

HARLAN COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2015

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County School District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note R to the financial statements, in 2015, the District adopted new accounting guidance, GASB *Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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 13, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
November 13, 2015

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

For the year ended June 30, 2015

As management of the Harlan County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the district was \$3,401,674 of which \$1,554,132 was General Fund, \$1,847,542 was in the restricted funds of Special Revenue, Debt Service Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$3,876,881 of which \$1,849,333 was General Fund, \$2,027,548 was in the restricted funds of Special Revenue, Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$1,241,483 for General Fund.
- The General Fund Revenue totaled \$29,983,724 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$29,823,656 exclusive of inter-fund transfers.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2015

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows exceeded liabilities and deferred outflows by approximately \$11.8 million as of June 30, 2015. The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

2015 District-Wide Governmental Net position compared to 2014 as follows:

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2015**

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

	Governmental		Business-type		Total		Total Percentage Change 2014-2015
	Activities		Activities		School District		
	2014	2015	2014	2015	2014	2015	
Assets:							
Current and Other Assets	3.87	4.27	0.77	0.77	4.64	5.04	9%
Capital Assets	59.08	57.82	0.17	0.22	59.25	58.04	-2%
Total Assets	62.95	62.09	0.94	0.99	63.89	63.08	-1%
Defered Outflows	0.37	2.70	-	0.03	0.37	2.73	638%
Liabilities:							
Current Liabilities	3.14	3.68	-	0.00	3.14	3.69	17%
Noncurrent Liabilities	43.09	48.99	-	-	43.09	48.99	14%
Total Liabilities	46.23	52.67	-	0.00	46.23	52.67	14%
Deferred Inflows		0.83		0.04	-	0.87	#DIV/0!
Net position:							
Invested in Capital Assets							
Net of Debt	14.23	13.71	0.17	0.22	14.40	13.93	-3%
Restricted	2.53	2.83	0.99	0.38	3.52	3.22	-9%
Unrestricted Net Position	0.34	(5.25)	-	-	0.34	(5.25)	-1644%
Total Net Position	17.10	11.29	1.16	0.60	18.26	11.89	-35%

GOVERNMENTAL ACTIVITIES

Ending net position was \$11.29 million for the District.

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2015**

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2014-2015
	2014	2015	2014	2015	2014	2015	
Revenues:							
Charges for services	0.19		0.61	0.61	0.80	0.61	-25%
Operating grants and contributions	6.20	16.52	3.01	3.31	9.21	19.82	115%
Capital grants and contributions	2.10	3.07			2.10	3.07	46%
General revenues	31.75	25.04	0.00	0.00	31.75	25.05	-21%
Total revenue	40.24	44.63	3.63	3.92	43.87	48.54	11%
Expenses:							
Instruction	19.94	25.04			19.94	25.04	26%
Student	2.13	1.88			2.13	1.88	-12%
Instructional staff	1.70	2.00			1.70	2.00	17%
District administration	1.17	1.18			1.17	1.18	1%
School administration	1.98	1.69			1.98	1.69	-15%
Business	0.58	0.49			0.58	0.49	-16%
Plant operation & maintenance	3.64	3.80			3.64	3.80	5%
Student transportation	2.20	2.62			2.20	2.62	19%
Other instructional	0.37	0.54			0.37	0.54	46%
Community services operations	0.52	0.00			0.52	0.00	-100%
Amortization	0.04	0.17			0.04	0.17	330%
Depreciation	1.80	1.80	0.03	0.04	1.83	1.84	1%
Interest on long-term debt	1.83	1.78			1.83	1.78	-3%
Food Service Operations			3.14	3.91	3.14	3.91	24%
Loss on capital assets				0.00	-	0.00	#DIV/0!
Transfers			0.14	0.13	0.14	0.13	-8%
Total Expenses	37.90	42.99	3.31	4.08	41.21	47.07	-2%
Change in net position	2.34	1.64	0.32	(0.16)	2.66	1.48	69%

CAPITAL ASSETS

At the end of fiscal 2015, the District had \$58.03 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of 1.2 million over last year.

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2015**

Capital Assets at Year-End FY2015
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Land	1,897,472	1,897,472	-	-	1,897,472	1,897,472
Land and Improvements	616,060	550,970	-	-	616,060	550,970
Buildings & Improvements	47,670,847	46,230,279	-	-	47,670,847	46,230,279
Technology Equipment	128,079	292,975	1,221	5,616	129,300	298,591
Vehicles	1,000,138	1,210,774	-	-	1,000,138	1,210,774
General Equipment	104,742	75,795	168,380	210,207	273,122	286,002
Construction In Progress	7,565,534	7,565,534	-	-	7,565,534	7,565,534

DEBT

Capital lease and general obligation debt decreased \$3.89 million from FY 2015.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2014	2015
Capital Lease Obligations	\$ 0.61	\$ 0.51
General Obligation Bonds	<u>44.62</u>	<u>43.6</u>
Total Obligations	\$ <u>45.23</u>	\$ <u>44.11</u>

THE DISTRICT'S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$1,849,333, which is more than last year's fund balance of \$1,554,132. The unassigned portion of the fund balance at the end of fiscal year 2015 is \$1,042,193, compared to \$874,322 from the preceding year.

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

For the year ended June 30, 2015

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2015:

*Note This chart does not include beginning balances.

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	5,175,608	123,770		1,265,206			606,236
State Revenue Sources	24,670,362	1,756,218	361,577	721,504		1,941,830	483,769
Federal Revenue Sources	137,754	5,660,026				45,537	2,821,430
Other	1,182	0				26,921,971	4,854
Transfers	133,950	0				2,168,281	
TOTALS	30,118,856	7,440,014	361,577	1,986,710		31,077,618	3,916,289
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	17,229,610	5,292,020					
Student Support Services	1,275,213	593,658					
Instructional Staff Support Services	1,175,917	844,861					
District Admin Support	1,203,063						
School Admin Support	1,699,327						
Business Support Services	443,558	47,770					
Plant Operation & Management	3,789,824						
Student Transportation	2,887,847	134,747					
Food Service Operations							3,947,639
Community Services	10,383	525,294					
Debt Service	109,914					4,310,491	
Payment of Escrow						26,767,127	
Building Improvements	10,383	1,665					
Loss on Capital Assets							15,973
Transfers			361,577	1,806,704			133,950
TOTALS	29,823,656	7,440,014	361,577	1,806,704	-	31,077,618	4,097,562
Excess / (Deficit)	295,201	-	-	180,006	-	-	(181,273)

HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2015

Comments on Budget Comparisons

- The District's total general fund balance for the fiscal year ended June 30, 2015, \$1,849,333 which is more than last year's fund balance of \$1,554,132.
- The general fund total revenue for fiscal year ending June 30, 2015 were \$29,983,724 net of other financing sources and uses, including "On-Behalf" payments.
- General fund budget compared to actual revenue varied slightly from line item to line item except for the state revenue item with the ending actual revenue being \$395,017 less than budget by approximately 1.6 percent.
- The total cost of all general fund programs and services was \$29.82 million including transfers.

BUDGETARY IMPLICATIONS

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2015-2016 with a 2.9% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates
- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the "shared" KTRS (which requires a 1.50% district match of gross pay for all KTRS eligible employees in FY2015 and will continue to increase to a 2.0% contribution rate), initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, reduced property tax collections, and additional anticipated reductions in funding continues to press the district's ability to continue programs.
- Continued Insufficient funding of the state transportation formula

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

Harlan County School District
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,923,463	\$ 704,726	\$ 2,628,189
Investments	1,914,147		1,914,147
Receivables (net)	434,162		434,162
Inventories		67,605	67,605
Prepaid debt service			-
Capital assets:			
Land, improvements, and construction in progress	9,561,218		9,561,218
Other capital assets, net of depreciation	48,262,580	215,823	48,478,404
Total capital assets	<u>57,823,799</u>	<u>215,823</u>	<u>58,039,622</u>
Total assets	<u>62,095,571</u>	<u>988,155</u>	<u>63,083,726</u>
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	958,610	30,476	989,086
Deferred savings from refunding bonds	1,743,205		1,743,205
Total deferred outflows of resources	<u>2,701,815</u>	<u>30,476</u>	<u>2,732,291</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>64,797,386</u>	<u>1,018,631</u>	<u>65,816,017</u>
LIABILITIES			
Accounts payable and accrued expenses	141,254	1,766	143,019
Other current liabilities	9,600		9,600
Accrued interest payable	312,455		312,455
Payroll taxes payable	171,148		171,148
Accrued salaries and benefit payable	72,889		72,889
Long-term liabilities:			
Due within 1 year:			
Bond obligations	2,858,300		2,858,300
Capital lease obligations	84,333		84,333
KSBIT payable	34,855		34,855
Total due within 1 year	<u>2,977,488</u>	<u>-</u>	<u>2,977,488</u>
Due in more than 1 year:			
Bond obligations	40,744,000		40,744,000
Capital lease obligations	426,870		426,870
KSBIT payable	174,273		174,273
Net pension liability	7,456,920	376,080	7,833,000
Sick leave	184,015		184,015
Total due in more than 1 year	<u>48,986,078</u>	<u>376,080</u>	<u>49,362,158</u>
Total liabilities	<u>52,670,912</u>	<u>377,846</u>	<u>53,048,758</u>
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	832,037	41,963	874,000
NET POSITION			
Net investment in capital assets	13,710,296	215,823	13,926,119
Restricted for:			
Other purposes	807,140		807,140
Capital projects	2,027,548		2,027,548
Food services		382,999	382,999
Deficit	(5,250,547)		(5,250,547)
Total net position	<u>11,294,437</u>	<u>598,822</u>	<u>11,893,259</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 64,797,386</u>	<u>\$ 1,018,631</u>	<u>\$ 65,816,017</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Activities
Year Ended June 30, 2015

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	\$ 25,036,048	\$ -	\$ 11,062,507	\$ -	\$ (13,973,541)		\$ (13,973,541)
Support Services							
Student	1,876,964		721,100		(1,155,865)		(1,155,865)
Instructional Staff	1,997,513		767,413		(1,230,101)		(1,230,101)
District Administration	1,176,362		451,940		(724,423)		(724,423)
School Administration	1,688,748		648,790		(1,039,958)		(1,039,958)
Business	490,062		188,274		(301,788)		(301,788)
Plant Operation & Maintenance	3,804,397		1,461,588	1,083,081	(1,259,727)		(1,259,727)
Student Transportation	2,623,075		1,007,744		(1,615,332)		(1,615,332)
Community Services Operations	540,358		207,597		(332,761)		(332,761)
Building Improvements	1,665				(1,665)		(1,665)
Amortization	172,642				(172,642)		(172,642)
Depreciation	1,802,823				(1,802,823)		(1,802,823)
Interest on general long-term debt	1,781,635			1,987,366	205,731		205,731
Total governmental activities	<u>42,992,293</u>	<u>-</u>	<u>16,516,952</u>	<u>3,070,447</u>	<u>(23,404,893)</u>		<u>(23,404,893)</u>
Business-type activities:							
Food service operations	3,906,829	606,236	3,305,199			\$ 4,606	4,606
Loss on capital assets	15,973					(15,973)	(15,973)
Depreciation	40,810					(40,810)	(40,810)
Total business-type activities	<u>3,963,612</u>	<u>606,236</u>	<u>3,305,199</u>	<u>-</u>	<u>-</u>	<u>(52,177)</u>	<u>(52,177)</u>
Total primary government	\$ <u>46,955,905</u>	\$ <u>606,236</u>	\$ <u>19,822,151</u>	\$ <u>3,070,447</u>	<u>(23,404,893)</u>	<u>(52,177)</u>	<u>(23,457,071)</u>
General revenues:							
Taxes:							
Property taxes					3,297,960		3,297,960
Motor vehicle taxes					507,592		507,592
Utility taxes					1,505,057		1,505,057
Unmined minerals tax					918,060		918,060
State and formula grants					18,342,581		18,342,581
Unrestricted investment earnings					139,831	4,854	144,685
Other local revenue					196,085		196,085
Sale of equipment					1,182		1,182
Transfers					133,950	(133,950)	-
Total general revenues and transfers					<u>25,042,298</u>	<u>(129,096)</u>	<u>24,913,202</u>
Change in net position					1,637,405	(181,273)	1,456,131
Net position - beginning					17,098,411	1,155,391	18,253,802
Prior period adjustment					(7,441,378)	(375,296)	(7,816,674)
Restated net position - beginning					<u>9,657,033</u>	<u>780,095</u>	<u>10,437,128</u>
Net position - ending					\$ <u>11,294,437</u>	\$ <u>598,822</u>	\$ <u>11,893,259</u>

See the accompanying notes to the financial statements.

Harlan County School District
Balance Sheet
Governmental Funds
June 30, 2015

	Governmental Funds					
	General	Special Revenue	Debt Service	FSPK Fund	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 1,241,483	\$ -	\$ -	\$ 494,815	\$ 380,442	\$ 2,116,740
Investments	761,856			1,152,291		1,914,147
Receivables, net						
Taxes-current	167,234					167,234
Taxes-delinquent	19,324					19,324
Accounts	728					728
Intergovernmental-federal	1,242	245,635				246,877
Total assets	2,191,867	245,635	-	1,647,106	380,442	4,465,050
LIABILITIES						
Accounts payable	88,896	52,358				141,254
Cash shortage		193,277				193,277
Accrued salaries & benefits payable	72,889					72,889
Other current liabilities	9,600					9,600
Payroll taxes payable	171,148					171,148
Total liabilities	342,534	245,635	-	-	-	588,168
FUND BALANCE						
Restricted				1,647,106	380,442	2,027,548
Comitted	648,244					648,244
Assigned	158,896					158,896
Unassigned	1,042,193					1,042,193
Total fund balance	1,849,333	-	-	1,647,106	380,442	3,876,881
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,191,867	\$ 245,635	\$ -	\$ 1,647,106	\$ 380,442	\$ 4,465,050

See the accompanying notes to the financial statements.

Harlan County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2015

Fund balances-total governmental funds	\$	3,876,881
<p>Amounts reported for governmental activities in the statement of net position are different because:</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.		57,823,799
Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus		1,743,205
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds		
Accrued interest payable		(312,456)
Bonds payable		(43,602,300)
KSBIT payable		(209,128)
Capital lease payable		(511,203)
Sick leave liability		(184,015)
Net pension liability		(7,456,920)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to employer 2015 contributions to pensions		958,610
Deferred inflows of resources related to pensions		<u>(832,037)</u>
Net position of governmental activities	\$	<u><u>11,294,437</u></u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>FSPK Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 1,993,961	\$ -	\$ -	\$ 1,265,206	\$ -	\$ 3,259,167
Motor vehicle	507,592					507,592
Unmined minerals	918,060					918,060
Utilities	1,505,057					1,505,057
Penalties & interest on taxes	38,793					38,793
Earnings on investments	138,133	1,697				139,831
Other local revenue	74,012	122,073				196,085
Intergovernmental - state	24,670,362	1,756,218	1,941,830	721,504	361,577	29,451,490
Intergovernmental - federal	137,754	5,560,026	45,537			5,743,318
Total revenues	<u>29,983,724</u>	<u>7,440,014</u>	<u>1,987,366</u>	<u>1,986,710</u>	<u>361,577</u>	<u>41,759,392</u>
EXPENDITURES						
Instruction	17,229,610	5,292,020				22,521,630
Support Services						
Student	1,275,213	593,658				1,868,871
Instructional Staff	1,175,917	844,861				2,020,778
District Administration	1,203,063					1,203,063
School Administration	1,699,327					1,699,327
Business	443,558	47,770				491,328
Plant Operation & Maintenance	3,789,824					3,789,824
Student Transportation	2,887,847	134,747				3,022,593
Community Services Operations	10,383	525,294				535,677
Building Improvements		1,665				1,665
Debt Service	108,914		4,310,491			4,419,405
Total expenditures	<u>29,823,656</u>	<u>7,440,014</u>	<u>4,310,491</u>	<u>-</u>	<u>-</u>	<u>41,574,161</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	160,068	-	(2,323,125)	1,986,710	361,577	185,231
OTHER FINANCING SOURCES (USES)						
Sale or comp for loss of assets	1,182					1,182
Payment to escrow			(26,767,127)			(26,767,127)
Bond proceeds			26,921,971			26,921,971
Operating transfers in	133,950		2,168,281			2,302,231
Operating transfers (out)				(1,806,704)	(361,577)	(2,168,281)
Total other financing sources and (uses)	<u>135,132</u>	<u>-</u>	<u>2,323,125</u>	<u>(1,806,704)</u>	<u>(361,577)</u>	<u>289,976</u>
NET CHANGE IN FUND BALANCE	295,201	-	-	180,006	-	475,207
FUND BALANCE-BEGINNING	<u>1,554,132</u>	<u>-</u>	<u>-</u>	<u>1,467,100</u>	<u>380,442</u>	<u>3,401,674</u>
FUND BALANCE-ENDING	<u>\$ 1,849,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,647,106</u>	<u>\$ 380,442</u>	<u>\$ 3,876,881</u>

See the accompanying notes to the financial statements.

Harlan County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2015

Net change in fund balances-total governmental funds	\$	475,207
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		958,610
<p>District pension contributions less costs of benefits earned net employee contributions</p>		(847,579)
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(1,257,285)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		1,369,485
<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>		1,109,667
<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>		(168,868)
<p>KSBIT payable</p>		69,710
<p>Noncurrent sick leave payable</p>		(71,542)
		(168,868)
		69,710
		(71,542)
Change in net position of governmental activities	\$	<u><u>1,637,405</u></u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 2,564,203	\$ 2,564,203	\$ 1,993,961	\$ (570,242)
Motor vehicle	500,000	500,000	507,592	7,592
Unmined minerals	1,100,000	1,100,000	918,060	(181,940)
Utilities	1,700,000	1,700,000	1,505,057	(194,943)
Penalties & interest on taxes			38,793	38,793
Earnings on investments	10,000	10,000	138,133	128,133
Other local revenue			74,012	74,012
Intergovernmental - state	18,205,808	18,205,808	* 18,421,631	215,823
Intergovernmental - federal	50,000	50,000	137,754	87,754
Total revenues	<u>24,130,011</u>	<u>24,130,011</u>	<u>23,734,994</u>	<u>(395,017)</u>
EXPENDITURES				
Instruction	13,356,724	13,351,362	* 12,521,147	830,215
Support Services				
Student	1,260,224	1,260,224	1,275,213	(14,989)
Instructional Staff	734,425	734,425	* 565,500	168,925
District Administration	1,099,828	1,099,828	1,203,063	(103,235)
School Administration	1,413,136	1,413,136	* 1,481,293	(68,157)
Business	419,102	419,102	443,558	(24,455)
Plant Operation & Maintenance	3,276,492	3,276,492	* 3,443,534	(167,042)
Student Transportation	2,823,843	2,823,843	* 2,522,319	301,524
Community Services			10,383	(10,383)
Debt Service			108,914	(108,914)
Total expenditures	<u>24,383,775</u>	<u>24,378,414</u>	<u>23,574,926</u>	<u>803,488</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(253,764)	(248,403)	160,068	408,471
OTHER FINANCING SOURCES (USES)				
Sale or comp for loss of assets			1,182	1,182
Operating transfers in	120,989	120,989	133,950	12,961
Operating transfers (out)			-	-
Total other financing sources and (uses)	<u>120,989</u>	<u>120,989</u>	<u>135,132</u>	<u>14,143</u>
NET CHANGE IN FUND BALANCE	(132,775)	(127,414)	295,201	422,614
FUND BALANCE-BEGINNING	<u>940,388</u>	<u>940,388</u>	<u>1,554,132</u>	<u>613,744</u>
FUND BALANCE-ENDING	<u>\$ 807,613</u>	<u>\$ 812,975</u>	<u>\$ 1,849,333</u>	<u>\$ 1,036,358</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 \$6,248,731.

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2015

	<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				
Earnings on investments	\$ -	\$ -	\$ 1,697	\$ 1,697
Other local revenue			122,073	122,073
Intergovernmental - state	1,562,222	1,696,532	1,756,218	59,686
Intergovernmental - federal	4,206,198	5,365,581	5,560,026	194,445
Total revenues	<u>5,768,420</u>	<u>7,062,113</u>	<u>7,440,014</u>	<u>377,901</u>
EXPENDITURES				
Instruction	3,789,456	4,981,145	5,292,020	(310,875)
Support Services				
Student	524,103	537,644	593,658	(56,014)
Instructional Staff	912,947	940,116	844,861	95,255
Business			47,770	(47,770)
Student Transportation	28,613	88,809	134,747	(45,937)
Community Services Operations	512,312	513,410	525,294	(11,884)
Building Improvements			1,665	(1,665)
Total expenditures	<u>5,767,431</u>	<u>7,061,124</u>	<u>7,440,014</u>	<u>(378,890)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	989	989	-	(989)
OTHER FINANCING SOURCES (USES)				
Operating transfers in				-
Operating transfers out	(989)	(989)		989
Total other financing sources and (uses)	<u>(989)</u>	<u>(989)</u>	<u>-</u>	<u>989</u>
NET CHANGE IN FUND BALANCE	-	0	-	(0)
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ (0)</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Fund Net Position
Proprietary Fund
June 30, 2015

		School Food Services
ASSETS		
Cash and cash equivalents	\$	704,726
Inventories		67,605
Capital assets:		
Other capital assets, net of depreciation		215,823
Total assets		<u>988,155</u>
DEFERRED OUTFLOWS OF RESOURCES		
District pension contributions subsequent to the measurement date		<u>30,476</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		<u><u>1,018,631</u></u>
LIABILITIES		
Accounts payable		1,766
Net pension liability		<u>376,080</u>
		<u>377,846</u>
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual earnings on pension plan investments		41,963
NET POSITION		
Net Investment in capital assets		215,823
Expendable restricted for:		
Food service		<u>382,999</u>
Total net position		<u>598,822</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$	<u><u>1,018,631</u></u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended June 30, 2015

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	590,434
Other revenue from local sources		15,802
Total operating revenues		<u>606,236</u>
OPERATING EXPENSES		
Depreciation		40,810
Food service operations		
Employee services		1,349,557
Operational expenses		2,557,272
Total operating expenses		<u>3,947,639</u>
Operating income (loss)		<u>(3,341,403)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		2,821,430
State grants		483,769
Transfers		(133,950)
Loss on capital assets		(15,973)
Earnings from investments		4,854
Total nonoperating revenues (expenses)		<u>3,160,130</u>
CHANGE IN NET POSITION		(181,273)
NET POSITION-BEGINNING		1,155,391
PRIOR PERIOD ADJUSTMENT		(375,296)
RESTATED NET POSITION-BEGINNING		<u>780,095</u>
NET POSITION-ENDING	\$	<u><u>598,822</u></u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2015

Enterprise Fund

**School
Food
Services**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$	606,236
Payments to suppliers		(2,508,960)
Payments to employees		(1,349,557)
Net cash provided (used) by operating activities		<u>(3,252,281)</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital assets		(103,005)
Net cash provided (used) by capital financing activities		<u>(103,005)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to other funds		(133,950)
Pension		12,271
Operating grants and contributions		3,305,199
Net cash provided (used) by noncapital financing activities		<u>3,183,520</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest		4,854
Net cash provided (used) by investing activities		<u>4,854</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(166,912)

CASH AND CASH EQUIVALENTS-BEGINNING

871,638

CASH AND CASH EQUIVALENTS-ENDING

\$ 704,726

**Reconciliation of operating income (loss) to net cash used
by operating activities:**

Operating income (loss)	\$	(3,341,403)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation		40,810
Changes in assets and liabilities:		
Inventory		46,919
Payables		1,393
Net cash provided (used) by operating activities	\$	<u><u>(3,252,281)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$175,217 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 \$458,055 provided by state government.

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	<u>School Activity Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>349,694</u>
Total Assets	<u><u>349,694</u></u>
LIABILITIES	
Accounts payable	16,652
Due to student groups	<u>333,042</u>
Total Liabilities	<u>349,694</u>
NET POSITION HELD IN TRUST	<u><u>\$ -</u></u>

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Blended Component Unit

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

Basis of Presentation

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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

(B) Special Revenue (Grant) Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

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

Construction Fund

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

(D) Debt Service Fund

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

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Basis of Accounting

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.433 (including exonerations) per \$100 valuation of real property, \$.433 per \$100 valuation for business personal property and \$.336 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interfund Balances

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

Budgetary Process

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

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

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

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

The Special Revenue Fund had expenditures of \$378,890 in excess of appropriations.

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.

Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are stated at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying value, which reasonably estimates fair value.

Inventories

On government-wide financial statements, including the proprietary fund, inventories are stated at cost, on the first-in, first-out basis, using the accrual method of accounting.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Prepaid Assets

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Net Position

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

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

New Accounting Pronouncements

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

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

Custodial Credit Risk-Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The Districts deposits which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name were as follows:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Bank	
	<u>Balance</u>	
Commercial Bank:		
		<u>Demand</u>
FDIC	\$	250,000
Securities pledged to district		<u>4,118,832</u>
Bank balance	\$	<u><u>4,368,832</u></u>

	Book	
	<u>Balance</u>	
		<u>Cash equivalents</u>
Governmental Activities	\$	1,923,463
Business-type Activities		704,726
Agency funds		
School activity funds		<u>349,694</u>
Total carrying amount	\$	<u><u>2,982,884</u></u>

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, Special Revenue (Grant) Fund, Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

Investments

June 30, 2015			
Investments	Rating	Maturities	Fair Value
Market Linked Certificate of Deposits	N/R	4/8/2021	\$ 250,000
Federal Natl Mtg Assn Medium Term NTS	Aaa	4/8/2025	580,289
Federal Home Ln Mtg Corp Deb	Aaa	11/15/2028	<u>1,083,858</u>
Total			<u><u>\$ 1,914,147</u></u>

Interest Rate Risk – the District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Credit Risk – Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery of purchase obligations backed by the full fair and credit of the United States or its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District’s investments are in Markey Linked Certificate of Deposits, 13%, Federal Natl Mtg Assn Medium Term NTS, 30%, and Federal Home Ln Mtg Corp Deb, 57%.

Risks and Uncertainties – the District invest in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the financial statements.

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

<u>Governmental Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Land	\$ 1,897,472	\$ -	\$ -	\$ 1,897,472
Land improvements	1,301,811	-	-	1,301,811
Buildings	66,271,849	-	-	66,271,849
Technology equipment	6,368,891	126,624	19,315	6,476,199
Vehicles	6,435,517	418,914	-	6,854,431
General equipment	711,774	-	2,133	709,641
Construction in progress	7,565,534	-	-	7,565,534
Total at historical cost	<u>\$ 90,552,847</u>	<u>\$ 545,538</u>	<u>\$ 21,448</u>	<u>\$ 91,076,937</u>
Less: Accumulated depreciation				
Land improvements	\$ 685,751	\$ 65,091	\$ -	\$ 750,841.17
Buildings	18,601,002	1,440,568	-	20,041,569.80
Technology equipment	6,142,599	59,940	19,315	6,183,224.19
Vehicles	5,435,379	208,278	-	5,643,656.82
General equipment	607,033	28,946	2,133	633,846.15
Total accumulated depreciation	<u>\$ 31,471,763</u>	<u>\$ 1,802,823</u>	<u>\$ 21,448</u>	<u>\$ 33,253,138</u>
Governmental Activities				
Capital Assets-net	<u>\$ 59,081,084</u>	<u>\$ (1,257,285)</u>	<u>\$ -</u>	<u>\$ 57,823,799</u>
<u>Business-Type Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Technology equipment	\$ 93,527	\$ 6,251	\$ -	\$ 99,778
General equipment	1,715,514	96,754	126,403	1,685,865
Total at historical cost	<u>\$ 1,809,041</u>	<u>\$ 103,005</u>	<u>\$ 126,403</u>	<u>\$ 1,785,643</u>
Less: Accumulated depreciation				
Technology equipment	\$ 92,306	\$ 1,856	\$ -	\$ 94,162
General equipment	1,547,134	38,954	110,430	1,475,658
Total accumulated depreciation	<u>\$ 1,639,440</u>	<u>\$ 40,810</u>	<u>\$ 110,430</u>	<u>\$ 1,569,820</u>
Business-Type Activities				
Capital Assets-net	<u>\$ 169,601</u>	<u>\$ 62,195</u>	<u>\$ 236,833</u>	<u>\$ 215,823</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE D – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Harlan County School District Finance Corporation aggregating \$43,602,300 and \$2,858,300 is the portion due within one year.

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

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2015 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014</u>			<u>2015</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2000B	\$ 775,000	12/1/2020	4.5 - 5.2%	\$ 350,000		\$ 45,000	\$ 305,000
2012 Refinance	2,990,000	6/1/2024	.90 - 2.0%	2,895,000		275,000	2,620,000
2015 Refinance	26,635,000	8/1/2026	2.0 - 3.0%	-	26,635,000	-	26,635,000
2004D	985,000	6/1/2025	2.55 - 4.6%	45,000		45,000	-
2006	31,920,000	7/1/2026	4.25 - 4.5%	26,420,000		26,420,000	-
2007	2,050,000	10/1/2027	3.625 - 4.0%	1,590,000		85,000	1,505,000
2008	2,880,000	8/1/2018	2.0 - 3.2%	1,655,000		305,000	1,350,000
2009 Refinance	1,400,000	2/1/2019	2.2 - 3.35%	1,125,000		205,000	920,000
2012B Refinance	1,955,000	12/1/2024	1.0 - 2.125%	1,880,000		125,000	1,755,000
2010	3,165,000	8/1/2030	2.25 - 5.45%	2,970,000		60,000	2,910,000
2011	2,085,000	6/1/2031	3.2 - 4.25%	2,055,000		10,000	2,045,000
2012	2,350,000	6/1/2033	3.375%	2,340,000		5,000	2,335,000
2012 Second Series	1,145,000	8/1/2032	1.0 - 3.0%	1,095,000		50,000	1,045,000
2012 KADD	\$ 229,900	6/1/2022	2.0 - 3.0%	196,900		19,600	177,300
Totals				\$ 44,616,900	\$ 26,635,000	\$ 27,649,600	\$ 43,602,300

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

amounts to be paid by the Commission, at June 30, 2015 for debt service, (principal and interest) are as follows:

Fiscal Year Ended	<u>Principal</u>		<u>Interest</u>		<u>Federal Interest Rebate</u>	<u>Total</u>	
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>Principal</u>	<u>Interest</u>
<u>30-Jun</u>							
2016	\$ 1,356,328	\$ 1,501,972	\$ 624,754	\$ 439,538	\$ 52,356	\$ 2,858,300	\$ 1,116,647
2017	1,376,313	1,510,687	617,771	427,682	51,642	2,887,000	1,097,095
2018	1,404,527	1,535,473	585,259	396,388	50,720	2,940,000	1,032,368
2019	1,436,361	1,572,639	551,134	361,280	49,833	3,009,000	962,246
2020	1,470,319	1,609,681	513,167	325,055	49,082	3,080,000	887,304
2021-2025	7,842,595	7,935,405	2,100,482	1,065,659	234,031	15,778,000	3,400,173
2026-2030	7,373,293	3,131,707	1,058,631	187,573	167,161	10,505,000	1,413,365
2031-2033	2,296,827	248,173	117,820	10,013	5,389	2,545,000	133,221
	<u>\$ 24,556,563</u>	<u>\$ 19,045,737</u>	<u>\$ 6,169,018</u>	<u>\$ 3,213,187</u>	<u>\$ 660,213</u>	<u>\$ 43,602,300</u>	<u>\$ 10,042,419</u>

NOTE E – CAPITAL LEASE PAYABLE

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

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014</u>			<u>2015</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2006	\$ 270,315	3/1/2017	3.5 - 3.875%	\$ 83,482		\$ 30,171	\$ 53,311
2012	\$ 176,231	3/1/2022	2.0 - 2.625%	137,219		16,661	120,558
2013	\$ 433,036	3/1/2023	2.0%	385,569		48,235	337,334
Totals				<u>\$ 606,270</u>	<u>\$ -</u>	<u>\$ 95,067</u>	<u>\$ 511,203</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, 2015:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
30-Jun			
2016	84,333	11,417	95,750
2017	86,421	9,273	95,694
2018	60,382	7,036	67,418
2019	61,864	5,828	67,692
2020	62,970	4,591	67,561
2021-2023	<u>155,233</u>	<u>6,047</u>	<u>161,280</u>
	<u>\$ 511,203</u>	<u>\$ 44,191</u>	<u>\$ 555,394</u>

Total minimum lease payments	\$ 555,394
Less: Amount representing interest	(44,191)
 Present Value of Net Minimum Lease Payments	 \$ 511,203

NOTE F – OTHER LONG TERM OBLIGATIONS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during the fiscal year 2015 for accumulated sick leave is as follows:

	2014 <u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	2015 <u>Outstanding Balance</u>
Sick Leave	\$ 112,473	\$ 71,542	\$ -	\$ 184,015
Totals	<u>\$ 112,473</u>	<u>\$ 71,542</u>	<u>\$ -</u>	<u>\$ 184,015</u>

The District elected to take advantage of the 0% interest option repayment plan for the worker’s compensation with the now defunct Kentucky School Board Insurance Trust. The repayment plan required the District to pay 25% of the worker’s compensation deficit during fiscal year 2015 with the remaining balance to be repaid over the next six years. The activity during fiscal year 2015 for the worker’s compensation deficit is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Insurance Fund</u>	2014			2015	
	Outstanding			Outstanding	
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	
Worker's Compensation	\$ 278,838	\$ -	\$ 69,710	\$ 209,128	

The minimum payments are as follows:

Fiscal Year	
Ended June 30,	
	<u>Payment</u>
2016	\$ 34,855
2017	34,855
2018	34,855
2019	34,855
2020	34,855
2021	<u>34,855</u>
Total	<u><u>\$ 209,128</u></u>

NOTE G – RETIREMENT PLANS

The District’s employees are provided with two pension plans, based on each position’s college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tier 2	Participation date Unreduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

		<u>Required contribution</u>
Tier	1	5%
Tier	2	5% + 1% for insurance
Tier	3	5% + 1% for insurance

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund 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 employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) 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.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District’s proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of CERS net pension liability	\$	7,833,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the district		107,528,435
	\$	115,361,435

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District’s proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District’s proportion was .241441% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$890,326 related to CERS and \$9,441,958 related to KTRS. The District also recognized revenue of \$9,441,958 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	874,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	989,086	-
	\$ 989,086	\$ 874,000

\$989,086 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	Year Ended June 30,
2016	\$ 197,817
2017	197,817
2018	197,817
2019	197,817
2020	197,817
	\$ 989,086

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	8,843,988	7,833,000	6,822,505
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE H – COMMITMENTS

The District has committed \$500,000 for workers compensation payouts and \$148,244 for sick leave payouts in the general fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE I – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Food Service	\$ 382,999	Food Service Operations
Capital Outlay	1,832	School Facilities Construction Commission Requirement
FSPK	1,647,106	School Facilities Construction Commission Requirement
Construction	\$ 378,610	Future Construction

NOTE J - CONTINGENCIES

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

NOTE K - LITIGATION

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

NOTE L – INSURANCE AND RELATED ACTIVITIES

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

NOTE M – RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE N – DEFICIT FUND AND OPERATING BALANCES

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Business-type Activities	\$ (181,273)
School Activity Funds	\$ (13,630)

NOTE O - COBRA

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

NOTE P – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Operating	Food Service	General Fund	\$ 133,950	Indirect Costs
Debt Service	Capital Outlay Fund	Debt Service Fund	366,577	Debt Payments
Debt Service	FSPK Fund	Debt Service Fund	\$1,801,704	Debt Payments

NOTE Q – ON-BEHALF PAYMENTS

For fiscal year 2015, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 2,533,939
Health Insurance	4,429,783
Life Insurance	7,968
Administrative Fee	54,670
HRA/Dental/Vision	186,113
Federal Reimbursement	(583,959)
Technology	78,272
KSITA Capital Lease Payments	56,350
SFCC Debt Service Payments	<u>1,941,830</u>
Total	<u>\$ 8,704,964</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

NOTE R – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$7,816,674 reduction in beginning net position on the Statement of Activities and an increase of \$1,046,326 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 13, 2015, the date the financial statements were available to be issued.

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.2414%
District's proportionate share of the net pension liability	\$ 7,833,000
State's proportionate share of the net pension liability associated with the District	-
Total	\$ 7,833,000
District's covered-employee payroll	\$ 5,542,943
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.31%
Plan fiduciary net position as a percentage of the total pension liability	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.5233%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	107,528,435
Total	\$ 107,528,435
District's covered-employee payroll	\$ -
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS

	2015	2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ 986,086	\$ 1,047,064
Contributions in relation to the contractually required contribution	986,086	1,047,064
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 5,528,321	\$ 5,542,943
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	17.67%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ -	\$ -
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2015

Changes of benefit terms - None

Changes of assumptions - None

Harlan County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2015

	Other Governmental Funds		
	Capital Outlay	Construction Fund	Total
Assets			
Cash and Cash Equivalents	\$ 1,832	\$ 378,610	\$ 380,442
Total Assets	1,832	378,610	380,442
Fund Balance			
Restricted	1,832	378,610	380,442
Total Fund Balance	\$ 1,832	\$ 378,610	\$ 380,442

See the accompanying notes to the financial statements.

Harlan County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2015

	Other Governmental Funds		
	Capital Outlay	Construction Fund	Total
Revenues			
Intergovernmental - State	\$ 361,577	\$ -	\$ 361,577
Total Revenues	361,577	-	361,577
Expenditures			
Building Improvements			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	361,577	-	361,577
Other Financing Sources (Uses)			
Operating Transfers	(361,577)		(361,577)
Total Other Financing Sources (Uses)	(361,577)	-	(361,577)
Net change in Fund Balances	-	-	-
Fund Balance Beginning	1,832	378,610	380,442
Fund Balance Ending	\$ 1,832	\$ 378,610	\$ 380,442

See the accompanying notes to the financial statements.

Harlan County School District
Combining Balance Sheet - School Activity Funds
 June 30, 2015

SCHOOL ACTIVITY FUNDS										FIDUCIARY FUND TOTAL
	HARLAN COUNTY HIGH SCHOOL	BLACK MTN ELEMENTARY	CAWOOD ELEMENTARY	CUMBERLAND ELEMENTARY	EVARTS ELEMENTARY	GREEN HILLS ELEMENTARY	JAMES A CAWOOD ELEMENTARY	ROSSPOINT ELEMENTARY	WALLINS ELEMENTARY	
ASSETS										
Cash and cash equivalents	\$ 67,250	\$ 11,059	\$ 15,941	\$ 63,317	\$ 25,403	\$ 9,463	\$ 26,083	\$ 51,315	\$ 79,862	\$ 349,694
Total Assets	<u>67,250</u>	<u>11,059</u>	<u>15,941</u>	<u>63,317</u>	<u>25,403</u>	<u>9,463</u>	<u>26,083</u>	<u>51,315</u>	<u>79,862</u>	<u>349,694</u>
LIABILITIES										
Accounts payable	11,741	-	-	-	812	-	-	100	4,000	16,652
Total Liabilities	<u>11,741</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>812</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>4,000</u>	<u>16,652</u>
FUND BALANCE										
School activities	55,510	11,059	15,941	63,317	24,591	9,463	26,083	51,215	75,862	333,042
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 67,250</u>	<u>\$ 11,059</u>	<u>\$ 15,941</u>	<u>\$ 63,317</u>	<u>\$ 25,403</u>	<u>\$ 9,463</u>	<u>\$ 26,083</u>	<u>\$ 51,315</u>	<u>\$ 79,862</u>	<u>\$ 349,694</u>

See the accompanying notes to the financial statements.

Harlan County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds
For the year ended June 30, 2015

	SCHOOL ACTIVITY FUNDS									FIDUCIARY FUND TOTAL
	HARLAN COUNTY HIGH SCHOOL	BLACK MTN ELEMENTARY	CAWOOD ELEMENTARY	CUMBERLAND ELEMENTARY	EVARTS ELEMENTARY	GREEN HILLS ELEMENTARY	JAMES A CAWOOD ELEMENTARY	ROSSPOINT ELEMENTARY	WALLINS ELEMENTARY	
REVENUES										
Student/Trust revenues	\$ 282,657	\$ 53,542	\$ 72,037	\$ 131,449	\$ 121,602	\$ 54,153	\$ 44,390	\$ 106,347	\$ 89,767	\$ 955,943
EXPENSES										
Student/Trust activities	289,938	53,472	74,800	105,344	141,507	56,157	57,068	105,051	86,235	969,572
Excess (Deficit) of Revenues Over Expenses	(7,281)	70	(2,764)	26,104	(19,905)	(2,004)	(12,678)	1,296	3,532	(13,630)
Fund balance July 1, 2014	62,790	10,989	18,705	37,213	44,497	11,467	38,761	49,919	72,331	346,671
Fund balance June 30, 2015	<u>\$ 55,510</u>	<u>\$ 11,059</u>	<u>\$ 15,941</u>	<u>\$ 63,317</u>	<u>\$ 24,591</u>	<u>\$ 9,463</u>	<u>\$ 26,083</u>	<u>\$ 51,215</u>	<u>\$ 75,862</u>	<u>\$ 333,042</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Harlan County High School
For the year ended June 30, 2015

	FUND BALANCE 7/1/2014	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE 6/30/2015
GENERAL FUND	\$ 1,219	\$ 15,477	\$ 13,269	\$ (73)	\$ 3,353
BLACK BEAR PHOTOGRAPHY	-	31	-	29	60
GRADUATION FUND	-	-	987	1,303	316
21ST CENTURY	75	-	-	-	75
BLACK BEAR CAFÉ	460	-	-	(460)	-
SCHOOL PICTURES	55	2,138	2,107	(51)	36
SENIOR PICTURES	751	1,468	2,208	-	11
1ST PRIORITY	-	4,883	4,485	-	399
1ST PRIORITY AQUARIUM	-	1,039	860	-	179
CONTINGENCY	826	-	826	-	-
COMMUNITY PROBLEM SOLVING	-	1,762	1,762	-	-
SCHOOL CONCESSION	6,301	10,273	7,684	353	9,243
TEACHER VENDING	4,793	1,692	5,725	-	761
PARKING	334	2,200	2,514	-	19
ATHLETICS	1,000	64,137	71,216	7,869	1,790
BASEBALL	-	-	-	-	-
BOYS BASKETBALL	786	4,559	85	(5,260)	(0)
CHEERLEADING	1,652	27,864	21,824	-	7,692
CONCESSIONS	-	302	-	(302)	-
DANCE TEAM	3,939	28,032	30,943	(20)	1,008
FOOTBALL	13,013	50,754	59,204	(309)	4,254
GIRLS BASKETBALL	-	5,345	2,801	(2,544)	-
GOLF	828	258	949	-	137
ACADEMIC TEAM	-	673	495	-	178
ART CLUB	26	-	-	-	26
AP/SAT PLAN	135	336	354	-	117
BAND	686	8,128	7,612	-	1,202
HONOR BAND	3	-	-	-	3
BETA CLUB	8,353	7,113	4,548	(250)	10,668
BLACK BEAR STORE	25	55	(236)	-	315
CHORUS	2,407	1,036	465	-	2,978
COMMERCE	200	-	-	-	200
DRAMA CLUB	4,503	4,358	5,871	-	2,990
FBLA	-	406	393	170	183
FCCLA	120	845	277	72	760
FUTURE EDUCATORS	353	-	-	-	353
HISTORY CLUB	-	60	-	(60)	-
HOME EC/MCCORMICK	179	1,743	1,923	172	170
HOME EC/PHILLIPS	395	975	1,258	(112)	-
JROTC	400	8,952	10,007	702	46
LIBRARY	442	430	252	-	620
NATIONAL HONORS	2,369	4,022	4,202	(317)	1,872
PEP CLUB	-	1,260	1,055	-	205
PRIDE/AWARDS	7	-	-	-	7
PROM	1,303	15,100	15,450	(953)	-
SPECIAL NEEDS	3	-	-	-	3
TECHNICAL STUDENTS	65	-	-	-	65
YEARBOOK	321	755	(175)	-	1,251
YOUTH SERVICE CENTER	2,077	536	801	70	1,883
52 DISTRICT TOURNAMENT	1,998	3,575	5,529	(28)	16
GUIDANCE OFFICE FUND	390	55	405	-	40
PEP BAND	-	30	-	-	30
TOTALS	\$ 62,790	\$ 282,657	\$ 289,938	\$ 0	\$ 55,510

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2015, the District had received food commodities totaling \$175,217.

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education:				
School Breakfast Program	10.553			
Fiscal Year 14		7760005 14	\$ N/A	\$ 176,541
Fiscal Year 15		7760005 15	N/A	562,601
National School Lunch Program	10.555			
Fiscal Year 14		7750002 14	N/A	405,958
Fiscal Year 15		7750002 15	N/A	1,278,933
Child Nutrition Cluster Subtotal				<u>2,424,033</u>
Fresh Fruits & Vegetables	10.582			
Fiscal Year 14		7720012 14	N/A	38,247
Fiscal Year 15		7720012 15	N/A	128,085
				<u>166,332</u>
Child & Adult Care Food Program	10.558			
Fiscal Year 14		7790021 14	N/A	18,436
Fiscal Year 15		7790021 15	N/A	33,603
Fiscal Year 14		7800016 14	N/A	1,344
Fiscal Year 15		7800016 15	N/A	2,465
				<u>55,848</u>
Passed Through State Department of Agriculture:				
Food Donation-Commodities	10.565			
Fiscal Year 15		510.4950	N/A	175,217
Total US Department of Agriculture				<u>2,821,430</u>
US Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 14		3100002 14	1,981,441	465,666
Fiscal Year 14D		3100002 14	405,610	173,929
Fiscal Year 14M		3100002 14	24,111	16,374
Fiscal Year 15		3100002 15	1,868,412	1,570,926
Fiscal Year 15D		3100002 15	400,000	236,328
Fiscal Year 15M		3100002 15	22,913	11,761
				<u>2,474,983</u>
* Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	999,238	185
Fiscal Year 14		3810002 14	969,759	317,425
Fiscal Year 15		3810002 15	1,014,498	631,517
* Special Education - Preschool Grants	84.173A			
Fiscal Year 14		3800002 14	94,197	56,129
Fiscal Year 15		3800002 15	94,197	73,141
Special Education Cluster Subtotal				<u>1,078,397</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 14A		4621132 14	1,982	1,982
Fiscal Year 15		4621132 15	46,564	46,468
				<u>48,450</u>
21st Century Community Learning	84.287			
Fiscal Year 12		3400002 12	337,000	81
Fiscal Year 13		3400002 13	187,500	57,191
Fiscal Year 13U		3400002 13	5,000	5,000
Fiscal Year 13Z		3400002 13	24,000	24,000
Fiscal Year 14		3400002 14	75,000	77,630
				<u>163,902</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	107,823	6,899
Rural Education	84.358B			
Fiscal Year 14		3140002 14	72,092	24,450
Fiscal Year 15		3140002 15	86,377	86,377
				<u>110,827</u>
* Improving Teacher Quality State Grants	84.367A			
Fiscal Year 14		3230002 14	460,854	358,402
Fiscal Year 15		3230002 15	459,604	209,812
				<u>568,214</u>
Fund for the Improvement of Education-Elementary School Counseling	84.215E			
Fiscal Year 14		Q215E110028	1,200,000	423,612
Education Technology State Grants	84.318X			
Fiscal Year 11		4210002 11	9,297	782
Passed Through Kentucky Valley Educational Cooperative				
Race to the Top - District	84.416A	B416A140080		
Fiscal Year 15			N/A	186,676
Passed through Berea College				
* Gaining Early Awareness and Readiness for Undergraduate Programs II	84.334S			
Fiscal Year 15		379A	692,750	5,829
Fiscal Year 15A		379AA	392,750	297,393
Fiscal Year 15B		379AB	300,000	242,090

See the accompanying notes to the schedule of expenditures of federal awards.

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
				545,311
Total US Department of Education				<u>5,608,053</u>
US Department of Defense				
Passed directly from the U.S. Department of the Army				
ROTC	12.000			
Fiscal Year 15		504A	N/A	35,528
Total US Department of the Army				<u>35,528</u>
Total Expenditure of Federal Awards				\$ <u>8,465,011</u>

* Major program

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Harlan County School District's basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Harlan County School District, in a separate letter dated November 13, 2015.

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 13, 2015

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

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

Report on Compliance for Each Major Federal Program

We have audited Harlan County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Harlan County School District's major federal programs for the year ended June 30, 2015. Harlan County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harlan County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Harlan County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

White & Associates, PSC

Richmond, Kentucky
November 13, 2015

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2015

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Improving Teacher Quality [CFDA 84.367A] Title I [CFDA 84.010A] Special Education Cluster [CFDA 84.027A, 84.173A] Gaining Early Awareness and Readiness Undergraduate Programs [CFDA 84.334S]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No major federal award findings.

HARLAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2015

There were no prior audit findings.