

LEE COUNTY  
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2014

Prepared by:

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## INDEPENDENT AUDITOR'S REPORT

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lee County School District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

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

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of the Lee County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee County School District's internal control over financial reporting and compliance.

*White & Associates, P.C.*

Richmond, Kentucky  
November 10, 2014

# LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY

## MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2014

As management of the Lee County School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. Please consider the information presented here in conjunction with the district’s financial statements which follow.

### FINANCIAL HIGHLIGHTS

- During the year, the district’s revenue generated from taxes and other local, state and federal sources totaled \$10,156,071. These figures include On-Behalf Payments of \$1,495,998 representing payments made by KDE “on-behalf” of the district for employee health insurance, life insurance, administration fees, Kentucky Teachers’ Retirement and technology and by the School Facilities Construction Commission (SFCC) for bond principal & interest payments. (These funds are not actually received/expended by the district.) This also includes inter-fund transfers of \$661,803. Expenditures were \$9,807,479.
- The General Fund had a beginning balance of \$578,132 for the FY2014 year. Receipts for the year (exclusive of on-behalf) totaled \$5,692,878 and expenditures totaled \$5,963,214 (exclusive of on-behalf). Fund 1 ended the year with a fund balance of \$459,151 which is \$118,982 below last year’s ending balance.
- General Fund revenue primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes.
- The district issued KISTA (Kentucky Inter-local School Transportation Association) Bonds in the amount of \$89,830 for the purchase of a new bus.
- The District Facilities Plan was adopted for the next four-year period in 2013. Beattyville Elementary was designated as a transitional school in the plan. A BG-1 Project Application in the amount of \$3,000,000 was approved by the Kentucky Department of Education in September, 2013 for the major renovation of Southside Elementary. Expectations are to expand Southside Elementary to accommodate the population of Beattyville Elementary, consolidating the schools. Student enrollment for Beattyville Elementary at the end of 2014 was 315 and Southside was 197.

# LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY

## MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2014

### OVERVIEW OF FINANCIAL STATEMENTS

This report consists of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

**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 two categories: governmental and proprietary funds. The proprietary funds are made up of the food service operations. All other activities of the district are included in the governmental funds.

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

**Supplementary Information:** The financial statements include notes that explain some of the information in the statements and provide more detailed data.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. The district’s total in net position for the year ending June 30, 2014, is \$4,625,869.

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),

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

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

Net Position:

The District’s net position is a reflection of all financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The difference between the district’s assets and liabilities is its net position. The district’s net position is reflected in Table 1 below:

Table 1

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2013-2014
	2013	2014	2013	2014	2013	2014	
<b>Assets</b>							
Current and Other Assets	\$ 1,178,582.00	\$ 865,927.00	\$ 99,607.00	\$ 114,161.00	\$ 1,278,189.00	\$ 980,088.00	-23.322%
Capital Assets (Net of Depreciation)	\$ 8,990,271.00	\$ 9,064,098.00	\$ 26,850.00	\$ 20,935.00	\$ 9,017,121.00	\$ 9,085,033.00	0.753%
<b>Total Assets</b>	\$10,168,853.00	\$ 9,930,025.00	\$ 126,457.00	\$ 135,096.00	\$10,295,309.00	\$10,065,121.00	-2.236%
<b>Deferred Outflows of Resources</b>	\$ 1,301.00	\$ 1,156.00	\$ -	\$ -	\$ 1,301.00	\$ 1,156.00	-2.236%
<b>Liabilities:</b>							
Current Liabilities	\$ 400,983.00	\$ 353,678.00	\$ 9,388.00	\$ -	\$ 410,371.00	\$ 353,678.00	-13.815%
Non-Current Liabilities	\$ 4,939,549.00	\$ 5,086,730.00	\$ -	\$ -	\$ 4,939,549.00	\$ 5,086,730.00	2.980%
<b>Total Liabilities</b>	\$ 5,340,532.00	\$ 5,440,408.00	\$ 9,388.00	\$ -	\$ 5,349,921.00	\$ 5,440,409.00	1.691%
<b>Net Assets:</b>							
Invested in Capital Assets							
Net of Debt	\$ 4,220,159.00	\$ 4,478,774.00	\$ 26,850.00	\$ 20,935.00	\$ 4,247,009.00	\$ 4,499,709.00	5.950%
Restricted	\$ 69,066.00	\$ 168,769.00	\$ 90,219.00	\$ 114,161.00	\$ 159,285.00	\$ 282,930.00	77.625%
Unreserved Fund Balance	\$ 540,395.00	\$ (156,770.00)	\$ -	\$ -	\$ 540,395.00	\$ (156,770.00)	-129.010%
<b>Total Net Assets</b>	\$ 4,829,620.00	\$ 4,490,773.00	\$ 117,069.00	\$ 135,096.00	\$ 4,946,689.00	\$ 4,625,869.00	-6.486%

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

Table 2 below reflects the operations of the governmental activities and the business-type activities of the district.

Table 2

	Change in Net Position						Total Percentage Change <u>2013-2014</u>
	Governmental Activities		Business-Type Activities		Total School District		
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	
<b>Revenues:</b>							
Charges for Services	57,403	60,593	45,927	38,807	103,330	99,401	-3.802%
Operating Grants and Contributions	2,259,408	1,790,538	689,378	798,602	2,948,786	2,589,140	-12.196%
Capital Grants and Contributions	375,902	350,642	0	0	375,902	350,642	-6.720%
General Revenues	7,661,506	7,336,708	-45,381	-43,756	7,616,125	7,292,952	-4.243%
<b>Total Revenue</b>	<b>10,354,219</b>	<b>9,538,481</b>	<b>689,924</b>	<b>793,653</b>	<b>11,044,143</b>	<b>10,332,134</b>	<b>-6.447%</b>
<b>Expenses:</b>							
Instruction	5,242,033	4,400,372	0	0	5,242,033	4,400,372	-16.056%
<b>Student</b>	577,503	561,595	0	0	577,503	561,595	-2.755%
Instructional Staff	599,787	644,256	0	0	599,787	644,256	7.414%
District Administration	418,390	466,338	0	0	418,390	466,338	11.460%
<b>School Administration</b>	712,446	691,308	0	0	712,446	691,308	-2.967%
Business	411,895	364,149	0	0	411,895	364,149	-11.592%
<b>Plant Operation and Maintenance</b>	826,017	660,067	0	0	826,017	660,067	-20.090%
Student Transportation	586,144	633,804	0	0	586,144	633,804	8.131%
Building Improvements	0	187,905					
Other Instructional	723	0	0	0	723	0	-100.000%
Food Services Operations	0	0	0	0	0	0	0.000%
Community Services Operations	201,797	178,234	0	0	201,797	178,234	-11.677%
Facilities Acquisition & Construction	0	0	0	0	0	0	0.000%
Loss on Sale of Equipment	0	4,863	0	0	0	4,863	0.000%
Amortization	145	145	0	0	145	145	0.000%
Depreciation	517,064	509,483	6,426	5,915	523,490	515,398	-1.546%
Interest on Long-Term Debt	191,082	231,341	0	0	191,082	231,341	21.069%
Food Services Operations	0	0	679,661	769,711	679,661	769,711	13.249%
<b>Total Expenses</b>	<b>10,285,026</b>	<b>9,533,860</b>	<b>686,087</b>	<b>775,626</b>	<b>10,971,112</b>	<b>10,309,486</b>	<b>-6.031%</b>

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

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

Table 3

	Revenues & Expenditures						
	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
<b>BEG BALANCE</b>	578,132	0	133,792	9,624	103,934	0	117,069
<b>REVENUE</b>							
Local Revenue Sources	1,259,664	15,790	0	148,422	0	0	38,807
State Revenue Sources	5,848,816	400,407	95,348	197,214	0	58,080	73,452
Federal Revenue	80,396	1,390,131	0	0	0	0	725,151
Other	0	0	0	0	0	0	458
<b>TOTALS</b>	<b>7,188,876</b>	<b>1,806,328</b>	<b>95,348</b>	<b>345,636</b>	<b>0</b>	<b>58,080</b>	<b>837,868</b>
<b>EXPENDITURES</b>							
Instruction	3,533,123	1,299,334	0	0	0	0	0
Student Support Services	475,371	86,224	0	0	0	0	0
Instructional Staff Support Services	432,853	211,402	0	0	0	0	0
District Admin Support	466,338	0	0	0	0	0	0
School Admin Support	691,308	0	0	0	0	0	0
Business Support Services	349,581	14,568	0	0	0	0	0
Plant Operations & Management	825,464	4,252	0	0	0	0	0
Student Transportation	628,154	5,650	0	0	0	0	0
Other Instructional	0	0	0	0	0	0	0
Food Service Operations	0	0	0	0	0	0	775,626
Community Services	33,902	144,332	0	0	0	0	0
Debt Service	23,116	0	0	0	0	394,600	0
Architectural/Engineering Building Acquisitions &Construction	0	0	0	0	0	0	0
Site Improvement	0	0	0	0	0	0	0
Building Improvements	0	0	0	0	187,905	0	0
Fund Transfers	0	0	0	0	0	0	0
<b>TOTALS</b>	<b>7,459,212</b>	<b>1,765,762</b>	<b>0</b>	<b>0</b>	<b>187,905</b>	<b>394,600</b>	<b>775,626</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Operating Transfers In	166,610	15,256	0	0	143,416	336,521	0
Operating Transfers Out	-15,256	-55,822	229,140	317,371	0	0	-44,214
<b>TOTAL</b>	<b>151,354</b>	<b>-40,566</b>	<b>229,140</b>	<b>317,371</b>	<b>143,416</b>	<b>336,521</b>	<b>-44,214</b>
<b>END BALANCE</b>	<b>459,151</b>	<b>0</b>	<b>0</b>	<b>37,889</b>	<b>59,445</b>	<b>0</b>	<b>135,096</b>

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

**THE DISTRICT’S FUNDS**

At the end of the fiscal year 2014, the General Fund reflected a fund balance of \$459,151, which is \$118,982 less than last year’s fund balance of \$578,132. SEEK funding was \$275,075 less in FY2014 than FY2013. End of year AADA in 2013 was 953.477 a drop of 41.96 from 2012 AADA of 995.437. Although General Fund revenues increased slightly over last year in some categories, it was not enough to overcome the loss of revenue from SEEK funds. It is important to note that a portion of the balance is reserved for prior year encumbrances, site-based council allocations carried forward from the prior year and sick leave payable. The unreserved portion of the fund balance at the end of fiscal year 2014 is \$387,715 compared to \$509,066 the preceding year.

**CAPITAL ASSETS**

The District ended the year with \$9.0 million invested in capital assets, including land, buildings, buses, computers and other equipment. This number remained steady with the additions and retirements for 2014.

Table 4  
Capital Assets at Year-End FY2014  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Land	157,410	157,410			157,410	157,410
Land Improvements	91,753	99,461			91,753	99,461
Building & Improvements	7,820,019	7,546,495			7,820,019	7,546,495
Technology Equipment	479,133	728,196	6,988	3,687	486,121	731,883
Vehicles	380,808	314,023			380,808	314,023
General Equipment	61,147	68,594	19,862	17,248	81,009	85,843
Construction In Progress	0	150,019			0	150,019

**DEBT**

The district’s outstanding debt at the end of FY2014 is reflected in Table 5. The Capital Lease Obligations originated with the district’s participation in the Kentucky Interlocal School Transportation Association (KISTA) program to purchase a new buses in FY2012 and 2014. Additional bonds were sold in March, 2014 for \$89,830. The total outstanding KISTA debt at the end of 2014 was \$226,480. This debt will be repaid over a 10-year period. The General Obligation Bonds represent the bond issues for the construction and renovation of buildings since 2003. There were no new bond issues for FY2014. The district participates in the School Facilities Construction Commission (SFCC) program meaning at the end of odd-numbered fiscal years, the district will escrow balances in the Capital Outlay and Building fund and the SFCC then makes an offer to the

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

district of funding for future debt service retirement. The SFCC is currently committed to funding \$689,288 in bond principal payments of the amount below.

Table 5  
Outstanding Debt a Year-End

	Government Activities	
	<u>2013</u>	<u>2014</u>
Capital Lease Obligations	156,412	226,480
General Obligation Bonds	4,615,000	4,360,000
Total Obligations	4,771,412	4,586,480

**COMMENTS ON BUDGET COMPARISONS**

- Revenues: General Fund total revenue for the fiscal year ended June 30, 2014 was \$7,933,618 of which \$578,132 was beginning balance and \$1,495,998 was State On-Behalf payments. These on-behalf payments are primarily for health & life insurance and teachers’ retirement contributions. Property tax revenues exceeded budgeted amounts as did utility taxes.
- Expenses: General Fund expenses totaled \$7,474,468, which was \$238,207 less than was budgeted; again the total expenditures included \$1,495,998 of on-behalf payments. On-behalf payments were budgeted in the working budget for FY2014.

**BUDGETARY IMPLICATIONS**

By law, the budget must have a minimum 2.0% contingency. The District adopted a tentative budget for 2014-2015 with a 6.3% contingency. Issues which are anticipated to impact future budgets include:

- Increased expenses to meet federal and state academic mandates such as the new Kentucky Common Core Content Standards under Senate Bill 1.
- The possibility of additional reductions in federal funding.
- The district contribution rate for CERS decreased slightly in FY2014 from 18.89% to 17.67% a 1.22% reduction. With continued concern over the lack of sufficient funding of State retirement plans, it can be anticipated this rate could increase in future years.
- Continued unfunded mandates such as the “shared” KTRS contribution (which required a 1.5% district match of gross pay for all KTRS eligible employees in FY2013, 2.25% in FY2014 and will top out at 3.0% in FY2015. Initiatives moving from state-paid to district-paid (MUNIS and Infinite Campus) are two examples of expenses shifted from the state to boards of education. The reductions in funding, increased costs, along with the continuing decrease in student population, continue to tax the district’s ability to maintain programs at current levels.
- Continued decreasing funding of the state transportation formula.
- Reduction in student enrollment.

**LEE COUNTY PUBLIC SCHOOL DISTRICT – BEATTYVILLE, KENTUCKY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

Questions regarding this report should be directed to the Finance Officer, Zina Gibson or Superintendent, James Evans, Jr. at (606) 464-5000 or by mail at Lee County Board of Education, P.O. Box 668, Beattyville, Kentucky 41311.

Lee County School District  
**Statement of Net Position**  
June 30, 2014

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 437,148	\$ 71,483	\$ 508,631
Receivables (net)	428,779	17,214	445,993
Inventories		25,464	25,464
Capital assets:			
Land, improvements, and construction in progress	307,429		307,429
Other capital assets, net of depreciation	8,756,669	20,935	8,777,604
Total capital assets	<u>9,064,098</u>	<u>20,935</u>	<u>9,085,033</u>
Total assets	<u>9,930,024</u>	<u>135,096</u>	<u>10,065,121</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss for the difference in reacquisition and carrying value of refunding debt	<u>1,156</u>		<u>1,156</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	114,313		114,313
Accrued interest payable	47,148		47,148
Accrued salaries & benefit payable	20,922		20,922
Accrued payroll taxes payable	39,080		39,080
Unearned revenue	132,215		132,215
Long-term liabilities:			
Due within 1 year:			
Bond obligations	260,000		260,000
Capital lease obligations	26,315		26,315
Sick leave	2,913		2,913
Total due within 1 year	<u>289,228</u>	<u>-</u>	<u>289,228</u>
Due in more than 1 year:			
Bond obligations	4,100,000		4,100,000
Capital lease obligations	200,165		200,165
KSBIT payable	343,469		343,469
Sick leave	153,868		153,868
Total due in more than 1 year	<u>4,797,502</u>	<u>-</u>	<u>4,797,502</u>
Total liabilities	<u>5,440,408</u>	<u>-</u>	<u>5,440,408</u>
<b>NET POSITION</b>			
Net Investment in capital assets	4,478,774	20,935	4,499,709
Restricted for:			
Expendable restricted for encumbrances	12,778		12,778
Expendable restricted for site base	58,657		58,657
Expendable restricted for capital projects	97,334		97,334
Expendable restricted for food services		114,161	114,161
Unrestricted (deficit)	(156,770)		(156,770)
Total net position	<u>\$ 4,490,773</u>	<u>\$ 135,096</u>	<u>\$ 4,625,869</u>

See the accompanying notes to the financial statements.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 4,400,372	\$ 59,618	\$ 1,317,566	\$ -	\$ (3,023,189)		\$ (3,023,189)
Support Services							
Student	561,595	975	87,434		(473,186)		(473,186)
Instructional Staff	644,256		214,369		(429,887)		(429,887)
District Administration	466,338				(466,338)		(466,338)
School Administration	691,308				(691,308)		(691,308)
Business	364,149		14,772		(349,377)		(349,377)
Plant Operation & Maintenance	660,067		4,312		(655,755)		(655,755)
Student Transportation	633,804		5,729		(628,075)		(628,075)
Building Improvements	187,905			292,562	104,657		104,657
Community Services Operations	178,234		146,358		(31,877)		(31,877)
Amortization	145				(145)		(145)
Depreciation	509,483				(509,483)		(509,483)
Loss on sale of equipment	4,863				(4,863)		(4,863)
Interest on long-term debt	231,340			58,080	(173,260)		(173,260)
Total governmental activities	<u>9,533,860</u>	<u>60,593</u>	<u>1,790,538</u>	<u>350,642</u>	<u>(7,332,087)</u>		<u>(7,332,087)</u>
Business-type activities:							
Food service operations	769,711	38,807	798,602			\$ 67,698	67,698
Depreciation	5,915					(5,915)	(5,915)
Total business-type activities	<u>775,626</u>	<u>38,807</u>	<u>798,602</u>	<u>-</u>	<u>-</u>	<u>61,784</u>	<u>61,784</u>
Total primary government	\$ <u>10,309,486</u>	\$ <u>99,401</u>	\$ <u>2,589,140</u>	\$ <u>350,642</u>	<u>(7,332,087)</u>	<u>61,784</u>	<u>(7,270,303)</u>
General revenues:							
Taxes:							
Property taxes					676,443		676,443
Oil					104,893		104,893
Motor vehicle taxes					174,971		174,971
Utility taxes					383,557		383,557
Revenue in lieu of taxes					13,164		13,164
State and formula grants					5,929,212		5,929,212
Unrestricted investment earnings					10,255	458	10,712
Transfers					44,214	(44,214)	-
Total general revenues and transfers					<u>7,336,708</u>	<u>(43,756)</u>	<u>7,292,952</u>
Change in net position					4,622	18,028	22,649
Net Position - beginning					4,499,680	117,069	4,616,749
Prior period adjustment					(13,529)		(13,529)
Restated net position - beginning					4,486,151	117,069	4,603,220
Net Position - ending					\$ <u>4,490,773</u>	\$ <u>135,096</u>	\$ <u>4,625,869</u>

See the accompanying notes to the financial statements.

Lee County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2014

	<b>Governmental Funds</b>					
	<b>General</b>	<b>Special Revenue</b>	<b>Construction Fund</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 468,580	\$ -	\$ 95,722	\$ -	\$ 37,889	\$ 602,191
Receivables, net						
Taxes-current	62,045					62,045
Taxes-delinquent	4,944					4,944
Accounts	5,478					5,478
Intergovernmental-state	29,531					29,531
Intergovernmental-federal		326,781				326,781
Total assets	570,578	326,781	95,722	-	37,889	1,030,970
<b>LIABILITIES</b>						
Accounts payable	48,513	29,522	36,277			114,313
Cash shortage		165,044				165,044
Payroll taxes payable	39,080					39,080
Accrued salaries & benefits payable	20,922					20,922
Sick leave payable	2,913					2,913
Unearned revenue		132,215				132,215
Total liabilities	111,428	326,781	36,277	-	-	474,486
<b>FUND BALANCE</b>						
Restricted			59,445		37,889	97,334
Assigned	71,435					71,435
Unassigned	387,715					387,715
Total fund balance	\$ 459,151	\$ -	\$ 59,445	\$ -	\$ 37,889	\$ 556,484

See the accompanying notes to the financial statements.

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

<b>Total fund balance per fund financial statements</b>	\$	556,484
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		9,064,098
<p>Capitalized bond defeasance costs for the refunding of bonds less amortization over the life of the bond.</p>		1,156
<p>Certain liabilities are not reported in the fund financial statements because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(47,148)
Bonds and capital lease payables		(4,586,480)
KSBIT payable		(343,469)
Noncurrent sick leave payable		(153,868)
		(4,930,965)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>4,490,773</b>

See the accompanying notes to the financial statements.

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

	<u>General</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 528,021	\$ -	\$ -	\$ -	\$ 148,422	\$ 676,443
Oil	104,893					104,893
Motor vehicle	174,971					174,971
Utilities	383,557					383,557
Revenue in lieu of taxes	13,164					13,164
Other local revenue	45,358	14,260				59,618
Student activities		975				975
Earnings on investments	9,700	555				10,255
Intergovernmental - state	5,848,816	400,407		58,080	292,562	6,599,865
Intergovernmental - federal	80,396	1,390,131				1,470,527
Total revenues	<u>7,188,876</u>	<u>1,806,328</u>	<u>-</u>	<u>58,080</u>	<u>440,984</u>	<u>9,494,268</u>
<b>EXPENDITURES</b>						
Instruction	3,533,123	1,299,334				4,832,457
Support Services						
Student	475,371	86,224				561,595
Instructional Staff	432,853	211,402				644,256
District Administration	466,338					466,338
School Administration	691,308					691,308
Business	349,581	14,568				364,149
Plant Operation & Maintenance	825,464	4,252				829,716
Student Transportation	628,154	5,650				633,804
Building Improvements			187,905			187,905
Community Services Operations	33,902	144,332				178,234
Debt Service	23,116			394,600		417,716
Total expenditures	<u>7,459,212</u>	<u>1,765,762</u>	<u>187,905</u>	<u>394,600</u>	<u>-</u>	<u>9,807,479</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(270,336)	40,566	(187,905)	(336,521)	440,984	(313,212)
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	166,610	15,256	143,416	336,521		661,803
Operating transfers (out)	(15,256)	(55,822)			(546,511)	(617,589)
Total other financing sources and (uses)	<u>151,354</u>	<u>(40,566)</u>	<u>143,416</u>	<u>336,521</u>	<u>(546,511)</u>	<u>44,214</u>
<b>NET CHANGE IN FUND BALANCE</b>	(118,982)	-	(44,489)	-	(105,527)	(268,998)
<b>FUND BALANCE-BEGINNING</b>	<u>578,132</u>	<u>-</u>	<u>103,934</u>	<u>-</u>	<u>143,416</u>	<u>825,482</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 459,151</u>	<u>\$ -</u>	<u>\$ 59,445</u>	<u>\$ -</u>	<u>\$ 37,889</u>	<u>\$ 556,484</u>

See the accompanying notes to the financial statements.

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

<b>Net change in total fund balances per fund financial statements</b>	\$	(268,998)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		73,828
<p>Difference in the outstanding balance of refunded bonds and the payment to defease the refunded bond is amortized over the life of the bond.</p>		(145)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		184,932
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		1,444
<p>Noncurrent sick leave payable</p>		13,560
		13,560
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>4,622</u></b>

See the accompanying notes to the financial statements.

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

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 570,100	\$ 570,100	\$ 528,021	\$ (42,079)
Oil			104,893	104,893
Motor vehicle	165,000	165,000	174,971	9,971
Utilities	370,000	370,000	383,557	13,557
Revenue in lieu of taxes	3,000	3,000	13,164	10,164
Other local revenue	18,835	18,835	45,358	26,523
Earnings on investments	8,000	8,000	9,700	1,700
Intergovernmental - state	5,892,663	5,892,663	5,848,816	(43,847)
Intergovernmental - federal	40,000	40,000	80,396	40,396
Total revenues	<u>7,067,598</u>	<u>7,067,598</u>	<u>7,188,876</u>	<u>121,278</u>
<b>EXPENDITURES</b>				
Instruction	3,568,250	3,566,450	3,533,123	33,327
Support Services				
Student	474,495	474,495	475,371	(876)
Instructional Staff	438,175	438,175	432,853	5,322
District Administration	731,795	733,595	466,338	267,257
School Administration	693,400	693,400	691,308	2,092
Business	322,000	322,000	349,581	(27,581)
Plant Operation & Maintenance	772,503	772,503	825,464	(52,961)
Student Transportation	663,419	663,419	628,154	35,265
Food Service Operations	66	66		66
Debt Service	23,116	23,116	23,116	0
Community Services Operations	10,456	10,456	33,902	(23,446)
Total expenditures	<u>7,697,675</u>	<u>7,697,675</u>	<u>7,459,212</u>	<u>238,463</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(630,077)	(630,077)	(270,336)	359,741
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	143,348	143,348	166,610	23,262
Operating transfers (out)	(15,000)	(15,000)	(15,256)	(256)
Total other financing sources and (uses)	<u>128,348</u>	<u>128,348</u>	<u>151,354</u>	<u>23,006</u>
<b>NET CHANGE IN FUND BALANCE</b>	(501,729)	(501,729)	(118,982)	382,747
<b>FUND BALANCE-BEGINNING</b>	<u>501,729</u>	<u>501,729</u>	<u>578,132</u>	<u>76,403</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 459,151</u>	<u>\$ 459,151</u>

See the accompanying notes to the financial statements.

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

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>REVENUES</b>				
From Local Sources				
Other local revenue	\$ -	\$ 30,100	\$ 14,260	\$ (15,840)
Student activities		975	975	-
Earnings on investments			555	555
Intergovernmental - state	324,668	389,235	400,407	11,173
Intergovernmental - federal	1,204,852	1,434,048	1,390,131	(43,917)
Total revenues	<u>1,529,520</u>	<u>1,854,358</u>	<u>1,806,328</u>	<u>(48,030)</u>
<b>EXPENDITURES</b>				
Instruction	1,118,842	1,326,935	1,299,334	27,601
Support Services				
Student	90,491	86,122	86,224	(102)
Instructional Staff	115,522	166,876	211,402	(44,526)
Business	30,000	30,000	14,568	15,432
Plant Operation & Maintenance		4,283	4,252	31
Student Transportation			5,650	(5,650)
Community Services Operations	189,665	199,351	144,332	55,018
Total expenditures	<u>1,544,520</u>	<u>1,813,567</u>	<u>1,765,762</u>	<u>47,805</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(15,000)	40,791	40,566	(225)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	15,000	15,000	15,256	256
Operating transfers out		(55,791)	(55,822)	(31)
Total other financing sources and (uses)	<u>-</u>	<u>(40,791)</u>	<u>(40,566)</u>	<u>225</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

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

		<b>School Food Services</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$	71,483
Receivables (net)		17,214
Inventories		25,464
Capital assets:		
Other capital assets, net of depreciation		20,935
Total assets		<u>135,096</u>
<b>NET POSITION</b>		
Net Investment in capital assets		20,935
Restricted for:		
Expendable Restricted for Food Service		114,161
Total net position	\$	<u><u>135,096</u></u>

See the accompanying notes to the financial statements.

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

		<b>School Food Services</b>
<b>OPERATING REVENUES</b>		
Lunchroom sales	\$	38,807
Total operating revenues		<u>38,807</u>
<b>OPERATING EXPENSES</b>		
Depreciation		5,915
Food service operations		
Salaries and benefits		395,700
Operational		374,012
Total operating expenses		<u>775,626</u>
Operating income (loss)		(736,819)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants		725,151
State grants		73,452
Transfers		(44,214)
Earnings from investments		458
Total nonoperating revenues		<u>754,846</u>
<b>CHANGE IN NET POSITION</b>		18,028
<b>NET POSITION-BEGINNING</b>		<u>117,069</u>
<b>NET POSITION-ENDING</b>	\$	<u>135,096</u>

See the accompanying notes to the financial statements.

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

	<u>School Food Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 38,807
Payments to suppliers	(337,082)
Payments to employees	(395,700)
Net cash provided (used) by operating activities	<u>(693,975)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfer for indirect cost for administrative costs	(44,214)
Operating grants and contributions	798,602
Net cash provided (used) by noncapital financing activities	<u>754,388</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	458
Net cash provided (used) by investing activities	<u>458</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	60,871
<b>CASH AND CASH EQUIVALENTS-BEGINNING</b>	<u>10,612</u>
<b>CASH AND CASH EQUIVALENTS-ENDING</b>	<u>\$ 71,483</u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>	
Operating income (loss)	\$ (736,819)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	5,915
Changes in assets and liabilities:	
Receivables	34,072
Inventories	2,857
Net cash used by operating activities	<u>\$ (693,975)</u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$49,946 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$61,517 provided by state government.

See the accompanying notes to the financial statements.

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

		<b>School Activity Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$	104,770
Investments		10,000
Accounts receivable		1,674
		116,444
 <b>LIABILITIES</b>		
Accounts payable		4,760
Due to student groups		111,684
		116,444
<b>NET POSITION HELD IN TRUST</b>		\$ -

See the accompanying notes to the financial statements.

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

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

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

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

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

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

Lee County Board Of Education Finance Corporation

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

Basis of Presentation

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

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

#### (B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that is legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is always a major fund of the District by request of the Kentucky Department of Education.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (C) Capital Project Funds

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

#### SEEK Capital Outlay Fund

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

#### Building (FSPK) Fund

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

#### Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the district.

### (D) Debt Service Fund

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

## II. Proprietary Funds (Enterprise Funds)

### Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

## III. Fiduciary Fund Types

### Agency Funds

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Basis of Accounting

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates (including exonerations) assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.295 per \$100 valuation of real property, \$.295 per \$100 valuation for business personal property and \$.523 per \$100 valuation for motor vehicles.

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

### Capital Assets

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Interfund Balances

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

### Accumulated Unpaid Sick Leave Benefits

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

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

The entire compensated absence liability is reported on the government-wide financial statements.

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

### Budgetary Process

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

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

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

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

### Cash and Cash Equivalents

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Inventories

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

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

### Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balances

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Net Position

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

### Operating and Non-Operating Revenues and Expenses

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

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

### Contributions of Capital

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

### Interfund Activity

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

## **NOTE B – ESTIMATES**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**NOTE C – CASH AND CASH EQUIVALENTS**

The District’s cash and cash equivalents are interest bearing accounts and certificates of deposits with a maturity of ninety (90) days or less. Due to the liquidity nature of these accounts the carrying value is the fair market value. Various local banks are used as depositories.

Investments are certificates of deposits of the financial institution that have a maturity of ninety (90) days or more.

	<b>Bank Balance</b>	
FDIC	\$	250,000
Securities pledged to district		<u>942,341</u>
Bank balance	\$	<u><u>1,192,341</u></u>

  

	<b>Book Balance</b>	
	<b><u>Cash and cash equivalents</u></b>	<b><u>Investments</u></b>
Governmental Activities	\$ 437,148	\$ -
Business-type Activities Fiduciary Fund	71,483	
School Activity	<u>104,770</u>	<u>10,000</u>
Total carrying amount	\$ <u><u>613,401</u></u>	\$ <u><u>10,000</u></u>

**NOTE D – CAPITAL ASSETS**

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

<b><u>Governmental Activities</u></b>	<b><u>July 1, 2013</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2014</u></b>
Land	\$ 157,410	\$ -	\$ -	\$ 157,410
Land improvements	505,502	19,631	-	525,133
Buildings	15,763,084	-	-	15,763,084
Technology equipment	1,978,143	399,269	22,891	2,354,520.98
Vehicles	1,678,258	-	-	1,678,258
General equipment	419,936	19,255	1,150	438,041
Construction in progress	<u>-</u>	<u>187,905</u>	<u>37,887</u>	<u>150,019</u>
Total at historical cost	\$ <u><u>20,502,333</u></u>	\$ <u><u>626,060</u></u>	\$ <u><u>61,928</u></u>	\$ <u><u>21,066,466</u></u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Less: Accumulated depreciation				
Land improvements	413,749	11,923	-	425,672
Buildings	7,943,065	273,524	-	8,216,589
Technology equipment	1,499,010	145,558	18,143	1,626,425.42
Vehicles	1,297,450	66,785	-	1,364,235
General equipment	<u>358,789</u>	<u>11,693</u>	<u>1,035</u>	<u>369,446</u>
Total accumulated depreciation	\$ <u>11,512,063</u>	\$ <u>509,483</u>	\$ <u>19,178</u>	\$ <u>12,002,368</u>
 Governmental Activities				
Capital Assets-net	\$ <u>8,990,271</u>	\$ <u>116,577</u>	\$ <u>42,750</u>	\$ <u>9,064,098</u>
 <u>Business-Type Activities</u>	 <u>July 1, 2013</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>June 30, 2014</u>
Technology equipment	\$ 16,503	\$ -	\$ -	\$ 16,503
General equipment	<u>368,055</u>	<u>-</u>	<u>-</u>	<u>368,055</u>
Total at historical cost	\$ <u>384,558</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>384,558</u>
Less: Accumulated depreciation				
Technology equipment	\$ 9,515	\$ 3,301	\$ -	\$ 12,816
General equipment	<u>348,193</u>	<u>2,614</u>	<u>-</u>	<u>350,807</u>
Total accumulated depreciation	\$ <u>357,708</u>	\$ <u>5,915</u>	\$ <u>-</u>	\$ <u>363,623</u>
 Business-Type Activities				
Capital Assets-net	\$ <u>26,850</u>	\$ <u>(5,915)</u>	\$ <u>-</u>	\$ <u>20,935</u>

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

**NOTE E – BONDED DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bonded debt obligations represents the District’s future obligations to make payments relating to the bonds issued by the Lee County School District Finance Corporation aggregating \$4,360,000 and \$260,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Outstanding Balance</u>
Issue of 2008A	\$ 1,850,000	4/1/2028	3.00-3.75%	\$ 1,660,000	\$ -	\$ 70,000	\$ 1,590,000
Issue of 2012R	1,460,000	4/1/2023	.5-2.0%	1,460,000		145,000	1,315,000
Issue of 2008B	385,000	8/1/2028	3.80-4.60%	345,000		15,000	330,000
Issue of 2010	\$ 1,200,000	8/1/2030	1.5-4%	1,150,000		25,000	1,125,000
Totals				<u>\$ 4,615,000</u>	<u>\$ -</u>	<u>\$ 255,000</u>	<u>\$ 4,360,000</u>

The table following sets forth the amount to be paid by the District for each year until maturity of all bond issues.

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

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal</u>		<u>Interest</u>		<u>Principal Total</u>	<u>Interest Total</u>
	<u>Local</u>	<u>KSFCC</u>	<u>Local</u>	<u>KSFCC</u>		
2015	\$ 226,435	\$ 33,565	\$ 111,550	\$ 24,515	\$ 260,000	\$ 136,065
2016	230,568	34,432	107,398	23,647	265,000	131,045
2017	234,495	35,505	103,113	22,574	270,000	125,688
2018	238,357	36,643	98,311	21,437	275,000	119,748
2019	242,183	37,817	92,125	20,263	280,000	112,388
2020-2024	1,240,012	209,988	355,756	80,411	1,450,000	436,168
2025-2029	1,015,630	234,370	156,629	37,003	1,250,000	193,631
2030-2031	243,032	66,968	9,867	2,533	310,000	12,400
	<u>\$ 3,670,712</u>	<u>\$ 689,288</u>	<u>\$ 1,034,749</u>	<u>\$ 232,383</u>	<u>\$ 4,360,000</u>	<u>\$ 1,267,132</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE F – RETIREMENT PLANS

#### Kentucky Teachers' Retirement System

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

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

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

#### **Medical Insurance Plan**

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

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

*Funding policy* – In order to fund the post-retirement healthcare benefit, four and one half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (0.75%) from state appropriations and one and one half percent (1.5%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Lee County School System's total payroll for the year was \$5,885,994. The payroll for employees covered under KTRS was \$4,280,455. For the year ended June 30, 2014, the Commonwealth contributed \$450,619 to KTRS for the benefit of our participating employees. The School District's contributions to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

KTRS for the year ending June 30, 2014 were \$125,683, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$667,446, \$796,566 and \$833,952 respectively.

### County Employees Retirement System

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

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

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.89%. The District contributed \$286,297 of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$362,967, \$387,605, and \$404,013 respectively.

### Recently Issued Accounting Standards

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

### **NOTE G - CONTINGENCIES**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE H - LITIGATION**

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

**NOTE I – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE J – RISK MANAGEMENT**

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

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

**NOTE K - COBRA**

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

**NOTE L – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Building Fund	General	Various	\$ 122,396
Food Service	General Fund	Indirect Costs	44,214
General Fund	Special Revenue	KETS	15,256
Capital Outlay	Construction Fund	BG-1	143,416
Building Fund	Debt Service	Debt Service	194,975
Capital Outlay	Debt Service	Debt Service	85,724
Special Revenue	Debt Service	Debt Service	55,822
			\$ 661,803

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE M – DEFICIT FUND AND OPERATING BALANCES**

<u>Fund</u>	<u>Reduction in Fund Balance / Net Assets</u>
General	\$ (118,982)
Construction	(44,489)
Capital Outlay	\$ (133,792)

**NOTE N – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on-behalf of the Lee County School District for teacher’s retirement, health insurance, life insurance, administrative fees, technology and state operated vocational schools where applicable. The amounts recorded for both revenues and expenditures (expenses) are \$1,495,998 for the General Fund, \$58,080 for Debt Service and \$61,517 for the School Food Service Fund.

**NOTE O – CAPITAL LEASE PAYABLE**

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

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Outstanding Balance</u>
Issue of 2012	\$175,500	3/1/2022	2.0 - 2.625%	\$ 156,412	\$ -	\$ 19,762	\$ 136,650
Issue of 2014	\$89,830	3/1/2024	2.0 - 3.0%	-	89,830	-	89,830
Totals				\$ 156,412	\$ 89,830	\$ 19,762	\$ 226,480

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

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal Local</u>	<u>Interest Local</u>	<u>Total</u>
2015	\$26,315	\$ 4,959	\$ 31,274
2016	26,848	4,432	31,280
2017	25,779	3,895	29,674
2018	26,279	3,380	29,659
2019	26,848	2,854	29,702
2020-2024	94,411	5,902	100,313
	<u>\$226,480</u>	<u>\$25,422</u>	<u>\$251,902</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Total minimum lease payments	\$	251,902
Less: Amount representing interest		(25,422)
 Present Value of Net Minimum Lease Payments	 \$	 226,480

**NOTE P – RESTRICTED FUND BALANCES**

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
FSPK	\$ 37,889	School Facilities Construction Commission Requirement
Food Service	114,161	Food Service Operations
Construction	\$ 59,445	Future Construction

**NOTE Q – PRIOR PERIOD ADJUSTMENT**

Due to Court ordered assessment of the KSBIT liability, the liability was increased causing net position to be overstated as follows:

Net Position July 1, 2013	\$ 4,499,680
 Prior Period Adjustment	 (13,529)
 Restated Net Position July 1, 2013	 <u>\$ 4,486,151</u>

**NOTE R – SUBSEQUENT EVENTS**

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

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

	<b>Other Governmental Funds</b>		
	<b>FSPK Fund</b>	<b>Capital Outlay</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 37,889	\$ -	\$ 37,889
Total Assets	37,889	-	37,889
 <b>Fund Balances</b>			
Restricted	37,889	-	37,889
Total Fund Balances	\$ 37,889	\$ -	\$ 37,889

See the accompanying notes to the financial statements.

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

	<b>Other Governmental Funds</b>		
	<b>FSPK Fund</b>	<b>Capital Outlay</b>	<b>Total</b>
<b>Revenues</b>			
Property Taxes	\$ 148,422	\$ -	\$ 148,422
Intergovernmental - State	197,214	95,348	292,562
<b>Total Revenues</b>	<b>345,636</b>	<b>95,348</b>	<b>440,984</b>
<b>Expenditures</b>			
Building Improvements	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>345,636</b>	<b>95,348</b>	<b>440,984</b>
<b>Other Financing Sources (Uses)</b>			
Transfers (Out)	(317,371)	(229,140)	(546,511)
<b>Total Other Financing Sources (Uses)</b>	<b>(317,371)</b>	<b>(229,140)</b>	<b>(546,511)</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>28,265</b>	<b>(133,792)</b>	<b>(105,527)</b>
<b>Fund Balance-Beginning</b>	<b>9,624</b>	<b>133,792</b>	<b>143,416</b>
<b>Fund Balance-Ending</b>	<b>\$ 37,889</b>	<b>\$ -</b>	<b>\$ 37,889</b>

See the accompanying notes to the financial statements.

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

	<b>SCHOOL ACTIVITY FUNDS</b>						
	<b>LEE COUNTY HIGH SCHOOL</b>	<b>LEE CO HIGH CHARITABLE GAMING ACCT</b>	<b>LEE COUNTY MIDDLE SCHOOL</b>	<b>BEATTYVILLE ELEMENTARY</b>	<b>SOUTHSIDE ELEMENTARY</b>	<b>SOUTHSIDE CHARITABLE GAMING ACCT</b>	<b>TOTAL</b>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 53,791	\$ 964	\$ 13,383	\$ 16,892	\$ 19,741	\$ -	\$ 104,770
Investments	10,000	-	-	-	-	-	10,000
Accounts receivable	1,654	-	20	-	-	-	1,674
Total Assets	65,445	964	13,403	16,892	19,741	-	116,444
<b>LIABILITIES</b>							
Accounts payable	2,219	-	1,042	1,000	500	-	4,760
<b>FUND BALANCE</b>							
School activities	63,227	964	12,361	15,892	19,241	-	111,684
Total Liabilities & Fund Balances	\$ 65,445	\$ 964	\$ 13,403	\$ 16,892	\$ 19,741	\$ -	\$ 116,444

See the accompanying notes to the financial statements.

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

**SCHOOL ACTIVITY FUNDS**

	<u>LEE COUNTY HIGH SCHOOL</u>	<u>LEE CO HIGH CHARITABLE GAMING ACCT</u>	<u>LEE COUNTY MIDDLE SCHOOL</u>	<u>BEATTYVILLE ELEMENTARY</u>	<u>SOUTHSIDE ELEMENTARY</u>	<u>SOUTHSIDE CHARITABLE GAMING ACCT</u>	<u>TOTAL</u>
<b>REVENUES</b>							
Student/Trust revenues	\$ 177,461	\$ 4,425	\$ 40,224	\$ 53,162	\$ 39,420	\$ -	\$ 314,693
<b>EXPENSES</b>							
Student/Trust activities	<u>178,208</u>	<u>3,461</u>	<u>37,110</u>	<u>50,805</u>	<u>33,199</u>	<u>1,188</u>	<u>303,973</u>
Total Expenses	<u>178,208</u>	<u>3,461</u>	<u>37,110</u>	<u>50,805</u>	<u>33,199</u>	<u>1,188</u>	<u>303,973</u>
<b>Excess (Deficit) of Revenues Over Expenses</b>	(747)	964	3,114	2,357	6,220	(1,188)	10,720
<b>Fund Balance July 1, 2013</b>	<u>63,974</u>	<u>-</u>	<u>9,247</u>	<u>13,535</u>	<u>13,020</u>	<u>1,188</u>	<u>100,964</u>
<b>Fund Balance June 30, 2014</b>	<u>\$ 63,227</u>	<u>\$ 964</u>	<u>\$ 12,361</u>	<u>\$ 15,892</u>	<u>\$ 19,241</u>	<u>\$ -</u>	<u>\$ 111,684</u>

See the accompanying notes to the financial statements.

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

	FUND BALANCE JULY 1, 2013	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE JUNE 30, 2014
OFFICE	\$ 301	\$ 1,330	\$ 998	\$ 700	\$ 1,333
NOW INTEREST	2,603	612	2,338	-	877
LOST TEXTBOOKS	-	121	289	168	-
BOOK RENTAL	654	6	660	-	-
CLASS OF 2015	296	2,795	1,406	13	1,697
STUDENT VENDING	470	4,009	3,818	-	660
FACULTY VENDING	1,690	1,448	960	-	2,178
CLASS OF 2017	-	114	-	-	-
ACADEMICS	100	100	93	-	107
BETA CLUB	4,983	9,129	8,865	-	5,247
PTO	554	-	-	-	554
HOME ECONOMICS CLUB	36	-	-	-	36
FFA	2,196	28,558	23,427	-	7,328
CHESS CLUB	-	280	280	-	-
CLASS OF 2014	1,751	30,134	31,872	(13)	-
STUDENT COUNCIL	380	45	-	-	425
SEW COOL	276	-	-	2,000	2,276
ART	965	120	-	-	1,085
BAND	55	-	-	-	55
COMMUNICATIONS	4,318	2,165	3,351	-	3,132
PROM	3,425	3,875	3,599	-	3,701
PROJECT GRADUATION	18	-	-	-	18
CLASS OF 2016	364	394	204	-	554
SCHOLARSHIP FUND	2,360	3,700	3,990	-	2,070
ATHLETIC	729	34,390	17,275	(15,690)	2,154
BOYS BASKETBALL	-	7,218	7,209	-	9
GIRLS BASKETBALL	-	-	3,281	3,281	-
BASEBALL	58	-	2,085	2,028	-
SOFTBALL	-	-	1,760	1,855	95
VOLLEYBALL	-	200	2,696	2,496	-
CROSS COUNTRY	-	-	270	270	-
CHEERLEADER	556	3,706	2,826	-	1,436
SENIORS	(425)	834	313	-	96
BOYS BASKETBALL	-	-	2,999	2,999	-
PERIODICALS/NEWSPAPERS	-	-	-	-	-
AV/LIBRARY	1,047	-	-	(168)	878
CERTIFICATE OF DEPOSIT	11,179	-	-	-	11,179
BASEBALL BOOSTERS	2,041	2,279	3,534	-	787
BASKETBALL BOOSTERS	369	-	-	-	369
BAND BOOSTERS	8,344	22,267	29,177	-	1,435
SOFTBALL BOOSTERS	1,887	3,667	3,317	-	2,237
ARCHERY	6,924	3,220	3,925	-	6,219
UNITE CLUB	50	-	-	-	50
OTHER GRANTS	887	-	90	-	797
PRIDE CLUB	120	-	-	-	120
CLASS OF 2013	700	-	700	-	-
VOLLEYBALL BOOSTERS	310	565	936	61	-
GIRLS BASKETBALL	203	2,693	1,672	-	1,224
BOWLING	1,201	2,028	3,150	-	79
PROJECT PROM	-	5,460	4,845	-	615
<b>TOTALS</b>	<b>\$ 63,974</b>	<b>\$ 177,461</b>	<b>\$ 178,208</b>	<b>\$ -</b>	<b>\$ 63,227</b>

See the accompanying notes to the financial statements.

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

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the District had received food commodities totaling \$49,946.

LEE COUNTY BOARD OF EDUCATION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education:				
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 13		7760005 13	\$ N/A	\$ 42,674
Fiscal Year 14		7760005 14	N/A	152,434
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 13		7750002 13	N/A	100,218
Fiscal Year 14		7750002 14	N/A	344,936
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 13		7690024 13	N/A	502
Fiscal Year 13		7740023 13	N/A	4,804
Child Nutrition Cluster Subtotal				<u>645,568</u>
<b>Fresh Fruits &amp; Vegetables</b>	10.582			
Fiscal Year 13		7720012 13	N/A	3,546
Fiscal Year 14		7720012 14	N/A	19,355
				<u>22,901</u>
Passed Through State Department of Agriculture:				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 14		510.4950	N/A	49,946
Total US Department of Agriculture				<u>718,415</u>
US Department of Commerce				
Passed Through Eastern Kentucky PRIDE, Inc.				
<b>PRIDE Environmental Education</b>	11.420			
Fiscal Year 14		2704	6,000	3,223
Total US Department of Commerce				<u>3,223</u>
US Department of Education				
Passed Through State Department of Education				
<b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 13		3100002 13	678,801	139,916
Fiscal Year 14		3100002 14	644,668	458,006
Fiscal Year 14M		3100002 14	6,600	4,373
<b>Title I Grants School Improvement</b>	84.010A			
Fiscal Year 13		3100202 13	55,000	28,510
Fiscal Year 14		3100202 14	50,000	35,142
				<u>665,947</u>
<b>Special Education Grants to States</b>	84.027A			
Fiscal Year 13		3810002 13	276,156	607
Fiscal Year 14		3810002 14	255,141	230,829
<b>Special Education-Preschool Grants</b>	84.173A			
Fiscal Year 12		3800002 12	24,503	468
Fiscal Year 13		3800002 13	24,438	24,438
Fiscal Year 14		3800002 14	24,278	3,106
Special Education Cluster Subtotal				<u>259,448</u>
<b>Vocation Education-Basic Grants to States</b>	84.048			
Fiscal Year 13		4621332 13	10,674	3,633
Fiscal Year 13A		3710002 13	509	509
Fiscal Year 14		4621332 14	9,773	3,585
				<u>7,727</u>
* <b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 14		3230002 14	125,058	123,634
<b>School Improvement, Part G</b>	84.377A			
Fiscal Year 10C		3100302 10	100,000	6,480
<b>Rural Education</b>	84.358B			
Fiscal Year 14		3140002 14	19,261	19,261
<b>Twenty-First Century Community Learning Centers</b>	84.287			
Fiscal Year 13		3400002 13	67,500	35,850
Fiscal Year 13S		3400002 13	5,000	5,000
Fiscal Year 13U		3400002 13	5,000	3,149
Fiscal Year 14		3400002 14	60,000	17,400
				<u>61,399</u>
<b>Race to the Top</b>	84.413A			
Fiscal Year 11		3960002 11	28,378	11,326
Passed through Reading is Fundamental, Inc				
<b>Reading is Fundamental</b>	81.000			
Fiscal Year 14		6874	6,000	1,074
Passed through Berea College				
<b>Gaining Early Awareness and Readiness for Undergraduate Programs</b>	84.334A			
Fiscal Year 13A		3793A	62,920	4,447
Fiscal Year 13G		3793G	50,000	91
Fiscal Year 14A		3794A	141,340	141,340

LEE COUNTY BOARD OF EDUCATION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
Fiscal Year 14C		3794C	42,963	42,963
Fiscal Year 14G		3794G	50,000	41,770
Total US Department of Education				<u>230,612</u>
Passed Through Kentucky School Board Association <b>Medical Assistance Program</b>	93.778			<u>1,386,908</u>
Fiscal Year 14		110.4810	\$	N/A
Total US Department of Health and Human Services				<u>80,396</u>
<b>Total Expenditure of Federal Awards</b>				<b>\$ <u>2,188,942</u></b>

\* Major Programs

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lee County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lee County School District's basic financial statements, and have issued our report thereon dated November 10, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lee 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 Lee County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lee 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 Lee 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 tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School Districts' Audit Contract and Requirements or Appendices.

### **Purpose of this Report**

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

*White & Associates, P.C.*

Richmond, Kentucky  
November 10, 2014



CERTIFIED PUBLIC ACCOUNTANTS

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

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

**Report on Compliance for Each Major Federal Program**

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

### ***Opinion on Each Major Federal Program***

In our opinion, Lee 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 Lee 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 Lee 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 Lee County School District's internal control over compliance.

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

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

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

*White & Associates, P.C.*

Richmond, Kentucky  
November 10, 2014

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

**SUMMARY OF AUDITORS' RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559] Improving Teacher Quality State Grants [CFDA 84.367A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

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

No findings at the major federal award programs level.

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

There were no prior year findings.