

LESLIE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2014

LESLIE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2014

	<u>Pages</u>
Independent Auditor's Report.....	1 - 3
Management's Discussion and Analysis	4 - 9
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11 - 12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Activity Funds	20
Notes to the Basic Financial Statements.....	21 - 39
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	40
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Funds	41

LESLIE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

For the Year Ended June 30, 2014

	<u>Pages</u>
Other Supplementary Information:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	43
Statement of Revenues, Expenditures and Changes in Fund Balance – Leslie County High School Activity Fund	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Other School Activity Funds	45
Schedule of Expenditures of Federal Awards	46 - 48
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 <i>Government Auditing Standards</i>	49 - 50
Independent Auditor’s Report on Compliance for Each Major Program and Internal Control Over Compliance Required by OMB Circular A-133	51 - 52
Summary Schedule of Prior Audit Findings	53 - 55
Schedule of Findings and Questioned Costs	56 - 57
Management Letter.....	58 - 59

Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX: (606) 436-5701
chrisgooch@chrisgoochcpa.com

INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, 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 Leslie 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 State Committee for School District Audits in the Kentucky Public School District's 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 Leslie County School District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 40-41 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 Leslie County School District's basic financial statements. The combining and individual non-major fund financial statements 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 combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, on our consideration of the Leslie 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 Leslie County School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 5, 2014

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2014

As management of the Leslie 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. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including activity funds, for the District was \$2,504,013 for which \$1,916,620 was restricted Construction Fund cash. The ending cash balance, including activity funds, for the District was \$549,766. The balance at June 30, 2014 includes \$321,060 in restricted cash. The June 30, 2014 cash balance reflects a \$614,039 deficit cash balance in Fund 2, Special Revenue Fund, and a corresponding \$905,933 receivable balance.
- Total federal expenditures as reflected on the schedule of expenditures of federal awards for year ended June 30, 2014 was \$3,785,056 and for June 30, 2013 was \$3,330,898.
- Interest revenue totaled \$11,603 for the current year ended and for the prior year the total interest revenue was \$41,107.
- The District's total long-term debt activity reflects new financing for the acquisition of two new vehicles through the KISTA leasing program totaling \$165,607.
- The District's long-term debt reductions were \$1,342,119 for the fiscal year end.
- Fiscal year end construction expenditures for the year ended June 30, 2014 were \$1,513,670 including renovation and additions at WB Muncy, Stinnett and Mountain View Elementary Schools.
- Total 2014 general fund revenue was \$10,569,334 exclusive of on behalf state payments totaling \$2,679,675 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding on behalf payments, there was \$11,244,570 in general fund expenditures. For 2013, excluding on-behalf payments of \$2,872,491, total general fund revenue was \$10,533,365 and total general fund expenditures were \$11,801,561.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

OVERVIEW OF FINANCIAL STATEMENTS

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

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 is 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 three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2014, assets exceeded liabilities by \$11,619,334.

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

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

Net position for the year ended June 30, 2014

Following are comparisons of governmental net position:

	<u>At June 30,</u>	
	<u>2014</u>	<u>2013</u>
Current assets	2,110,230	4,745,265
Noncurrent assets	<u>38,044,865</u>	<u>37,475,337</u>
<u>Total assets</u>	<u>40,155,095</u>	<u>42,220,602</u>
Current liabilities	2,988,881	4,020,695
Noncurrent liabilities	25,263,707	25,388,783
Deferred inflows of resources	<u>283,173</u>	<u>-</u>
<u>Total liabilities and deferred inflows of resources</u>	<u>28,535,761</u>	<u>29,409,478</u>
- Net position -		
Investment in capital assets (net of debt)	11,793,997	10,018,897
Restricted	393,968	1,889,821
Unrestricted (deficit)	<u>(568,631)</u>	<u>902,406</u>
<u>Total net position</u>	<u>11,619,334</u>	<u>12,811,124</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>40,155,095</u>	<u>42,220,602</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

The comparison reflects the following:

- The decrease in current assets is primarily a result of using restricted cash for capital construction expenditures.
- Non-current assets increase reflects the completion and transfer of District construction in progress.
- Current liabilities decreases are primarily a result of a decrease in accounts payable - \$389,439 and decreases in special revenue cash deficit balances - \$297,037 and reclassification of deferred revenue.
- The comparative financial statements reflect reclassification of deferred inflow of resources - \$283,173.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund:

	<u>Final</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Revenues:			
From local sources			
Taxes	3,126,257	3,075,538	(50,719)
Earnings on investments	18,000	10,207	(7,793)
Other local revenue	27,200	26,376	(824)
Intergovernmental - state	7,507,729	10,112,115	2,604,386
Intergovernmental - indirect federal	<u>17,000</u>	<u>24,773</u>	<u>7,773</u>
<u>Total revenues</u>	<u>10,696,186</u>	<u>13,249,009</u>	<u>2,552,823</u>
Expenditures:			
Instructional	5,554,535	6,889,953	(1,335,418)
Student support services	735,089	896,495	(161,406)
Staff support services	545,053	620,184	(75,131)
District administration	431,577	535,439	(103,862)
School administration	703,000	921,644	(218,644)
Business support	205,552	309,195	(103,643)
Plant operation and management	1,475,588	1,973,901	(498,313)
Student transportation	1,367,345	1,525,061	(157,716)
Community service activities	9,574	9,574	-
Employee benefits	50,000	85,663	(35,663)
Debt service	177,857	157,136	20,721
Contingency	<u>354,746</u>	<u>-</u>	<u>354,746</u>
<u>Total expenditures</u>	<u>11,609,916</u>	<u>13,924,245</u>	<u>(2,314,329)</u>
Excess (deficit) of revenue <u>over expenditures</u>	<u>(913,730)</u>	<u>(675,236)</u>	<u>238,494</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

- Actual revenues and expenditures reflect unbudgeted state on-behalf payments for retirement, health and life insurance and technical education in the amount of \$2,679,675.
- Actual local property tax revenues are \$1,029,231 less than budgeted revenues. However, the District received \$1,038,786 in non-budgeted unmined mineral tax revenue.

The following table presents a summary comparison of statement of activities for the fiscal years ended June 30, 2014 and 2013:

	At June 30,	
	<u>2014</u>	<u>2013</u>
Revenues:		
Local revenue sources	3,329,068	4,461,461
State revenue sources	12,459,746	12,323,461
Federal revenue	<u>3,959,466</u>	<u>3,545,232</u>
<u>Total revenues</u>	<u>19,748,280</u>	<u>20,330,154</u>
Expenses:		
Instruction	9,863,397	10,317,801
Student support services	1,104,584	1,017,947
Instructional support	885,832	937,284
District administration	584,871	512,728
School administration	921,644	1,053,397
Business support	313,308	467,124
Plant operation and management	2,824,105	2,688,868
Student transportation	1,704,381	1,756,190
Community support and other	306,198	248,648
Food service operations	1,235,852	1,308,275
Interest on long-term debt	<u>755,504</u>	<u>813,763</u>
<u>Total expenses</u>	<u>20,499,676</u>	<u>21,122,025</u>
<u>Change in net position</u>	<u>(751,396)</u>	<u>(791,871)</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2014

- Current year local revenues include an extraordinary item recognizing the KSBIT assessment of \$629,945 in the current reporting period.
- Depreciation expense was \$895,460 for the current year and \$820,868 for the prior year.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$354,746 in contingency (3.06%).

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 672-2397.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION

At June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
- Current assets -			
Cash and cash equivalents	826,340	186,595	1,012,935
Accounts receivable:			
Taxes - current	68,928	-	68,928
Taxes - delinquent	10,003	-	10,003
Other	82,467	-	82,467
Intergovernmental - indirect federal	905,933	707	906,640
Inventories	-	29,257	29,257
<u>Total current assets</u>	<u>1,893,671</u>	<u>216,559</u>	<u>2,110,230</u>
- Noncurrent assets -			
Bond discounts - net	114,875	-	114,875
Capital assets - non-depreciable	647,757	-	647,757
Capital assets - depreciable (net)	35,724,522	1,557,711	37,282,233
<u>Total noncurrent assets</u>	<u>36,487,154</u>	<u>1,557,711</u>	<u>38,044,865</u>
<u>Total assets</u>	<u>38,380,825</u>	<u>1,774,270</u>	<u>40,155,095</u>
Liabilities:			
- Current liabilities -			
Cash deficit	614,039	-	614,039
Accounts payable	374,774	849	375,623
Current portion of bond/lease obligations	1,302,741	-	1,302,741
Interest payable	696,478	-	696,478
<u>Total current liabilities</u>	<u>2,988,032</u>	<u>849</u>	<u>2,988,881</u>
- Noncurrent liabilities -			
Long term portion of sick leave payable	382,113	-	382,113
Long term portion of KSBIT payable	629,945	-	629,945
Noncurrent portion of bond/lease obligations	24,251,649	-	24,251,649
<u>Total noncurrent liabilities</u>	<u>25,263,707</u>	<u>-</u>	<u>25,263,707</u>
Deferred Inflow of Resources:			
Unearned revenues governmental sources	283,173	-	283,173
<u>Total liabilities and deferred inflow of resources</u>	<u>28,534,912</u>	<u>849</u>	<u>28,535,761</u>
Net position:			
Invested in capital assets, net of related debt	10,236,286	1,557,711	11,793,997
Restricted for:			
Sick leave	25,765	-	25,765
Other	152,493	215,710	368,203
Unrestricted (deficit)	(568,631)	-	(568,631)
<u>Total net position</u>	<u>9,845,913</u>	<u>1,773,421</u>	<u>11,619,334</u>
<u>Total liabilities, deferred inflow of resources and net position</u>	<u>38,380,825</u>	<u>1,774,270</u>	<u>40,155,095</u>

See notes to financial statements.

11.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTIONS/PROGRAMS:				
- Governmental activities -				
Instructional	9,863,397	-	(4,606,619)	-
Support services:				
Student	1,104,584	-	(498,595)	-
Instructional staff	885,832	-	(374,119)	-
District administration	584,871	-	(68,846)	-
School administration	921,644	-	(228,642)	-
Business support	313,308	-	(70,990)	-
Plant operation and maintenance	2,824,105	-	(192,766)	-
Student transportation	1,704,381	-	(291,076)	-
Community services operations	220,535	-	(210,961)	-
Employee benefits	85,663	-	-	-
Interest on long-term debt	755,504	-	-	-
	<u>19,263,824</u>	<u>-</u>	<u>(6,542,614)</u>	<u>-</u>
<u>Total governmental activities</u>				
- Business-type activities -				
Food service	1,235,852	(160,364)	(1,122,851)	-
	<u>1,235,852</u>	<u>(160,364)</u>	<u>(1,122,851)</u>	<u>-</u>
<u>Total business-type activities</u>				
	<u>20,499,676</u>	<u>(160,364)</u>	<u>(7,665,465)</u>	<u>-</u>
<u>Total primary government</u>				

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES (continued)For the Year Ended June 30, 2014

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental</u>	<u>Business-</u>	<u>Total</u>
	<u>Activities</u>	<u>Type</u>	
		<u>Activities</u>	
	(5,256,778)	-	(5,256,778)
	(605,989)	-	(605,989)
	(511,713)	-	(511,713)
	(516,025)	-	(516,025)
	(693,002)	-	(693,002)
	(242,318)	-	(242,318)
	(2,631,339)	-	(2,631,339)
	(1,413,305)	-	(1,413,305)
	(9,574)	-	(9,574)
	(85,663)	-	(85,663)
	<u>(755,504)</u>	-	<u>(755,504)</u>
	<u>(12,721,210)</u>	-	<u>(12,721,210)</u>
	-	<u>47,363</u>	<u>47,363</u>
	-	<u>47,363</u>	<u>47,363</u>
	<u>(12,721,210)</u>	<u>47,363</u>	<u>(12,673,847)</u>
General revenues:			
Taxes	3,729,340	-	3,729,340
Investment earnings	10,207	1,396	11,603
State and formula grants	8,753,747	-	8,753,747
Miscellaneous	57,706	-	57,706
Loss on KSBIT settlement	<u>(629,945)</u>	-	<u>(629,945)</u>
<u>Total general revenues</u>	<u>11,921,055</u>	<u>1,396</u>	<u>11,922,451</u>
Change in net position	(800,155)	48,759	(751,396)
Net position - beginning (restated)	<u>10,646,068</u>	<u>1,724,662</u>	<u>12,370,730</u>
Net position - ending	<u><u>9,845,913</u></u>	<u><u>1,773,421</u></u>	<u><u>11,619,334</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2014

	General <u>Fund</u>	Special <u>Revenue</u>	Construction <u>Fund</u>	Other Gov't <u>Funds</u>	Total Gov't <u>Funds</u>
Assets and resources:					
Cash and cash equivalents	691,875	-	134,463	2	826,340
Accounts receivable:					
Taxes - current	68,928	-	-	-	68,928
Taxes - delinquent	10,003	-	-	-	10,003
Other	82,467	-	-	-	82,467
Intergovernmental - indirect federal	-	905,933	-	-	905,933
	<u>853,273</u>	<u>905,933</u>	<u>134,463</u>	<u>2</u>	<u>1,893,671</u>
Liabilities:					
Cash deficit	-	614,039	-	-	614,039
Accounts payable	362,827	10,517	1,430	-	374,774
	<u>362,827</u>	<u>624,556</u>	<u>1,430</u>	<u>-</u>	<u>988,813</u>
Deferred inflow of resources					
Unearned revenues governmental sources	-	283,173	-	-	283,173
Fund balance					
Restricted - sick	25,765	-	-	-	25,765
Restricted - other	-	-	133,033	2	133,035
Assigned fund balance	19,458	-	-	-	19,458
Unassigned fund balance (deficit)	445,223	(1,796)	-	-	443,427
	<u>490,446</u>	<u>(1,796)</u>	<u>133,033</u>	<u>2</u>	<u>621,685</u>
Total liabilities, deferred inflow of resources and fund balances	<u>853,273</u>	<u>905,933</u>	<u>134,463</u>	<u>2</u>	<u>1,893,671</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2014

Total fund balances per fund financial statements	621,685
Amounts reported for governmental activities in the statement of activities differences because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement because they are not current financial resources, but are reported in the statement of net position.	36,487,154
Certain liabilities (such as bonds payable, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net position.	(26,250,868)
The KSBIT liability is reported when paid in the fund financial statements.	(629,945)
Long term sick leave payable is reported only in the government wide financial statements.	<u>(382,113)</u>
Net position of governmental activities	<u><u>9,845,913</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u>	<u>Construction</u> <u>Fund</u>	<u>Other</u> <u>Gov't Funds</u>	<u>Total</u> <u>Gov't Funds</u>
Revenues:					
From local sources:					
Taxes	3,075,538	-	-	653,802	3,729,340
Earnings on investments	10,207	-	-	-	10,207
Other local revenue	26,376	30,000	-	-	56,376
Intergovernmental - state	10,112,115	994,040	-	1,353,591	12,459,746
Intergovernmental - indirect federal	<u>24,773</u>	<u>2,811,842</u>	<u>-</u>	<u>-</u>	<u>2,836,615</u>
<u>Total revenues</u>	<u>13,249,009</u>	<u>3,835,882</u>	<u>-</u>	<u>2,007,393</u>	<u>19,092,284</u>
Expenditures:					
Instructional	6,889,953	2,987,163	-	-	9,877,116
Student support services	896,495	208,089	-	-	1,104,584
Staff support services	620,184	265,648	-	-	885,832
District administration	535,439	47,437	-	-	582,876
School administration	921,644	-	-	-	921,644
Business support	309,195	-	-	-	309,195
Plant operations and maintenance	1,973,901	96,930	-	-	2,070,831
Student transportation	1,525,061	46,711	-	-	1,571,772
Community service activities	9,574	210,961	-	-	220,535
Employee benefits	85,663	-	-	-	85,663
New building construction	-	-	1,513,670	-	1,513,670
Debt service:					
Principal	141,179	-	-	1,172,040	1,313,219
Interest	<u>15,957</u>	<u>-</u>	<u>-</u>	<u>731,523</u>	<u>747,480</u>
<u>Total expenditures</u>	<u>13,924,245</u>	<u>3,862,939</u>	<u>1,513,670</u>	<u>1,903,563</u>	<u>21,204,417</u>
Excess (deficit) of revenues over expenditures	<u>(675,236)</u>	<u>(27,057)</u>	<u>(1,513,670)</u>	<u>103,830</u>	<u>(2,112,133)</u>
Other financing sources (uses):					
Gain (loss) on disposal of assets	1,330	-	-	-	1,330
Operating transfers in	162,339	25,261	309	1,198,673	1,386,582
Operating transfers out	<u>(25,570)</u>	<u>-</u>	<u>(58,511)</u>	<u>(1,302,501)</u>	<u>(1,386,582)</u>
<u>Total other financing sources (uses)</u>	<u>138,099</u>	<u>25,261</u>	<u>(58,202)</u>	<u>(103,828)</u>	<u>1,330</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	(537,137)	(1,796)	(1,571,872)	2	(2,110,803)
Fund balance - July 1, 2013 - restated	<u>1,027,583</u>	<u>-</u>	<u>1,704,905</u>	<u>-</u>	<u>2,732,488</u>
Fund (deficit) balance - June 30, 2014	<u>490,446</u>	<u>(1,796)</u>	<u>133,033</u>	<u>2</u>	<u>621,685</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2014

Net change in total fund balances per fund financial statements.	(2,110,803)
Amounts reported for governmental activities in the statement of activities differences:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.	
Capital outlays reported in fund financial statements.	1,550,858
Depreciation recorded in government wide financial statements.	(895,460)
Other long term debt, i.e., related to extraordinary events is recognized currently in the government wide financial statements.	(629,945)
Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statements of activities.	(8,024)
Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	<u>1,293,219</u>
Change in net position of governmental activities	<u><u>(800,155)</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION – PROPRIETARY FUNDSAt June 30, 2014

	<u>Food Service Fund</u>
Assets:	
- Current assets -	
Cash and cash equivalents	186,595
Accounts receivable:	
Intergovernmental - indirect federal	707
Inventories	<u>29,257</u>
<u>Total current assets</u>	<u>216,559</u>
- Noncurrent assets -	
Capital assets	2,458,793
Less: accumulated depreciation	<u>(901,082)</u>
<u>Total noncurrent assets</u>	<u>1,557,711</u>
<u>Total assets</u>	<u><u>1,774,270</u></u>
Liabilities:	
- Current liabilities -	
Accounts payable	<u>849</u>
<u>Total current liabilities</u>	<u>849</u>
Net position:	
Investments in capital assets	1,557,711
Nonspendable inventories	29,257
Restricted - other	<u>186,453</u>
<u>Total net posititon</u>	<u>1,773,421</u>
<u>Total liabilities and net position</u>	<u><u>1,774,270</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDSFor the Year Ended June 30, 2014

	<u>Food service Fund</u>
Operating revenues:	
Lunchroom sales	160,364
State revenue	10,132
On-behalf contributions:	
Kentucky Department of Education	136,670
Commodities	69,639
Federal revenue	<u>906,410</u>
<u>Total operating revenues</u>	<u>1,283,215</u>
Operating expense:	
Salaries and wages	614,082
Contract services	27,973
Materials and supplies	523,619
Depreciation	<u>70,178</u>
<u>Total operating expenses</u>	<u>1,235,852</u>
<u>Operating income (loss)</u>	<u>47,363</u>
Nonoperating revenue/(expense):	
Interest income	<u>1,396</u>
<u>Total nonoperating revenue/(expense)</u>	<u>1,396</u>
<u>Change in net position</u>	48,759
Net position, July 1, 2013	<u>1,724,662</u>
Net position, June 30, 2014	<u><u>1,773,421</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2014

	<u>Food Service Fund</u>	
Cash flows from operating activities:		
Cash received from:		
Lunchroom sales	160,364	
State revenue	10,132	
Federal revenue	909,306	
Cash paid to/for:		
Employees	(477,412)	
Supplies/Contractual	<u>(482,629)</u>	
<u>Net cash provided (used) by operating activities</u>	<u>119,761</u>	
Cash flows from capital and related financing activities:		
Changes in capital assets	<u>-</u>	
Cash flows from investing activities:		
Interest income	<u>1,396</u>	
Cash flows from financing activities:		
Net increase (decrease) in cash	121,157	
Cash, beginning of year	<u>65,438</u>	
Cash, end of year	<u><u>186,595</u></u>	
Reconciliation of operating income (loss) to net cash provided (used) by operations:		
Operating income (loss)	47,363	
Adjustments to reconcile operating income to cash provided (used) by operating activities:		
Depreciation	70,178	
Changes in current assets/liabilities:		
Accounts receivable	2,896	
Accounts payable	<u>(676)</u>	
Net cash provided (used) by operating activities	<u><u>119,761</u></u>	transactions
Noncash		
include \$206,309 on-behalf payments recognized for the school food service program.		

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET POSITION – ACTIVITY FUNDSAt June 30, 2014**Assets:**

Cash and cash equivalents	150,870
Accounts receivable	<u>-</u>
<u>Total assets</u>	<u>150,870</u>

Liabilities:

Accounts payable	14,734
Due to individual student activity account funds	<u>136,136</u>
<u>Total liabilities</u>	<u>150,870</u>

Net position:

Permanently restricted for scholarships	<u>-</u>
<u>Total liabilities and net position</u>	<u>150,870</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Leslie 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 Leslie County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Leslie 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 Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board 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 or the respective governing board.

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

Leslie County School District Finance Corporation – On September 11, 1990, the Leslie County, Kentucky, Board of Education resolved to authorize the establishment of the Leslie County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Leslie County Board of Education also comprise the Corporations’ Board of Directors.

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

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Basis of Presentation (continued)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Basis of Presentation (continued)I. Governmental Fund Types (continued)

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

II. Proprietary Funds (Enterprise Funds)

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). The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

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

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the 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.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources. On the accrual basis of accounting, unamortized deferred charges on debt refunding is reported as a deferred outflow of resources.

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 of revenues, expenses, and change in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

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

Property Taxes

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

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Property Taxes (continued)

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.511 per \$100 valuation for real property, \$.511 per \$100 valuation for business personal property and \$.473 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 governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary 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 five thousand dollars. 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 expensed as incurred.

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>Governmental Activities 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

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.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the 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.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2014.

For governmental fund financial statements the portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These balances are recorded in the account "accumulated sick leave payable" in the government-wide financial statements. A reserve for accumulated sick leave at June 30, 2014 reflected a balance of \$25,765.

Budgetary Process

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

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

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.

Cash and other assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

Inventories

Supplies and materials are charged to expenditures when purchased.

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.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Accrued Liabilities and Long-Term Obligations (continued)

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

Net Position

GASB 63, implemented for the previous fiscal year, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

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

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.

Recently Issued Accounting Pronouncements

GASB Statement No. 66, *Technical Corrections* - 2012; an Amendment of GASB Statements No. 10 and No. 62, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District implemented the new requirements for the fiscal year 2013-2014 financial statements.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Recently Issued Accounting Pronouncements (continued)

The District implemented GASB Statement 65 which establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources provides changes in the determination of the major fund calculations and limiting the use of “deferred” in financial statements presentations.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement 27 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decisions-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District’s financial statements for future reporting periods.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District’s cash and cash equivalents was \$1,194,239. Of the total cash balance, \$250,000 was covered by Federal depository insurance and the balance was covered by a collateral agreement and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

	<u>Bank</u> <u>Balance</u>	<u>Book</u> <u>Balance</u>
Hyden Citizens Bank:		
General Operating Account	1,010,023	398,403
Hayes Lewis Elementary	20,022	18,878
Mountain View Elementary	37,049	36,440
Leslie County High School	57,212	54,692
Stinnett Elementary	60,472	33,021
WB Muncy Elementary	9,277	7,839
US Bank:		
Construction Account	184	184
Cash registers - lunchrooms	-	309
<u>Total</u>	<u>1,194,239</u>	<u>549,766</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE C – CASH AND CASH EQUIVALENTS (continued)

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution except for funds held at U.S. Bank from debt service proceeds for District construction and renovation projects. Some of the primary risks associated with these funds: a major change in interest rates; a default on a security or repurchase agreement held by the fund; proceeds from sales of collateral are less than the agreed-upon purchase price. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the School District Finance Corporation.

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Revenue Series, September 1996	\$ 240,000	5.00% - 5.375%
KISTA Series 2005	233,280	3.00% - 3.625%
Revenue Series, September 2006	1,520,000	3.75% - 4.000%
Revenue Series, July 2007	8,500,000	3.70% - 4.125%
KISTA Series 2008	236,521	3.00% - 3.750%
Revenue Series, August 2009	1,200,000	1.70 % - 4.20%
KISTA Refunding Series 2009R	283,755	1.00% - 3.30%
Revenue Series, July 2011	2,425,000	1.00% - 4.25%
Revenue Series, December 2011	7,515,000	2.00% - 3.375%
QSCB Series, December 2011	4,036,000	5.00% - 5.00%
KISTA Series 2012	345,780	2.00% - 2.625%
Revenue Series 2012A	1,355,000	1.00% - 3.75%
Revenue Series 2012B	1,830,000	1.00% - 3.00%
KISTA Series 2014	165,607	2.00% - 3.00%

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

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

In 1990, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

KISTA Bond Pool Sizing First Series of 2014 were issued totaling \$165,607 during the current fiscal year to acquire two new transportation vehicles for the District. Bond acquisition costs total \$3,607. Total interest over the ten year issue is \$21,278.

Debt issue costs are recognized as expenditures when incurred in governmental funds, government-wide and proprietary fund types financial statements.

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

<u>Year</u>	<u>Leslie County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014 - 15	726,409	440,881	406,989	255,597	1,829,876
2015 - 16	722,729	424,051	422,698	239,976	1,809,454
2016 - 17	732,402	407,463	433,889	223,793	1,797,547
2017 - 18	748,364	389,898	437,948	207,254	1,783,464
2018 - 19	745,306	371,821	455,325	190,190	1,762,642
2019 - 24	3,920,119	1,553,964	2,426,370	674,816	8,575,269
2024 - 29	4,337,549	946,362	2,067,451	171,320	7,522,682
2029 - 33	<u>3,202,957</u>	<u>198,859</u>	<u>72,043</u>	<u>3,583</u>	<u>3,477,442</u>
<u>Totals</u>	<u>15,135,835</u>	<u>4,733,299</u>	<u>6,722,713</u>	<u>1,966,529</u>	<u>28,558,376</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Following are changes in long-term debt:

	Balance			Balance	Current
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>	<u>Principal</u>
Revenue Series Sept 1996	70,000	-	15,000	55,000	20,000
KISTA Series 2004	78,252	-	78,252	-	-
KISTA Series 2005	43,908	-	21,586	22,322	21,586
Revenue Series Sept 2006	1,175,000	-	65,000	1,110,000	70,000
Revenue Series July 2007	7,120,000	-	360,000	6,760,000	375,000
KISTA Series 2008	119,346	-	23,890	95,456	24,717
Bonds Series 2009	1,100,000	-	50,000	1,050,000	45,000
KISTA Refunding Series 2009R	175,303	-	24,375	150,928	20,743
Revenue Series June 2011	2,295,000	-	75,000	2,220,000	80,000
Revenue Series December 2011	7,215,000	-	305,000	6,910,000	305,000
QSCB Series December 2011	3,865,921	-	170,079	3,695,842	170,079
KISTA Series 2012	308,172	-	38,937	269,235	32,691
Revenue Series April 2012	1,335,000	-	55,000	1,280,000	60,000
Revenue Bonds December 2012	1,830,000	-	60,000	1,770,000	60,000
KISTA Series 2014	-	165,607	-	165,607	17,925
	<u>26,730,902</u>	<u>165,607</u>	<u>1,342,119</u>	<u>25,554,390</u>	<u>1,302,741</u>
Total	<u>26,730,902</u>	<u>165,607</u>	<u>1,342,119</u>	<u>25,554,390</u>	<u>1,302,741</u>

NOTE E – CAPITAL ASSETS

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

	Balance			Balance
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
<u>Governmental Activities</u>				
Land	647,757	-	-	647,757
Land improvements	300,911	-	-	300,911
Buildings and improvements	30,111,159	3,054,272	-	33,165,431
Technology equipment	243,128	-	-	243,128
Vehicles	2,725,665	161,512	-	2,887,177
General equipment	120,994	-	-	120,994
Construction work in progress	13,043,972	-	1,592,023	11,451,949
Totals at historical cost	<u>47,193,586</u>	<u>3,215,784</u>	<u>1,592,023</u>	<u>48,817,347</u>
Less: accumulated depreciation				
Land and improvements	285,404	5,026	-	290,430
Buildings and improvements	8,755,914	711,315	14,744	9,452,485
Technology equipment	161,582	44,513	-	206,095
Vehicles	2,254,259	132,611	-	2,386,870
General equipment	107,193	1,995	-	109,188
Total accumulated depreciation	<u>11,564,352</u>	<u>895,460</u>	<u>14,744</u>	<u>12,445,068</u>
Governmental Activities				
Capital Assets - Net	<u>35,629,234</u>	<u>2,320,324</u>	<u>(1,577,279)</u>	<u>36,372,279</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

NOTE E – CAPITAL ASSETS (continued)

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

<u>Business-Type Activities</u>	Balance July 1, 2013	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2014
Buildings and improvements	1,996,576	-	-	1,996,576
Food service and equipment	462,217	-	-	462,217
<u>Totals at historical cost</u>	<u>2,458,793</u>	<u>-</u>	<u>-</u>	<u>2,458,793</u>
Less: accumulated depreciation				
Buildings and improvements	609,605	39,407	-	649,012
Food service and equipment	221,299	30,771	-	252,070
<u>Total accumulated depreciation</u>	<u>830,904</u>	<u>70,178</u>	<u>-</u>	<u>901,082</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>1,627,889</u>	<u>(70,178)</u>	<u>-</u>	<u>1,557,711</u>

Depreciation expense was allocated to governmental and proprietary functions as follows:

Governmental functions:

Instructional	3,469
District administration	1,995
Business support services	4,113
Plant operations and maintenance	753,274
Student transportation	<u>132,609</u>

Total depreciation expense - Governmental functions 895,460

Proprietary functions:

Food service operations	<u>70,178</u>
-------------------------	---------------

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2014, as follows:

Year ending June 30:	
2015	117,651
2016	142,799
2017	91,651
2018	91,651
2019	<u>56,626</u>
<u>Total</u>	<u>500,378</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Pension Plan

Plan Description – The Leslie County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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 www.ktrs.ky.gov/.

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

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 benefits 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-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of members' salary for the 2013-2014 fiscal year.

The Leslie County School District's total payroll for the year was \$11,311,552. The payroll for employees covered under KTRS was \$8,675,896. For the year ended June 30, 2014, the Commonwealth contributed \$929,391 to KTRS for the benefit of the District's participating employees. The School District's contributions to KTRS for the year ending June 30, 2014 were \$239,804, which represents those employees covered by federal programs.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE G – RETIREMENT PLANS (continued)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00%, and a district contribution of 19.55% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$2,395,217.

The contribution requirement for CERS for the year ended June 30, 2014 was \$570,615 which consisted of \$445,615 from the District and \$125,000 from the employees.

Following is a summary of contributions paid on-behalf of the employees for the past three years:

Year Ended <u>June 30,</u>	<u>KTRS</u>		<u>CERS</u>
	<u>District</u>	<u>State</u>	
2014	239,804	929,391	445,615
2013	238,505	968,837	433,469
2012	227,806	997,094	473,931

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as June 30, 2013:

	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age Normal</u>	<u>Unfunded Actuarial Accrued Liabilities (UAAL)</u>	<u>% Funded</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a % of Covered Payroll</u>
County Employee Retirement System (non-hazardous)	<u>5,637.1</u>	<u>9,378.9</u>	<u>3,741.8</u>	<u>60.1</u>	<u>2,236.3</u>	<u>167.3</u>
Teacher's Retirement System of Kentucky	<u>14,962.8</u>	<u>28,817.2</u>	<u>13,854.5</u>	<u>51.9</u>	<u>3,481.1</u>	<u>398.1</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE G – RETIREMENT PLANS (continued)

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

NOTE H – CONTINGENCIES AND COMMITMENTS

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if 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 unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District was notified Kentucky School Board Insurance Trust dissolved during the past fiscal year. As a result, assessments have been proposed to be passed to local participating Districts based on past premiums or past claims. The District's liability is \$629,945 to be paid in ten installments beginning September 1, 2015. This option calls for financing interest at 3.25%. Management will either fund the liability through its General account or request funds from its SEEK Capital Outlay allotment.

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, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Insurance for worker's compensation, errors and omissions, educator's legal liability, property (including vehicles) and general liability is carried through various agencies. Contributions to Workers' Compensation Insurance are based on premium rates established with the excess insurance carrier, subject to claims, experience modifications and a group discount amount.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE K – RISK MANAGEMENT (Continued)

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following individual funds had deficit balances at June 30, 2014:

NONE

The following individual funds had operating expenditures in excess of revenues at June 30, 2014:

Hayes Lewis Elementary Activity Fund	4,219
Leslie County Middle School Activity Fund	642
Stinnett Elementary Activity Fund	272
WB Muncy Activity Fund	159
General Fund	675,236

NOTE M – COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay Fund	General Fund	Operating expenditures	157,879
Construction Fund	General Fund	Operating expenditures	4,769
Constructon fund	Debt Service Fund	Debt service	54,051
General Fund	Special Revenue Fund	Technology match	25,261
Building Fund	Debt Service Fund	Debt service	<u>1,144,622</u>
			<u>1,386,582</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2014NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2014 were as follows:

None

NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2014, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Construction Fund</u>	<u>Other Capital Project Funds</u>	<u>Proprietary Funds</u>
Fund Balance/Net Position as reported to the Department of Education	530,005	-	133,033	2	215,834
Adjustment to Fund Balance/Net Position					
(1) To reclassify and adjust cash	(8,395)	8,395	-	-	-
(2) To adjust accounts payable	(31,164)	(1,796)	-	-	(124)
(3) To adjust deferred revenue	-	(8,395)	-	-	-
(4) To record net fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,557,711</u>
Fund Balance/Net Position per fund financial statements at June 30, 2014	<u>490,446</u>	<u>(1,796)</u>	<u>133,033</u>	<u>2</u>	<u>1,773,421</u>

NOTE Q – ON-BEHALF PAYMENTS

Kentucky Teacher's Retirement System	938,593
Health Insurance	2,038,046
Life Insurance	4,765
Administrative Fees	22,199
HRA/Dental/Vision	80,150
Less: Federal Reimbursement	(328,671)
Technology	61,263
Debt Service	<u>704,890</u>
<u>Sub-Total</u>	3,521,235
Allocated to Debt Service Fund	(704,890)
Allocated to Food Service Fund	<u>(136,670)</u>
Allocated to General Fund	<u><u>2,679,675</u></u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2014

NOTE R – NEW ACCOUNTING STANDARD IMPLEMENTATION

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications will include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2014:

Fund Balances	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Restricted - sick leave	25,765	-	25,765
Restricted - other	-	133,035	133,035
Assigned fund balance	19,458	-	19,458
Unassigned fund balance	445,223	(1,796)	443,427
<u>Total fund balances</u>	<u>490,446</u>	<u>131,239</u>	<u>621,685</u>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserve fund has not been established. The Statement of Net Position reflects reserves for fixed assets and school food service inventory.

NOTE S – BEGINNING FUND BALANCE/NET POSITION RESTATED

Beginning fund balance for governmental funds were restated to reflect the following – increase for adjustment to sick leave escrowed applied to previous periods, \$42,566; decrease of \$5,530 for recognition of previously closed out project accounts and close special revenue fund balance to zero. In addition to the above referenced, beginning net position of government wide activities was decreased \$95,315 to expense prior period bond issue costs and decreased \$382,113 to recognize accrued long-term sick leave liability for the District.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable <u>(Unfavorable)</u>
Revenues:				
From local sources:				
Taxes	2,875,728	3,126,257	3,075,538	(50,719)
Earnings on investments	18,000	18,000	10,207	(7,793)
Other local revenue	27,200	27,200	26,376	(824)
Intergovernmental - state	7,442,717	7,507,729	10,112,115	2,604,386
Intergovernmental - indirect federal	17,000	17,000	24,773	7,773
<u>Total revenues</u>	<u>10,380,645</u>	<u>10,696,186</u>	<u>13,249,009</u>	<u>2,552,823</u>
Expenditures:				
Instructional	5,588,495	5,554,535	6,889,953	(1,335,418)
Student support services	736,679	735,089	896,495	(161,406)
Staff support services	576,917	545,053	620,184	(75,131)
District administration	432,398	431,577	535,439	(103,862)
School administration	831,537	703,000	921,644	(218,644)
Business support	198,052	205,552	309,195	(103,643)
Plant operations and maintenance	1,385,683	1,475,588	1,973,901	(498,313)
Student transportation	1,543,598	1,367,345	1,525,061	(157,716)
Community service activities	5,786	9,574	9,574	-
Employee benefits	50,000	50,000	85,663	(35,663)
Debt service:				
Principal	-	177,857	141,179	36,678
Interest	-	-	15,957	(15,957)
Contingency	300,000	354,746	-	354,746
<u>Total expenditures</u>	<u>11,649,145</u>	<u>11,609,916</u>	<u>13,924,245</u>	<u>(2,314,329)</u>
Excess (deficit) of revenues over expenditures	<u>(1,268,500)</u>	<u>(913,730)</u>	<u>(675,236)</u>	<u>238,494</u>
Other financing sources (uses):				
Operating transfers in	-	-	162,339	162,339
Operating transfers out	(33,000)	(33,000)	(25,570)	7,430
Gain (loss) on sale of assets	101,500	1,500	1,330	(170)
<u>Total other financing sources (uses)</u>	<u>68,500</u>	<u>(31,500)</u>	<u>138,099</u>	<u>169,599</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(1,200,000)</u>	<u>(945,230)</u>	<u>(537,137)</u>	<u>408,093</u>
Fund balance - July 1, 2013 - restated	<u>1,200,000</u>	<u>920,444</u>	<u>1,001,818</u>	<u>81,374</u>
Fund balance - June 30, 2014	<u>-</u>	<u>(24,786)</u>	<u>464,681</u>	<u>489,467</u>

Note:

Actual fund balance at July 1, 2013 excludes \$25,765 committed for sick leave.

Actual state revenue and expenditures for the year end includes \$2,679,675 in State on-behalf payments.

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues:				
Revenues from local sources	-	30,650	30,000	(650)
Intergovernmental - state	884,706	984,092	994,040	9,948
Intergovernmental - indirect federal	<u>1,945,776</u>	<u>2,347,645</u>	<u>2,811,842</u>	<u>464,197</u>
<u>Total revenues</u>	<u>2,830,482</u>	<u>3,362,387</u>	<u>3,835,882</u>	<u>473,495</u>
Expenditures:				
Instructional	2,155,924	2,509,644	2,987,163	(477,519)
Student support services	71,276	81,962	208,089	(126,127)
Staff support services	243,330	253,324	265,648	(12,324)
Business support services	50,000	50,000	47,437	2,563
Plant operations and maintenance	13,691	81,497	96,930	(15,433)
Student transportation	126,234	170,983	46,711	124,272
Community service activities	<u>203,027</u>	<u>210,797</u>	<u>210,961</u>	<u>(164)</u>
<u>Total expenditures</u>	<u>2,863,482</u>	<u>3,358,207</u>	<u>3,862,939</u>	<u>(504,732)</u>
Excess (deficit) of revenues over expenditures	<u>(33,000)</u>	<u>4,180</u>	<u>(27,057)</u>	<u>(31,237)</u>
Other financing sources (uses):				
Operating transfers in	33,000	25,000	25,261	261
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total other financing sources (uses)</u>	<u>33,000</u>	<u>25,000</u>	<u>25,261</u>	<u>261</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	29,180	(1,796)	(30,976)
Fund balance - July 1, 2013 - restated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30, 2014	<u>-</u>	<u>29,180</u>	<u>(1,796)</u>	<u>(30,976)</u>

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
Asset and resources:				
Cash and cash equivalents	-	2	-	2
Total assets and resources	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>
Liabilities and fund balances:				
Cash deficit	-	-	-	-
- Fund balances -				
Unassigned fund balance	-	-	-	-
Restricted for SFCC	-	2	-	2
Total fund balances	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>
Total liabilities and fund balances	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	SEEK Capital Outlay <u>Fund</u>	Building <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
Revenues:				
From local sources:				
General real property tax	-	653,802	-	653,802
Intergovernmental - State	<u>157,879</u>	<u>490,822</u>	<u>704,890</u>	<u>1,353,591</u>
 <u>Total revenues</u>	 <u>157,879</u>	 <u>1,144,624</u>	 <u>704,890</u>	 <u>2,007,393</u>
 Expenditures:				
Bond principal and escrow	-	-	1,172,040	1,172,040
Bond interest	<u>-</u>	<u>-</u>	<u>731,523</u>	<u>731,523</u>
 <u>Total expenditures</u>	 <u>-</u>	 <u>-</u>	 <u>1,903,563</u>	 <u>1,903,563</u>
 Excess (deficit) of revenues over expenditures	 <u>157,879</u>	 <u>1,144,624</u>	 <u>(1,198,673)</u>	 <u>103,830</u>
 Other financing sources (uses):				
Operating transfers in	-	-	1,198,673	1,198,673
Operating transfers out	<u>(157,879)</u>	<u>(1,144,622)</u>	<u>-</u>	<u>(1,302,501)</u>
 <u>Total other financing sources (uses)</u>	 <u>(157,879)</u>	 <u>(1,144,622)</u>	 <u>1,198,673</u>	 <u>(103,828)</u>
 Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	 <u>-</u>	 <u>2</u>	 <u>-</u>	 <u>2</u>
 Fund balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Fund balance, June 30, 2014	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCELESLIE COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2014

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2013</u>	<u>Fund Balance June 30, 2014</u>
General Fund	8,286	10,345	(2,059)	2,288	229
Textbook	-	-	-	1,289	1,289
Teacher Vending	2,663	1,929	734	53	787
National Honor Society	580	310	270	310	580
Drama Club	1,253	675	578	57	635
Student Body Government	1,763	648	1,115	28	1,143
Extracurricular	64,320	61,412	2,908	138	3,046
Emergency Extracur	5,200	1,050	4,150	500	4,650
Academics	1,190	890	300	59	359
Band	5,181	5,009	172	256	428
Baseball	5,215	3,997	1,218	960	2,178
Boys Basketball	17,924	13,556	4,368	-	4,368
Football	15,972	14,308	1,664	-	1,664
FB Cheerleaders	8,610	8,361	249	-	249
Girls Basketball	16,478	14,659	1,819	-	1,819
Softball	10,317	4,572	5,745	834	6,579
Track	10,752	9,886	866	1,069	1,935
Volleyball	11,322	12,453	(1,131)	3,356	2,225
Cross Country	2,092	1,434	658	991	1,649
Senior Class	11,248	10,643	605	159	764
Juniors	5,245	1,987	3,258	2	3,260
Freshman	635	-	635	-	635
Journalism	9,967	11,193	(1,226)	1,648	422
Project Sober	<u>5,254</u>	<u>4,080</u>	<u>1,174</u>	<u>2,338</u>	<u>3,512</u>
<u>Sub-total</u>	<u>221,467</u>	<u>193,397</u>	<u>28,070</u>	<u>16,335</u>	<u>44,405</u>
Less: Interfund transfers	<u>10,535</u>	<u>10,535</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>210,932</u>	<u>182,862</u>	<u>28,070</u>	<u>16,335</u>	<u>44,405</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2014

	<u>Hayes Lewis Elementary</u>	<u>Mountain View Elementary</u>	<u>Leslie County Middle</u>	<u>Stinnett Elementary</u>	<u>W.B. Muncy Elementary</u>	<u>Total (Memorandum Only)</u>
<u>REVENUES:</u>						
Activity funds	22,128	129,133	-	91,088	90,202	332,551
<u>EXPENDITURES:</u>						
Activity funds	<u>26,347</u>	<u>76,791</u>	<u>642</u>	<u>91,360</u>	<u>90,361</u>	<u>285,501</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	(4,219)	52,342	(642)	(272)	(159)	47,050
Fund (Deficit) Balance July 1, 2013	<u>23,097</u>	<u>(15,902)</u>	<u>642</u>	<u>28,846</u>	<u>7,998</u>	<u>44,681</u>
Fund Balance, June 30, 2014	<u><u>18,878</u></u>	<u><u>36,440</u></u>	<u><u>-</u></u>	<u><u>28,574</u></u>	<u><u>7,839</u></u>	<u><u>91,731</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	10.553	776005	N/A	<u>244,739</u>
School Lunch Program	10.555	775002	N/A	<u>605,220</u>
Summer Food Service Program for Children	10.559	7690024	N/A	336
	10.559	7740023	N/A	<u>3,243</u>
				<u>3,579</u>
Passed through State Department of Agriculture:				
School Lunch Program Commodities	10.555	006 0100	N/A	<u>69,639</u>
Total Child Nutrition Cluster				<u>923,177</u>
Passed through State Department of Education:				
State Administrative Expenses for Child Nutrition	10.560	7850012	N/A	<u>360</u>
Passed through Leslie County Fiscal Court				
Schools and Roads Grant to States	10.665	505X	N/A	<u>44,098</u>
<u>Total U.S. Department of Agriculture</u>				<u>967,635</u>
<u>U. S. Department of Commerce</u>				
Direct				
(PRIDE) Personal Responsibility in a Desirable Environment				
Byrne Discretionary Program	11.420	2714	1,750	<u>1,371</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
- Title I Cluster				
	84.010	3103M	9,700	9,146
	84.010	3103	958,095	102,132
	84.010	3104	909,061	845,739
	84.010	3104M	9,500	518
	84.010	3203E	82,512	70,147
	84.010	3204E	188,878	<u>104,465</u>
<u>Total Title I Cluster</u>				<u>1,132,147</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
-Special Education Cluster -				
IDEA - B Basic	84.027	3374	427,909	95,463
	84.027	3373	446,453	314,848
Special Education - Preschool	84.173	3434	19,908	<u>28,314</u>
Total - Special Education Cluster				<u>438,625</u>
Rural/Low Income School Program	84.358	3502	38,311	1,003
	84.358	3503	33,456	21,333
	84.358	3504	32,128	<u>27,703</u>
				<u>50,039</u>
Gear Up	84.334A	3794G	270,755	208,790
	84.334A	3793G	148,900	<u>5,407</u>
				<u>214,197</u>
Improving Teacher Quality State Grants	84.367	4014	207,391	207,391
	84.367	4013	213,697	<u>61,829</u>
				<u>269,220</u>
Title IV - Elementary School Counseling Program	84.215E	5322	597,742	<u>218,099</u>
School Improvement Grant ARRA	84.388A	5600C	645,068	<u>324,115</u>
- Direct -				
21rst Century Learning Centers	84.287A	5503	150,000	89,385
	84.287A	5502	150,000	39,926
	84.287A	5504	154,968	25,883
	84.287A	5502S	5,000	207
	84.287A	5503X	758,000	<u>14,207</u>
				<u>169,608</u>
<u>Total Department of Education</u>				<u>2,816,050</u>
<u>Total Federal Awards Expended</u>				<u>3,785,056</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2014**NOTE A**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Leslie County School District and is presented on the modified 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 preparation of, the basic financial statements.

NOTE B

Non-monetary assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

See Independent Auditor's Report.

Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX : (606) 436-5701
chrisgooch@chrisgoochcpa.com

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*

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, 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 independent auditor's contract, the financial statements of the governmental activities, the business-type activities, , each major fund, and the aggregate remaining fund information of Leslie County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Leslie County School District's basic financial statements and have issued our report thereon dated November 5, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as 2014-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leslie 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*.

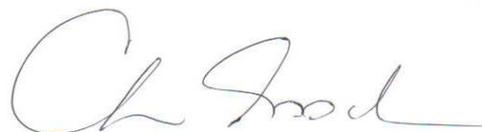
In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School District's Audit Contract and Requirements – State Compliance Requirements.

Leslie County School District's Response to Findings

Leslie County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Leslie County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 5, 2014

Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX : (606) 436-5701
chrisgooch@chrisgoochcpa.com

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

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Leslie 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 Leslie County School District's major federal programs for the year ended June 30, 2014. Leslie 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 Leslie County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School District's Audit Contract 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 Leslie 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 Leslie County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Leslie 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 Leslie 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 Leslie 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 Leslie 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.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 5, 2014

LESLIE COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2014- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2013-1:**

- Condition: Mountain View Elementary Activity Fund supporting documentation as required by “Accounting Procedures for School Activity Funds” was incomplete or unavailable at time of audit, including fundraising reports, ticket sales reports, vendor invoices, cash receipts and inventory control reports. In addition, bank reconciliations were in error or incomplete. Also, no evidence of bank statement and reconciliation monitoring was noted. As a result, additional tests were conducted on activity fund transactions. We discovered \$7,638.88 in questionable costs without adequate documentation or explanation as to its activity fund purpose. In addition, primarily through inquiries and the use of third party vendor invoices we estimated a revenue shortfall of \$32,530.03 for the activity fund for fiscal year ended June 30, 2014. However, a majority of this estimate was calculated without benefit of ticket sales reports, cash receipts, fundraising reports or inventory control reports.
- Criteria: District personnel involved in school activity accounting should be knowledgeable as to documentation requirements for applicable transactions regarding its individual funds. Adequate segregation of duties and monitoring of transactions should be maintained so that instances of missing funds or unavailable documentation may be readily discovered.
- Cause: Transactions occurred without applicable supporting schedules and other documentation or without adequate authorization and monitoring.
- Effect: Misappropriation of assets and fraud may have occurred.
- Recommendation: The District should ensure continuing education regarding activity fund accounting procedures for applicable personnel. The District should ensure and document adequate segregation of duties and monitoring for activity fund transactions.
- District Response: The District terminated the activity fund clerk at Mountain View Elementary. The principal at Mountain View Elementary was transferred to another position within the District. An indictment was filed in Leslie County Circuit Court October 2, 2013, charging the former activity fund clerk of theft by unlawful taking in the approximate amount of \$4,595. In addition, the former clerk was charged with forgery with the intent to defraud by falsely completing checks forging the name of the former principal. The District will conduct ongoing training for its applicable personnel involved in activity fund accounting and provide monitoring of segregation of duties and supporting documentation for its transactions on a timely basis.

LESLIE COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)For the Year Ended June 30, 2014- FINDINGS RELATED TO THE FINANCIAL STATEMENTS (continued) -**2013-2:**

- Condition: Significant adjusting entries were made to the financial statements as presented for audit. Those adjusting entries included adjustments for cash, investments, accounts receivable, accounts payable and fixed assets.
- Criteria: District personnel's accounting control procedures should include financial reporting closing procedures validating statement of position account balances.
- Cause: District personnel have not developed criteria for monitoring and reconciling financial reporting end of year account balances.
- Effect: Account balance misstatements may go undetected causing the financial statements to be materially misstated.
- Recommendation: The District should ensure continuing education regarding financial reporting closing and develop procedures enabling effective monitoring of account balances.
- District Response: The District will provide continuing education regarding financial reporting closing and develop procedures enabling effective monitoring of account balances.

2013-3:

- Condition: The following conditions were noted based on the activity fund audit at WB Muncy Elementary:
- a. The annual financial report was not completed.
 - b. No evidence a 2013-14 budget had been prepared.
 - c. No evidence inventory control worksheets were prepared.
- The following conditions were noted based on the activity fund audit at Hayes Lewis Elementary:
- a. Cash receipts could not be agreed to deposits.
 - b. Individual activity fund activity fund ledgers were not presented.
 - c. Some purchases/disbursements indicated fundraising or inventory control forms should be present but none were located.
- Criteria: District personnel involved in school activity accounting should be knowledgeable as to documentation requirements for applicable transactions regarding its individual funds. Adequate segregation of duties and monitoring of transactions should be maintained so that instances of missing or unavailable documentation may be readily discovered.

LESLIE COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)For the Year Ended June 30, 2014- FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued) -

Cause:	Transactions were conducted without applicable supporting schedules and other documentation. Monitoring was ineffective.
Effect:	The risk of fraud or misappropriation of activity funds is greater when transactions are not supported by sufficient documentation as required.
Recommendation:	The District should ensure continuing education regarding activity fund accounting procedures for applicable personnel. The District should ensure and document adequate segregation of duties and monitoring for activity fund transactions.
District Response:	The District will provide continuing education. District management will ensure the activity fund has adequate segregation of duties, evidence of monitoring and evidence of supporting documentation for its transactions.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2014- SUMMARY OF AUDIT RESULTS -

1. We have issued an unmodified opinion on the financial statements.
2. Material weaknesses were disclosed by the audit of the financial statements. Significant deficiencies not identified as material weaknesses were not disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Leslie County School District had the following major programs:
 - U. S. Department of Education
 - Passed through State Department of Education -
Title I
CFDA number 84.010
 - Special Education Cluster -
IDEA-B Basic
CFDA numbers 84.027
IDEA-B Preschool
CFDA number 84.173
 - School Improvement Grant -
CFDA number 84.388
 - U.S. Department of Agriculture
 - Passed through State Departments of Education and Agriculture -
- Child Nutrition Cluster -
School Lunch and Breakfast Program, Summer Food Service Program for
Children
CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as a low-risk auditee.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2014- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2014-1:**

Condition:	The following conditions were noted based on the activity fund audit at WB Muncy Elementary: a. The annual financial report was not completed. b. The 2013-14 budget was not prepared. c. Fundraising reports were not prepared, where applicable. d. No evidence inventory control forms prepared. e. No evidence expense reimbursement reports prepared.
Criteria:	District personnel involved in school activity accounting should be knowledgeable as to documentation requirements for applicable transactions regarding its individual funds. Adequate segregation of duties and monitoring of transactions should be maintained so that instances of missing or unavailable documentation may be readily discovered.
Cause:	Transactions were conducted without applicable supporting schedules and other documentation. Monitoring was ineffective.
Effect:	The risk of fraud or misappropriation of activity funds is greater when transactions are not supported by sufficient documentation as required.
Recommendation:	The District should ensure continuing education regarding activity fund accounting procedures for applicable personnel. The District should ensure and document adequate segregation of duties and monitoring for activity fund transactions.
District Response:	The District will provide continuing education. District management will ensure the activity fund has adequate segregation of duties, evidence of monitoring and evidence of supporting documentation for its transactions.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

Chris Gooch
Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700 FAX:(606) 436-5701
chrisgooch@chrisgoochcpa.com

Leslie County Board of Education
Hyden, Kentucky

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 5, 2014, contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 5, 2014 on the financial statements of the Leslie County School District.

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

Respectfully,



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 5, 2014

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2014**Prior Year Comments**

1. Management should emphasize the importance of periodically reconciling its payroll reporting forms to annual MUNIS reporting documentation.
 - Management is working on procedures to ensure adequate reconciliation of its payroll reporting forms to general ledger MUNIS detail.
2. Management should periodically review its fixed asset listing and denote idle property ensuring depreciation is not occurring.
 - Management has implemented procedures to periodically review fixed assets detail to assure property listed is active and new construction activity is properly and timely recorded.

Current Year Comments

1. District personnel should assure updated personnel information is on file, i.e., withholding allowances, current addresses.
2. District management should periodically reconcile its balance sheet liability accounts to underlying tax documents, regulatory reporting forms and payroll subsidiary ledgers.