

**LETCHER COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2014

Prepared by:

WHITE & ASSOCIATES, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475
Phone (859) 624-3926 Fax (859) 625-0227

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INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of the Letcher 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 Letcher County School District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky
November 10, 2014

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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

FINANCIAL HIGHLIGHTS

- The beginning balance for Fund 1 for the district was \$2.3 million, the Fund 1 (One) ending balance was \$2.0 million.
- The district constructs and renovates facilities with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.
- The district did not issue any bonds during the 2014 fiscal year.
- The district completed roof replacement at Letcher Middle School at a cost of \$69,354.
- The district levied the 4% increase rate in property taxes during 2014.
- Un-mined Minerals tax collections increased from FY 2013 in the amount of \$15,032.
- The General Fund had \$25.3 million in receipts, including on behalf payments made by the state, which primarily consisted of the state program (SEEK), property, utility, and motor vehicle taxes. There were \$25.8 million in General Fund expenditures.
- During fiscal 2014 the District was impacted by high transportation costs and high utility costs. Local revenue was required to supplement transportation expenses and utility expenses unfunded by the state.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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

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

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

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

The basic governmental fund financial statements can be found in the table of contents of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of Letcher County Schools, assets exceeded liabilities by \$30.73 million for Governmental Activities, and \$609,800 for Business Type Activities as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), 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.

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Table 1
Net Position
\$ (in Millions)

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
	Current assets	2.41	3.17	0.53	0.19	2.94
Non-current assets	51.71	52.07	0.09	0.18	51.80	52.25
Total assets	54.12	55.24	0.62	0.37	54.74	55.61
Deferred outflows	1.39	1.49	0.00	0.00	1.39	1.49
Current liabilities	1.92	1.81	0.01	0.09	1.93	1.90
Non-current liabilities	22.86	23.85	0.00	0.00	22.86	23.85
Total liabilities	24.78	25.66	0.01	0.09	24.79	25.75
Net assets:						
Invested in capital assets, net of debt	29.44	28.36	0.10	0.17	29.54	28.53
Restricted	0.30	0.88	0.50	0.10	0.80	0.98
Unrestricted (deficit)	0.99	1.83	0.00	0.00	0.99	1.83
Total net assets	30.73	31.07	0.60	0.27	31.33	31.34

At the end of fiscal 2014, the District had \$51.80 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net decrease (including additions, deductions construction in progress) of \$0.45 million.

Table 2
Capital Assets at Year-End
\$ (Net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
	Land	6.93	6.93	0.00	0.00	6.93
Land Improvements	4.05	1.59	0.00	0.00	4.05	1.59
Buildings	39.63	31.63	0.00	0.00	39.63	31.63
Technology Equipment	0.00	0.04	0.00	0.00	0.00	0.04
Vehicles	0.74	0.76	0.00	0.00	0.74	0.76
General Equipment	0.36	0.41	0.09	0.18	0.45	0.59
Construction in Progress	0.00	10.72	0.00	0.00	0.00	10.72
Totals	51.71	52.08	0.09	0.18	51.80	52.26

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Table 3
Charges in Net Position
\$ (in Millions)

	Governmental		Business-type		Totals		Total
	Activities		Activities		School District		Percentage
	2013	2014	2013	2014	2013	2014	Change 2013-2014
Revenues:							
Charges for Services	0.40	0.16	0.14	0.18	0.54	0.34	(0.37)
Operating grants and contributions	4.12	3.81	1.60	2.25	5.72	6.06	0.06
Capital grants and contributions	1.71	1.83	0.00	0.00	1.71	1.83	0.07
General revenues	26.04	25.77	0.00	0.00	26.04	25.77	(0.01)
Total revenue	32.27	31.57	1.74	2.43	34.01	34.00	0.00
Expenses:							
Instruction	17.55	17.51			17.55	17.51	(0.01)
Student	1.88	1.86			1.88	1.86	(0.01)
Instructional staff	1.31	0.99			1.31	0.99	(0.24)
District administration	0.71	0.60			0.71	0.60	(0.15)
School administration	1.56	1.52			1.56	1.52	(0.03)
Business	0.87	0.83			0.87	0.83	(0.05)
Plant operation & maintenance	3.60	3.04			3.60	3.04	(0.16)
Student transportation	2.55	2.30			2.55	2.30	(0.10)
Community services operations	0.37	0.36			0.37	0.36	(0.03)
Buildings/Acquisitions construction	0.00	0.42			0.00	0.42	100
Depreciation/Amortization	0.93	0.75	0.03	0.04	0.96	0.79	(0.18)
Loss on retirement of assets	0	.39				.39	(.03)
Interest on long-term debt	0.86	0.86			0.86	0.86	0.00
Food Service Operations			1.76	2.01	1.76	2.01	0.14
Total Expenses	\$32.19	\$31.43	\$1.79	\$2.05	\$33.98	\$32.67	(0.14)
Extraordinary item	(0.96)	0.00			(0.96)	0.00	100
Change in net position	(1.10)	0.14	(0.05)	0.33	(1.15)	0.47	(1.41)

DEBT

There were not any bonds issued in fiscal year 2014. At this time we are anticipating there will be no bonds sold in the fiscal year 2015.

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Table 4
Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2014	2013
General Obligation Bonds	\$23.63	\$25.12
Capital Lease Obligations	0.03	0.09
Total Obligations	\$23.66	\$25.21

COMMENTS ON BUDGET COMPARISONS

- Actual General Fund revenue exceeded the budget by \$299,643. This does not include the \$4.98 million of on-behalf payments made by the state for insurances, teachers' retirement, etc. for the benefit of the district and its employees. General Fund budget compared to actual revenue varied slightly in most line items. The line items that varied most significantly were taxes and state SEEK. Due to economic factors in this area the collection of local taxes was less than expected.
- Actual General Fund expenditures were less than the budget by \$1.43 million. General Fund budgeted expenditures compared to actual varied significantly in District Administrative Support. Workers compensation, unemployment and contingency are budgeted in District Administrative Support; however, expenditures are made from the same function as the related salary. Consequently, throughout the financial report, employee benefits exceed the budget in each function (net of on-behalf) except District Administrative Support.

THE DISTRICT'S FUNDS

As the District completed the year, its General Fund reflected a fund balance of \$1.84 million, which is less than last year's fund balance of \$2.4 million. It is important to note that a portion of the balance is reserved for prior year encumbrances. The unassigned portion of the fund balance in fiscal 2014 was \$1.84 million, compared to the \$2.2 million from the preceding year. The amount of local taxes collected in 2014 in the amount of \$5.7 million and the amount collected for 2013 was \$6.1 million which resulted in a decrease in local tax collections in the amount of \$0.4 million.

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

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Table 5
Revenues & Expenditures
\$ (in Millions)

	General Fund	Special Revenue	Debt Service FSP-K And Capital Outlay
Revenues:			
Local Sources	5.75	0.08	0.56
State Sources	19.44	1.02	1.76
Federal Sources	0.10	2.80	0.06
Fund Transfer	0.01	0.05	1.42
Total Revenues	25.30	3.95	3.8
Expenses:			
Instruction	14.67	2.86	0.00
Student Support	1.82	0.04	0.00
Instructional Support	0.58	0.41	0.00
District administration	0.60	0.00	0.00
School administration	1.52	0.01	0.00
Business Support	0.76	0.06	0.00
Plant Operations	3.42	0.02	0.00
Food Service			
Students Transportation	2.36	0.13	0.00
Community Support	0.00	0.36	0.00
Other			0.00
Facilities Acquisition & Const.	0.00	0.00	0.47
Debt Service	0.07	0.00	2.31
Fund Transfer	0.05	0.06	1.41
Total Expenses	25.85	3.95	4.19
Revenue Over (Under) Expenses	(0.55)	0.00	(.39)

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools' fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2014-2015 with a 7.2% contingency as calculated by the Kentucky Department of Education. Significant Board action that impacts the finances includes a pay increase for all employees, and continued funding of Board initiatives such as Study Island and Think Link.

Issues which will impact future budgets include:

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

- Increased staffing and expenses to meet federal and state academic mandates
- Declining federal funds and federal funding not maintaining the pace of mandated pay increases
- The need of improving programming and meeting the academic audit recommendations and No Child Left Behind requirements
- Insufficient funding of the state transportation formula
- Loss of local funding due to the 4% cap on increases in property taxes imposed by House Bill 44, which in turn results in a penalty to the District in the state SEEK funding formula
- Reduction in state funding for KERA Flex Focus Funds.
- New testing standards adopted by the Kentucky Department of Education.
- Declining Seek dollars appropriated by the Kentucky General Assembly.
- Prior years settlement assessment from KSBIT for workers compensation claims.

Due to the amount of future bond payments, we will be unable to rely on Capital Outlay funds to offset General Fund expenditures for plant operation and maintenance. As funds become available the athletic fields will also be completed at the Letcher County Central High School.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Contact Brian Johnson at 606-633-4455 or mail us at Letcher County Board of Education, 224 Parks Street, Whitesburg, KY 41858.

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

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,068,958	\$ 504,691	\$ 2,573,649
Receivables (net)	340,506		340,506
Inventories		26,180	26,180
Capital assets:			
Land, improvements, and construction in progress	6,920,972		6,920,972
Other capital assets, net of depreciation	44,785,933	86,846	44,872,779
Total capital assets	51,706,905	86,846	51,793,751
Total assets	54,116,370	617,717	54,734,087
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	1,393,039		1,393,039
LIABILITIES			
Accounts payable and accrued expenses	268,742	7,917	276,659
Accrued interest payable	179,045		179,045
Accrued salaries and benefit payable	3,229		3,229
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,440,000		1,440,000
Capital lease obligations	30,697		30,697
Total due within 1 year	1,470,697	-	1,470,697
Due in more than 1 year:			
Bond obligations	22,185,000		22,185,000
KSBIT payable	488,107		488,107
Sick leave	184,462		184,462
Total due in more than 1 year	22,857,569	-	22,857,569
Total liabilities	24,779,282	7,917	24,787,199
NET POSITION			
Net Investment in capital assets	29,444,247	86,846	29,531,093
Restricted for:			
Expendable restricted for capital projects	258,917		258,917
Expendable restricted for encumbrances	6,466		6,466
Expendable restricted for debt service	34,964		34,964
Expendable restricted for food services		522,954	522,954
Unrestricted	985,533		985,533
Total net position	\$ 30,730,127	\$ 609,800	\$ 31,339,927

See the accompanying notes to the financial statements.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 17,506,926	\$ 80,285	\$ 2,798,354	\$ -	\$ (14,628,286)		\$ (14,628,286)
Support Services							
Student	1,862,660		43,407		(1,819,253)		(1,819,253)
Instructional Staff	988,063		404,008		(584,055)		(584,055)
District Administration	604,167				(604,167)		(604,167)
School Administration	1,522,564		7,152		(1,515,412)		(1,515,412)
Business	834,989		58,728		(776,262)		(776,262)
Plant Operation & Maintenance	3,037,655		23,923		(3,013,732)		(3,013,732)
Student Transportation	2,301,822		123,429		(2,178,393)		(2,178,393)
Community Services Operations	360,019	76,549	353,343		69,873		69,873
Buildings Acquisitions & Construction	417,604			805,351	387,747		387,747
Amortization	100,378				(100,378)		(100,378)
Depreciation	651,998				(651,998)		(651,998)
Loss on retirement of assets	381,364				(381,364)		(381,364)
Interest on Long-term debt	852,642			1,023,735	171,094		171,094
Total governmental activities	<u>31,422,850</u>	<u>156,834</u>	<u>3,812,344</u>	<u>1,829,086</u>	<u>(25,624,586)</u>		<u>(25,624,586)</u>
Business-type activities:							
Food service operations	2,014,697	183,198	2,253,118			\$ 421,618	421,618
Loss on retirement of assets	54,818					(54,818)	(54,818)
Depreciation	35,543					(35,543)	(35,543)
Total business-type activities	<u>2,105,059</u>	<u>183,198</u>	<u>2,253,118</u>	<u>-</u>	<u>-</u>	<u>331,257</u>	<u>331,257</u>
Total primary government	\$ 33,527,909	\$ 340,032	\$ 6,065,462	\$ 1,829,086	(25,624,586)	331,257	(25,293,329)
General revenues:							
Taxes:							
Property taxes					3,576,850		3,576,850
Motor vehicle taxes					620,518		620,518
Utility taxes					1,170,182		1,170,182
Unmined minerals tax					838,170		838,170
State and formula grants					19,547,036		19,547,036
Unrestricted investment earnings					16,319	3,359	19,678
Total general revenues					<u>25,769,074</u>	<u>3,359</u>	<u>25,772,433</u>
Change in net position					144,487	334,616	479,103
Net Position - beginning					30,113,066	275,184	30,388,250
Prior period adjustment					472,573		472,573
Restated net position - beginning					<u>30,585,639</u>	<u>275,184</u>	<u>30,860,823</u>
Net position - ending					<u>\$ 30,730,127</u>	<u>\$ 609,800</u>	<u>\$ 31,339,927</u>

See the accompanying notes to the financial statements.

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

	Governmental Funds					
	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 2,092,078	\$ -	\$ 257,822	\$ 34,964	\$ 1,095	\$ 2,385,959
Receivables, net						
Intergovernmental-federal		340,506				340,506
Total assets	2,092,078	340,506	257,822	34,964	1,095	2,726,465
LIABILITIES						
Accounts payable	245,236	23,506				268,742
Cash shortage		317,000				317,000
Accrued salaries & benefit payable	3,229					3,229
Total liabilities	248,465	340,506	-	-	-	588,971
FUND BALANCE						
Restricted			257,822	34,964	1,095	293,881
Assigned	6,466					6,466
Unassigned	1,837,147					1,837,147
Total fund balance	\$ 1,843,613	\$ -	\$ 257,822	\$ 34,964	\$ 1,095	\$ 2,137,494

See the accompanying notes to the financial statements.

Letcher County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
For the Year Ended June 30, 2014

Total fund balance per fund financial statements	\$	2,137,494
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		51,706,905
<p>Capitalized the defeasance costs of the sale/refunding bonds and amortized over the life of the refunded bond.</p>		1,393,039
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(179,045)
Bonds payable		(23,625,000)
Capital leases payable		(30,697)
KSBIT payable		(488,107)
Noncurrent sick leave payable		(184,462)
		(184,462)
Net position of governmental activities	\$	<u><u>30,730,127</u></u>

See the accompanying notes to the financial statements.

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

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 3,054,191	\$ -	\$ -	\$ -	\$ 522,659	\$ 3,576,850
Motor vehicle	620,518					620,518
Unmined minerals tax	838,170					838,170
Utilities	1,170,182					1,170,182
Earnings on investments	15,678	609		31		16,319
Student Activities		1,000				1,000
Community Service Activities		76,549				76,549
Other local revenue	46,285		33,000			79,285
Intergovernmental - state	19,443,687	1,016,139		958,126	805,351	22,223,303
Intergovernmental - federal	103,349	2,796,205		65,609		2,965,163
Total revenues	<u>25,292,059</u>	<u>3,890,502</u>	<u>33,000</u>	<u>1,023,767</u>	<u>1,328,010</u>	<u>31,567,338</u>
EXPENDITURES						
Instruction	14,667,721	2,851,224				17,518,945
Support Services						
Student	1,818,433	44,227				1,862,660
Instructional Staff	576,422	411,641				988,063
District Administration	604,167					604,167
School Administration	1,515,277	7,287				1,522,564
Business	775,152	59,837				834,989
Plant Operation & Maintenance	3,422,014	24,375				3,446,389
Student Transportation	2,364,663	125,761				2,490,424
Community Services Operations		360,019				360,019
Building Acquisitions & Construction			417,604			417,604
Building Improvements			69,354			69,354
Debt Service	65,809			2,320,026		2,385,835
Total expenditures	<u>25,809,658</u>	<u>3,884,372</u>	<u>486,958</u>	<u>2,320,026</u>	<u>-</u>	<u>32,501,014</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(517,598)	6,130	(453,958)	(1,296,260)	1,328,010	(933,676)
OTHER FINANCING SOURCES (USES)						
Operating transfers in	13,342	45,942	69,354	1,296,291		1,424,929
Operating transfers (out)	(45,942)	(52,072)			(1,326,915)	(1,424,929)
Total other financing sources and (uses)	<u>(32,600)</u>	<u>(6,130)</u>	<u>69,354</u>	<u>1,296,291</u>	<u>(1,326,915)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(550,198)	-	(384,604)	31	1,095	(933,676)
FUND BALANCE, BEGINNING	<u>2,393,811</u>	<u>-</u>	<u>642,426</u>	<u>34,933</u>	<u>-</u>	<u>3,071,169</u>
FUND BALANCE, ENDING	<u>\$ 1,843,613</u>	<u>\$ -</u>	<u>\$ 257,822</u>	<u>\$ 34,964</u>	<u>\$ 1,095</u>	<u>\$ 2,137,494</u>

See the accompanying notes to the financial statements.

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

Net change in total fund balances per fund financial statements	\$	(933,676)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(366,672)
<p>The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.</p>		(100,378)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		1,552,508
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		(19,315)
<p>Noncurrent sick leave payable</p>		12,019
		144,487
Change in net position of governmental activities	\$	144,487

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 3,108,000	\$ 3,108,000	\$ 3,054,191	\$ (53,809)
Motor vehicle	650,000	650,000	620,518	(29,482)
Unmined minerals tax	900,000	900,000	838,170	(61,830)
Utilities	1,350,000	1,350,000	1,170,182	(179,818)
Tuition	13,000	13,000		(13,000)
Earnings on investments	20,000	20,000	15,678	(4,322)
Other local revenue	12,000	12,000	46,285	34,285
Intergovernmental - state	13,863,166	13,863,166 *	14,467,437	604,271
Intergovernmental - federal	100,000	100,000	103,349	3,349
Total revenues	<u>20,016,166</u>	<u>20,016,166</u>	<u>20,315,809</u>	<u>299,643</u>
EXPENDITURES				
Instruction	11,339,667	11,339,667 *	11,291,240	48,427
Support Services				
Student	1,405,017	1,405,017 *	1,405,560	(543)
Instructional Staff	540,990	540,990 *	458,311	82,679
District Administration	1,474,673	1,474,673 *	546,661	928,012
School Administration	1,184,954	1,184,954 *	1,172,829	12,126
Business	643,143	643,143 *	662,527	(19,384)
Plant Operation & Maintenance	3,244,736	3,258,078 *	3,117,588	140,490
Student Transportation	2,344,944	2,344,944 *	2,112,882	232,062
Debt Service	65,809	65,809	65,809	-
Building Improvement	3,000	3,000		3,000
Total expenditures	<u>22,246,934</u>	<u>22,260,276</u>	<u>20,833,407</u>	<u>1,426,868</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,230,768)	(2,244,110)	(517,598)	1,726,511
OTHER FINANCING SOURCES (USES)				
Operating transfers in		13,342	13,342	-
Operating transfers (out)	(46,000)	(46,000)	(45,942)	58
Total other financing sources and (uses)	<u>(46,000)</u>	<u>(32,658)</u>	<u>(32,600)</u>	<u>58</u>
NET CHANGE IN FUND BALANCES	(2,276,768)	(2,276,768)	(550,198)	1,726,569
FUND BALANCE, BEGINNING	<u>2,276,768</u>	<u>2,276,768</u>	<u>2,393,811</u>	<u>117,043</u>
FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,843,613</u>	<u>\$ 1,843,612</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$4,976,250.

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Community Service Activities	\$ 73,371	\$ 77,433	\$ 76,549	\$ (884)
Student Activities	500	1,000	1,000	
Earnings from investments			609	609
Food Service		13,750		(13,750)
Intergovernmental - state	1,000,698	1,001,989	1,016,139	14,150
Intergovernmental - federal	2,479,444	2,512,561	2,796,205	283,644
Total revenues	<u>3,554,013</u>	<u>3,606,733</u>	<u>3,890,502</u>	<u>283,769</u>
EXPENDITURES				
Instruction	2,328,678	2,405,254	2,851,224	(445,970)
Support Services				
Student	74,000	74,000	44,227	29,773
Instructional Staff	604,842	566,695	411,641	155,054
School Administration	7,276	7,276	7,287	(11)
Business	60,150	59,900	59,837	63
Plant Operation & Maintenance	33,270	34,341	24,375	9,966
Student Transportation	89,371	89,371	125,761	(36,390)
Community Services Operations	355,997	356,788	360,019	(3,232)
Total expenditures	<u>3,553,584</u>	<u>3,593,625</u>	<u>3,884,372</u>	<u>(290,747)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	429	13,108	6,130	(6,978)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	46,000	46,000	45,942	(58)
Operating transfers (out)	(46,429)	(59,108)	(52,072)	7,036
Total other financing sources and (uses)	<u>(429)</u>	<u>(13,108)</u>	<u>(6,130)</u>	<u>6,978</u>
NET CHANGE IN FUND BALANCES	(0)	-	0	-
FUND BALANCE, BEGINNING	-	-	-	-
FUND BALANCE, ENDING	<u>\$ (0)</u>	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

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

		School Food Services
ASSETS		
Cash and cash equivalents	\$	504,691
Inventories		26,180
Capital assets:		
Other capital assets, net of depreciation		86,846
Total assets		<u>617,717</u>
LIABILITIES		
Accounts payable		7,917
Total liabilities		<u>7,917</u>
NET POSITION		
Net Investment in capital assets		86,846
Restricted for:		
Expendable Restricted for Food Service		522,954
Total net position	\$	<u><u>609,800</u></u>

See the accompanying notes to the financial statements.

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

		School Food Services
OPERATING REVENUES		
Lunchroom sales	\$	183,198
Total operating revenues		<u>183,198</u>
OPERATING EXPENSES		
Depreciation		35,543
Loss on retirement of assets		54,818
Food service operations		
Salaries and benefits		988,182
Operational		1,026,516
Total operating expenses		<u>2,105,059</u>
Operating income (loss)		(1,921,861)
NONOPERATING REVENUES (EXPENSES)		
Federal grants		2,097,535
State grants		155,582
Earnings on investments		3,359
Total nonoperating revenues		<u>2,256,477</u>
CHANGE IN NET POSITION		334,616
NET POSITION - BEGINNING		<u>275,184</u>
NET POSITION - ENDING	\$	<u><u>609,800</u></u>

See the accompanying notes to the financial statements.

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

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 183,198
Payments to suppliers	(851,661)
Payments to employees	(1,043,000)
Net cash provided (used) by operating activities	<u>(1,711,463)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants and contributions	<u>2,253,118</u>
Net cash provided (used) by noncapital and related financing activities	<u>2,253,118</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Retirement of assets	<u>54,818</u>
Net cash provided (used) by capital and related financing activities	<u>54,818</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	<u>3,359</u>
Net cash provided (used) by investing activities	<u>3,359</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	599,832
CASH BALANCE, BEGINNING	<u>(95,141)</u>
CASH BALANCE, ENDING	<u><u>504,691</u></u>
Reconciliation of operating income (loss) to net cash used	
by operating activities:	
Operating income (loss)	(1,921,861)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	35,543
Changes in assets and liabilities:	
Receivables	140,187
Accounts Payable	7,917
Inventories	26,750
Net cash used by operating activities	<u>\$ (1,711,463)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$100,000 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$137,608 provided by state government.

See the accompanying notes to the financial statements.

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

		<u>SCHOOL ACTIVITIES</u>
ASSETS		
Cash and cash equivalents	\$	298,842
Accounts receivable		<u>3,143</u>
Total Assets		<u><u>301,986</u></u>
 LIABILITIES		
Accounts payable		6,844
Due to student groups		<u>295,142</u>
Total Liabilities		<u>301,986</u>
 NET POSITION HELD IN TRUST	 \$	 <u><u>-</u></u>

See the accompanying notes to the financial statements.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Letcher County Board of Education Finance Corporation

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

Basis of Presentation

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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

(B) Special Revenue (Grant) Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

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

Construction Fund

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

(D) Debt Service Fund

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

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

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

Basis of Accounting

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

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

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

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 in the General Fund and then transferred to the appropriate fund.

The property tax rates assessed (including exonerations) for the year ended June 30, 2014, to finance the General Fund operations were \$.509 per \$100 valuation of real property, \$.509 per \$100 valuation for business personal property and \$.496 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

SEE SCHEDULE BELOW

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Budgetary Process

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Cash and Cash Equivalents

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

Inventories

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fund Balances

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

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

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

Net Position

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

Operating and Non-Operating Revenues and Expenses

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Contributions of Capital

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

Interfund Activity

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

NOTE B – ESTIMATES

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

Note C is continued on the next page.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CASH AND CASH EQUIVALENTS

The District maintains their cash and investments with various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value. Federal depository insurance and pledged securities cover these deposits as shown below:

	Bank Balance
	<u>Demand</u>
<u>Whitaker Bank</u>	
FDIC	\$ 250,000
Securities pledged to district	<u>20,015</u>
Bank balance	<u>\$ 270,015</u>
<u>Community Trust Bank</u>	
FDIC	\$ 250,000
Securities pledged to district	<u>4,538,816</u>
Bank balance	<u>\$ 4,788,816</u>
	Book Balance
	<u>Cash Equivalents</u>
Governmental Activities	\$ 2,068,958
Business-type Activities	504,691
Agency funds	<u>298,842</u>
Total carrying amount	<u>\$ 2,872,491</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D- CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Land	\$ 6,929,842	\$ -	\$ 8,870	\$ 6,920,972
Land improvements	1,926,894	2,479,805	66,965	4,339,734
Buildings	46,352,729	8,727,007	1,864,272	53,215,464
Technology equipment	507,348	-	322,320	185,029
Vehicles	5,043,479	188,602	-	5,232,081
General equipment	1,153,435	-	385,120	768,315
Construction in progress	<u>10,719,854</u>	<u>486,958</u>	<u>11,206,812</u>	<u>-</u>
Total at historical cost	\$ <u>72,633,581</u>	\$ <u>11,882,372</u>	\$ <u>13,854,359</u>	\$ <u>70,661,594</u>
Less: Accumulated depreciation				
Land improvements	\$ 338,998	\$ 7,993	\$ 60,825	\$ 286,165
Buildings	14,719,217	421,536	1,554,313	13,586,440
Technology equipment	465,338	13,602	294,311	184,629
Vehicles	4,288,352	201,301	-	4,489,653
General equipment	<u>748,100</u>	<u>7,566</u>	<u>347,863</u>	<u>407,802</u>
Total accumulated depreciation	\$ <u>20,560,004</u>	\$ <u>651,998</u>	\$ <u>2,257,313</u>	\$ <u>18,954,689</u>
Governmental Activities				
Capital Assets-net	\$ <u>52,073,577</u>	\$ <u>11,230,374</u>	\$ <u>11,597,046</u>	\$ <u>51,706,905</u>
<u>Business-Type Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Technology equipment	\$ (1,414)	\$ -	\$ -	\$ (1,414)
General equipment	<u>847,693</u>	<u>-</u>	<u>428,290</u>	<u>419,403</u>
Total at historical cost	\$ <u>846,279</u>	\$ <u>-</u>	\$ <u>428,290</u>	\$ <u>417,989</u>
Less: Accumulated depreciation				
Technology equipment	(1,414)	-	-	(1,414)
General equipment	<u>670,486</u>	<u>35,543</u>	<u>373,472</u>	<u>332,557</u>
Total accumulated depreciation	\$ <u>669,072</u>	\$ <u>35,543</u>	\$ <u>373,472</u>	\$ <u>331,143</u>
Business-Type Activities				
Capital Assets-net	\$ <u>177,207</u>	\$ <u>(35,543)</u>	\$ <u>54,818</u>	\$ <u>86,846</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE E – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the Letcher County School District Finance Corporation aggregating \$23,625,000 and \$1,440,000 is the portion due within one year.

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

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

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2013 Bonds Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Bonds Outstanding</u>
2010	\$ 4,560,000	8/1/2030	1.25-6%	\$ 4,200,000	\$ -	\$ 190,000	\$ 4,010,000
2012R	14,730,000	6/1/2029	2.0 - 3.375%	13,920,000		435,000	13,485,000
2011R	2,130,000	8/1/2023	1.0 - 3.125%	2,075,000		30,000	2,045,000
2005	1,800,000	6/1/2025	3.9%	1,260,000		75,000	1,185,000
2012	2,460,000	8/1/2032	.8-3.05%	2,460,000		55,000	2,405,000
2001	4,750,000	10/1/2014	2.5-4.125%	995,000		500,000	495,000
2003R	455,000	6/1/2014	1.7-3.9%	50,000		50,000	-
2003B	3,255,000	8/1/2023	2.5-5%	155,000		155,000	-
				<u>\$ 25,115,000</u>	<u>\$ -</u>	<u>\$ 1,490,000</u>	<u>\$ 23,625,000</u>

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

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

See Schedule Next Page

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Year</u>	<u>Local</u>		<u>SFCC</u>		<u>Federal Rebate</u>	<u>Total Principal</u>	<u>Total Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>			
2015	854,793	505,217	585,207	279,164	(69,503)	1,440,000	714,877
2016	867,621	485,596	472,379	266,174	(67,425)	1,340,000	684,345
2017	895,296	458,898	484,704	253,852	(65,065)	1,380,000	647,685
2018	921,028	431,020	498,972	239,583	(62,402)	1,420,000	608,200
2019	945,377	402,345	514,623	223,932	(59,495)	1,460,000	566,782
2020-2024	5,132,761	1,546,239	2,902,239	829,414	(243,890)	8,035,000	2,131,763
2025-2029	5,574,071	688,614	1,450,929	368,179	(127,313)	7,025,000	929,479
2030-2033	797,300	50,853	727,700	42,941	(10,605)	1,525,000	83,189
	<u>\$ 15,988,247</u>	<u>\$ 4,568,780</u>	<u>\$ 7,636,753</u>	<u>\$ 2,503,239</u>	<u>\$ (705,698)</u>	<u>\$ 23,625,000</u>	<u>\$ 6,366,321</u>

NOTE F – CAPITAL LEASE PAYABLE

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

<u>Capital Lease Issues</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2013 Capital Lease Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014 Capital Lease Outstanding</u>
2004	\$351,250	3/1/2014	1-3.5%	32,823		32,823	-
2005	\$320,803	3/1/2015	3-3.625%	60,382		29,685	30,697
				<u>\$ 93,205</u>	<u>\$ -</u>	<u>\$ 62,508</u>	<u>\$ 30,697</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	30,697	1,113	31,810
	<u>\$ 30,697</u>	<u>\$ 1,113</u>	<u>\$ 31,810</u>
Total minimum lease payments		\$	31,810
Less: Amount representing interest			(1,113)
Present Value of Net Minimum Lease Payments		\$	30,697

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE G – RETIREMENT PLANS

Kentucky Teachers' Retirement System

Plan Description – The Letcher County School System 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).

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

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

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, four and one half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and one half percent (1.5%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Letcher County School System's total payroll for the year was \$19,079,645. The payroll for employees covered under KTRS was \$13,924,903. For the year ended June 30, 2014, the Commonwealth contributed \$1,653,003 to KTRS for the benefit of participating employees. The School

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

district's contributions to KTRS for the year ending June 30, 2014 were \$208,311, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 which were \$1,986,228, \$2,172,245 and \$2,231,205 respectively.

County Employees Retirement System

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

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

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.89%. The District contributed \$872,340 of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,111,067, \$1,166,822 and \$1,144,508 respectively.

Recently Issued Accounting Standards

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

NOTE H - CONTINGENCIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction the funds provided are being spent as intended and the grantors’ intent to continue their program.

NOTE I - LITIGATION

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

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

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

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

NOTE L – DEFICIT OPERATING BALANCES

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net position</u>	
Construction	\$	(384,604)
School Activity Funds		(14,438)
General		(550,198)

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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	KETS	\$ 45,942
Special Revenue	General Fund	Operating Expense (utilities)	13,342
Capital Outlay Fund	Debt Service Fund	Debt Payments	216,688
FSPK Fund	Debt Service Fund	Debt Payments	1,040,873
Capital Outlay	Construction Fund	Construction	69,354
Special Revenue	Debt Service Fund	Debt Payments	38,730
			<hr/> <u>\$1,424,929</u>

NOTE O – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on-behalf of the Letcher County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$4,976,250 for the General Fund, \$958,126 for the Debt Service Fund and \$137,608 for the School Food Services Fund.

NOTE P – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Food Service	\$ 522,954	Food Service Operations
Capital Outlay	1,095	Future Construction
Construction	257,822	Future Construction
Debt Service	\$ 34,964	Debt Service

NOTE Q – PRIOR PERIOD ADJUSTMENT

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

Net Position July 1, 2013	\$	30,113,066
 Prior Period Adjustment		 472,573
 Restated Net Position July 1, 2013	 \$	 <hr/> <u>30,585,639</u>

NOTE R – SUBSEQUENT EVENTS

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

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

Other Governmental Funds

	<u>Capital Outlay</u>		<u>FSPK</u>		<u>Total</u>
Assets					
Cash and Cash Equivalents	\$ 1,095	\$ -	-	-	\$ 1,095
Total Assets	<u>1,095</u>		<u>-</u>		<u>1,095</u>
Fund Balances					
Restricted	<u>1,095</u>				<u>1,095</u>
Total Fund Balances	<u>\$ 1,095</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ 1,095</u>

See the accompanying notes to the financial statements.

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

	Other Governmental Funds		
	Capital Outlay	FSPK	Total
Revenues			
From Local Sources			
Taxes			
Property	\$ -	\$ 522,659	\$ 522,659
Intergovernmental - State	287,137	518,214	805,351
Total Revenues	287,137	1,040,873	1,328,010
Expenditures			
Building Improvements			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	287,137	1,040,873	1,328,010
Other Financing Sources (Uses)			
Transfers In			-
Transfers (Out)	(286,042)	(1,040,873)	(1,326,915)
Total Other Financing Sources (Uses)	(286,042)	(1,040,873)	(1,326,915)
Net Change in Fund Balances	1,095	-	1,095
Fund Balance beginning	-	-	-
Fund Balance ending	\$ 1,095	\$ -	\$ 1,095

See the accompanying notes to the financial statements.

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

	<u>LETCHER CENTRAL HIGH SCHOOL</u>	<u>WHITESBURG MIDDLE SCHOOL</u>	<u>LETCHER MIDDLE SCHOOL</u>	<u>FLEMING NEON MIDDLE SCHOOL</u>	<u>ARLIE BOGGS ELEMENTARY</u>	<u>COWAN ELEMENTARY</u>
ASSETS						
Cash and cash equivalents	\$ 105,507	\$ 26,299	\$ 10,801	\$ 38,458	\$ 10,992	\$ 33,832
Accounts receivable	-	-	385	-	-	1,500
Total Assets	<u>105,507</u>	<u>26,299</u>	<u>11,187</u>	<u>38,458</u>	<u>10,992</u>	<u>35,332</u>
LIABILITIES AND FUND BALANCES						
Accounts payable	<u>3,671</u>	<u>42</u>	<u>329</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>3,671</u>	<u>42</u>	<u>329</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance						
School activities	<u>101,836</u>	<u>26,257</u>	<u>10,858</u>	<u>38,458</u>	<u>10,992</u>	<u>35,332</u>
Total Liabilities and Fund Balances	<u>\$ 105,507</u>	<u>\$ 26,299</u>	<u>\$ 11,187</u>	<u>\$ 38,458</u>	<u>\$ 10,992</u>	<u>\$ 35,332</u>

See the accompanying notes to the financial statements.

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

	<u>LETCHER ELEMENTARY</u>	<u>MARTHA JANE POTTER ELEMENTARY</u>	<u>WEST WHITESBURG ELEMENTARY</u>	<u>SCHOOL ACTIVITY FUNDS TOTALS</u>
ASSETS				
Cash and cash equivalents	\$ 12,260	\$ 30,475	\$ 30,217	\$ 298,842
Accounts receivable	58	1,200	-	3,143
Total Assets	<u>12,318</u>	<u>31,675</u>	<u>30,217</u>	<u>301,986</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	1,049	1,130	623	6,844
Total Liabilities	<u>1,049</u>	<u>1,130</u>	<u>623</u>	<u>6,844</u>
Fund Balance				
School activities	<u>11,269</u>	<u>30,545</u>	<u>29,594</u>	<u>295,142</u>
Total Liabilities and Fund Balances	<u>\$ 12,318</u>	<u>\$ 31,675</u>	<u>\$ 30,217</u>	<u>\$ 301,986</u>

See the accompanying notes to the financial statements.

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

	<u>LETCHER COUNTY CENTRAL HIGH SCHOOL</u>	<u>WHITESBURG MIDDLE SCHOOL</u>	<u>LETCHER MIDDLE SCHOOL</u>	<u>FLEMING NEON MIDDLE SCHOOL</u>	<u>ARLIE BOGGS ELEMENTARY</u>	<u>COWAN ELEMENTARY</u>	<u>LETCHER ELEMENTARY</u>
REVENUES							
Student revenues	\$ 518,468	\$ 99,411	\$ 86,853	\$ 67,166	\$ 54,098	\$ 138,385	\$ 67,522
EXPENSES							
Student activities	585,773	80,248	94,632	61,383	45,394	128,625	61,303
Loss of funds		(4,936)					
Excess (Deficit) of Revenues Over Expenditures	(67,305)	24,099	(7,779)	5,783	8,704	9,760	6,219
Fund Balance July 1, 2013	<u>169,141</u>	<u>2,158</u>	<u>18,637</u>	<u>32,675</u>	<u>2,288</u>	<u>25,572</u>	<u>5,050</u>
Fund Balance June 30, 2014	<u>\$ 101,836</u>	<u>\$ 26,257</u>	<u>\$ 10,858</u>	<u>\$ 38,458</u>	<u>\$ 10,992</u>	<u>\$ 35,332</u>	<u>\$ 11,269</u>

See the accompanying notes to the financial statements.

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

	<u>MARTHA JANE POTTER ELEMENTARY</u>	<u>WEST WHITESBURG ELEMENTARY</u>	<u>AGENCY FUNDS TOTALS</u>
REVENUES			
Student revenues	\$ 86,497	\$ 50,403	\$ 1,168,804
EXPENSES			
Student activities	77,126	53,694	1,188,178
Loss of funds			
Excess (Deficit) of Revenues Over Expenditures	9,371	(3,291)	(14,438)
Fund Balance July 1, 2013	<u>21,174</u>	<u>32,885</u>	<u>309,581</u>
Fund Balance June 30, 2014	<u>\$ 30,545</u>	<u>\$ 29,594</u>	<u>\$ 295,142</u>

See the accompanying notes to the financial statements.

Letcher County School District
Statement of Revenue, Expenses, and Changes in Fund Balance - Letcher Co. Central High School
For the period ended June 30, 2014

	<u>FUND BALANCE</u> <u>June 30, 2013</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> <u>June 30, 2014</u>
GENERAL FUND	\$ 7,417	\$ 7,517	\$ 16,120	\$ 2,821	\$ 1,635
DISCOVER FUTURE	-	2,900	2,900	-	-
GARDEN CLUB	-	142	-	-	142
FLOWER FUND	70	91	175	100	86
BAND INAUGURAL TRIP	18,184	-	17,840	(344)	(0)
CIA	462	-	-	(462)	-
SCHOOL CULTURE	388	-	-	(388)	-
GWEN WHITAKER	-	-	-	200	200
BOYS & GIRLS PROGRAM	-	5,114	3,071	(2,043)	-
PAGES FOR PATRIOTS	661	-	-	-	661
BAND EUROPE TRIP	0	-	-	(0)	-
LOST & DAMAGED BOOKS	992	-	-	(992)	-
TESTING	3,103	1,089	1,530	-	2,662
YOUTH SERVICE CENTER	310	1,068	1,522	210	66
LCEAA	-	-	-	-	-
SOCIAL STUDIES	78	-	-	(78)	-
MOUNTAIN LINE	915	88	-	-	1,003
FUTURE EDUCATORS	-	-	-	-	-
AVID (GEAR-UP)	533	-	-	(533)	-
FACULTY VENDING	656	7,058	6,155	(100)	1,459
ACF	1,147	8,596	9,555	250	438
BUDDY ROE MEMORIAL	750	597	497	-	850
BASEBALL	14,828	33,586	34,564	(211)	13,639
BASEBALL TRANSPORTATION	59	-	1,593	2,011	477
MIDDLE SCHOOL BASEBALL	751	122	873	-	-
SPEECH	12	4,310	4,045	316	593
MIDDLE SCHOOL SOFTBALL	582	-	659	77	-
BOYS BASKETBALL	31,980	22,721	47,935	1,506	8,273
BOYS BB TRANSPORTATION	384	-	1,729	1,564	219
GIRLS BASKETBALL	7,733	16,746	21,317	3,071	6,233
GIRLS BB TRANSPORTATION	484	-	484	-	-
FOOTBALL	12,832	63,038	69,106	3,123	9,887
TRAVEL ACOUNT	1,199	-	-	(1,199)	-
COMMUNITY BASED	746	1,012	1,328	-	431
FOOTBALL TRANSPORTATION	-	-	3,887	4,132	245
GOLF	946	4,710	4,380	-	1,276
SOFTBALL	2,970	17,524	14,423	(1,961)	4,109
SOFTBALL TRANSPORTATION	-	-	1,192	1,981	789
TENNIS	769	5,063	4,628	(526)	678
TENNIS TRANSPORTATION	-	-	520	526	6
TRACK	774	12,410	12,884	(299)	0
TRACK TRANSPORTATION	-	-	2,047	2,048	0
VOLLEYBALL	1,627	15,289	12,647	19	4,289
VOLLEYBALL TRANSPORTATION	-	-	1,892	1,892	-
CROSS COUNTRY	750	12,443	11,667	(1,525)	1
CROSS COUNTRY TRANSPORT	-	-	2,639	2,639	-
CHEERLEADING	7,027	19,214	22,746	-	3,496
CHEERLEADING TRANSPORTATION	1	-	-	-	1
WRESTLING TRANSPORTATION	-	-	-	-	-
WRESTLING	1,115	2,799	3,126	-	788
GIRLS SOCCER TRANSPORTATION	-	-	1,350	1,423	73
COUGAR DANCE TEAM	3,905	10,896	13,356	1,088	2,533
DANCE TRANSPORTATION	621	-	-	(621)	-
DRAMA DRINK SALES	1,366	1,627	2,265	(729)	-
FB VARSITY CONCESSIONS	0	-	-	-	0
FB RESERVED SEATS	5,725	8,930	9,316	(5,265)	74
DRAMA	7,508	61,634	54,840	651	14,952
ACTIVITY COORDINATOR	-	-	-	-	-
BIOLOGY	1,132	200	669	-	664
STLP	298	380	472	-	206
AP SPANISH	601	300	476	-	424
BOYS SOCCER TRANSPORTATION	2	-	1,496	1,495	-
PTO	705	-	-	-	705
SOCCER	46	-	-	(46)	-
BOYS SOCCER	880	5,667	4,914	(1,597)	36
GIRLS SOCCER	1,478	7,462	6,284	(1,525)	1,131
LETCHER CENTRAL STATE	200	-	-	(200)	-
ACADEMIC TEAM	1,451	3,386	3,075	(580)	1,182
ARCHERY	1,718	25,091	26,787	-	22
JUMBO TRON	0	4,000	-	(4,000)	0
FANTASY LIT	257	46	-	-	303
NATIONAL HISTORY DAY	-	-	-	-	-
BETA CLUB	387	-	-	-	387
THE DEN	64	-	-	-	64
PEER COUNSELING	1	-	-	-	1
DISTRICT PROGRAM	0	-	-	(0)	-
DISTRICT TOURNAMENT	228	-	-	(228)	-
REGIONAL TOURNAMENT	46	4,695	4,715	134	160
DANCE DRINK SALES	468	-	-	(468)	-
FCCLA	-	16,014	14,581	(1,430)	3
BIBLE CLUB	716	-	524	-	192
STUDENT GOVERNMENT	519	-	-	-	519
PEP CLUB	293	-	-	-	293
JR. ROTC	1,364	-	1,053	-	311
BAND	351	25,465	23,594	(418)	1,803
BAND TRANSPORTATION	-	-	763	763	-
MIDDLE SCHOOL BAND	-	4,632	3,920	-	712

See accompanying notes to the financial statements.

Letcher County School District
Statement of Revenue, Expenses, and Changes in Fund Balance - Letcher Co. Central High School
For the period ended June 30, 2014

	<u>FUND BALANCE</u> <u>June 30, 2013</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> <u>June 30, 2014</u>
BAND COLOR GUARD	131	883	733	-	281
SENIOR ENG IV	443	-	-	(443)	-
CHOIR	75	-	-	-	75
POWDER PUFF	33	-	-	-	33
SCORETABLE ADS	5,000	2,000	265	(5,735)	1,000
LIBRARY	2,486	30	-	-	2,516
SENIOR TRIP	20	57,347	56,921	(92)	354
SR. JR. PROM	325	9,663	7,229	-	2,759
ANNUAL	5,062	2,875	4,500	-	3,437
	<u>\$ 169,141</u>	<u>\$ 518,468</u>	<u>\$ 585,773</u>	<u>\$ 0</u>	<u>\$ 101,836</u>

See the accompanying notes to the financial statements.

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

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the District had received food commodities totaling \$100,000.

LETCHER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2014

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Expended
U.S. Department of Agriculture				
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 14		510.4950	\$ N/A	\$ 100,000
Passed Through State Department of Education				
* National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	269,729
Fiscal Year 14		7750002 14	N/A	892,223
* School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	N/A	160,992
Fiscal Year 14		7760005 14	N/A	659,723
* Summer Food Service Program for Children	10.559			
Fiscal Year 13		7690024 13	N/A	1,997
* Summer Food Service Program for Children	10.559			
Fiscal Year 13		7740023 13	N/A	19,214
Child Nutrition Cluster Subtotal				<u>2,003,878</u>
Fresh Fruit & Vegetable Program	10.582			
Fiscal Year 13		7720012 13	N/A	1,514
Fiscal Year 14		7720012 14	N/A	22,235
				<u>23,749</u>
Total U.S. Department of Agriculture				<u>2,127,627</u>
U.S. Department of Education				
Passed Through State Department of Education				
Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	1,428,678	390,315
Fiscal Year 13M		3100002 13	30,000	1,395
Fiscal Year 14M		3100002 14	1,355,289	953,905
Fiscal Year 14M		3100002 14	30,000	27,543
				<u>1,373,158</u>
* Special Education Grants to States	84.027A			
Fiscal Year 14		3810002 14	685,905	616,441
* Special Education-Preschool Grants	84.173A			
Fiscal Year 13		3800002 13	39,783	29,556
Special Education Cluster Subtotal				<u>645,997</u>
Vocation Education-Basic Grants to States	84.048			
Fiscal Year 14		4621232 14	16,059	14,489
21st Century Community Learning Centers Program	84.287C			
Fiscal Year 12		3400002 12	150,000	4,910
Fiscal Year 12J		3400002 12	2,000	1,843
Fiscal Year 13		3400002 13	262,500	185,190
Fiscal Year 13U		3400002 13	10,000	2,538
Fiscal Year 13Z		3400002 13	17,000	7,715
				<u>202,196</u>
Rural Education	84.358B			
Fiscal Year 13		3140002 13	62,330	164
Fiscal Year 14		3140002 14	58,179	58,179
				<u>58,343</u>
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 13		3230002 13	296,311	248,966
Fiscal Year 14		3230002 14	287,723	123,737
				<u>372,703</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	65,234	313
Passed Through Morehead State University				
Kentucky Appalachian Higher Education (KYAHED)	23.011			
Fiscal Year 14		6884	3,991	3,991
Total U.S. Department of Education				<u>2,671,191</u>
U.S. Department of the Army				
ROTC	12.000			
Fiscal Year 13		5043	63,510	4,933
Fiscal Year 14		5044	54,596	54,596
Total U.S. Department of the Army				<u>59,530</u>
U.S. Department of Commerce				
Passed Through PRIDE KCE				
PRIDE Environmental Education	11.420			
Fiscal Year 14		2704	7,085	6,955
Total U.S. Department of Commerce				<u>6,955</u>
U.S. Department of Health and Human Services				

LETCHER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2014

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Expended
Passed Through Kentucky School Board Association Medical Assistance Program Fiscal Year 14 Total U.S. Department of Health and Human Services	93.778	110.4810	\$ N/A	<u>149,544</u> <u>149,544</u>
Total Federal Programs Expended				\$ <u><u>5,014,847</u></u>

* Major Programs

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

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

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Letcher 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 Letcher County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Letcher County School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Letcher 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 what are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Letcher County School District, in a separate letter dated November 10, 2014.

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

Purpose of this Report

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

White & Associates, P.C.

Richmond, Kentucky
November 10, 2014



CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on Compliance for Each Major Federal Program

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

Opinion on Each Major Federal Program

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

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

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

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

White & Associates, P.C.

Richmond, Kentucky
November 10, 2014

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

SUMMARY OF AUDITORS' RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559] Special Education Cluster [CFDA 84.027A, 84.173A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

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

No findings at the major federal award programs level.

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

MATERIAL WEAKNESS

13-1

Statement of the Condition: Potential misappropriation of fiduciary assets discovered by the auditor.

Criteria for Condition: Internal controls should be in place to prevent, or detect and correct misstatements on a timely basis.

Cause of the Condition: A deficiency, or combination of deficiencies, in internal control, that potentially allowed the loss of funds and was not prevented, or detected and corrected on a timely basis.

Effect of the Condition: Potential loss of funds within the fiduciary funds.

Subsequent Review: Client has made corrective action of this finding by providing additional segregation of duties and oversight by management personnel.