

HARLAN COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2014

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County School District (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 District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of the 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.

White & Associates, PSC

Richmond, Kentucky
October 23, 2014

HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2014

As management of the Harlan County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the district was \$2,104,4417 of which \$412,685 was General Fund, \$1,691,575 was in the restricted funds of Debt Service Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$3,401,674 of which \$1,554,132 was General Fund, \$1,847,542 was in the restricted funds of Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$963,233 for General Fund.
- The General Fund Revenue totaled \$29,284,010 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$28,065,933 exclusive of inter-fund transfers.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Harlan County School District's basic financial statements. The District's basic financial statements are comprised of three components: 1) district-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.

District-Wide Financial Statements - The district-wide financial statements are designed to provide readers with a broad overview of the Harlan County School District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Harlan County School 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 Harlan County School District is improving or deteriorating.

The statement of activities presents information showing how the Harlan County School 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.

HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2014

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

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

Fund Financial Statements- A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents in 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 district-wide and fund financial statements. The notes to the financial statements can be found on the table of contents in 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 plus deferred outflows exceeded liabilities by approximately \$18.25 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.

2014 District-Wide Governmental Net position compared to 2013 as follows:

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2014**

**Table 1
Net Position (in Millions)**

	Governmental		Business-type		Total		Total Percentage Change 2013-2014
	Activities		Activities		School District		
	2013	2014	2013	2014	2013	2014	
Assets:							
Current and Other Assets	2.82	3.87	.63	.98	3.45	4.85	29%
Capital Assets	60.67	59.08	.20	.17	60.87	59.25	-3%
Total Assets	63.49	62.95	.83	1.15	64.32	64.10	-1%
Loss for the difference in reacquisition and carrying value of refunding debt							
	0.42	0.37	0.00	0.00	0.42	0.37	
Total Deferred Outflows of Resources	0.42	0.37	0.00	0.00	0.42	0.37	-19%
Liabilities:							
Current Liabilities	3.41	3.14	0.00	0.00	3.41	3.14	-8%
Noncurrent Liabilities	45.98	43.09	0.00	0.00	45.98	43.09	-6%
Total Liabilities	49.39	46.23	0.00	0.00	49.39	46.23	-6%
Net Position:							
Invested in Capital Assets							
Net of Debt	13.33	14.23	0.20	.17	13.53	14.40	6%
Restricted	1.85	2.53	0.63	.99	2.48	3.52	7%
Unrestricted Net Position	-0.66	0.34	0.00	0.00	-0.66	.34	5%
Total Net Position	14.52	17.10	0.83	1.16	15.35	18.26	16%

GOVERNMENTAL ACTIVITIES

Ending net position was \$18.25 million for the District.

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2014**

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
	Revenues:						
Charges for services	\$0.39	\$0.19	\$0.52	\$0.61	\$0.91	\$0.80	-12%
Operating grants and contributions	5.25	6.20	2.22	3.01	7.47	9.21	-17%
Capital grants and contributions	3.18	2.10	-	-	3.18	2.10	-34%
General revenues	29.56	31.75	-	0.00	29.56	31.75	7%
Total revenue	\$38.38	\$40.24	\$2.74	\$3.63	\$41.12	\$43.89	-1%
Expenses:							
Instruction	\$21.16	\$19.94			\$21.16	\$19.94	-6%
Student	2.14	2.13			2.14	2.13	0%
Instructional staff	2.04	1.70			2.04	1.70	-17%
District administration	1.11	1.17			1.11	1.17	5%
School administration	2.38	1.98			2.38	1.98	-17%
Business	0.47	0.58			0.47	0.58	23%
Plant operation & maintenance	3.73	3.64			3.73	3.64	-2%
Student transportation	1.82	2.20			1.82	2.20	21%
Other instructional	0.34	0.37			0.34	0.37	9%
Community services operations	0.53	0.52			0.53	0.52	-2%
Amortization	0.04	0.04			0.04	0.04	0%
Depreciation	1.85	1.80	0.03	0.03	1.88	1.83	-3%
Interest on long-term debt	1.52	1.83			1.52	1.83	20%
Food Service Operations			2.46	3.14	2.46	3.17	29%
Extraordinary Item	0.50	-			0.50	-	-100%
Debt Service	0.07	-			0.07	-	-100%
Transfers			0.13	0.14	0.13	0.12	-8%
Total Expenses	\$39.70	\$37.90	\$2.62	\$3.31	\$42.32	\$41.22	-2%
Change in net position	(\$1.32)	\$2.34	\$0.12	\$0.32	(\$1.20)	2.66	69%

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)**

For the year ended June 30, 2014

CAPITAL ASSETS

At the end of fiscal 2014, the District had \$59.25 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$1.65 million over last year.

Capital Assets at Year-End 2014
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Land	1,897,472	1,995,684	-	-	1,897,472	1,995,684
Land and Improvements	681,151	616,060	-	-	681,151	616,060
Buildings & Improvements	49,073,059	47,670,847	-	-	49,073,059	47,670,847
Technology Equipment	187,554	128,079	2,099	1,221	189,653	129,300
Vehicles	1,203,770	1,000,138	-	-	1,203,770	1,000,138
General Equipment	138,107	104,742	199,368	168,380	337,475	273,122
Construction In Progress	7,488,910	7,565,534	-	-	7,488,910	7,565,534

DEBT

Capital lease and general obligation debt decreased \$3.43 million from FY 2013.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2013	2014
Capital Lease Obligations	\$ 0.70	\$ 0.61
General Obligation Bonds	<u>47.06</u>	<u>44.62</u>
Total Obligations	<u>\$ 47.76</u>	<u>\$ 45.23</u>

THE DISTRICT'S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$1,554,132, which is more than last year's fund balance of \$412,864. The unassigned portion of the fund balance at the end of fiscal year 2014 is \$874,322, compared to \$250,985 from the preceding year.

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)**

For the year ended June 30, 2014

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2014:

*Note This chart does not include beginning balances.

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	5,512,398	76,825		1,292,864			613,207
State Revenue Sources	23,645,384	1,684,186	367,591	686,085		2,095,196	167,285
Federal Revenue Sources	126,228	4,516,422					2,845,440
Other	3,076	0			92,085		4,263
Transfers	137,495	217,383				2,167,680	
TOTALS	29,424,583	6,494,815	367,591	1,978,949	92,085	4,262,876	3,630,195
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	15,667,820	4,496,326					
Student Support Services	1,596,658	531,627					
Instructional Staff Support Services	880,809	815,921					
District Admin Support	1,173,262						
School Admin Support	1,981,848						
Business Support Services	523,696	64,379					
Plant Operation & Management	3,644,682						
Student Transportation	2,128,010	75,285					
Food Service Operations							3,138,101
Community Services	13,992	505,988					
Debt Service	112,439					4,262,876	
Other Instructional	336,482						
Building Improvements	6,235	5,289			114,979		
Other Items							31,866
Transfers	217,383		367,591	1,800,089			137,494
TOTALS	28,286,391	6,494,815	367,591	1,800,089	-	4,262,876	3,307,461
Excess / (Deficit)	1,141,268	-	-	178,860	(22,894)	-	322,734

HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2014

Comments on Budget Comparisons

- The District's total general fund balance for the fiscal year ended June 30, 2014, \$1,554.132 which is more than last year's fund balance of \$412,864.
- The districts total revenue for fiscal year ending June 30, 2014 were \$40,905,264 net of other financing sources and uses, including "On-Behalf" payments.
- General fund budget compared to actual revenue varied slightly from line item to line item except for the state revenue item with the ending actual revenue being \$341,724 more than budget by approximately 1.4 percent.
- The total cost of all general fund programs and services was \$22.57 million excluding on behalf payments which was over budget by \$82,744.

BUDGETARY IMPLICATIONS

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2014-2015 with a 2.8% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates
- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the "shared" KTRS (which requires a .50% district match of gross pay for all KTRS eligible employees in FY2013 and will continue to increase to a 2.0% contribution rate), initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, and additional anticipated reductions in funding continues to press the district's ability to continue programs.
- Continued insufficient funding of the state transportation formula

Questions regarding this report should be directed to the Finance Officer, Gary Hensley or Superintendent, T. Michael Howard. at (606) 573-4330 or by mail at Harlan County Board of Education, 251 Ball Park Road, Harlan, Kentucky 40831.

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

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 917,175	\$ 871,638	\$ 1,788,814
Investments	1,790,358		1,790,358
Receivables (net)	380,704		380,704
Inventories		114,524	114,524
Prepaid debt service	787,980		787,980
Capital assets:			
Land, improvements, and construction in progress	9,561,218		9,561,218
Other capital assets, net of depreciation	49,519,866	169,601	49,689,467
Total capital assets	59,081,084	169,601	59,250,685
Total assets	62,957,301	1,155,763	64,113,064
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	373,721		373,721
LIABILITIES			
Accounts payable and accrued expenses	202,205	372	202,577
Accrued interest payable	143,587		143,587
Payroll taxes payable	174,174		174,174
Accrued salaries and benefit payable	98,164		98,164
Long-term liabilities:			
Due within 1 year:			
Bond obligations	2,424,600		2,424,600
Capital lease obligations	95,067		95,067
Total due within 1 year	2,519,667	-	2,519,667
Due in more than 1 year:			
Bond obligations	42,192,300		42,192,300
Capital lease obligations	511,203		511,203
KSBIT payable	278,838		278,838
Sick leave	112,473		112,473
Total due in more than 1 year	43,094,814	-	43,094,814
Total liabilities	46,232,611	372	46,232,983
NET POSITION			
Net investment in capital assets	14,231,634	169,601	14,401,235
Restricted for:			
Expendable restricted for encumbrances	67,337		67,337
Expendable restrict for workers comp	500,000		500,000
Expendable restricted for sick leave	112,473		112,473
Expendable restricted for capital projects	1,847,542		1,847,542
Expendable restricted for food services		985,790	985,790
Unrestricted	339,424		339,424
Total net position	\$ 17,098,411	\$ 1,155,391	\$ 18,253,802

See the accompanying notes to the financial statements.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 19,939,775	\$ 193,262	\$ 4,292,647	\$ -	\$ (15,453,866)		\$ (15,453,866)
Support Services							
Student	2,128,285		507,545		(1,620,740)		(1,620,740)
Instructional Staff	1,696,730		778,960		(917,770)		(917,770)
District Administration	1,173,262				(1,173,262)		(1,173,262)
School Administration	1,981,849				(1,981,849)		(1,981,849)
Business	588,075		61,463		(526,613)		(526,613)
Plant Operation & Maintenance	3,644,682				(3,644,682)		(3,644,682)
Student Transportation	2,203,295		71,875		(2,131,420)		(2,131,420)
Other Instructional	336,482				(336,482)		(336,482)
Community Services Operations	519,979		483,067		(36,912)		(36,912)
Building Improvements			5,050	1,053,676	1,058,726		1,058,726
Amortization	44,132				(44,132)		(44,132)
Depreciation	1,802,129				(1,802,129)		(1,802,129)
Interest on general long-term debt	1,830,296			2,095,196	264,899		264,899
Total governmental activities	<u>37,888,972</u>	<u>193,262</u>	<u>6,200,608</u>	<u>3,148,872</u>	<u>(28,346,231)</u>		<u>(28,346,231)</u>
Business-type activities:							
Food service operations	3,138,100	613,207	3,012,725			\$ 487,833	487,833
Depreciation	31,867					(31,867)	(31,867)
Total business-type activities	<u>3,169,966</u>	<u>613,207</u>	<u>3,012,725</u>	<u>-</u>	<u>-</u>	<u>455,966</u>	<u>455,966</u>
Total primary government	\$ <u>41,058,938</u>	\$ <u>806,469</u>	\$ <u>9,213,333</u>	\$ <u>3,148,872</u>	<u>(28,346,231)</u>	<u>455,966</u>	<u>(27,890,265)</u>
General revenues:							
Taxes:							
Property taxes					3,532,929		3,532,929
Motor vehicle taxes					468,951		468,951
Utility taxes					1,574,649		1,574,649
Unmined minerals tax					1,179,938		1,179,938
State and formula grants					23,771,613		23,771,613
Unrestricted investment earnings					24,443	4,263	28,706
Sale of equipment					3,078		3,078
Transfers					137,495	(137,495)	-
Total general revenues and transfers					<u>30,693,096</u>	<u>(133,232)</u>	<u>30,559,864</u>
Change in net position					2,346,865	322,734	2,669,599
Net position - beginning					14,526,017	832,657	15,358,674
Prior period adjustment					225,528		225,528
Restated net position - beginning					<u>14,751,545</u>	<u>832,657</u>	<u>15,584,202</u>
Net position - ending					\$ <u>17,098,411</u>	\$ <u>1,155,391</u>	\$ <u>18,253,802</u>

See the accompanying notes to the financial statements.

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

	Governmental Funds				
	General	Special Revenue	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 963,234	\$ 46,670	\$ -	\$ 380,442	\$ 1,390,346
Investments	638,067			1,152,291	1,790,358
Receivables, net					
Taxes-current	298,453				298,453
Taxes-delinquent	20,813				20,813
Accounts	177				177
Intergovernmental-federal	4,757	56,504			61,261
Prepaid expenses				787,980	787,980
Total assets	1,925,500	103,175	-	2,320,713	4,349,388
LIABILITIES					
Accounts payable	99,030	103,175			202,205
Cash shortage				473,171	473,171
Accrued salaries & benefits payable	98,164				98,164
Payroll taxes payable	174,174				174,174
Total liabilities	371,368	103,175	-	473,171	947,713
FUND BALANCE					
Restricted				1,847,542	1,847,542
Comitted	612,473				612,473
Assigned	67,337				67,337
Unassigned	874,322				874,322
Total fund balance	\$ 1,554,132	\$ -	\$ -	\$ 1,847,542	\$ 3,401,674

See the accompanying notes to the financial statements.

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

Total fund balance per fund financial statements	\$	3,401,674
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		59,081,084
Capitalized the bond defeasance costs of the sale/refunding bonds and amortized over the life of the refunded bond.		373,721
Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:		
Accrued interest payable		(143,587)
Bonds payable		(44,616,900)
Capital lease payable		(606,270)
KSBIT payable		(278,838)
Noncurrent sick leave payable		(112,473)
		(112,473)
Net position of governmental activities	\$	17,098,411

See the accompanying notes to the financial statements.

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
From Local Sources					
Taxes					
Property	\$ 2,216,325	\$ -	\$ -	\$ 1,292,864	\$ 3,509,189
Motor vehicle	468,951				468,951
Unmined minerals	1,179,938				1,179,938
Utilities	1,574,649				1,574,649
Penalties & interest on taxes	23,740				23,740
Earnings on investments	23,102	1,341			24,443
Other local revenue	25,693	75,484		92,085	193,262
Intergovernmental - state	23,645,384	1,684,186	2,095,196	1,053,676	28,478,442
Intergovernmental - federal	126,228	4,516,422			4,642,650
Total revenues	<u>29,284,011</u>	<u>6,277,433</u>	<u>2,095,196</u>	<u>2,438,625</u>	<u>40,095,264</u>
EXPENDITURES					
Instruction	15,667,820	4,496,326			20,164,146
Support Services					
Student	1,596,658	531,628			2,128,285
Instructional Staff	880,810	815,921			1,696,730
District Administration	1,173,262				1,173,262
School Administration	1,981,849				1,981,849
Business	523,696	64,379			588,075
Plant Operation & Maintenance	3,644,682				3,644,682
Student Transportation	2,128,010	75,285			2,203,295
Other Instructional	336,482				336,482
Community Services Operations	13,992	505,988			519,979
Building Improvements	6,235	5,290		114,979	126,504
Debt Service	112,439		4,262,875		4,375,314
Total expenditures	<u>28,065,933</u>	<u>6,494,816</u>	<u>4,262,875</u>	<u>114,979</u>	<u>38,938,603</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,218,078	(217,383)	(2,167,680)	2,323,646	1,156,661
OTHER FINANCING SOURCES (USES)					
Sale or comp for loss of assets	3,078				3,078
Operating transfers in	137,495	217,383	2,167,680		2,522,558
Operating transfers (out)	(217,383)			(2,167,680)	(2,385,063)
Total other financing sources and (uses)	<u>(76,810)</u>	<u>217,383</u>	<u>2,167,680</u>	<u>(2,167,680)</u>	<u>140,573</u>
NET CHANGE IN FUND BALANCE	1,141,268	-	-	155,966	1,297,234
FUND BALANCE-BEGINNING	<u>412,865</u>	<u>-</u>	<u>-</u>	<u>1,691,576</u>	<u>2,104,441</u>
FUND BALANCE-ENDING	<u>\$ 1,554,132</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,847,542</u>	<u>\$ 3,401,674</u>

See the accompanying notes to the financial statements.

Harlan County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2014

Net change in total fund balances per fund financial statements	\$	1,297,234
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(1,588,938)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the shorter of the life of the refunding issue or issued bond,</p>		(44,132)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		2,535,338
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		9,680
<p>Noncurrent sick leave payable</p>		137,683
		137,683
Change in net position of governmental activities	\$	2,346,865
		2,346,865

See the accompanying notes to the financial statements.

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 2,464,203	\$ 2,464,203	\$ 2,216,325	\$ (247,878)
Motor vehicle	500,000	500,000	468,951	(31,049)
Unmined minerals	1,000,000	1,000,000	1,179,938	179,938
Utilities	1,700,000	1,700,000	1,574,649	(125,351)
Penalties & interest on taxes			23,740	23,740
Earnings on investments	50,000	50,000	23,102	(26,898)
Other local revenue			25,693	25,693
Intergovernmental - state	16,916,700	17,468,575	* 17,935,876	467,301
Intergovernmental - federal	50,000	50,000	126,228	76,228
Total revenues	<u>22,680,903</u>	<u>23,232,778</u>	<u>23,574,503</u>	<u>341,724</u>
EXPENDITURES				
Instruction	11,734,624	11,734,624	* 12,153,267	(418,643)
Support Services				
Student	1,297,916	1,297,916	* 1,157,417	140,499
Instructional Staff	718,487	718,487	* 616,687	101,800
District Administration	1,120,115	1,120,115	* 1,119,985	130
School Administration	1,469,802	1,469,802	* 1,401,459	68,343
Business	420,899	420,899	* 415,440	5,459
Plant Operation & Maintenance	3,291,386	3,291,386	* 3,237,729	53,657
Student Transportation	2,220,452	2,220,452	2,128,010	92,442
Community Services			13,992	(13,992)
Debt Service			112,439	(112,439)
Total expenditures	<u>22,273,681</u>	<u>22,273,681</u>	<u>22,356,425</u>	<u>(82,744)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	407,223	959,098	1,218,078	258,980
OTHER FINANCING SOURCES (USES)				
Sale or comp for loss of assets			3,078	3,078
Operating transfers in	120,989	120,989	137,495	16,506
Operating transfers (out)			(217,383)	(217,383)
Total other financing sources and (uses)	<u>120,989</u>	<u>120,989</u>	<u>(76,810)</u>	<u>(197,799)</u>
NET CHANGE IN FUND BALANCE	528,212	1,080,087	1,141,268	61,181
FUND BALANCE-BEGINNING	<u>299,121</u>	<u>299,121</u>	<u>412,865</u>	<u>113,744</u>
FUND BALANCE-ENDING	<u>\$ 827,332</u>	<u>\$ 1,379,207</u>	<u>\$ 1,554,132</u>	<u>\$ 174,925</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$5,709,508.

See the accompanying notes to the financial statements.

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From Local Sources				
Earnings on investments	\$ -	\$ -	\$ 1,341	\$ 1,341
Other local revenue			75,484	75,484
Intergovernmental - state	1,502,435	1,468,817	1,684,186	215,369
Intergovernmental - federal	3,288,113	4,454,913	4,516,422	61,509
Total revenues	<u>4,790,548</u>	<u>5,923,730</u>	<u>6,277,433</u>	<u>353,703</u>
EXPENDITURES				
Instruction	3,834,950	4,154,083	4,496,326	(342,243)
Support Services				
Student	99,900	524,103	531,628	(7,525)
Instructional Staff	350,538	738,619	815,921	(77,302)
Business			64,379	(64,379)
Student Transportation	27,600	27,600	75,285	(47,685)
Community Services Operations	476,571	478,336	505,988	(27,652)
Building Improvements			5,290	(5,290)
Total expenditures	<u>4,789,559</u>	<u>5,922,741</u>	<u>6,494,816</u>	<u>(572,075)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	989	989	(217,383)	(218,372)
OTHER FINANCING SOURCES (USES)				
Operating transfers in			217,383	217,383
Operating transfers out	(989)	(989)		989
Total other financing sources and (uses)	<u>(989)</u>	<u>(989)</u>	<u>217,383</u>	<u>218,372</u>
NET CHANGE IN FUND BALANCE	-	-	-	(0)
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0)</u>

See the accompanying notes to the financial statements.

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

		School Food Services
ASSETS		
Cash and cash equivalents	\$	871,638
Inventories		114,524
Capital assets:		
Other capital assets, net of depreciation		169,601
Total assets		1,155,763
LIABILITIES		
Accounts Payable		372
Total liabilities		372
NET POSITION		
Net Investment in capital assets		169,601
Restricted for:		
Expendable Restricted for Food Service		985,790
Total net position	\$	1,155,391

See the accompanying notes to the financial statements.

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

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	600,949
Other revenue from local sources		12,258
Total operating revenues		<u>613,207</u>
OPERATING EXPENSES		
Depreciation		31,867
Food service operations		
Employee services		1,537,575
Operational expenses		1,600,525
Total operating expenses		<u>3,169,966</u>
Operating income (loss)		<u>(2,556,759)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		2,845,440
State grants		167,285
Transfers		(137,495)
Earnings from investments		4,263
Total nonoperating revenues		<u>2,879,494</u>
CHANGE IN NET POSITION		322,734
NET POSITION-BEGINNING		<u>832,657</u>
NET POSITION-ENDING	\$	<u><u>1,155,391</u></u>

See the accompanying notes to the financial statements.

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

	Enterprise Funds
	School Food Services
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 613,207
Payments to suppliers	(1,457,410)
Payments to employees	(1,537,575)
Net cash provided (used) by operating activities	(2,381,778)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(137,495)
Operating grants and contributions	3,012,725
Net cash provided (used) by noncapital financing activities	2,875,231
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	4,263
Net cash provided (used) by investing activities	4,263
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	497,716
CASH AND CASH EQUIVALENTS-BEGINNING	373,923
CASH AND CASH EQUIVALENTS-ENDING	\$ 871,638
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (2,556,759)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	31,867
Changes in assets and liabilities:	
Receivables	196,712
Inventory	(53,969)
Payables	372
Net cash used by operating activities	\$ (2,381,778)
NONCASH NONCAPITAL FINANCING ACTIVITIES	
During the year, the district received \$164,263 of food commodities from the U.S. Department of Agriculture.	
During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$142,037 provided by state government.	

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>School Activity Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>350,857</u>
Total Assets	<u><u>350,857</u></u>
LIABILITIES	
Accounts payable	4,186
Due to student groups	<u>346,671</u>
Total Liabilities	<u>350,857</u>
NET POSITION HELD IN TRUST	\$ <u><u>-</u></u>

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Harlan County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Harlan County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Harlan County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Harlan County Board Of Education Finance Corporation

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

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

Construction Fund

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

(D) Debt Service Fund

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

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Basis of Accounting

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.408 (including exonerations) per \$100 valuation of real property, \$.408 per \$100 valuation for business personal property and \$.336 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

Budgetary Process

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

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

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

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

Cash and Cash Equivalents

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

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Prepaid Assets

Payments made that will benefit periods beyond the fiscal period end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Net Position

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

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

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

NOTE B – ESTIMATES

The process of preparing financial statements in conformity accounting principles generally accepted in the United States of America requires District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District’s cash and cash equivalents of amounts deposited in checking accounts include interest bearing accounts deposited in various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value.

Investments are CD’s deposited with various local banks that have a maturity date longer than ninety (90) days.

	Bank	
	Balance	
	<hr/>	
Commercial Bank		
		<u>Demand</u>
FDIC	\$	250,000
Securities pledged to district		<hr/> 2,911,020
Bank balance	\$	<hr/> <hr/> 3,161,020
	Book	
	Balance	
	<hr/>	
		<u>Cash equivalents</u>
Governmental Activities	\$	917,175
Business-type Activities		871,638
Agency funds		
School activity funds		<hr/> 350,857
Total carrying amount	\$	<hr/> <hr/> 2,139,671

The District currently has \$1,790,358 in treasury notes and investments that are stated at their fair market value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Land	\$ 1,897,472	\$ 98,212	\$ -	\$ 1,995,684
Land improvements	1,301,811	-	-	1,301,811
Buildings	66,233,493	38,356	-	66,271,849
Technology equipment	6,270,678	-	-	6,270,678
Vehicles	6,435,517	-	-	6,435,517
General equipment	711,774	-	-	711,774
Construction in progress	7,488,910	114,979	38,356	7,565,534
Total at historical cost	\$ <u>90,339,655</u>	\$ <u>251,547</u>	\$ <u>38,356</u>	\$ <u>90,552,847</u>
Less: Accumulated depreciation				
Land improvements	\$ 620,660	\$ 65,091	\$ -	\$ 685,750
Buildings	17,160,434	1,440,568	-	18,601,001
Technology equipment	6,083,125	59,474	-	6,142,599
Vehicles	5,231,747	203,631	-	5,435,378
General equipment	573,667	33,366	-	607,032
Total accumulated depreciation	\$ <u>29,669,634</u>	\$ <u>1,802,129</u>	\$ <u>-</u>	\$ <u>31,471,763</u>
 Governmental Activities				
Capital Assets-net	\$ <u>60,670,022</u>	\$ <u>(1,550,582)</u>	\$ <u>38,356</u>	\$ <u>59,081,084</u>
 <u>Business-Type Activities</u>	 <u>July 1, 2013</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>June 30, 2014</u>
Technology equipment	93,527	-	-	93,527
General equipment	1,715,514	-	-	1,715,514
Total at historical cost	\$ <u>1,809,041</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,809,041</u>
Less: Accumulated depreciation				
Technology equipment	91,428	879	-	92,306
General equipment	1,516,146	30,988	-	1,547,134
Total accumulated depreciation	\$ <u>1,607,574</u>	\$ <u>31,867</u>	\$ <u>-</u>	\$ <u>1,639,440</u>
 Business-Type Activities				
Capital Assets-net	\$ <u>201,468</u>	\$ <u>(31,867)</u>	\$ <u>-</u>	\$ <u>169,601</u>

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

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Harlan County School District Finance Corporation aggregating \$44,616,900 and \$2,424,600 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Harlan County School District Finance Corporation to construct

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

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

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2013 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Outstanding Balance</u>
2000B	\$ 775,000	12/1/2020	4.5 - 5.2%	\$ 395,000		\$ 45,000	\$ 350,000
2012 Refinance	2,990,000	6/1/2024	.90 - 2.0%	2,940,000		45,000	2,895,000
2004D	985,000	6/1/2025	2.55 - 4.6%	90,000		45,000	45,000
2006	31,920,000	7/1/2026	4.25 - 4.5%	27,565,000		1,145,000	26,420,000
2007	2,050,000	10/1/2027	3.625 - 4.0%	1,675,000		85,000	1,590,000
2008	2,880,000	8/1/2018	2.0 - 3.2%	1,950,000		295,000	1,655,000
2009 Refinance	1,400,000	2/1/2019	2.2 - 3.35%	1,325,000		200,000	1,125,000
2012B Refinance	1,955,000	12/1/2024	1.0 - 2.125%	1,915,000		35,000	1,880,000
2010	3,165,000	8/1/2030	2.25 - 5.45%	3,035,000		65,000	2,970,000
2011	2,085,000	6/1/2031	3.2 - 4.25%	2,065,000		10,000	2,055,000
2012	2,350,000	6/1/2033	3.375%	2,345,000		5,000	2,340,000
2012 Second Series	1,145,000	8/1/2032	1.0 - 3.0%	1,145,000		50,000	1,095,000
2012 KADD	\$ 229,900	6/1/2022	2.0 - 3.0%	215,900		19,000	196,900
Totals				<u>\$ 46,660,900</u>	<u>\$ -</u>	<u>\$ 2,044,000</u>	<u>\$ 44,616,900</u>

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

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2014 for debt service, (principal and interest) are as follows:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended	<u>Principal</u>		<u>Interest</u>		<u>Federal</u> <u>Interest</u> <u>Rebate</u>	<u>Total</u>	
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>Principal</u>	<u>Interest</u>
						<u>30-Jun</u>	<u>30-Jun</u>
2015	\$ 1,189,958	\$ 1,234,642	\$ 971,032	\$ 707,188	\$ 52,828	\$ 2,424,600	\$ 1,731,047
2016	1,222,850	1,275,450	933,232	666,061	52,356	2,498,300	1,651,649
2017	1,271,215	1,315,785	893,957	622,584	51,642	2,587,000	1,568,183
2018	1,310,018	1,354,982	851,792	576,880	50,720	2,665,000	1,479,393
2019	1,350,839	1,408,161	806,882	525,760	49,833	2,759,000	1,382,474
2020-2024	7,663,619	7,634,381	3,133,180	1,777,694	237,960	15,298,000	5,148,833
2025-2029	8,045,849	4,329,151	1,427,495	377,542	196,196	12,375,000	2,001,233
2030-2033	3,636,667	373,333	240,206	21,171	21,507	4,010,000	282,884
	<u>\$ 25,691,015</u>	<u>\$ 18,925,885</u>	<u>\$ 9,257,774</u>	<u>\$ 5,274,881</u>	<u>\$ 713,042</u>	<u>\$ 44,616,900</u>	<u>\$ 15,245,696</u>

NOTE G – CAPITAL LEASE PAYABLE

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

<u>KISTA Issue</u>	<u>Original</u> <u>Amount</u>	<u>Maturity</u> <u>Dates</u>	<u>Interest</u> <u>Rates</u>	<u>2013</u>			<u>2014</u>
				<u>Outstanding</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u> <u>Balance</u>
2006	\$ 270,315	3/1/2017	3.5 - 3.875%	\$ 112,508		\$ 29,026	\$ 83,482
2012	\$ 176,231	3/1/2022	2.0 - 2.625%	157,064		19,845	137,219
2013	\$ 433,036	3/1/2023	2.0%	433,036		47,467	385,569
Totals				<u>\$ 702,608</u>	<u>\$ -</u>	<u>\$ 96,338</u>	<u>\$ 606,270</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2014:

Fiscal Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Payments</u>
<u>30-Jun</u>			
2015	\$ 95,067	\$ 13,847	\$ 108,914
2016	84,333	11,417	95,750
2017	86,421	9,273	95,694
2018	60,382	7,036	67,418
2019	61,864	5,828	67,692
2020-2023	<u>218,203</u>	<u>10,637</u>	<u>228,840</u>
	<u>\$ 606,270</u>	<u>\$ 58,038</u>	<u>\$ 664,308</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total minimum lease payments	\$	664,308
Less: Amount representing interest		(58,038)
 Present Value of Net Minimum Lease Payments	 \$	 606,270

NOTE H – RETIREMENT PLANS

Kentucky Teachers’ Retirement System

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

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

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.605%.

Medical Insurance Plan

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

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

Funding policy –In order to fund the post-retirement healthcare benefit, four and a half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and a 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 Harlan County School System's total payroll for the year was \$22,302,296. The payroll for employees covered under KTRS was \$16,398,700. For the year ended June 30, 2014, the Commonwealth contributed \$1,751,201 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2014 were \$457,775, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$2,518,710, \$2,418,724, and \$3,060,114 respectively.

County Employees Retirement System

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

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

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.89%. The District contributed \$1,060,021 of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,371,546, \$1,432,529, and \$1,407,897 respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE I – COMMITMENTS

The District has committed \$500,000 for workers compensation payouts and \$112,473 for sick leave payouts in the general fund.

NOTE J – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Food Service	\$ 985,790	Food Service Operations
Capital Outlay	1,832	School Facilities Construction Commission Requirement
FSPK	1,467,100	School Facilities Construction Commission Requirement
Construction	\$ 378,610	Future Construction

NOTE K - CONTINGENCIES

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction the funds provided are being spent as intended and the grantors’ intent to continue their program.

NOTE L - LITIGATION

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

NOTE M – INSURANCE AND RELATED ACTIVITIES

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

NOTE N – RISK MANAGEMENT

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

The District participates in a self insurance plan for workers compensation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE O – DEFICIT FUND AND OPERATING BALANCES

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Construction	\$ (22,894)

NOTE P - COBRA

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

NOTE Q – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$217,383	KETS Matching
Food Service	General Fund	137,495	Indirect Costs
Capital Outlay Fund	Debt Service Fund	367,591	Debt Service
FSPK Fund	Debt Service Fund	\$1,800,089	Debt Service

NOTE R – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Harlan County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$5,709,508 for the General Fund, \$2,095,196 for the Debt Service Fund, and \$142,037 for the School Food Service Fund.

NOTE S – PRIOR PERIOD ADJUSTMENT

Due to an overstatement in the estimated liability for KSBIT, beginning net position was understated as follows:

Net Position July 1, 2013	\$ 14,526,017
Prior Period Adjustment	225,528
Restated Net Position July 1, 2013	<u>\$ 14,751,545</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE T – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 23, 2014, the date the financial statements were available to be issued.

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

	Other Governmental Funds			
	Capital Outlay	FSPK	Construction Fund	Total
Assets				
Cash and Cash Equivalents	\$ 1,832	\$	\$ 378,610	\$ 380,442
Investments		1,152,291		1,152,291
Prepaid Expenses		787,980		787,980
	<u>1,832</u>	<u>1,940,271</u>	<u>378,610</u>	<u>2,320,713</u>
Total Assets	<u>1,832</u>	<u>1,940,271</u>	<u>378,610</u>	<u>2,320,713</u>
Liabilities				
Cash Shortage		473,171		473,171
	<u>-</u>	<u>473,171</u>	<u>-</u>	<u>473,171</u>
Total Liabilities	<u>-</u>	<u>473,171</u>	<u>-</u>	<u>473,171</u>
Fund Balances				
Restricted	1,832	1,467,100	378,610	1,847,542
	<u>1,832</u>	<u>1,467,100</u>	<u>378,610</u>	<u>1,847,542</u>
Total Fund Balances	<u>\$ 1,832</u>	<u>\$ 1,467,100</u>	<u>\$ 378,610</u>	<u>\$ 1,847,542</u>

See the accompanying notes to the financial statements.

Harlan County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2014

	Other Governmental Funds			
	Capital Outlay	FSPK	Construction Fund	Total
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ 1,292,864	\$ -	\$ 1,292,864
Other local revenue			92,085	92,085
Intergovernmental - State	367,591	686,085		1,053,676
Total Revenues	<u>367,591</u>	<u>1,978,949</u>	<u>92,085</u>	<u>2,438,625</u>
Expenditures				
Building Improvements			114,979	114,979
Total Expenditures	<u>-</u>	<u>-</u>	<u>114,979</u>	<u>114,979</u>
Excess (Deficit) of Revenues Over Expenditures	<u>367,591</u>	<u>1,978,949</u>	<u>(22,894)</u>	<u>2,323,646</u>
Other Financing Sources (Uses)				
Operating Transfers	(367,591)	(1,800,089)		(2,167,680)
Total Other Financing Sources (Uses)	<u>(367,591)</u>	<u>(1,800,089)</u>	<u>-</u>	<u>(2,167,680)</u>
Net change in fund balances	-	178,860	(22,894)	155,966
Fund Balance beginning	<u>1,832</u>	<u>1,288,239</u>	<u>401,505</u>	<u>1,691,576</u>
Fund Balance ending	<u>\$ 1,832</u>	<u>\$ 1,467,100</u>	<u>\$ 378,610</u>	<u>\$ 1,847,542</u>

See the accompanying notes to the financial statements.

Harlan County School District
Combining Balance Sheet - School Activity Funds
As of June 30, 2014

	SCHOOL ACTIVITY FUNDS									
	HARLAN COUNTY HIGH SCHOOL	BLACK MTN ELEMENTARY	CAWOOD ELEMENTARY	CUMBERLAND ELEMENTARY	EVARTS ELEMENTARY	GREEN HILLS ELEMENTARY	JAMES A CAWOOD ELEMENTARY	ROSSPOINT ELEMENTARY	WALLINS ELEMENTARY	FIDUCIARY FUND TOTAL
ASSETS										
Cash and cash equivalents	\$ 62,840	\$ 10,989	\$ 18,841	\$ 37,213	\$ 44,497	\$ 11,467	\$ 38,761	\$ 49,919	\$ 76,331	\$ 350,857
Total Assets	<u>62,840</u>	<u>10,989</u>	<u>18,841</u>	<u>37,213</u>	<u>44,497</u>	<u>11,467</u>	<u>38,761</u>	<u>49,919</u>	<u>76,331</u>	<u>350,857</u>
LIABILITIES										
Accounts payable	50	-	136	-	-	-	-	-	4,000	4,186
Total Liabilities	<u>50</u>	<u>-</u>	<u>136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>4,186</u>
FUND BALANCE										
School activities	\$ 62,790	\$ 10,989	\$ 18,705	\$ 37,213	\$ 44,497	\$ 11,467	\$ 38,761	\$ 49,919	\$ 72,331	\$ 346,671

See the accompanying notes to the financial statements.

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

	SCHOOL ACTIVITY FUNDS									FIDUCIARY FUND TOTAL
	<u>HARLAN COUNTY HIGH SCHOOL</u>	<u>BLACK MTN ELEMENTARY</u>	<u>CAWOOD ELEMENTARY</u>	<u>CUMBERLAND ELEMENTARY</u>	<u>EVARTS ELEMENTARY</u>	<u>GREEN HILLS ELEMENTARY</u>	<u>JAMES A CAWOOD ELEMENTARY</u>	<u>ROSSPOINT ELEMENTARY</u>	<u>WALLINS ELEMENTARY</u>	
REVENUES										
Student/Trust revenues	\$ 349,819	\$ 65,697	\$ 76,908	\$ 91,220	\$ 132,175	\$ 55,836	\$ 69,973	\$ 114,485	\$ 89,339	\$ 1,045,452
EXPENSES										
Student/Trust activities	337,694	68,452	68,371	95,698	145,778	51,534	64,244	101,531	88,307	1,021,609
Excess (Deficit) of Revenues Over Expenses	12,124	(2,755)	8,537	(4,478)	(13,603)	4,302	5,729	12,953	1,032	23,843
Fund balance July 1, 2013	<u>50,666</u>	<u>13,744</u>	<u>10,168</u>	<u>41,690</u>	<u>58,099</u>	<u>7,165</u>	<u>33,032</u>	<u>36,965</u>	<u>71,299</u>	<u>322,829</u>
Fund balance June 30, 2014	<u>\$ 62,790</u>	<u>\$ 10,989</u>	<u>\$ 18,705</u>	<u>\$ 37,213</u>	<u>\$ 44,497</u>	<u>\$ 11,467</u>	<u>\$ 38,761</u>	<u>\$ 49,919</u>	<u>\$ 72,331</u>	<u>\$ 346,671</u>

See the accompanying notes to the financial statements.

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

	<u>FUND BALANCE</u> 41,456	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> 41,820
GENERAL FUND	\$ 2,771	\$ 15,218	\$ 17,789	\$ 1,019	\$ 1,219
21ST CENTURY	-	75	-	-	75
BLACK BEAR CAFÉ	382	251	112	(61)	460
SCHOOL PICTURES	230	1,307	752	(730)	55
SENIOR PICTURES	169	4,393	3,642	(169)	751
CONTINGENCY	-	944	23,993	23,876	826
SCHOOL CONCESSION	-	14,236	7,935	-	6,301
TEACHER VENDING	-	18,830	14,037	-	4,793
SODA	39	-	39	-	-
PARKING	120	1,500	1,166	(120)	334
ATHLETICS	1,820	97,469	96,074	(2,215)	1,000
BASEBALL	1,155	-	-	(1,155)	-
BOYS BASKETBALL	5,242	786	-	(5,242)	786
CHEERLEADING	2,954	16,232	17,535	-	1,652
CONCESSIONS	2,446	-	2,446	-	-
DANCE TEAM	420	24,188	16,849	(3,820)	3,939
FOOTBALL	-	73,470	60,957	500	13,013
GIRLS BASKETBALL	5,391	-	-	(5,391)	-
GOLF	-	1,974	1,146	-	828
SENIOR TRIP	-	8,725	8,725	-	-
SOFTBALL	1,274	-	-	(1,274)	-
ART CLUB	400	-	874	500	26
AP/SAT PLAN	135	462	462	-	135
BAND	353	11,803	11,803	333	686
HONOR BAND	3	-	-	-	3
BETA CLUB	4,767	6,096	2,510	-	8,353
BLACK BEAR STORE	113	4,478	4,566	-	25
CHORUS	1,332	2,139	1,064	-	2,407
COMMERCE	260	-	60	-	200
DISTRIBUTED ED	10	-	-	(10)	-
DRAMA CLUB	4,822	3,103	2,923	(500)	4,503
DRIVERS ED	3	-	-	(3)	-
FBLA	40	130	170	-	-
FCCLA	113	117	110	-	120
FRENCH CLUB	439	-	-	(439)	-
FUTURE EDUCATORS	353	-	-	-	353
HISTORY CLUB	65	-	-	(65)	-
HOME EC/MCCORMICK	476	2,903	3,083	(118)	179
HOME EC/PHILLIPS	77	1,553	1,413	178	395
JROTC	842	9,502	11,869	1,925	400
LIBRARY	770	437	765	-	442
NATIONAL HONORS	1,883	2,224	1,739	-	2,369
PARENT VOLUNTEER ORG.	66	-	-	(66)	-
PEP CLUB	385	-	-	(385)	-
PRIDE/AWARDS	7	-	-	-	7
PROM	100	16,600	15,397	-	1,303
SPECIAL NEEDS	3	-	-	-	3
TECHNICAL STUDENTS	65	-	-	-	65
WINTER GUARD	333	-	-	(333)	-
YEARBOOK	688	1,206	1,573	-	321
YOUTH SERVICE CENTER	1,306	2,125	1,044	(310)	2,077
13TH REGION TOURNAMENT	5,891	5,071	3,073	(5,891)	1,998
GUIDANCE OFFICE FUN	120	270	-	-	390
PEP BAND	35	-	-	(35)	-
TOTALS	\$ 50,666	\$ 349,819	\$ 337,694	\$ (0)	\$ 62,790

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Harlan County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the District had food commodities totaling \$164,263.

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education:				
* School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	\$ N/A	\$ 142,208
Fiscal Year 14		7760005 14	N/A	613,301
* National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	406,937
Fiscal Year 14		7750002 14	N/A	1,337,454
Child Nutrition Cluster Subtotal				<u>2,499,900</u>
Fresh Fruits & Vegetables	10.582			
Fiscal Year 13		7720012 13	N/A	16,681
Fiscal Year 14		7720012 14	N/A	108,000
				<u>124,681</u>
Child & Adult Care Food Program	10.558			
Fiscal Year 13		7790021 13	N/A	14,495
Fiscal Year 13		7800016 13	N/A	836
Fiscal Year 14		7790021 14	N/A	37,921
Fiscal Year 14		7800016 14	N/A	2,344
				<u>55,596</u>
State Administrative Expenses for Child Nutrition	10.560			
Fiscal Year 13		7850012 13	N/A	1,000
Passed Through State Department of Agriculture:				
Food Donation-Commodities	10.565			
Fiscal Year 14		510.4950	N/A	164,263
Total US Department of Agriculture				<u>2,845,440</u>
US Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	2,107,898	532,418
Fiscal Year 13D		3100002 13	405,610	124,973
Fiscal Year 13M		3100002 13	25,390	17,804
Fiscal Year 14		3100002 14	1,981,441	1,513,045
Fiscal Year 14D		3100002 14	405,610	233,460
Fiscal Year 14M		3100002 14	24,111	10,222
				<u>2,431,922</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	999,053	144,877
Fiscal Year 14		3810002 14	969,759	652,334
Special Education - Preschool Grants	84.173A			
Fiscal Year 13		3800002 13	94,759	46,526
Fiscal Year 14		3800002 14	94,197	38,068
Special Education Cluster Subtotal				<u>881,805</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 13A		4621132 13	2,590	2,590
Fiscal Year 14		4621132 14	49,659	49,741
				<u>52,331</u>
21st Century Community Learning	84.287			
Fiscal Year 12		3400002 12	337,000	210,491
Fiscal Year 12J		3400002 12	3,000	1,891
Fiscal Year 13		3400002 13	175,511	130,583
Fiscal Year 13S		3400002 13	11,989	11,989
				<u>354,954</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	107,823	20,637
Education Technology State Grants	84.318X			
Fiscal Year 11		4210002 11	9,297	2,219
Rural Education	84.358B			
Fiscal Year 14		3140002 14	72,092	47,642
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 13		3230002 13	475,777	441,750
Fiscal Year 14		3230002 14	460,854	102,452
				<u>544,202</u>
Rehabilitation Services	84.126			
Fiscal Year 13		3763	33,913	620
* Fund for the Improvement of Education-Elementary School Counseling	84.215E			
Fiscal Year 14		Q215E110028	400,000	364,658
Hurricane Relief	84.938B			
Fiscal Year 06		6926	N/A	22,996
Total US Department of Education				<u>4,723,985</u>
US Department of Defense				

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 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
Passed directly from the U.S. Department of the Army				
ROTC	12.000			
Fiscal Year 13		5043	N/A	466
Fiscal Year 14		5044	N/A	93,826
Total US Department of the Army				<u>94,292</u>
US Department of Commerce				
Passed through Eastern Kentucky PRIDE				
PRIDE-Environmental Education	11.420			
Fiscal Year 14		2704	1,000	996
Fiscal Year 15		2705	1,000	68
Total US Department of Commerce				<u>1,064</u>
US Department of Health and Human Services				
Passed Through Kentucky School Board Association				
Medical Assistance Program	93.778			
Fiscal Year 14		110.4810	\$	N/A
Total US Department of Health and Human Services				<u>126,228</u>
Total Expenditure of Federal Awards				<u>\$ 7,791,009</u>

* Major program

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Harlan County School District's basic financial statements, and have issued our report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Harlan County School District, in a separate letter dated October 23, 2014.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

Purpose of this Report

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

White & Associates, P.C.

Richmond, Kentucky
October 23, 2014



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

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

Report on Compliance for Each Major Federal Program

We have audited Harlan 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 Harlan County School District's major federal programs for the year ended June 30, 2014. Harlan 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 Harlan County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan 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 Harlan County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

White & Associates, PSC

Richmond, Kentucky
October 23, 2014

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2014

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No

Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553] Title I [CFDA 84.010A] Fund for the Improvement of Education-Elementary Counseling [CFDA 84.215E]
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Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No major federal award findings.

HARLAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

There were no prior audit findings.