

LAUREL COUNTY SCHOOL DISTRICT

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

with

REPORT OF INDEPENDENT AUDITORS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Laurel County School District
London, 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 Laurel County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget 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 *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit 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 Laurel County School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows 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 and budgetary comparison information per 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 Laurel County School District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The management's discussion and analysis and budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 27, 2014, on our consideration of Laurel County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Laurel County School District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
October 27, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY

Year Ended June 30, 2014

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

FINANCIAL HIGHLIGHTS

The District's solid financial position is attributed to sound fiscal management and continuing review of all policies in search of ways to increase revenues and/or reduce costs. Our current financial position is strong and our budget for FY 2014 is solid and supports the educational needs of the students the District serves while at the same time is capable of responding to the fluid nature of changes in the current economic landscape.

Bonds are issued as the District renovates and builds facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's net total bonded debt increased by \$13,450,000 during the current fiscal year.

In fiscal year 2014 the District issued one bond in the amount of \$17,700,000 using the proceeds for a new Career Readiness Center to better prepare its students for college and careers after high school graduation. The district also refunded a 2009 bond issue at a lower interest rate resulting in \$868,608 savings over the remaining life of the bonds.

In fiscal year 2014 , excluding revenue from bonds of \$27.5 million, total Fund revenues were \$88.9 million which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes and excluding construction cost of \$11.2 million and refunded bond payments of \$9.9 million total fund expenditures were \$90.7 million.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) 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 District's finances, in a manner similar to a private-sector business.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY

Year Ended June 30, 2014

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories:

Governmental Funds: Most of the District's basic activities are reported in these funds, which focus on how money flows into and out of these funds and the balances left at year-end that is available for spending. The funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The statements for these funds provide a short-term view of the District's general operations and the basic services they provide to help determine where financial resources may be found to finance the District's programs.

Proprietary Funds: These are business-type activities where the District charges students or parents for the services it provides. These funds are reported using the full accrual accounting method in the same way that all activities are reported in the Statement of Net position and Statement of Revenues, Expenses, and Changes in Net Position. School food service is the major activity considered as business-type activities in the District.

Fiduciary funds: These are trust funds used to account for resources held for the benefit of parties outside the District. These funds are not reflected in the District-wide financial statements because the resources of these funds are not available to support the District's own activities or programs. The basis of accounting for fiduciary funds is similar to that of proprietary funds.

The basic governmental fund financial statements can be found on pages 10-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21-37 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
Year ended June 30, 2014

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position is an indicator of a district's financial position. Laurel County School District assets exceeded liabilities by \$70,945,920 as of June 30, 2014, an increase of \$2,596,148 from the previous year.

Net Position Comparison Statement	June 30, 2014	June 30, 2013	Change
Current assets	\$ 28,122,443	\$ 18,909,911	\$ 9,212,533
Long-term assets	5,643,946	6,084,514	(440,568)
Capital assets net of depreciation	<u>139,722,028</u>	<u>132,777,073</u>	<u>6,944,955</u>
Total Assets	173,488,418	157,771,498	15,716,919
Deferred amounts from refunding bonds	<u>966,481</u>	-	<u>966,481</u>
Total Deferred Outflow of Resources	966,481	-	966,481
Total Assets and Deferred Outflow of Resources	<u>\$ 174,454,898</u>	<u>\$ 157,771,498</u>	<u>\$ 16,683,400</u>
Current liabilities	\$ 8,639,019	\$ 7,803,694	\$ 835,325
Long-term liabilities	<u>94,869,959</u>	<u>81,618,032</u>	<u>13,251,927</u>
Total Liabilities	103,508,978	89,421,726	14,087,252
Net Position			
Investment in capital assets, net of debt	45,666,118	53,295,045	(7,628,927)
Restricted	17,557,815	7,177,751	10,380,064
Unreserved Fund Balance	<u>7,721,988</u>	<u>7,876,977</u>	<u>(154,989)</u>
Total Net Position	70,945,920	68,349,772	2,596,148
Total Liabilities and Net Position	<u>\$ 174,454,898</u>	<u>\$ 157,771,498</u>	<u>\$ 16,683,400</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
Year Ended June 30, 2014

Capital Asset Activity	June 30, 2013	FY 2014	FY 2014	June 30, 2014
	Balance	Additions	Retirements	Balance
Governmental Activities				
Land & Land Improvements	7,356,192	1,063,708	-	8,419,900
Buildings	142,567,709	11,702,963	-	154,270,673
Technology	7,059,493	499,916	419,312	7,140,097
Vehicles	8,682,477	85,916	187,908	8,580,485
General Equipment	2,056,791	106,580	107,843	2,055,528
Construction Work in Progress	7,515,012	(1,580,911)	-	7,515,013
Total historical cost	175,237,675	11,878,171	715,063	186,400,784
Less accumulated				
depreciation	50,763,840	4,578,852	677,913	54,664,779
Governmental capital assets, net	124,473,835	7,299,319	37,150	131,736,005
Business-type Activities				
Buildings	10,776,135	-	-	10,776,135
Technology	49,347	-	35,935	13,412
General Equipment	2,614,745	10,270	18,163	2,606,852
Total historical cost	13,440,227	10,270	54,098	13,396,399
Less accumulated				
depreciation	5,136,989	327,485	54,098	5,410,376
Business-type capital assets, net	8,303,238	(317,215)	-	7,986,023

Comments on General Fund Budget Comparisons

- Total General Fund revenues for the fiscal year ended June 30, 2014, net of inter-fund transfers, were \$64,332,281.
- Total General Fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual revenue being \$777,499 more than budget or 1.2% more. The major increase of \$627,744 in on-behalf benefit payments made directly by KDE.
- Total General Fund budgeted expenditures net of budgeted contingency and interfund transfers compared to actual expenditures were \$248,450 less than budget or 0.4% less.
- The Budget Versus Actual comparison statement can be found on page 16 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY
Year Ended June 30, 2014

The following table presents a summary of revenues and expenditures reported on the Annual Financial Report for the fiscal year ended June 30, 2014, excluding beginning balance and inter-fund transfers, compared to the fiscal year ended June 30, 2013.

REVENUES

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Change</u>
Local revenue sources	20,067,342	19,896,425	170,917
State revenue sources	57,360,493	57,196,665	163,828
Federal Revenue	11,420,763	11,344,391	76,372
Bond Proceeds	27,525,000	8,994,133	18,530,867
Total revenues	<u>116,373,598</u>	<u>97,431,614</u>	<u>18,941,984</u>

EXPENDITURES

Instruction	48,400,406	46,967,437	1,432,969
Student Support Services	5,100,180	4,871,404	228,775
Instructional Support	3,661,289	4,303,115	(641,826)
District Administration	708,244	785,801	(77,557)
School Administration	3,329,410	3,227,785	101,625
Business Support	1,814,197	1,789,158	25,039
Plant Operations	8,526,349	9,001,473	(475,123)
Student Transportation	4,549,804	4,092,853	456,951
Food Service	6,051,393	6,752,704	(701,311)
Enterprise Operations	187,128	105,902	81,226
Community Support	755,679	774,912	(19,233)
Adult Education Operations	-	-	-
Bond Refunding Payment	-	-	-
Building Renovations/Additions	11,188,438	7,631,786	3,556,652
Debt Service	17,515,377	7,003,381	10,511,996
Lease Payments	-	-	-
Total expenditures	<u>111,787,892</u>	<u>97,307,711</u>	<u>14,480,182</u>
Revenue in Excess (Deficit) of Expenditures:	<u>4,585,706</u>	<u>123,903</u>	<u>4,461,802</u>

The major factors in the above changes are the result of revenue from bond sale in FY 2013 and portion of that revenue not being expended for construction until FY 2014. Also, a new \$17,700,000 bond was sold for the construction of a new Career Readiness Center not being expended until FY 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY

Year Ended June 30, 2014

BUDGETARY IMPLICATIONS

Kentucky's public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget for the current fiscal year. By statute the General Fund budget must maintain a minimum 2.0% unreserved fund balance, the District budgeted \$8,596,418 unreserved fund balance (15.02%) and ended the year with an actual unreserved fund balance of \$6,623,992 (11.82%). The major factor in the difference is a Board decision to reserve an additional \$1,900,000 for the future operation of the new Career Readiness Center.

LOCAL ECONOMIC OUTLOOK

The economic forecast for the London/Laurel County area continues to be stable.

Census data from the University of Louisville indicates on average a 7% population growth every five years for the next twenty-five years. Laurel County Schools FY 2014 student enrollment was level compared with FY 2013 enrollment but the District expects to return to additional student growth in FY 2015.

Laurel County has an intersection of a north/south interstate, I-75, and a major east/west highway. Economic strength can be found in the balance among manufacturing, professional services, retail trade, tourism, educational, health and social service, and transportation. The area's diverse economic infrastructure has insulated it from major economic downturns. Local government officials continue to be very proactive in attracting new employers to the area and have been successful in attracting new jobs to the area.

CONTACTING THE LAUREL COUNTY SCHOOL DISTRICT MANAGEMENT

Questions regarding this report should be directed to the Business Manager or the Director of Accounting, by phone (606) 862-4600 or by mail at 718 North Main Street, London, KY 40741.

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 24,303,532	\$ 929,055	\$ 25,232,587
SFCC Current receivable of bonds payable	440,568	-	440,568
Accounts receivable	1,810,913	12,892	1,823,805
Supplies Inventory	447,817	177,665	625,482
Total current assets	<u>27,002,830</u>	<u>1,119,612</u>	<u>28,122,442</u>
Noncurrent Assets			
SFCC Long term receivable of bond principal	5,643,946	-	5,643,946
Capital Assets	186,400,784	13,396,399	199,797,183
Less: Accumulated depreciation	(54,664,779)	(5,410,376)	(60,075,155)
Total noncurrent assets	<u>137,379,951</u>	<u>7,986,023</u>	<u>145,365,974</u>
Total assets	<u>164,382,781</u>	<u>9,105,635</u>	<u>173,488,416</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred amounts from refunding bonds	966,481	-	966,481
Total deferred outflow of resources	<u>966,481</u>	<u>-</u>	<u>966,481</u>
Total Assets and deferred outflow of resources	<u>\$ 165,349,262</u>	<u>\$ 9,105,635</u>	<u>\$ 174,454,897</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,502,336	\$ 17,762	\$ 1,520,098
Interest payable	886,756	-	886,756
Current portion of bond obligations	4,960,000	-	4,960,000
Current portion of KSBIT assessment	390,190	-	390,190
Current portion of accrued sick leave	168,000	-	168,000
Accrued payroll and withholding obligations	519,520	-	519,520
Unearned revenue	194,454	-	194,454
Total current liabilities	<u>8,621,256</u>	<u>17,762</u>	<u>8,639,018</u>
Noncurrent Liabilities			
Noncurrent portion of bonds obligations	93,655,000	-	93,655,000
Noncurrent portion of KSBIT assessment	830,367	-	830,367
Noncurrent portion of accrued sick leave	384,592	-	384,592
Total noncurrent liabilities	<u>94,869,959</u>	<u>-</u>	<u>94,869,959</u>
Total Liabilities	<u>103,491,215</u>	<u>17,762</u>	<u>103,508,977</u>
NET POSITION			
Net investment in capital assets	37,680,095	7,986,023	45,666,118
Restricted for:			
Capital projects	14,420,407	-	14,420,407
Other purposes	3,133,553	3,854	3,137,407
Unrestricted	6,623,992	1,097,996	7,721,988
Total net position	<u>61,858,047</u>	<u>9,087,873</u>	<u>70,945,920</u>
Total liabilities and net position	<u>\$ 165,349,262</u>	<u>\$ 9,105,635</u>	<u>\$ 174,454,897</u>

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction	\$ 47,637,684	\$ 105,903	\$ 7,418,710	\$ -	\$ (40,113,071)	\$ -	\$ (40,113,071)
Support services:							
Student	5,100,180	450	86,456	-	(5,013,274)	-	(5,013,274)
Instruction staff	3,543,468	-	540,572	-	(3,002,896)	-	(3,002,896)
District administrative	707,189	-	-	-	(707,189)	-	(707,189)
School administrative	3,329,410	-	78,126	-	(3,251,284)	-	(3,251,284)
Business	1,814,197	-	187,757	-	(1,626,440)	-	(1,626,440)
Plant operation and maintenance	6,557,514	-	33,669	-	(6,523,845)	-	(6,523,845)
Student transportation	4,548,624	-	87,333	-	(4,461,291)	-	(4,461,291)
Facilities acquisition and construction	1,792,443	-	-	-	(1,792,443)	-	(1,792,443)
Community service activities	935,835	-	748,388	-	(187,447)	-	(187,447)
Other	319,876	-	-	-	(319,876)	-	(319,876)
Interest on long-term debt	3,479,296	-	-	532,240	(2,947,056)	-	(2,947,056)
Total governmental activities	79,765,716	106,353	9,181,011	532,240	(69,946,112)	-	(69,946,112)
Business-type Activities							
Food service	5,876,568	1,397,267	4,189,871	-	-	(289,430)	(289,430)
Adult education	-	-	-	-	-	-	-
Day care	101,571	99,897	-	-	-	(1,674)	(1,674)
Other business activities	25,153	32,255	-	-	-	7,102	7,102
Total business-type activities	6,003,292	1,529,419	4,189,871	-	-	(284,002)	(284,002)
Total school district	\$ 85,769,008	\$ 1,635,772	\$ 13,370,882	\$ 532,240	(69,946,112)	(284,002)	(70,230,114)
General Revenues							
Property taxes					12,327,726	-	12,327,726
Delinquent property tax					381,808	-	381,808
Motor vehicle taxes					1,258,221	-	1,258,221
Utility taxes					3,784,519	-	3,784,519
Other taxes					239,976	-	239,976
Revenue in lieu of taxes					71,469	-	71,469
Investment earnings					23,967	820	24,787
State aid formula grants					54,431,840	-	54,431,840
Gains on sale of fixed assets					34,619	-	34,619
Loss compensation					971	-	971
Miscellaneous					264,878	5,446	270,324
Total general revenues					72,819,994	6,266	72,826,260
Change in net position					2,873,882	(277,736)	2,596,146
Net position - beginning					58,984,165	9,365,609	68,349,774
Net position - ending					\$ 61,858,047	\$ 9,087,873	\$ 70,945,920

LAUREL COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Special Revenue	Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 9,833,877	\$ (986,660)	\$ 15,456,316	\$ -	\$ 24,303,533
Accounts receivable	599,179	1,211,734	-	-	1,810,913
Supplies inventory	447,817	-	-	-	447,817
Total assets	\$ 10,880,873	\$ 225,074	\$ 15,456,316	\$ -	\$ 26,562,263
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 435,808	\$ 30,620	\$ 1,035,909	\$ -	\$ 1,502,337
Accrued payroll and withholding obligations	519,520	-	-	-	519,520
Unearned revenue	-	194,454	-	-	194,454
Current portion of accumulated sick leave	168,000	-	-	-	168,000
Total liabilities	1,123,328	225,074	1,035,909	-	2,384,311
Fund Balances					
Nonspendable	447,817	-	-	-	447,817
Restricted	-	-	14,420,407	-	14,420,407
Committed	2,500,000	-	-	-	2,500,000
Assigned	185,736	-	-	-	185,736
Unassigned	6,623,992	-	-	-	6,623,992
Total fund balances	9,757,545	-	14,420,407	-	24,177,952
Total liabilities and fund balances	\$ 10,880,873	\$ 225,074	\$ 15,456,316	\$ -	\$ 26,562,263

LAUREL 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	\$	24,177,952
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.		131,736,005
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.		7,050,995
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.		<u>(101,106,905)</u>
Net position for governmental activities	\$	<u>61,858,047</u>

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

Revenues	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
From local sources					
Property taxes	\$ 7,548,141	\$ -	\$ -	\$ 4,489,218	\$ 12,037,359
Motor vehicle taxes	1,258,221	-	-	-	1,258,221
Utility taxes	3,784,519	-	-	-	3,784,519
Franchise fees	672,175	-	-	-	672,175
Other taxes	239,976	-	-	-	239,976
Earnings on investments	23,967	-	-	-	23,967
Other local revenues	108,622	105,903	-	-	214,525
State sources					
SEEK	37,619,297	-	-	4,559,942	42,179,239
Other	12,630,197	2,185,937	-	317,739	15,133,873
Federal - direct	68,625	107,180	-	-	175,805
Federal - indirect	214,575	6,887,893	-	-	7,102,468
Revenue in lieu of taxes	71,469	-	-	-	71,469
Other revenues	19,756	-	-	136,950	156,706
Total revenues	64,259,540	9,286,913	-	9,503,849	83,050,302
Expenditures					
Instruction	37,469,837	7,663,274	-	-	45,133,111
Support services					
Student	5,012,518	86,456	-	-	5,098,974
Instruction staff	2,968,595	540,572	-	-	3,509,167
District administration	652,337	-	-	-	652,337
School administration	3,249,417	78,126	-	-	3,327,543
Business	1,626,440	187,757	-	-	1,814,197
Plant operation and maintenance	7,756,471	33,669	-	-	7,790,140
Student transportation	4,077,226	87,333	-	-	4,164,559
Facilities acquisition and construction	-	-	11,188,438	-	11,188,438
Community service activities	3,135	748,388	-	-	751,523
Debt service	-	-	-	17,515,377	17,515,377
Other expenditures	184,312	-	-	65,800	250,112
Total expenditures	63,000,288	9,425,575	11,188,438	17,581,177	101,195,478
Excess (deficit) of revenues over expenditures	1,259,252	(138,662)	(11,188,438)	(8,077,328)	(18,145,176)
Other Financing Sources (Uses)					
Proceeds from sale of bonds	-	-	17,700,000	9,825,000	27,525,000
Deposits with escrow agents	-	-	-	-	-
Net proceeds from sale of fixed assets	72,740	-	-	-	72,740
Operating transfers in	-	138,662	1,792,365	6,640,693	8,571,720
Operating transfers out	(138,662)	-	(44,693)	(8,388,365)	(8,571,720)
Total other financing sources (uses)	(65,922)	138,662	19,447,672	8,077,328	27,597,740
Net change in fund balances	1,193,330	-	8,259,234	-	9,452,564
Fund balance, July 1, 2013	8,564,215	-	6,161,173	-	14,725,388
Fund balance, June 30, 2014	\$ 9,757,545	\$ -	\$ 14,420,407	\$ -	\$ 24,177,952

LAUREL COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Net change in total fund balances per fund financial statements	\$ 9,452,564
Amounts reported for governmental activities in the statement of activities are different because:	
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 net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	7,299,319
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	(27,525,000)
Gains and losses on sale of assets are not presented in this financial statement because they do not provide or use current financial resources but they are presented in the statement of activities	(37,150)
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.	14,075,000
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.	<u>(390,850)</u>
Change in net position of governmental activities	<u>\$ 2,873,883</u>

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original Tentative Working	Final Working	General Fund	
Revenues				
From local sources				
Property taxes	\$ 7,838,958	\$ 8,338,706	\$ 8,460,292	\$ 121,586
Motor vehicle taxes	1,217,810	1,600,293	1,258,221	(342,072)
Utility taxes	3,600,000	3,600,000	3,784,519	184,519
Revenue in lieu of taxes	68,000	68,500	71,469	2,969
Earnings on investments	35,000	35,000	23,967	(11,033)
Other local revenues	10,000	49,602	108,622	59,020
State sources				
SEEK	37,332,636	37,665,941	37,619,297	(46,644)
Other	11,992,000	11,956,000	12,630,197	674,197
Federal - direct	70,000	70,000	68,625	(1,375)
Federal - indirect	75,000	100,000	214,575	114,575
Other revenues	-	-	19,756	19,756
Total revenues	<u>62,239,404</u>	<u>63,484,042</u>	<u>64,259,540</u>	<u>775,498</u>
Expenditures				
Instruction	37,078,671	36,850,343	37,469,837	(619,494)
Support services				-
Student	5,140,198	4,934,739	5,012,518	(77,779)
Instruction staff	3,444,718	3,404,934	2,968,595	436,339
District administration	686,485	690,758	652,337	38,421
School administration	3,298,349	3,411,778	3,249,417	162,361
Business	1,514,316	1,655,856	1,626,440	29,416
Plant operation and maintenance	7,712,689	7,709,297	7,756,471	(47,174)
Student transportation	3,842,323	3,764,595	4,077,226	(312,631)
Community service activities	187,937	329,537	187,447	142,090
Debt service	-	-	-	-
Other expenditures	132,382	-	-	-
Total expenditures	<u>63,038,068</u>	<u>62,751,837</u>	<u>63,000,288</u>	<u>(248,451)</u>
Excess (deficit) of revenues over expenditures	<u>(798,664)</u>	<u>732,205</u>	<u>1,259,252</u>	<u>527,047</u>
Other Financing Sources (Uses)				
Proceeds from sale of bonds	-	-	-	-
Net proceeds from sale of fixed assets	35,000	35,000	72,740	37,740
Operating transfers in	-	-	-	-
Operating transfers out	(135,000)	(135,000)	(138,662)	(3,662)
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(65,922)</u>	<u>34,078</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(898,664)</u>	<u>632,205</u>	<u>1,193,330</u>	<u>561,125</u>
Fund balance, July 1, 2013	<u>6,899,978</u>	<u>8,564,215</u>	<u>8,564,215</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ 6,001,314</u>	<u>\$ 9,196,420</u>	<u>\$ 9,757,545</u>	<u>\$ 561,125</u>

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

ASSETS	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 821,198	\$ 107,857	\$ 929,055
Accounts receivable	12,892	-	12,892
Inventory	<u>177,665</u>	<u>-</u>	<u>177,665</u>
Total current assets	<u>1,011,755</u>	<u>107,857</u>	<u>1,119,612</u>
Noncurrent Assets			
Capital Assets	13,396,399	-	13,396,399
Less: Accumulated depreciation	<u>(5,410,376)</u>	<u>-</u>	<u>(5,410,376)</u>
Total noncurrent assets	<u>7,986,023</u>	<u>-</u>	<u>7,986,023</u>
Total assets	<u>\$ 8,997,778</u>	<u>\$ 107,857</u>	<u>\$ 9,105,635</u>
LIABILITIES			
Current Liabilities			
Accounts payable	<u>\$ 17,158</u>	<u>\$ 604</u>	<u>\$ 17,762</u>
Total current liabilities	<u>17,158</u>	<u>604</u>	<u>17,762</u>
NET POSITIONS			
Net investment in capital assets	7,986,023	-	7,986,023
Restricted for:			
Other	2,655	1,199	3,854
Unrestricted	<u>991,942</u>	<u>106,054</u>	<u>1,097,996</u>
Total net position	<u>8,980,620</u>	<u>107,253</u>	<u>9,087,873</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 8,997,778</u>	<u>\$ 107,857</u>	<u>\$ 9,105,635</u>

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
Operating Revenues			
Food service sales	\$ 1,397,267	\$ 5,569	\$ 1,402,836
Community service activities	-	99,897	99,897
Other operating revenues	5,446	26,686	32,132
Total operating revenues	<u>1,402,713</u>	<u>132,152</u>	<u>1,534,865</u>
Operating Expenses			
Salaries and wages	2,272,963	98,843	2,371,806
Professional and contract services	-	-	-
Supplies and materials	3,276,120	27,881	3,304,001
Depreciation	327,485	-	327,485
Other operating expenses	-	-	-
Total operating expenses	<u>5,876,568</u>	<u>126,724</u>	<u>6,003,292</u>
Operating income (loss)	<u>(4,473,855)</u>	<u>5,428</u>	<u>(4,468,427)</u>
Nonoperating revenues (expenses)			
Federal grants	3,528,166	-	3,528,166
State grants	365,120	-	365,120
Donated commodities	296,585	-	296,585
Operating transfers Out	-	-	-
Interest income	820	-	820
Total nonoperating revenues (expenses)	<u>4,190,691</u>	<u>-</u>	<u>4,190,691</u>
Net income (loss)	<u>(283,164)</u>	<u>5,428</u>	<u>(277,736)</u>
Total net position, July 1, 2013	<u>9,263,784</u>	<u>101,825</u>	<u>9,365,609</u>
Total net position, June 30, 2014	<u>\$ 8,980,620</u>	<u>\$ 107,253</u>	<u>\$ 9,087,873</u>

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
Cash Flows from Operating Activities			
Cash received from lunchroom sales	\$ 1,734,401	\$ 5,569	\$ 1,739,970
Cash received from user charges	-	99,897	99,897
Cash received from other activities	5,446	26,933	32,379
Cash payments to employees for services	(1,959,650)	(89,133)	(2,048,783)
Cash payments to suppliers for goods and services	(2,960,323)	(37,591)	(2,997,914)
Cash payments for other operating activities	(9,174)	-	(9,174)
Net cash from operating activities	<u>(3,189,300)</u>	<u>5,675</u>	<u>(3,183,625)</u>
Cash Flows from Capital Financing Activities			
Acquisition of capital assets	(10,271)	-	-
Net cash from capital financing activities	<u>(10,271)</u>	<u>-</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities			
Nonoperating grants received	3,579,975	-	3,579,975
Operating transfers out	-	-	-
Net cash from noncapital financing activities	<u>3,579,975</u>	<u>-</u>	<u>3,579,975</u>
Cash Flows from Investing Activities			
Interest on investments	820	-	820
Net cash flows from investing activities	<u>820</u>	<u>-</u>	<u>820</u>
Net increase (decrease) in cash and cash equivalents	381,224	5,675	386,899
Cash and cash equivalents - beginning	<u>439,974</u>	<u>102,182</u>	<u>542,156</u>
Cash and cash equivalents - ending	<u>\$ 821,198</u>	<u>\$ 107,857</u>	<u>\$ 929,055</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	(4,473,855)	5,428	(4,468,427)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	327,485	-	327,485
Donated Commodities	296,585	-	296,585
On-behalf payments	313,312	-	313,312
Realized loss/gain on sale of assets	-	-	-
Changes in assets and liabilities:			
Receivables	337,135	-	337,135
Inventory	(2,011)	-	(2,011)
Accounts payable	12,049	247	12,296
Accrued liabilities	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (3,189,300)</u>	<u>\$ 5,675</u>	<u>\$ (3,183,625)</u>
Non-Cash Non-Capital Financing Activities			
Donated commodities received from federal government	<u>\$ 296,585</u>	<u>\$ -</u>	<u>\$ 296,585</u>

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 563,922
Accounts Receivable	<u>10,029</u>
Total assets	<u>\$ 573,951</u>
LIABILITIES	
Accounts payable	\$ 27,162
Due to student groups	<u>546,789</u>
Total liabilities	<u>573,951</u>
Total net position	<u>\$ -</u>

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Laurel 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 Laurel County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. 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 and activities relevant to the operation of the Laurel County Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

The basic 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:

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

Basis of Presentation

District-wide Financial Statements - The statement of net position and the statement of revenues, expenses, and changes in net position 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, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

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

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation - continued

The district-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. 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 total fund balances. 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. Government Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - continued

I. Government Fund Types - continued

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

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the national School Breakfast Program, which are 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 as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- (A) The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *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. District-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.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - continued

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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they 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. The District reports unearned revenue on its statement of net position and governmental funds balance sheet. In both the district-wide and governmental fund statements, grants that are intended to finance future periods are reported as unearned revenue. In subsequent periods, the liability for unearned revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

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

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.490 per \$100 valuation for real property, \$.490 per \$100 valuation for business personal property and \$.463 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.

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year 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 an expenditure/expense is reported in the year in which services are consumed.

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 governmental funds. These assets are reported in the governmental activities column of the district-wide 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 district-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 \$5,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land and construction-in-progress, 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
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	20 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

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

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the district-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

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

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

- Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, it can be amended. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

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 district-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method; and the general fund inventory is stated at cost and uses the first-in, first-out method.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, 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. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The Board adopted GASB Statement Number 54 in a prior year and under this statement, the fund balance is separated into five categories as follows:

Nonspendable fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2014, in the governmental funds balance sheet.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when limitations are imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

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

Contributions of Capital

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

Interfund Activity

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

Deferred Inflows and Deferred Outflows of Resources

The Laurel County Board of Education adopted GASB 63 in the prior year and GASB 65 in the current year, which combined requires the recording deferred inflows and deferred outflows of resources in the government wide statements. The deferred outflows of resources presented were primarily created by the prior refunding of revenue bonds.

NOTE B – ESTIMATES

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

NOTE C - CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2014, none of the District's bank balance were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE C- CUSTODIAL CREDIT RISK – DEPOSITS – CONTINUED

Cash and cash equivalents at June 30, 2014 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
First National Bank & Trust	\$ 27,469,646	\$ 25,437,344
Cumberland Valley National Bank & Trust	386,454	358,995
Petty cash	<u>-</u>	<u>171</u>
	<u>\$ 27,856,100</u>	<u>\$ 25,796,510</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 24,303,532
Proprietary funds	929,056
Agency funds	<u>563,922</u>
	<u>\$ 25,796,510</u>

NOTE D - RECEIVABLES

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. While the District receives revenues from many different sources throughout each year, accounts and grants receivable from outside sources may be grouped into the following categories (as stated in the District-wide financial statements):

	<u>June 30, 2013</u>
Accounts receivable from outside sources	
Accounts receivable	\$ 599,179
Grants receivable	<u>1,211,734</u>
	<u>\$ 1,810,913</u>

Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE E - CAPITAL ASSETS

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

	June 30, 2013			June 30, 2014	
	Balance	Additions	Retirements	Balance	
Governmental Activities					
Land & Land Improvements	\$ 7,356,192	\$ 1,063,708	\$ -	\$ 8,419,900	
Buildings	142,567,709	11,702,963	-	154,270,672	
Technology	7,059,493	499,916	419,312	7,140,097	
Vehicles	8,682,477	85,916	187,908	8,580,485	
General Equipment	2,056,791	106,580	107,843	2,055,528	
Construction Work in Progress	7,515,012	-	1,580,911	5,934,101	
Total historical cost	<u>175,237,674</u>	<u>13,459,083</u>	<u>2,295,974</u>	<u>186,400,783</u>	
Less accumulated depreciation	<u>50,763,840</u>	<u>4,578,852</u>	<u>677,913</u>	<u>54,664,779</u>	
Governmental capital assets, net	<u>\$ 124,473,834</u>	<u>\$ 8,880,231</u>	<u>\$ 1,618,061</u>	<u>\$ 131,736,004</u>	
Business-type Activities					
Buildings	\$ 10,776,135	\$ -	\$ -	\$ 10,776,135	
Technology	49,347	-	35,935	13,412	
General Equipment	2,614,745	10,270	18,163	2,606,852	
Total historical cost	<u>13,440,227</u>	<u>10,270</u>	<u>54,098</u>	<u>13,396,399</u>	
Less accumulated depreciation	<u>5,136,989</u>	<u>327,485</u>	<u>54,098</u>	<u>5,410,376</u>	
Business-type capital assets, net	<u>\$ 8,303,238</u>	<u>\$ (317,215)</u>	<u>\$ -</u>	<u>\$ 7,986,023</u>	

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 3,250,435
Student	1,206
Instruction staff	150,218
District administrative	54,851
School administrative	1,867
Business	-
Plant operation and maintenance	736,210
Student transportation	384,065
	<u>\$ 4,578,852</u>

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE F - LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates of bonded debt and lease obligations are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2005	\$ 8,180,000	3.55% - 4.00%
2006	\$ 14,510,000	4.50% - 4.625%
2007	\$ 25,210,000	4.00% - 5.00%
2008	\$ 3,550,000	3.30% - 3.6%
2009	\$ 4,050,000	2.50% - 3.15%
2010	\$ 2,280,000	2.125% - 2.75%
2010	\$ 8,720,000	1.15% - 5.0%
2012	\$ 9,425,000	1.10% - 2.80%
2012	\$ 8,900,000	1.00% - 3.00%
2014	\$ 9,825,000	2.00% - 3.50%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Laurel County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1987, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE F - LONG-TERM OBLIGATIONS - CONTINUED

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

Year	Laurel County School District		Kentucky School Facility Construction Commission		ARRA Rebate	Total
	Principal	Interest	Principal	Interest	Interest	
2014-15	\$ 4,519,432	\$ 3,181,964	\$ 440,568	\$ 203,496	\$ 118,491	\$ 8,463,951
2015-16	4,587,315	3,065,965	452,685	191,380	116,845	8,414,190
2016-17	4,729,202	2,921,825	465,798	178,265	114,943	8,410,033
2017-18	4,896,775	2,752,239	423,225	164,247	112,620	8,349,106
2018-19	5,028,872	2,624,025	436,128	151,346	109,908	8,350,279
2019-20	5,184,334	2,462,871	310,666	137,544	106,811	8,202,226
2020-21	5,359,065	2,286,448	320,935	127,276	103,443	8,197,167
2021-22	5,548,180	2,100,915	331,820	116,390	99,881	8,197,186
2022-23	5,736,500	1,910,032	343,500	104,712	96,058	8,190,802
2023-24	5,939,048	1,709,925	355,952	92,260	91,894	8,189,079
2024-25	6,190,058	1,458,982	324,942	79,037	87,469	8,140,488
2025-26	6,447,362	1,201,174	337,638	66,342	82,797	8,135,313
2026-27	6,725,423	926,902	319,577	53,490	77,766	8,103,158
2027-28	3,798,808	682,591	251,192	42,224	66,381	4,841,196
2028-29	3,918,570	563,393	261,430	31,989	48,307	4,823,689
2029-30	4,042,650	437,493	272,350	21,067	29,258	4,802,818
2030-31	3,278,551	321,082	246,449	10,437	9,756	3,866,275
2031-32	2,399,426	230,076	100,574	4,055	-	2,734,131
2032-33	2,480,915	147,139	89,085	1,336	-	2,718,475
2032-33	1,720,000	68,800	-	-	-	1,788,800
	<u>\$ 92,530,486</u>	<u>\$ 31,053,841</u>	<u>\$ 6,084,514</u>	<u>\$ 1,776,893</u>	<u>\$ 1,472,628</u>	<u>\$ 132,918,362</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2014 is as follows:

Governmental Activities	Balance			Balance June 30, 2014
	July 1, 2013	Additions	Deductions	
Bonded debt obligations	\$ 85,165,000	\$ 17,700,000	\$ 4,250,000	\$ 98,615,000
Capital Lease obligations	-	1,220,557	-	1,220,557
Accrued sick leave	733,032	-	180,440	552,592
	<u>\$ 85,898,032</u>	<u>\$ 18,920,557</u>	<u>\$ 4,430,440</u>	<u>\$ 100,388,149</u>

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE F - LONG-TERM OBLIGATIONS - CONTINUED

School Building Refunding Revenue Bonds

In March 2014, the Laurel County School Finance Corporation issued \$17,700,000 in School Building Revenue Bonds with interest ranging from 2.0% - 4.0% over the life of the bonds. The proceeds were used to fund a new Career Readiness Center. The district also refunded a 2009 bond issue at a lower interest rate resulting in \$868,608 savings over the remaining life of the bonds.

NOTE G - OTHER LONG TERM DEBT – KSBIT

The District was assessed a total of \$1,220,557 payable due to Kentucky School Board Insurance Trust shortfall in the prior year. The District had several options of repayment but has chosen the zero interest option which will require them to pay 25% and 40% of the overall assessment of both Worker's Compensation and Property and Liability, respectively by August 31, 2014. The remainder of the liability will be paid over the next six years and two years, respectively. There were not reductions in the assessment during the year ended June 30, 2014.

NOTE H - RETIREMENT PLANS

Kentucky Teachers' Retirement System

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. Certified employees are covered under KTRS. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky.

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

Funding policy – Contribution rates are established by KTRS. Members contribute 11.355% of their salaries to KTRS. Employer contributions for federally funded employees were 14.605% and employer contributions for non-federally funded employees were 1.0%. The Commonwealth of Kentucky, on behalf of the District's certified employees, is required to contribute a portion of the retirement (see Note Q- *On-Behalf Payments*). The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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 or 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, active member contributions are matched by the state at .75% of member's gross salaries. Those who became members before July 1, 2008

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE H - RETIREMENT PLANS-CONTINUED

contribute 1.25% of their salary to the plan. Member contributions are 2.25% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.50% of members' salary for the 2013-2014 fiscal year.

County Employees Retirement System

Substantially all other employees (full time classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple employers, and public employer's retirement system. The plan provides for retirement, disability, and death benefits. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The CERS issues a publicly available financial report which may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Funding Policy - Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5% and a District contribution of 18.63% of the employee's total compensation subject to contribution.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans

The District's total payroll for the year was \$45,568,860. The payroll for employees covered under KTRS was \$36,278,205 and for CERS was \$9,117,605; the payroll for part time temporary employees, which are not covered under either retirement system, was \$173,050.

The contribution requirement for CERS for the year ended June 30, 2014, 2013 and 2012 was \$2,164,701, \$2,350,354, and \$2,316,425, respectively. The contribution requirement for KTRS for the year ended June 30, 2014, 2013 and 2012 was \$5,027,667, \$4,837,206, and \$4,623,319, respectively. The District met their contribution requirements.

NOTE I - LEASES

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2014, aggregate cost for equipment and copier rentals was \$314,054.

NOTE J - CONTINGENCIES

Grants - The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2014 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Kentucky School Boards Insurance Trust (KSBIT)-The Kentucky School Boards Insurance Trust was created in 1978 to provide insurance through nonprofit self-insured pools authorized under Kentucky law. These pools allow school districts, colleges and universities to combine their resources while sharing

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE J – CONTINGENCIES-CONTINUED

risks. Due to various economic factors, the Pools have incurred significant deficits. KSBIT has taken a number of steps to address the Pools' deficits; however, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the Pools due to competitive pressures.

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to confirm the Pools' deficits. As a result of these reviews and after consultation with the Kentucky Department of Insurance, KSBIT provided an assessment that the District must pay. The amounts for property/liability insurance and workers compensation insurance have been recorded in the financial statements as liabilities.

NOTE K - LITIGATION

The District is subject to legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

NOTE L – IMPLEMENTATION OF GASB STATEMENT NO. 63 AND GASB STATEMENT NO. 65

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013 and GASB Statement No 65 for the year ended June 30, 2014. These standards established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The District presented \$966,481 as deferred outflow of resources composed of amounts from refunding bond issues.

NOTE M - RISK MANAGEMENT

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, etc. Each of these risk areas is covered through the purchase of commercial insurance. Settled claims resulting from these risks have created a potential liability as discussed in Note I-*Contingencies*.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

NOTE N – DEFICIT FUND BALANCES

The District did not have any funds with deficit balances, nor did it have any operating deficit balances at June 30, 2014.

NOTE O – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss. There were no instances of noncompliance noted.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2014

NOTE P – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Technology Match	\$ 138,662
Operating	Capital Outlay	Construction	Construction	\$ 835,389
Operating	Building	Construction	Construction	\$ 912,283
Operating	Building	Debt Service	Debt Service	\$ 6,640,693
Operating	Food Service	General Fund	Indirect Cost	\$ 19,756
Operating	Construction	Construction	Surplus	\$ 44,693

NOTE Q – INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2014, there were no interfund balances outstanding that are reflected in the financial statements.

NOTE R – ON-BEHALF PAYMENTS

The District receives on-behalf payments for fringe benefits from the Commonwealth of Kentucky. These amounts are included in the fund financial statements.

For the year ended June 30, 2014, total payments of \$12,559,806 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances.

For the year ended June 30, 2014, total payments of \$115,250 were made for the Kentucky Educational Network (KEN), MUNIS Financial Management and McAfee Virus Protection software and services payments paid by the Kentucky Department of Education (KDE) on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances.

For the year ended June 30, 2014, total payments of \$660,795 were made for the debt service payments paid by SFCC on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances.

LAUREL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
 Year Ended June 30, 2014

NOTE S - FUND BALANCE DESIGNATIONS

The following funds had non-spendable fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 447,817	Supplies inventory

The following funds had restricted fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 14,420,407	Future Construction

The following funds had committed fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 600,000	Future bus requirements
General	1,900,000	Career Readiness Center Operations

NOTE T – SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through the date of the audit report. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LAUREL COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Designated for capital projects	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LAUREL COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
From local sources				
Property taxes	\$ -	\$ 4,489,218	\$ -	\$ 4,489,218
State sources				
SEEK	835,389	3,063,758	660,795	4,559,942
Other	-	-	317,739	317,739
Other revenue	-	-	136,950	136,950
Total revenues	<u>835,389</u>	<u>7,552,976</u>	<u>1,115,484</u>	<u>9,503,849</u>
Expenditure				
Debt service	-	-	17,515,377	17,515,377
Other expenditures	-	-	65,800	65,800
Total expenditures	<u>-</u>	<u>-</u>	<u>17,581,177</u>	<u>17,581,177</u>
Excess (deficit) of revenues over expenditures	<u>835,389</u>	<u>7,552,976</u>	<u>(16,465,693)</u>	<u>(8,077,328)</u>
Other Financing Sources (Uses)				
Proceeds from sale of bonds	-	-	9,825,000	9,825,000
Deposits with escrow agents	-	-	-	-
Cost of issuance	-	-	-	-
Operating transfers in	-	-	6,640,693	6,640,693
Operating transfers out	(835,389)	(7,552,976)	-	(8,388,365)
Total other financing sources (uses)	<u>(835,389)</u>	<u>(7,552,976)</u>	<u>16,465,693</u>	<u>8,077,328</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Fund balance July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LAUREL COUNTY SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
Year Ended June 30, 2014

School Activity Fund	Cash and Equivalents June 30, 2013	Receipts	Disbursements	Cash and Cash Equivalents June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Balances June 30, 2014
Bush Elementary School	\$ 14,312	\$ 17,203	\$ 19,374	\$ 12,141	\$ 273	\$ 81	\$ 12,333
Camp Ground Elementary School	16,556	23,758	25,166	15,148	40	-	15,188
Cold Hill Elementary School	16,400	44,411	33,740	27,071	235	-	27,306
Colony Elementary School	20,301	21,062	19,951	21,412	63	69	21,406
Hazel Green Elementary School	10,945	26,212	24,570	12,587	90	-	12,677
Hunter Hills Elementary School	12,484	44,292	44,376	12,400	160	91	12,469
Johnson Elementary School	9,351	26,804	26,881	9,274	154	182	9,246
Keavy Elementary School	16,872	12,112	12,745	16,239	138	60	16,317
London Elementary School	29,679	46,136	46,443	29,372	225	-	29,597
North Laurel Middle School	53,060	240,215	211,699	81,576	340	1,052	80,864
South Laurel Middle School	63,262	237,578	232,584	68,256	965	407	68,814
Sublimity Elementary School	29,794	34,842	40,516	24,120	159	69	24,210
Wyan-Pine Elementary School	16,926	27,909	26,688	18,147	150	173	18,124
Totals	\$ 309,942	\$ 802,534	\$ 764,733	\$ 347,743	\$ 2,992	\$ 2,184	\$ 348,551

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
SOUTH LAUREL HIGH SCHOOL ACTIVITY FUND
Year ended June 30, 2014

	Balances June 30, 2013	Receipts	Disbursements	Transfers in/(out)	Cash and cash equivalents June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Balances June 30, 2014
Academic Team	\$ 315	\$ 1,168	\$ 1,628	\$ 146	\$ 1	\$ -	\$ -	\$ 1
Agriculture	11,633	22,597	23,039	17	11,208	-	2,000	9,208
Art Department	70	1,887	1,895	(57)	5	-	-	5
Athletics	-	66,719	71,748	26,360	21,331	1,965	395	22,901
Athletic Tickets	-	1,800	2,000	200	-	-	-	-
Archery Club	-	2,806	2,422	(54)	330	-	-	330
Baseball Club	2,001	6,315	4,816	(500)	3,000	-	1,000	2,000
Beta Club	262	1,926	2,134	-	54	-	-	54
Boys Basketball Club	27	33,064	31,244	(531)	1,316	-	1,316	-
Boys Soccer	4,217	3,711	6,767	(146)	1,015	-	-	1,015
Chorale Club	633	86,348	96,544	9,564	1	-	-	1
Craft Club	-	140	138	(2)	-	-	-	-
Cross Country Sports	1,323	5,434	4,421	(35)	2,301	-	-	2,301
Culinary Skills	85	80	47	369	487	-	-	487
Dance	4,986	8,768	8,863	(305)	4,586	-	-	4,586
DECA	1,116	47,071	45,660	(1,458)	1,069	-	-	1,069
Fashion Club	426	277	356	772	1,119	-	157	962
Field Trips	-	1,392	1,202	(190)	-	-	-	-
First Priority	1,282	-	72	-	1,210	-	-	1,210
Fishing	-	15,512	13,846	(1,000)	666	-	389	277
Football Club	516	20,758	10,850	(7,546)	2,878	-	-	2,878
Forensics	2	-	-	-	2	-	-	2
F.B.L.A.	-	296	182	-	114	-	-	114
F.C.C.L.A	2,632	4,245	4,336	(935)	1,606	-	-	1,606
F.M.D. Club	1	-	-	-	1	-	-	1
FMD #2	1	520	95	324	750	-	-	750
General	1,799	1,358	3,771	1,138	524	28	523	29
Girls Basketball Club	-	17,361	2,751	(6,824)	7,786	-	1,621	6,165
Girls Golf Club	113	15	-	(128)	-	-	-	-
Girls Softball Club	368	15,576	8,648	(1,359)	5,937	-	-	5,937

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
SOUTH LAUREL HIGH SCHOOL ACTIVITY FUND -CONTINUED
Year ended June 30, 2014

	Balances June 30, 2013	Receipts	Disbursements	Transfers in (out)	Cash and cash equivalents June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Balances June 30, 2014
Golf Club	104	6	50	(44)	16	-	-	16
Guidance Department	3,436	24,226	27,606	-	56	4,599	-	4,655
Yearbook	3,573	2,287	552	55	5,363	-	-	5,363
Junior Class	3,461	9,275	8,152	50	4,634	-	-	4,634
J.R.O.T.C.	6,048	9,268	9,562	(105)	5,649	-	893	4,756
Keyettes	4,378	5,778	3,982	35	6,209	-	1,500	4,709
Library Department	269	367	199	-	437	-	-	437
National Honor Soc.	-	200	200	-	-	-	-	-
Madrigal	4,641	54,516	41,613	(10,795)	6,749	-	-	6,749
Marine Biology Club	-	375	361	-	14	-	-	14
Outdoor Club	665	210	-	-	875	-	-	875
Parking	1	6,300	1,107	(200)	4,994	-	-	4,994
PBIS	105	-	-	-	105	-	-	105
Pep Club	3	-	-	-	3	-	-	3
Science Club	78	2	11	442	511	-	-	511
Senior Class	-	14,066	980	364	13,450	-	11,804	1,646
Spanish Club	-	274	247	-	27	-	-	27
Special Games	13	650	521	-	142	-	-	142
Staff Vending	416	3,355	2,497	(650)	624	-	-	624
Swim Team	1,558	4,272	1,994	(3,417)	419	-	-	419
Textbooks	-	1,152	45	-	1,107	-	-	1,107
Tennis Club	1	774	774	-	1	-	-	1
TIP	417	-	398	(19)	-	-	-	-
Track Club	922	11,919	9,882	(230)	2,729	-	535	2,194
UNITE	617	-	-	(617)	-	-	-	-
Volleyball Club	8,437	8,466	7,493	(1,774)	7,636	-	-	7,636
Varsity Cheerleaders	2,098	17,250	12,566	-	6,782	-	2,724	4,058
Vending Machines	27	2,676	284	(699)	1,720	-	121	1,599
SLHS Donations	1,277	2,384	1,560	(216)	1,885	-	-	1,885
Total accounts	\$ 76,353	\$ 547,192	\$ 482,111	\$ -	\$ 141,434	\$ 6,592	\$ 24,978	\$ 123,048

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
NORTH LAUREL HIGH SCHOOL ACTIVITY FUND
Year ended June 30, 2014

	Balances June 30, 2013	Receipts	Disbursements	Transfers in (out)	Cash and cash equivalent June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Balances June 30, 2014
Academic Team	\$ -	\$ 314	\$ 200	\$ -	\$ 114	\$ -	\$ -	\$ 114
Art Club	-	-	-	-	-	-	-	-
Athletic Fund	16,296	214,920	189,463	(14,433)	27,320	-	-	27,320
Beta Club	56	4,255	2,789	-	1,522	-	-	1,522
Business Co-op Class	728	-	-	-	728	-	-	728
Bus Transportation	4,290	13,705	19,618	15,048	13,425	-	-	13,425
Charitable Gaming	1	5,168	5,168	-	1	-	-	1
Dance Team	1,993	4,325	7,282	965	1	-	-	1
DECA	2	-	-	-	2	-	-	2
Donation Incentives	684	3,245	3,605	-	324	-	-	324
Drama Club	861	2,512	975	-	2,398	-	-	2,398
First Priority	284	203	250	-	237	-	-	237
Flower Fund - Faculty	3	-	-	-	3	-	-	3
Fishing Club	231	4,531	4,300	(231)	231	-	-	231
F.B.L.A.	325	-	-	-	325	-	-	325
F.C.A.	460	54	-	-	514	-	-	514
F.C.C.L.A.	263	720	679	(29)	275	-	-	275
FFA	2,579	26,026	26,109	500	2,996	-	-	2,996
F.M.D Club	334	4,536	4,090	(134)	646	-	-	646
Future Educators	654	892	486	(160)	900	-	-	900
General	491	27,310	27,672	850	979	-	-	979
Junior Class	6,343	5,825	6,531	-	5,637	-	-	5,637
Library	206	48	-	-	254	-	-	254
Marching Band	13	4,237	6,645	2,396	1	-	-	1
National Honor Society	3,157	837	3,852	-	142	-	-	142
North Financial	56	59,910	59,384	-	582	-	-	582

LAUREL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
NORTH LAUREL COUNTY HIGH SCHOOL ACTIVITY FUND - CONTINUED
Year ended June 30, 2014

	Balances June 30, 2013	Receipts	Disbursements	Transfers in (out)	Cash and cash equivalent June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Balances June 30, 2014
N.J.R.O.T.C	3,191	9,623	8,370	-	4,444	-	-	4,444
Pep Club	45	543	472	-	116	-	-	116
Rodeo Club	361	640	-	(500)	501	-	-	501
Science Club	757	1,522	668	(816)	795	-	-	795
Senior Class	515	13,045	13,670	110	-	-	-	-
Singing Jags	420	7,814	7,814	(420)	-	-	-	-
Spanish Club	128	60	175	-	13	-	-	13
Student Council	228	-	-	-	228	-	-	228
Student Flower Fund	3	-	-	-	3	-	-	3
Student Vending	561	6,091	7,083	431	-	227	-	227
STLP	721	-	-	(721)	-	-	-	-
Teacher Vending	281	7,303	5,577	(1,281)	726	218	-	944
Tech Student Assoc.	4	437	441	-	-	-	-	-
Textbook Replacement	1,465	1,139	400	(1,465)	739	-	-	739
Yearbook	3,419	14,359	14,355	-	3,423	-	-	3,423
Young Democrats	5	-	-	-	5	-	-	5
Young Republicans	-	-	-	-	-	-	-	-
Change Order	-	5,400	5,400	-	-	-	-	-
Youth Service Center	3,191	2,178	1,064	(110)	4,195	-	-	4,195
Total accounts	<u>\$ 55,605</u>	<u>\$ 453,727</u>	<u>\$ 434,587</u>	<u>\$ -</u>	<u>\$ 74,745</u>	<u>\$ 445</u>	<u>\$ -</u>	<u>\$ 75,190</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LAUREL 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	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed through the Kentucky Department of Education:			
<i>Title I, Part A Cluster</i>			
Title I Grants to Local Educational Agencies	84.010	3210002 12	\$ 123,324
Title I Grants to Local Educational Agencies	84.010	3210002 13	570,022
Title I Grants to Local Educational Agencies	84.010	3210002 14	<u>2,503,015</u>
<i>Total Title I, Part A Cluster</i>			3,196,361
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3160002 13	77,777
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3160002 14	<u>634,163</u>
			711,940
<i>Special Education Cluster (IDEA)</i>			
Special Education--Grants to States	84.027	3810002 12	103,260
Special Education--Grants to States	84.027	3810002 13	243,545
Special Education--Grants to States	84.027	3810002 14	<u>1,690,362</u>
			<u>2,037,167</u>
Special Education--Preschool Grants	84.173	3800002 14	<u>29,669</u>
<i>Total Special Education Cluster</i>			2,066,836
Title I State Agency Program Neglected and Delinquent Children and Youth	84.013	3132	17,736
Title I State Agency Program Neglected and Delinquent Children and Youth	84.013	3133	2,877
Title I State Agency Program Neglected and Delinquent Children and Youth	84.013	3134	<u>6,517</u>
			27,130
Career and Technical Education--Basic Grants to States	84.048	4621032 13	5,482
Career and Technical Education--Basic Grants to States	84.048	4621132 14	<u>114,875</u>
			120,357
Rural Education	84.358	3140002 12	42,511
Rural Education	84.358	3140002 13	3,212
Rural Education	84.358	3140002 14	<u>115,166</u>
			160,889
Education Job Funds	84.410	EJOB00 11	110
Improving Teacher Quality State Grants	84.367	3230002 14	533,471
Race to the Top	84.413	4521	<u>30,773</u>
Total U.S. Department of Education			<u>6,847,867</u>
<u>U.S. Department of Agriculture</u>			
Passed through the Kentucky Department of Education			
<i>Child Nutrition Cluster</i>			
National School Lunch Program	10.555	7750002 14	2,592,828
School Breakfast Program	10.553	7760005 14	917,201
Summer Food Services Program for Children	10.559	7760005 14	12,892
National School Lunch Program	10.555	7750002 14	<u>296,585</u>
<i>Total Child Nutrition Cluster</i>			3,819,506
Passed through State Department of Agriculture			
Fresh Fruits and Vegetable Program	10.582	7720012 13	5,245
Total U.S. Department of Agriculture			<u>3,824,751</u>
<u>U.S. Department of Labor</u>			
Passed through Kentucky Department of Education			
WIA Youth Activities	17.259	5883	1,550
WIA Youth Activities	17.259	5884	<u>30,613</u>
Total U.S. Department of Labor			<u>32,163</u>

LAUREL COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
 Year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Defense			
Direct Program			
Naval Junior Reserve Officer Training Corps	12.000	5044N	48,642
ROTC Miscellaneous	12.000	5041	5,152
Air Force Junior Reserve Officer Training Corps	12.000	5043	5,757
Air Force Junior Reserve Officer Training Corps	12.000	5044A	<u>47,628</u>
Total U.S. Department of Defense			<u>107,179</u>
Appalachian Regional Commission			
Passed Through Kentucky Department of Education Appalachian Research, Technical Assistance, and Demonstration Projects			
	23.011	6883	<u>2,362</u>
Total Appalachian Regional Commission			<u>2,362</u>
U.S. Department of Commerce			
Passed through Eastern Kentucky Pride Congressionally Identified Awards and Projects			
	11.469	2724	<u>5,500</u>
Total cash expenditures			<u>\$ 10,819,822</u>

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

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Laurel 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 – IN-KIND COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2014 is \$296,585.

NOTE C – CLUSTER PROGRAMS

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559
WIA Cluster	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Worker Formula Grants	17.260

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

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
Laurel County School District
London, Kentucky

We have audited, in accordance with the 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 the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Laurel County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Laurel County School District's basic financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control over Financial Reporting

Management of Laurel County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Laurel 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 Laurel County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Laurel 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 Laurel 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*. In addition, the results of our test disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements*.

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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
October 27, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
Laurel County School District
London, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Laurel County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Laurel County School District's major federal programs for the year ended June 30, 2014. The Laurel 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 Laurel County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract-General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract-State Audit 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 Laurel 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 Laurel County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Laurel 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 Laurel 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 Laurel 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 Laurel 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Laurel County School District, as of and for the year ended June 30, 2014, and have issued our report thereon dated October 27, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
October 27, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued		Unmodified		
Internal control over financial reporting:				
Material weakness identified	_____	Yes	<u> ✓ </u>	No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u> ✓ </u>	None reported
Noncompliance material to financial statement notes	_____	Yes	<u> ✓ </u>	No

Federal Awards

Internal control over major programs:				
Material weaknesses identified	_____	Yes	<u> ✓ </u>	No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u> ✓ </u>	None reported
Type of auditors' report issued on compliance for major programs		Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	<u> ✓ </u>	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
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Title I Grants to Local Educational Agencies	84.010
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Dollar threshold used to distinguish between Type A and Type B program	\$300,000
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Auditee qualified as low risk	<u> ✓ </u>	Yes	_____	No
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(continued)

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
Year Ended June 30, 2014

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

LAUREL COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2014

Status of Prior Year Findings

There were no prior year audit findings.

MANAGEMENT LETTER COMMENTS

Members of the Board of Education
Laurel County School District
London, Kentucky

In planning and performing our audit of the basic financial statements of Laurel County School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated October 27, 2014, on the basic financial statements of Laurel County School District.

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

Respectfully,

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
October 27, 2014

**LAUREL COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
June 30, 2014**

Prior Year Comments – School Activity Funds

There were no comments in the prior year.

Current Year Comments –School Activity Funds

No current year comments were noted.