	731	-	-	731	-	731
Interest	283	142	131	294	-	294
Sr. Magazine Sales Prize Money	-	-	-	-	-	-
CBI (FMD)	1,201	4,845	4,727	1,319	-	1,319
Jr/Sr Prom	-	7,361	4,678	2,683	-	2,683
Climate Committee	221	-	-	221	-	221
Student Data Binders	100	-	-	100	-	100
Senior Trip Scholarship	200	-	200	-	-	-
ACT Boot Camp	-	1,936	1,520	416	-	416
Math-Plank	-	475	-	475	-	475
English-Pertuset	-	475	-	475	-	475
Academic Team	1,868	2,555	2,430	1,993	-	1,993
Freshman Academy	212	-	-	212	-	212
Culinary	708	934	1,156	486	-	486
Library	13	5,552	4,951	614	-	614
Pepsi	849	3,027	3,500	376	-	376
Pepsi-Faculty	55	799	821	33	-	33
Picture Fund	1,662	2,630	4,118	174	-	174
Project Prom	-	100	-	100	-	100
Senior Mag Sales	-	-	-	-	-	-
Nat. Art Honor Society	180	1,510	1,611	79	-	79
Game Club	528	342	614	256	-	256
Swim Team	310	204	495	19	-	19
Bowling	250	6,914	2,054	5,110	-	5,110
Girls Soccer	3,216	-	2,185	1,031	-	1,031
Boys Soccer	3,002	-	2,628	374	-	374
Girls Soccer Fundraiser	-	1,340	617	723	-	723
Boys Soccer Fundraiser	-	1,298	127	1,171	-	1,171
Baseball	-	7,431	3,623	3,808	-	3,808
F.C. Dev. B-Ball Fundraiser	-	15,645	14,130	1,515	-	1,515
AAU Boys B-Ball	383	-	-	383	-	383
Boys Basketball	-	9,035	7,026	2,009	-	2,009
Boys B-Ball Fundraiser	-	7,555	5,788	1,767	-	1,767
Cheerleaders	422	1,854	1,797	479	-	479
Cheerleaders Fundraiser	7,854	13,169	17,276	3,747	(560)	3,187
Track/Cross Country	139	985	1,124	-	-	-
Track Fundraiser	-	1,380	1,380	-	-	-
Football	3	6,432	6,435	-	-	-
Football Fundraisers	12	1,776	45	1,743	-	1,743
Girls Basketball	912	4,580	4,874	618	-	618
Girls Golf	-	-	-	-	-	-
Boys Golf	-	-	-	-	-	-
Girls Softball	60	175	235	-	-	-
Softball Fundraiser	-	377	340	37	-	37
Athletic Dept	3,035	134,545	131,292	6,288	-	6,288
Concessions	207	25,870	20,796	5,281	-	5,281
District Games	-	8,354	8,354	-	-	-
District Concessions	-	-	-	-	-	-
Girls Volleyball	659	-	640	19	-	19
Girls Volleyball Fundraiser	-	4,684	4,684	-	-	-
English	254	61	194	121	-	121
Yearbook Sales	4,360	14,690	8,012	11,038	-	11,038
Journalism	16,557	9,654	7,529	18,682	-	18,682
English	1,811	3,899	4,079	1,631	(30)	1,601
CAD	1,393	-	132	1,261	-	1,261
FCA	456	14	120	350	-	350
Pep Club	277	-	-	277	-	277
Ag Leadership Scholarship	-	500	500	-	-	-
School Farm	18,350	48,550	57,855	9,045	-	9,045
FFA	1,444	27,726	25,695	3,475	(930)	2,545
FFA Barn	16	-	16	-	-	-
FBLA	1,406	3,903	5,309	-	-	-

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FLEMING COUNTY HIGH SCHOOL (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balance June 30, 2013	Receipts	Disburse- ment	Cash Balance June 30, 2013	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2014
FCCLA Boosters	-	26,545	17,402	9,143	(7,723)	1,420
FCCLA	1,773	16,740	17,889	624	-	624
Ag Business/Floral Design	5,190	24,865	14,127	15,928	-	15,928
Vocational Shop Class	566	-	566	-	-	-
French Club	52	-	-	52	-	52
H.O.S.A	1,068	4,613	3,887	1,794	-	1,794
Skill USA	24	955	979	-	-	-
Tri-M Music Society	85	-	35	50	-	50
Guidance Office	682	4,969	5,117	534	-	534
Nat'l Honor Society	-	-	-	-	-	-
Science Club/ Fair	452	1,955	1,744	663	-	663
Senior Class	780	32,189	32,920	49	-	49
Senior Beta Club	1,720	2,691	3,290	1,121	-	1,121
Spanish Club	790	-	274	516	-	516
Student Leadership	305	473	-	778	-	778
STLP	1,671	-	882	789	-	789
TSA	-	2,516	2,388	128	-	128
Choir	288	371	659	-	-	-
Future Educators	180	-	-	180	-	180
Drama Club	656	-	640	16	-	16
Band	189	21,105	19,992	1,302	(94)	1,208
Media	49	500	549	-	-	-
CWE (Career Work EXP)	6,164	3,539	8,352	1,351	(74)	1,277
Panther Den	355	327	245	437	-	437
Subtotal	98,763	543,236	513,424	128,575	(9,411)	119,164
Less Inter-fund Transfers	-	23,667	23,667	-	-	-
TOTALS	<u>\$ 98,763</u>	<u>\$ 519,569</u>	<u>\$ 489,757</u>	<u>\$ 128,575</u>	<u>\$ (9,411)</u>	<u>\$ 119,164</u>

FLEMING 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
<u>U.S. Department of Education</u>				
Passed through Kentucky Department of Education:				
School Improvement	84.010	3203	55,000	2,128
School Improvement	84.010	3204	50,000	30,147
Title I Grants to Local Educational Agencies	84.010	3100202-12	820,202	26,503
Title I Grants to Local Educational Agencies	84.010	3100202-13	745,681	685,907
				<u>744,685</u>
Migrant Education-State Grant Programs	84.011	3113R	470,572	135,363
Migrant Education-State Grant Programs	84.011	3114R	488,657	285,762
				<u>421,125</u>
Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA, Part B	84.027	3810002-12	487,899	26,237 *
Special Education Grants to States - IDEA, Part B	84.027	3810002-13	453,523	399,658 *
Special Education Preschool Grants	84.173	3800002-12	22,667	16,986 *
Special Education Preschool Grants	84.173	3800002-13	22,336	22,336 *
				<u>465,217</u>
Rural Education	84.358	3140002-14	41,305	32,442
Rural Education	84.358	3140002-13	45,039	3,748
				<u>36,190</u>
Improving Teacher Quality State Grants	84.367	3230002-12	148,600	10,524
Improving Teacher Quality State Grants	84.367	3230002-13	141,429	135,735
				<u>146,259</u>
Vocational Education Basic Grants to States	84.048	4622132-12	1,676	1,676
Vocational Education Basic Grants to States	84.048	4622132-13	32,134	32,134
				<u>33,810</u>
Total pass-through State Department of Education				<u>1,847,286</u>

**FLEMING COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>				
Pass-through - State Department of Education:				
Cash Assistance:				
State Administrative Expense Funds	10.560	7850012-12	-	1,000
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-14	-	525,252 *
National School Lunch Program	10.555	7750002-13	-	127,894 *
School Breakfast Program	10.553	7760005-14	-	228,855 *
School Breakfast Program	10.553	7760005-13	-	54,832 *
Cash Assistance Subtotal				<u>936,833</u>
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	012-0100	-	79,367 *
Total Child Nutrition Cluster				<u>1,016,200</u>
Total U.S. Department of Agriculture				<u>1,017,200</u>
Total Federal Assistance				<u>\$ 2,864,486</u>

* Denotes a major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fleming County School District under the programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Fleming County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, the organization had total inventory of \$28,391.



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**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**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fleming County School District (the "District") as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 10, 2014. We conducted our audit 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; OMB Circular A-133; 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.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 District in a separate letter dated November 10, 2014.

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.

Kelley Halloway Smith Doolady, PSC

November 10, 2014



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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky

Report on Compliance for Each Major Federal Program

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Fleming 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 the 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 Fleming 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.

Purpose of this Report

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.

Kelley Halloway Smith Goolsby, PSC

November 10, 2014

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

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued:	Unmodified
Internal Control over financial reporting:	
Material weakness(es) identified?	_____ yes <u> x </u> no
Significant deficiency(ies) identified?	_____ yes <u> x </u> none reported
Noncompliance material to the financial statements noted?	_____ yes <u> x </u> no
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	_____ yes <u> x </u> no
Significant deficiency(ies) identified?	_____ yes <u> x </u> none reported
Type of audit auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ yes <u> x </u> no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2014:

Special Education Cluster (IDEA) (84.027, 84.173)
Child Nutrition Cluster (10.553, 10.555)

Dollar threshold to distinguish between Type A and Type B Programs:	<u> \$ 300,000 </u>
The District qualified as a low risk auditee	<u> x </u> yes _____ no

(B) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

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

There were no findings in the prior year.



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Kentucky State Committee for School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky

In planning and performing our audit of the financial statements of Fleming County School District (the "District") as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 10, 2014, on the financial statements of the District.

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

Kelley Galloway Smith Goolsby, PSC

November 10, 2014

FLEMING COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014

14-01 Incorrect Mileage Rate Paid

Statement of Condition: We noted 3 instances whereby incorrect mileage rates were paid to employees.

Criteria for Condition: Mileage rates utilized should be consistent with Board policy.

Cause of Condition: Inadequate review.

Effect of the Condition: Employees not reimbursed the correct amounts for mileage.

Recommendation of the Condition: We recommend that further procedures be implemented to ensure employees are paid at the correct mileage rate.

Management Response: More care will be taken to utilize the correct mileage rates in accordance with Board policy.

14-02 Disbursements Charged to Incorrect General Ledger Accounts

Statement of Condition: We noted 2 instances whereby disbursements were charged to incorrect general ledger accounts.

Criteria for Condition: To ensure accurate reporting, all disbursements should be charged to the correct general ledger accounts.

Cause of Condition: Inadequate review.

Effect of the Condition: Disbursements were not properly coded.

Recommendation of the Condition: We recommend that further procedures be implemented to ensure that disbursements are coded to the correct general ledger accounts.

Management Response: Staff will be trained on proper invoice coding in accordance with the chart of accounts.

14-03 Disbursements Not Approved by the Board

Statement of Condition: We noted 3 disbursements that were not approved by the Board.

Criteria for Condition: The Board should approve all disbursements.

Cause of Condition: Checks written after the Board meeting, but before month-end, are not presented to the Board.

Effect of the Condition: Disbursements not properly approved.

Recommendation of the Condition: We recommend that all disbursements be approved by the Board.

Management Response: More care will be taken to ensure that all disbursements are approved by the Board for payments in-between meetings.

14-04 Purchase Order Dates

Statement of Condition: We noted 4 invoices that had purchase orders that were dated after the invoice date.

Criteria for Condition: Purchase orders should be approved prior to purchases.

Cause of Condition: Oversight.

Effect of the Condition: Purchases not properly approved prior to actual purchase.

Recommendation of the Condition: We recommend that purchase orders be approved prior to purchases.

Management Response: All District and school personnel will be advised that the purchase order is completed with a set amount and additional approval is required if the purchase amount will be exceeded. This will require a revised purchase order or an additional purchase order.

14-05 Middle School Activity Fund Beginning Cash Balance

Statement of Condition: We noted that beginning balances for 4 activities within the Middle School activity fund did not agree to the ending balances for the prior year.

Criteria for Condition: Beginning balances for the current year should agree to the ending balances for the prior year.

Cause of Condition: Oversight

Effect of the Condition: Inaccurate cash balances.

Recommendation of the Condition: We recommend that all activity fund accounts be adequately reviewed to ensure that transfers and account balances are properly recorded.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds. Processes are in place to be in compliance with the Redbook for the FY 2014-15 school year.

14-06 Middle School Activity Fund Purchase Orders

Statement of Condition: We noted 4 disbursements that did not include purchase orders.

Criteria for Condition: Redbook requires properly approved purchase orders, as applicable.

Cause of Condition: Purchase order was not generated or attached to the invoice.

Effect of the Condition: Purchase not properly supported by the required documentation.

Recommendation of the Condition: We recommend that purchase orders be properly approved and maintained.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds. Processes are in place to be in compliance with the Redbook for the FY 2014-15 school year.

14-07 Middle School Activity Fund Cheerleader Account

Statement of Condition: We noted that after including accounts payable at year-end, the Cheerleader account had a deficit balance.

Criteria for Condition: Per Redbook requirements, no activity should have a deficit balance.

Cause of Condition: Purchasing items near year-end without sufficient funds.

Effect of the Condition: Cheerleader activity account had a deficit balance at year-end.

Recommendation of the Condition: We recommend that personnel avoid deficit balances within the activity fund.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds. Processes are in place to be in compliance with the Redbook for the FY 2014-15 school year.

14-08 Ewing Elementary Usage of Forms

Statement of Condition: We noted that several forms prescribed by the Redbook were not utilized. Those forms not utilized include:

1. Requisition and Report of Ticket Sales
2. Inventory Control Worksheet
3. Expense Report
4. Travel Voucher

Criteria for Condition: The Redbook requires that prescribed forms be utilized when applicable.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Prescribed forms are not utilized as required by the Redbook.

Recommendation of the Condition: We recommend that all prescribed forms be utilized when applicable.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds. Processes are in place to be in compliance with the Redbook for the FY 2014-15 school year.

14-09 Flemingsburg Elementary Procedures

Statement of Condition: We noted -

1. Deposits tickets for money received are not initialed by 2 people.
2. The Fundraising Approval Form was not utilized.
3. Checks are not always mailed the same day they are written.
4. The same person who opens the mail also prepares deposits.
5. Credit cards are kept in an unlocked location.

Criteria for Condition: Listed conditions are in violation of the Redbook.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Noncompliance with the Redbook.

Recommendation of the Condition: We recommend that all Redbook procedures be followed.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds. Processes are in place to be in compliance with the Redbook for the FY 2014-15 school year.

14-10 High School Booster Clubs

Statement of Condition: We noted that several booster organizations did not comply with Redbook requirements. Noncompliance included the failure to properly submit a budget, failure to submit a list of officers, and failure to submit a financial report to the Central Office.

Criteria for Condition: Listed conditions are in violation of the Redbook.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Noncompliance with the Redbook.

Recommendation of the Condition: We recommend that all booster organizations follow Redbook requirements or the school should disassociate with the offending booster organizations. Per Redbook guidelines if a school disassociates with the booster organization, then the booster organization shall not use the school name for its activities, conduct any fundraising in the name of the school or athletic group within the school and shall not use school facilities to conduct such activities.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds. Each school now has a binder that lists all the boosters and the documentation that is required by Redbook.

14-11 Middle School Booster Clubs

Statement of Condition: Of the 4 Middle School booster organizations, none submitted a budget or list of officers to the Central Office.

Criteria for Condition: Listed conditions are in violation of the Redbook.

Cause of Condition: Lack of knowledge of Redbook requirements.

Effect of the Condition: Noncompliance with the Redbook.

Recommendation of the Condition: We recommend that all booster organizations follow Redbook requirements or the school should disassociate with the offending booster organizations. Per Redbook guidelines if a school disassociates with the booster organization, then the booster organization shall not use the school name for its activities, conduct any fundraising in the name of the school or athletic group within the school and shall not use school facilities to conduct such activities.

Management Response: Additional training will be provided as necessary to all employees that are involved with the school's activity funds. Each school now has a binder that lists all the boosters and the documentation that is required by Redbook.

Status of Prior Year Management Points

13-01 Time Clock/Time Sheet

Condition: This condition was corrected in the current year.

13-02 National School Lunch Program

Condition: This condition was corrected in the current year.

13-03 Travel Reimbursements

Condition: This condition was corrected in the current year.

13-04 Activity Funds Recordkeeping

Condition: Parts of this condition were repeated in the current year and noted in findings above.

13-05 Rewards Program

Condition: This condition was corrected in the current year.

13-06 Account Coding

Condition: This was a repeat finding and noted in condition 14-02 above.

13-07 Credit Card Receipts

Condition: This condition was corrected in the current year.

13-08 Budgeting

Condition: This condition was corrected in the current year.

Mr. Brian Creasman, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.