

**LETCHER 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 Letcher County Board of Education and
State Committee for School District Audits
Whitesburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County School District (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 P 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, P.C.

Richmond, Kentucky
November 13, 2015

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

As management of the Letcher County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 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 balance for Fund 1 for the district was \$1.4 million, the Fund 1 (One) ending balance was \$3.3 million.
- The district constructs and renovates facilities with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.
- The district issued two bonds during fiscal year 2015.
- The district levied the compensating tax rate in property taxes during 2015.
- The General Fund had \$27.73 million in revenue, including on behalf payments made by the state, which primarily consisted of the state program (SEEK), property, utility, and motor vehicle taxes. There were \$26.4 million in General Fund expenditures.
- During fiscal 2015 the District was impacted by high transportation costs and high utility costs. Local revenue was required to supplement transportation expenses and utility expenses unfunded by the state.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of Letcher County Schools, assets exceeded liabilities by \$27.62 million for Governmental Activities, and \$.45 million for Business Type Activities 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), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

	Net Position \$ (in Millions)					
	Governmental Activities		Business-type Activities		Totals	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Current assets	2.41	4	0.53	0.47	2.94	4.47
Non-current assets	51.71	51.88	0.09	0.23	51.8	52.11
Total assets	54.12	55.88	0.62	0.7	54.74	56.58
Deferred outflows	1.39	2.12	-	0.02	1.39	2.15
Current liabilities	1.92	1.95	0.01	0.01	1.93	1.96
Non-current liabilities	22.86	27.73	-	0.24	22.86	27.97
Total liabilities	24.78	29.68	0.01	0.25	24.79	29.93
Deferred inflows		0.7			-	0.7
Net position:						
Invested in capital assets, net of debt	29.44	29.6	0.1	0.23	29.54	29.84
Restricted	0.3	0.29	0.5	0.21	0.8	0.5
Unrestricted (deficit)	0.99	-2.28	-		0.99	-2.28
Total net position	30.73	27.62	0.6	0.45	31.33	28.06

At the end of fiscal 2015, the District had \$52.11 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions, deductions construction in progress) of \$.32 million.

	Capital Assets at Year-End \$ (Net of Depreciation, in Millions)					
	Governmental Activities		Business-type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Land	6.92	6.92	-	-	6.92	6.92
Land Improvements	4.05	4.04	-	-	4.05	4.04
Buildings	39.63	39.23	-	-	39.63	39.23
Technology Equipment	-	-	-	-	-	-
Vehicles	0.74	1.28	-	-	0.74	1.28
General Equipment	0.36	0.4	0.09	0.23	0.45	0.64
Construction in Progress	-	-	-	-	-	-
Totals	51.7	51.87	0.09	0.23	51.79	52.1

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

	Changes in Net Position (in millions)						Total % Change 2014-2015
	Governmental Activities		Business-Type Activities		Total School District		
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	
Revenues:							
Charges for services	\$0.16	\$0.06	\$0.18	\$0.14	\$0.34	\$0.20	-42%
Operating grants and contributions	3.81	12.25	2.25	2.38	6.06	14.63	141%
Capital grants and contributions	1.83	1.77			1.83	1.77	-3%
General revenues	25.77	22.65		0	25.77	22.65	-12%
Total revenue	31.57	36.73	2.43	2.52	34	39.25	15%
Expenses:							
Instruction	\$17.51	\$20.78			\$17.51	\$20.78	19%
Student	1.86	1.75			1.86	1.75	-6%
Instructional staff	0.99	1.03			0.99	1.03	4%
District administration	0.6	0.78			0.6	0.78	30%
School administration	1.52	1.56			1.52	1.56	3%
Business	0.83	0.78			0.83	0.78	-6%
Plant operation & maintenance	3.04	3.18			3.04	3.18	5%
Student transportation	2.3	1.85			2.3	1.85	-20%
Community services operations	0.36	0.36			0.36	0.36	1%
Food Service Operations			2.01	2.41	2.01	2.41	20%
Building Acquisition	0.42				0.42	-	-100%
Depreciaion/Amortization	0.75	0.72	0.04	0.0328	0.79	0.76	-4%
Loss on retirement of assets	0.39	0			0.39	0	-100%
Interest on long-term debt	0.86	0.76			0.86	0.76	-11%
Total Expenses	\$31.43	\$33.56	\$2.05	\$2.44	\$33.48	\$36.01	8%
Change in net position	\$0.14	\$3.16	\$0.38	\$0.08	\$0.52	\$3.24	-523%

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

DEBT

There were two bonds issued during fiscal year 2015. At this time we are anticipating there will be no bonds sold in the fiscal year 2016.

Outstanding Debt at Year-End

(in Millions)

	Government Activities	
	2014	2015
General Obligation Bonds	\$23.63	\$22.28
Capital Lease Obligations	0.03	-
Total Obligations	\$23.66	\$22.28

COMMENTS ON BUDGET COMPARISONS

- Actual General Fund revenue exceeded the budget by \$806,505. This does not include the \$5.4 million of on-behalf payments made by the state for insurances, teachers' retirement, etc. for the benefit of the district and its employees. General Fund budget compared to actual revenue varied slightly in most line items. The line item that varied most significantly was property taxes.
- Actual General Fund expenditures were less than the budget by \$2.47 million. General Fund budgeted expenditures compared to actual varied significantly in District Administrative Support. Workers compensation, unemployment and contingency are budgeted in District Administrative Support; however, expenditures are made from the same function as the related salary. Consequently, throughout the financial report, employee benefits exceed the budget in each function (net of on-behalf) except District Administrative Support.

THE DISTRICT'S FUNDS

As the District completed the year, its General Fund reflected a fund balance of \$3.3 million, which is more than last year's fund balance of \$1.8 million. It is important to note that a portion of the balance is reserved for prior year encumbrances. The unassigned portion of the fund balance in fiscal 2015 was \$3.3 million, compared to the \$1.8 million from the preceding year. The amount of local taxes collected in 2015 in the amount of \$6.6 million and the amount collected for 2014 was \$5.7 million which resulted in an increase in local tax collections in the amount of \$.9 million.

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2015 for selected funds.

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	6,773,991	57,164		510,621		171	140,509
State Revenue Sources	20,785,573	960,545	285,695	559,307		864,370	160,019
Federal Revenue Sources	172,545	3,326,778				63,756	2,222,089
Other	43,660					5,058,579	
Transfers	114,791	68,565				1,290,062	
TOTALS	27,890,560	4,413,052	285,695	1,069,928	-	7,276,938	2,522,617
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	15,394,123	3,203,640					
Student Support Services	1,697,913	50,301					
Instructional Staff Support Services	428,299	532,525					
District Admin Support	797,423						
School Admin Support	1,569,189						
Business Support Services	712,385	59,579					
Plant Operation & Management	3,165,690	54,843					
Student Transportation	2,455,987	102,447					
Food Service Operations							2,410,485
Community Services		361,582					
Debt Service	31,810					2,286,858	
Site Improvement							
Building Renovations							
Other Items		48,135				4,989,909	
Transfers	68,565		286,790	1,069,928			
Depreciation							32,860
TOTALS	26,321,383	4,413,052	286,790	1,069,928	-	7,276,767	2,443,345
Excess / (Deficit)	1,569,178	-	-1,095	-	-	171	79,272

**LETCHER COUNTY SCHOOL DISTRICT - WHITESBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools' fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2015-2016 with a 5.4% contingency as calculated by the Kentucky Department of Education. Significant Board action that impacts the finances continued funding of Board initiatives such as Study Island and Think Link.

Issues which will impact future budgets include:

- Increased staffing and expenses to meet federal and state academic mandates
- Declining federal funds and federal funding not maintaining the pace of mandated pay increases
- The need of improving programming and meeting the academic audit recommendations and No Child Left Behind requirements
- Insufficient funding of the state transportation formula

- Prior years settlement assessment from KSBIT for workers compensation claims.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,250,860	\$ 420,977	\$ 3,671,838
Receivables (net)	753,424		753,424
Inventories		45,860	45,860
Capital assets:			
Land, improvements, and construction in progress	6,920,972		6,920,972
Other capital assets, net of depreciation	44,955,304	234,342	45,189,646
Total capital assets	<u>51,876,276</u>	<u>234,342</u>	<u>52,110,618</u>
Total assets	<u>55,880,559</u>	<u>701,180</u>	<u>56,581,740</u>
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	784,224	24,932	809,156
Deferred savings from refunding bonds	1,337,064		1,337,064
Total deferred outflows of resources	<u>2,121,288</u>	<u>24,932</u>	<u>2,146,220</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>58,001,848</u>	<u>726,112</u>	<u>58,727,960</u>
LIABILITIES			
Accounts payable and accrued expenses	169,733	9,325	179,058
Accrued interest payable	120,353		120,353
Unearned revenue	228,802		228,802
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,375,000		1,375,000
KSBIT payable	61,013		61,013
Total due within 1 year	<u>1,436,013</u>	<u>-</u>	<u>1,436,013</u>
Due in more than 1 year:			
Bond obligations	20,900,000		20,900,000
KSBIT payable	305,067		305,067
Sick leave	231,116		231,116
Net pension liability	6,292,209	243,791	6,536,000
Total due in more than 1 year	<u>27,728,392</u>	<u>243,791</u>	<u>27,972,183</u>
Total liabilities	<u>29,683,294</u>	<u>253,116</u>	<u>29,936,409</u>
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	702,771	27,229	730,000
NET POSITION			
Net Investment in capital assets	29,601,276	234,342	29,835,618
Restricted for:			
Capital projects	257,822		257,822
Debt service	35,136		35,136
Food services		211,425	211,425
Deficit	(2,278,450)		(2,278,450)
Total net position	<u>27,615,783</u>	<u>445,768</u>	<u>28,061,551</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 58,001,848</u>	<u>\$ 726,112</u>	<u>\$ 58,727,960</u>

See the accompanying notes to the financial statements.

Letcher 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	\$ 20,779,229	\$ 3,315	\$ 8,122,965	\$ -	\$ (12,652,948)		\$ (12,652,948)
Support Services							
Student	1,753,154		639,667		(1,113,487)		(1,113,487)
Instructional Staff	1,032,044		376,558		(655,486)		(655,486)
District Administration	780,443		284,757		(495,685)		(495,685)
School Administration	1,558,942		568,806		(990,136)		(990,136)
Business	778,519		284,055		(494,463)		(494,463)
Plant Operation & Maintenance	3,183,089		1,161,402	845,002	(1,176,684)		(1,176,684)
Student Transportation	1,847,741		674,179		(1,173,562)		(1,173,562)
Community Services Operations	364,667	14,095	133,055		(217,517)		(217,517)
Food Services	-	40,780			40,780		40,780
Amortization	102,086				(102,086)		(102,086)
Depreciation	615,194				(615,194)		(615,194)
Loss on retirement of assets	1,837				(1,837)		(1,837)
Interest on Long-term debt	764,497			928,126	163,629		163,629
Total governmental activities	<u>33,561,440</u>	<u>58,190</u>	<u>12,245,445</u>	<u>1,773,128</u>	<u>(19,484,677)</u>		<u>(19,484,677)</u>
Business-type activities:							
Food service operations	2,410,485	138,069	2,382,108			\$ 109,692	109,692
Depreciation	32,860					(32,860)	(32,860)
Total business-type activities	<u>2,443,346</u>	<u>138,069</u>	<u>2,382,108</u>	<u>-</u>	<u>-</u>	<u>76,832</u>	<u>76,832</u>
Total primary government	<u>\$ 36,004,786</u>	<u>\$ 196,260</u>	<u>\$ 14,627,553</u>	<u>\$ 1,773,128</u>	<u>(19,484,677)</u>	<u>76,832</u>	<u>(19,407,846)</u>
General revenues:							
Taxes:							
Property taxes					4,407,083		4,407,083
Motor vehicle taxes					672,337		672,337
Utility taxes					1,304,006		1,304,006
Unmined minerals tax					788,793		788,793
State and formula grants					15,322,552		15,322,552
Unrestricted investment earnings					20,970	2,440	23,410
Other local revenue					134,229		134,229
Total general revenues					<u>22,649,970</u>	<u>2,440</u>	<u>22,652,410</u>
Change in net position					3,165,292	79,272	3,244,564
Net Position - beginning					30,730,127	609,800	31,339,927
Prior period adjustment					(6,279,636)	(243,304)	(6,522,940)
Restated net position - beginning					<u>24,450,491</u>	<u>366,496</u>	<u>24,816,987</u>
Net position - ending					<u>\$ 27,615,783</u>	<u>\$ 445,768</u>	<u>\$ 28,061,551</u>

See the accompanying notes to the financial statements.

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

	Governmental Funds				
	General	Special Revenue	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 3,456,532	\$ -	\$ 35,136	\$ 257,822	\$ 3,749,490
Receivables, net					
Accounts		18,246			18,246
Intergovernmental-federal		735,178			735,178
Total assets	3,456,532	753,424	35,136	257,822	4,502,913
LIABILITIES					
Accounts payable	143,742	25,991			169,733
Cash shortage		498,630			498,630
Unearned revenue		228,802			228,802
Total liabilities	143,742	753,424	-	-	897,165
FUND BALANCE					
Restricted			35,136	257,822	292,957
Unassigned	3,312,791				3,312,791
Total fund balance	3,312,791	-	35,136	257,822	3,605,748
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,456,532	\$ 753,424	\$ 35,136	\$ 257,822	\$ 4,502,913

See the accompanying notes to the financial statements.

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

Fund balances-total governmental funds	\$	3,605,748
<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.		51,876,276
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		1,337,064
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		(120,353)
Bonds payable		(22,275,000)
KSBIT payable		(366,080)
Sick leave liability		(231,116)
Net pension liability		(6,292,209)
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		784,224
Deferred inflows of resources related to pensions		<u>(702,771)</u>
Net position of governmental activities	\$	<u><u>27,615,783</u></u>

See the accompanying notes to the financial statements.

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
From Local Sources					
Taxes					
Property	\$ 3,896,462	\$ -	\$ -	\$ 510,621	\$ 4,407,083
Motor vehicle	672,337				672,337
Unmined minerals tax	788,793				788,793
Utilities	1,304,006				1,304,006
Earnings on investments	20,124	674	171		20,970
Tuition	3,315				3,315
Food Service		40,780			40,780
Community Service		14,095			14,095
Other local revenue	88,954	1,615			90,569
Intergovernmental - state	20,785,573	960,545	864,370	845,002	23,455,490
Intergovernmental - federal	172,545	3,326,778	63,756		3,563,079
Total revenues	<u>27,732,109</u>	<u>4,344,487</u>	<u>928,297</u>	<u>1,355,623</u>	<u>34,360,517</u>
EXPENDITURES					
Instruction	15,394,123	3,203,640			18,597,763
Support Services					
Student	1,697,913	50,301			1,748,214
Instructional Staff	528,299	532,525			1,060,824
District Administration	797,423				797,423
School Administration	1,569,189				1,569,189
Business	712,385	59,579			771,964
Plant Operation & Maintenance	3,165,690	54,843			3,220,533
Student Transportation	2,455,987	102,447			2,558,434
Community Services Operations		361,582			361,582
Debt Service	31,810		2,286,858		2,318,668
Total expenditures	<u>26,352,817</u>	<u>4,364,917</u>	<u>2,286,858</u>	<u>-</u>	<u>33,004,593</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,379,292	(20,430)	(1,358,561)	1,355,623	1,355,924
OTHER FINANCING SOURCES (USES)					
Loss compensation	43,660				43,660
Bond proceeds			5,030,000		5,030,000
Bond premium			28,579		28,579
Underwriters discount			(13,798)		(13,798)
Amount to trustee			(4,976,111)		(4,976,111)
Operating transfers in	114,791	68,565	1,290,062		1,473,418
Operating transfers (out)	(68,565)	(48,135)		(1,356,718)	(1,473,418)
Total other financing sources and (uses)	<u>89,886</u>	<u>20,430</u>	<u>1,358,732</u>	<u>(1,356,718)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,469,178	-	171	(1,095)	1,468,255
FUND BALANCE, BEGINNING	<u>1,843,613</u>	<u>-</u>	<u>34,964</u>	<u>258,917</u>	<u>2,137,494</u>
FUND BALANCE, ENDING	<u>\$ 3,312,791</u>	<u>\$ -</u>	<u>\$ 35,136</u>	<u>\$ 257,822</u>	<u>\$ 3,605,748</u>

See the accompanying notes to the financial statements.

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

Net change in fund balances-total governmental funds	\$	1,468,255
<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>		
District pension contributions less costs of benefits earned net employee contributions		68,880
<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>		
		169,370
<p>Accounts receivable from delinquent property taxes are not recorded in the fund financial statements because they are not available for use (received within 60 days). These receivables are accrued on the statement of net position because they have been earned and are measurable.</p>		
<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>		
		(102,086)
<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>		
		1,426,808
<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>		
Accrued interest payable		58,692
Net pension liability		122,027
KSBIT liability		(46,654)
Noncurrent sick leave payable		<u>(46,654)</u>
Change in net position of governmental activities	\$	<u><u>3,165,292</u></u>

See the accompanying notes to the financial statements.

Letcher County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General 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				
Taxes				
Property	\$ 3,125,000	\$ 3,125,000	\$ 3,896,462	\$ 771,462
Motor vehicle	570,000	570,000	672,337	102,337
Unmined minerals tax	800,000	800,000	788,793	(11,207)
Utilities	1,500,000	1,500,000	1,304,006	(195,994)
Tuition	5,000	5,000	3,315	(1,685)
Earnings on investments	15,000	15,000	20,124	5,124
Other local revenue	60,000	60,000	88,954	28,954
Intergovernmental - state	15,353,608	15,353,608 *	15,388,577	34,969
Intergovernmental - federal	100,000	100,000	172,545	72,545
Total revenues	<u>21,528,608</u>	<u>21,528,608</u>	<u>22,335,113</u>	<u>806,505</u>
EXPENDITURES				
Instruction	11,510,531	11,510,531 *	11,420,924	89,607
Support Services				
Student	1,349,403	1,349,403 *	1,321,635	27,768
Instructional Staff	506,991	506,991 *	420,310	86,682
District Administration	2,849,668	907,107 *	732,977	174,130
School Administration	1,189,968	1,189,968 *	1,217,947	(27,979)
Business	615,790	615,790 *	609,650	6,140
Plant Operation & Maintenance	3,078,798	3,078,798 *	2,970,111	108,686
Student Transportation	2,288,650	2,288,650 *	2,230,459	58,191
Debt Service	31,810	31,810	31,810	-
Building Improvement	3,000	3,000	-	3,000
Total expenditures	<u>23,424,609</u>	<u>21,482,047</u>	<u>20,955,821</u>	<u>526,226</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,896,001)	46,561	1,379,292	1,332,731
OTHER FINANCING SOURCES (USES)				
Loss compensation	2,000	2,000	43,660	41,660
Operating transfers in			114,791	114,791
Operating transfers (out)	(46,000)	(46,000)	(68,565)	(22,565)
Total other financing sources and (uses)	<u>(44,000)</u>	<u>(44,000)</u>	<u>89,886</u>	<u>92,226</u>
NET CHANGE IN FUND BALANCES	(1,940,001)	2,561	1,469,178	1,424,957
FUND BALANCE, BEGINNING	<u>1,940,000</u>	<u>1,940,000</u>	<u>1,843,613</u>	<u>(96,387)</u>
FUND BALANCE, ENDING	<u>\$ (1)</u>	<u>\$ 1,942,561</u>	<u>\$ 3,312,791</u>	<u>\$ 1,328,569</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 \$5,396,996.

See the accompanying notes to the financial statements.

Letcher 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				
Community Service Activities	\$ -	\$ -	\$ 14,095	\$ 14,095
Earnings from investments			674	674
Food Service	3,438	3,438	40,780	37,342
Other local revenue	6,730	6,730	1,615	(5,115)
Intergovernmental - state	1,155,864	1,155,864	960,545	(195,319)
Intergovernmental - federal	3,177,376	3,177,376	3,326,778	149,402
Total revenues	<u>4,343,408</u>	<u>4,343,408</u>	<u>4,344,487</u>	<u>1,079</u>
EXPENDITURES				
Instruction	3,066,893	3,066,893	3,203,640	(136,747)
Support Services				
Student	174,031	174,031	50,301	123,730
Instructional Staff	628,940	628,940	532,525	96,415
Business	59,899	59,899	59,579	320
Plant Operation & Maintenance	60,819	60,819	54,843	5,976
Student Transportation			102,447	(102,447)
Other	(792)	(792)		(792)
Community Services Operations	356,808	356,808	361,582	(4,773)
Total expenditures	<u>4,346,598</u>	<u>4,346,598</u>	<u>4,364,917</u>	<u>(18,319)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,190)	(3,190)	(20,430)	(17,240)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	108,254	108,254	68,565	(39,689)
Operating transfers (out)	(105,339)	(105,339)	(48,135)	57,204
Total other financing sources and (uses)	<u>2,915</u>	<u>2,915</u>	<u>20,430</u>	<u>17,515</u>
NET CHANGE IN FUND BALANCES	(275)	(275)	0	275
FUND BALANCE, BEGINNING	-	-	-	-
FUND BALANCE, ENDING	<u>\$ (275)</u>	<u>\$ (275)</u>	<u>\$ 0</u>	<u>\$ 275</u>

See the accompanying notes to the financial statements.

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

	<u>School Food Services</u>
ASSETS	
Cash and cash equivalents	\$ 420,977
Inventories	45,860
Capital assets:	
Other capital assets, net of depreciation	<u>234,342</u>
Total assets	<u>701,180</u>
DEFERRED OUTFLOWS OF RESOURCES	
District pension contributions subsequent to the measurement date	<u>24,932</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>726,112</u></u>
LIABILITIES	
Accounts payable	9,325
Net pension liability	<u>243,791</u>
Total liabilities	<u>253,116</u>
DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual earnings on pension plan investments	27,229
NET POSITION	
Net Investment in capital assets	234,342
Restricted for:	
Expendable Restricted for Food Service	<u>211,425</u>
Total net position	<u>445,768</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 726,112</u></u>

See the accompanying notes to the financial statements.

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

	<u>School Food Services</u>
OPERATING REVENUES	
Lunchroom sales	\$ 138,069
Total operating revenues	<u>138,069</u>
OPERATING EXPENSES	
Depreciation	32,860
Food service operations	
Salaries and benefits	901,740
Operational	<u>1,508,745</u>
Total operating expenses	<u>2,443,346</u>
Operating income (loss)	(2,305,276)
NONOPERATING REVENUES (EXPENSES)	
Federal grants	2,222,089
State grants	160,019
Earnings on investments	<u>2,440</u>
Total nonoperating revenues (expenses)	<u>2,384,548</u>
CHANGE IN NET POSITION	79,272
NET POSITION - BEGINNING	609,800
PRIOR PERIOD ADJUSTMENT	<u>(243,304)</u>
RESTATED NET POSITION - BEGINNING	<u>366,496</u>
NET POSITION - ENDING	<u>\$ 445,768</u>

See the accompanying notes to the financial statements.

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

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 138,069
Payments to suppliers	(1,527,018)
Payments to employees	(901,740)
Net cash provided (used) by operating activities	<u>(2,290,689)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants and contributions	2,382,108
Net pension expense	2,784
Net cash provided (used) by noncapital and related financing activities	<u>2,384,892</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(180,357)
Net cash provided (used) by capital and related financing activities	<u>(180,357)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	2,440
Net cash provided (used) by investing activities	<u>2,440</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(83,714)
CASH BALANCE, BEGINNING	<u>504,691</u>
CASH BALANCE, ENDING	<u><u>420,977</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	(2,305,276)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	32,860
Changes in assets and liabilities:	
Receivables	-
Accounts Payable	1,408
Inventories	(19,681)
Net cash provided (used) by operating activities	<u>\$ (2,290,689)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$103,645 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 \$141,427 provided by state government.

See the accompanying notes to the financial statements.

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

		FIDUCIARY FUND
ASSETS		
Cash and cash equivalents	\$	362,558
Accounts receivable		<u>549</u>
Total Assets		<u><u>363,107</u></u>
 LIABILITIES		
Accounts payable		10,481
Due to student groups		<u>352,626</u>
Total Liabilities		<u>363,107</u>
 NET POSITION HELD IN TRUST		<u>-</u>
 TOTAL LIABILITIES AND NET POSITION HELD IN TRUST	\$	<u><u>363,107</u></u>

See the accompanying notes to the financial statements.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Blended Component Unit

Letcher County Board of Education Finance Corporation

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

Basis of Presentation

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

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

Construction Fund

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

(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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Agency Funds

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

Basis of Accounting

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Property Taxes

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

The property tax rates assessed (including exonerations) for the year ended June 30, 2015, to finance the General Fund operations were \$.569 per \$100 valuation of real property, \$.569 per \$100 valuation for business personal property and \$.496 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

SEE SCHEDULE BELOW

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Interfund Balances

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

Budgetary Process

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

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

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.

For the Fiscal Year 2015, the District’s Special Revenue Fund’s expenditures exceeded its appropriations by \$18,319.

Cash and Cash Equivalents

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

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2015 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose; 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) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(including 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

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

	<u>Bank Balance</u>
<u>Whitaker Bank</u>	<u>Demand</u>
FDIC	\$ 250,000
Securities pledged to district	135,170
	<hr/>
Bank balance	\$ 385,170
	<hr/>
<u>Community Trust Bank</u>	<u>Demand</u>
FDIC	\$ 250,000
Securities pledged to district	5,538,026
	<hr/>
Bank balance	\$ 5,788,026
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Book Balance</u>
	<u>Cash</u>
	<u>Equivalents</u>
Governmental Activities	\$ 3,250,860
Business-type Activities	420,977
Agency funds	<u>362,558</u>
Total carrying amount	<u>\$ 4,034,395</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.

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	\$ 6,920,972	\$ -	\$ -	\$ 6,920,972
Land improvements	4,339,734	-	-	4,339,734
Buildings	53,215,464	-	-	53,215,464
Technology equipment	185,029	-	-	185,029
Vehicles	5,232,081	736,087	559,596	5,408,572
General equipment	768,315	50,315	-	818,630
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total at historical cost	\$ <u>70,661,594</u>	\$ <u>786,402</u>	\$ <u>559,596</u>	\$ <u>70,888,400</u>
Less: Accumulated depreciation				
Land improvements	\$ 286,165	\$ 6,096	\$ -	\$ 292,262
Buildings	13,586,440	402,272	-	13,988,711
Technology equipment	184,629	400	-	185,029
Vehicles	4,489,653	199,927	557,759	4,131,821
General equipment	<u>407,802</u>	<u>6,500</u>	<u>-</u>	<u>414,302</u>
Total accumulated depreciation	\$ <u>18,954,689</u>	\$ <u>615,194</u>	\$ <u>557,759</u>	\$ <u>19,012,124</u>
Governmental Activities				
Capital Assets-net	\$ <u>51,706,905</u>	\$ <u>171,207</u>	\$ <u>1,837</u>	\$ <u>51,876,276</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Business-Type Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Technology equipment	\$ (1,414)	\$ -	\$ -	\$ (1,414)
General equipment	<u>419,403</u>	<u>180,357</u>	<u>-</u>	<u>599,760</u>
Total at historical cost	\$ <u>417,989</u>	\$ <u>180,357</u>	\$ <u>-</u>	\$ <u>598,346</u>
Less: Accumulated depreciation				
Technology equipment	(1,414)	-	-	(1,414)
General equipment	<u>332,557</u>	<u>32,860</u>	<u>-</u>	<u>365,417</u>
Total accumulated depreciation	\$ <u>331,143</u>	\$ <u>32,860</u>	\$ <u>-</u>	\$ <u>364,003</u>
 Business-Type Activities				
Capital Assets-net	\$ <u>86,846</u>	\$ <u>147,496</u>	\$ <u>-</u>	\$ <u>234,342</u>

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

NOTE D – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the Letcher County School District Finance Corporation aggregating \$22,275,000 and \$1,375,000 is the portion due within one year.

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

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

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014 Bonds Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 Bonds Outstanding</u>
2010	\$ 4,560,000	8/1/2030	1.25 - 6%	\$ 4,010,000	\$ -	\$ 4,010,000	\$ -
2012R	14,730,000	6/1/2029	2.0 - 3.375%	13,485,000		435,000	13,050,000
2011R	2,130,000	8/1/2023	1.0 - 3.125%	2,045,000		190,000	1,855,000
2005	1,800,000	6/1/2025	3.9%	1,185,000		1,185,000	-
2012	2,460,000	8/1/2032	.8 - 3.05%	2,405,000		55,000	2,350,000
2001	4,750,000	10/1/2014	2.5 - 4.125%	495,000		495,000	-
2015A	1,130,000	6/1/2025	2.0 - 3.0%		1,130,000	10,000	1,120,000
2015B	\$ 3,900,000	8/1/2030	2.0 - 3.0%		3,900,000		3,900,000
				<u>\$ 23,625,000</u>	<u>\$ 5,030,000</u>	<u>\$ 6,380,000</u>	<u>\$ 22,275,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service, (principal and interest) are as follows:

<u>Year</u>	<u>Local</u>		<u>SFCC</u>		<u>Federal Rebate</u>	<u>Total Principal</u>	<u>Total Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>			
2016	\$ 819,093	\$ 434,174	\$ 555,907	\$ 182,645	\$ (67,425)	\$ 1,375,000	\$ 549,394
2017	847,569	413,678	557,431	181,123	(65,065)	1,405,000	529,737
2018	875,157	388,716	569,843	168,710	(62,402)	1,445,000	495,024
2019	896,889	363,125	583,111	155,442	(59,495)	1,480,000	459,072
2020	918,290	336,806	616,710	141,527	(56,317)	1,535,000	422,016
2021-2025	5,040,170	1,261,024	2,919,830	464,376	(223,641)	7,960,000	1,501,760
2026-2030	4,534,662	464,651	1,580,338	180,038	(99,383)	6,115,000	545,306
2031-2033	554,887	25,771	405,113	13,451	(2,468)	960,000	36,754
	<u>\$ 14,486,717</u>	<u>\$ 3,687,945</u>	<u>\$ 7,788,283</u>	<u>\$ 1,487,313</u>	<u>\$ (636,195)</u>	<u>\$ 22,275,000</u>	<u>\$ 4,539,063</u>

NOTE E – CAPITAL LEASE PAYABLE

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

<u>Capital Lease Issues</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014 Capital Lease Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 Capital Lease Outstanding</u>
2005	\$ 320,803	3/1/2015	3-3.625%	\$ 30,697	\$ -	\$ 30,697	\$ -
				<u>\$ 30,697</u>	<u>\$ -</u>	<u>\$ 30,697</u>	<u>\$ -</u>

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 fiscal year 2015 for accumulated sick leave is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014			2015		
	Outstanding	Additions	Retirements	Outstanding	Additions	Retirements
	<u>Balance</u>			<u>Balance</u>		
Sick Leave	\$ 184,462	\$ 46,654	\$ -	\$ 231,116		
Totals	\$ 184,462	\$ 46,654	\$ -	\$ 231,116		

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:

	2014			2015		
<u>Insurance Fund</u>	Outstanding	Additions	Retirements	Outstanding	Additions	Retirements
	<u>Balance</u>			<u>Balance</u>		
Worker's Compensation	\$ 488,107	\$ -	\$ 122,027	\$ 366,080		

The minimum payments are as follows:

Fiscal Year	
Ended June 30,	
	<u>Payment</u>
2016	\$ 61,013
2017	61,013
2018	61,013
2019	61,013
2020	61,013
2021	<u>61,013</u>
Total	<u>\$ 366,080</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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	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	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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	\$	6,536,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the district		<u>91,307,242</u>
	\$	<u>97,843,242</u>

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 .20146% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$743,060 related to CERS and \$7,860,979 related to KTRS. The District also recognized revenue of \$7,860,979 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:

	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	-	730,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	809,156	-
	\$ 809,156	\$ 730,000

\$809,156 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	\$ 161,831
2017	161,831
2018	161,831
2019	161,831
2020	161,831
	\$ 809,156

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	7,379,484	6,536,000	5,692,744
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 - 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 I- LITIGATION

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

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

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

The District purchases unemployment insurance through the Kentucky School Districts Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE L – DEFICIT OPERATING BALANCES

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net position</u>
Capital Outlay Fund	\$ (1,095)

NOTE M - COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	KETS	\$ 68,565
Capital Outlay Fund	General Fund	Operating Expense	114,791
Capital Outlay Fund	Debt Service Fund	Debt Payments	171,999
FSPK Fund	Debt Service Fund	Debt Payments	1,069,928
Special Revenue	Debt Service Fund	Debt Payments	\$ 48,135

NOTE O – 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)	\$ 2,151,685
Health Insurance	3,425,278
Life Insurance	6,401
Administrative Fee	43,854
HRA/Dental/Vision	177,625
Federal Reimbursement	(331,909)
Technology	65,488
SFCC Debt Service Payments	<u>864,370</u>
Total	<u>\$ 6,402,793</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 P – 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 \$6,522,940 reduction in beginning net position on the Statement of Activities and an increase of \$873,060 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTE Q – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Food Service	\$ 211,425	Food Service Operations
Construction	257,822	Future construction
Debt Service	\$ 35,136	Debt Service

NOTE R – SUBSEQUENT EVENTS

The District on July 28, 2015 sold the old Whitesburg High School Property for \$427,673. The District has evaluated subsequent events through November 13, 2015, the date of the audit report.

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

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
	(2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.20%
District's proportionate share of the net pension liability	\$6,536,000
State's proportionate share of the net pension liability associated with the District	0
Total	\$6,536,000
District's covered-employee payroll	\$4,618,001
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.53%
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	0.444%
District's proportionate share of the net pension liability	\$0
State's proportionate share of the net pension liability associated with the District	91,307,242
Total	\$91,307,242
District's covered-employee payroll	\$0
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.

LETCHER COUNTY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS

	2015	2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Contractually required contribution	\$809,156	\$872,340
Contributions in relation to the contractually required contribution	809,156	872,340
Contribution deficiency (excess)	\$0	\$0
District's covered-employee payroll	\$4,523,724	\$4,618,001
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	17.89%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$0	\$0
Contributions in relation to the contractually required contribution	\$0	\$0
Contribution deficiency (excess)	\$0	\$0
District's covered-employee payroll	\$0	\$0
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.

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

Changes of benefit terms – None

Changes of assumptions - None

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

Other Governmental Funds				
	Capital Outlay	FSPK	Construction Fund	Total
Assets				
Cash and Cash Equivalents	\$ -	\$ -	\$ 257,822	\$ 257,822
Total Assets	-	-	257,822	257,822
Fund Balances				
Restricted			257,822	257,822
Total Fund Balances	\$ -	\$ -	\$ 257,822	\$ 257,822

See the accompanying notes to the financial statements.

Letcher County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
Year ended June 30, 2015

	Other Governmental Funds			
	Capital Outlay	FSPK	Construction Fund	Total
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ 510,621	\$ -	\$ 510,621
Intergovernmental - State	285,695	559,307		845,002
Total Revenues	285,695	1,069,928	-	1,355,623
Expenditures				
Building Improvements				-
Total Expenditures	-	-	-	-
Excess (Deficit) of Revenues Over Expenditures	285,695	1,069,928	-	1,355,623
Other Financing Sources (Uses)				
Transfers In				-
Transfers (Out)	(286,790)	(1,069,928)		(1,356,718)
Total Other Financing Sources (Uses)	(286,790)	(1,069,928)	-	(1,356,718)
Net Change in Fund Balances	(1,095)	-	-	(1,095)
Fund Balance-Beginning	1,095	-	257,822	258,917
Fund Balance-Ending	\$ 0	\$ -	\$ 257,822	\$ 257,822

See the accompanying notes to the financial statements.

Letcher County School District
Combining Balance Sheet of Fiduciary Fund - School Activity Funds
 June 30, 2015

	<u>LETCHER CENTRAL HIGH SCHOOL</u>	<u>WHITESBURG MIDDLE SCHOOL</u>	<u>LETCHER MIDDLE SCHOOL</u>	<u>FLEMING NEON MIDDLE SCHOOL</u>	<u>ARLIE BOGGS ELEMENTARY</u>	<u>COWAN ELEMENTARY</u>
ASSETS						
Cash and cash equivalents	\$ 114,470	\$ 26,938	\$ 10,403	\$ 50,727	\$ 14,379	\$ 48,880
Accounts receivable	-	-	49	-	-	-
Total Assets	<u>114,470</u>	<u>26,938</u>	<u>10,452</u>	<u>50,727</u>	<u>14,379</u>	<u>48,880</u>
LIABILITIES AND FUND BALANCE						
Accounts payable	<u>1,812</u>	<u>103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>347</u>
Total Liabilities	<u>1,812</u>	<u>103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>347</u>
Fund Balance						
School activities	<u>112,659</u>	<u>26,835</u>	<u>10,452</u>	<u>50,727</u>	<u>14,379</u>	<u>48,532</u>
Total Liabilities and Fund Balance	<u>\$ 114,470</u>	<u>\$ 26,938</u>	<u>\$ 10,452</u>	<u>\$ 50,727</u>	<u>\$ 14,379</u>	<u>\$ 48,880</u>

See the accompanying notes to the financial statements.

Letcher County School District
Combining Balance Sheet of Fiduciary Fund - School Activity Funds
 June 30, 2015

	<u>LETCHER ELEMENTARY</u>	<u>MARTHA JANE POTTER ELEMENTARY</u>	<u>WEST WHITESBURG ELEMENTARY</u>	<u>SCHOOL ACTIVITY FUNDS TOTALS</u>
ASSETS				
Cash and cash equivalents	\$ 19,634	\$ 47,957	\$ 29,170	\$ 362,558
Accounts receivable	50	450	-	549
Total Assets	<u>19,684</u>	<u>48,407</u>	<u>29,170</u>	<u>363,107</u>
LIABILITIES AND FUND BALANCE				
Accounts payable	<u>1,704</u>	<u>5,615</u>	<u>900</u>	<u>10,481</u>
Total Liabilities	<u>1,704</u>	<u>5,615</u>	<u>900</u>	<u>10,481</u>
Fund Balance				
School activities	<u>17,980</u>	<u>42,792</u>	<u>28,270</u>	<u>352,626</u>
Total Liabilities and Fund Balance	<u>\$ 19,684</u>	<u>\$ 48,407</u>	<u>\$ 29,170</u>	<u>\$ 363,107</u>

See the accompanying notes to the financial statements.

Letcher County School District
Combining Statement of Revenues, Expenses and Changes In Fund Balance - School Activity Funds
 Year ended June 30, 2015

	<u>LETCHER COUNTY CENTRAL HIGH SCHOOL</u>	<u>WHITESBURG MIDDLE SCHOOL</u>	<u>LETCHER MIDDLE SCHOOL</u>	<u>FLEMING NEON MIDDLE SCHOOL</u>	<u>ARLIE BOGGS ELEMENTARY</u>	<u>COWAN ELEMENTARY</u>	<u>LETCHER ELEMENTARY</u>
REVENUES							
Student revenues	\$ 563,779	\$ 94,647	\$ 70,497	\$ 108,092	\$ 34,186	\$ 121,829	\$ 72,799
EXPENSES							
Student activities	552,956	94,070	70,902	95,823	30,799	108,629	66,088
Loss of funds							
Excess (Deficit) of Revenues Over Expenditures	10,823	577	(405)	12,269	3,387	13,200	6,711
Fund Balance-Beginning	<u>101,836</u>	<u>26,257</u>	<u>10,858</u>	<u>38,458</u>	<u>10,992</u>	<u>35,332</u>	<u>11,269</u>
Fund Balance-Ending	<u>\$ 112,659</u>	<u>\$ 26,835</u>	<u>\$ 10,452</u>	<u>\$ 50,727</u>	<u>\$ 14,379</u>	<u>\$ 48,532</u>	<u>\$ 17,980</u>

See the accompanying notes to the financial statements.

Letcher County School District
Combining Statement of Revenues, Expenses and Changes In Fund Balance - School Activity Funds
 Year ended June 30, 2015

	<u>MARTHA JANE POTTER ELEMENTARY</u>	<u>WEST WHITESBURG ELEMENTARY</u>	<u>AGENCY FUNDS TOTALS</u>
REVENUES			
Student revenues	\$ 93,695	\$ 59,000	\$ 1,218,523
EXPENSES			
Student activities	81,448	60,324	1,161,039
Loss of funds			
Excess (Deficit) of Revenues Over Expenditures	12,247	(1,325)	57,484
Fund Balance-Beginning	<u>30,545</u>	<u>29,594</u>	<u>295,142</u>
Fund Balance-Ending	\$ <u><u>42,792</u></u>	\$ <u><u>28,270</u></u>	\$ <u><u>352,626</u></u>

See the accompanying notes to the financial statements.

Letcher County School District
Statement of Revenue, Expenses, and Changes in Fund Balance - Letcher Co. Central High School
Year ended June 30, 2015

	FUND BALANCE		REVENUES		EXPENSES		TRANSFERS		FUND BALANCE	
	BEGINNING								ENDING	
GENERAL FUND	\$	6,484	\$	7,195	\$	12,491	\$	1,781	\$	2,969
DISCOVER FUTURE		-		-		-		-		-
GARDEN CLUB		142		-		-		-		142
FLOWER FUND		86		-		-		-		86
BAND INAUGURAL TRIP		-		-		-		-		-
CIA		-		-		-		-		-
SCHOOL CULTURE		-		-		-		-		-
GWEN WHITAKER		200		-		200		-		-
BOYS & GIRLS PROGRAM		-		2,010		2,511		501		-
PAGES FOR PATRIOTS		661		-		-		(661)		-
BAND EUROPE TRIP		-		-		-		-		-
LOST & DAMAGED BOOKS		-		-		-		-		-
TESTING		2,662		1,560		1,988		-		2,234
YOUTH SERVICE CENTER		66		1,070		1,355		933		714
LCEAA		-		-		-		-		-
SOCIAL STUDIES		-		-		-		-		-
MOUNTAIN LINE		1,003		11		-		-		1,014
FUTURE EDUCATORS		-		-		-		-		-
AVID (GEAR-UP)		-		-		-		-		-
FACULTY VENDING		1,459		4,837		5,698		(150)		447
ACF		438		12,668		7,716		(2,772)		2,618
BUDDY ROE MEMORIAL		850		-		-		-		850
BASEBALL		8,790		13,227		15,581		1,244		7,681
BASEBALL TRANSPORTATION		477		-		477		1,108		1,108
MIDDLE SCHOOL BASEBALL		-		-		-		-		-
SPEECH		593		994		1,236		-		351
MIDDLE SCHOOL SOFTBALL		-		-		-		-		-
BOYS BASKETBALL		8,273		25,532		32,360		2,672		4,117
BOYS BB TRANSPORTATION		219		-		913		820		125
GIRLS BASKETBALL		6,233		25,255		21,292		2,414		12,611
GIRLS BB TRANSPORTATION		-		-		1,976		2,114		138
FOOTBALL		9,887		44,040		49,773		12,544		16,699
TRAVEL ACCOUNT		-		-		-		-		-
COMMUNITY BASED		431		2,139		2,057		-		513
FOOTBALL TRANSPORTATION		245		-		1,427		1,655		473
GOLF		1,276		3,500		4,129		(36)		611
GOLF TRANSPORTATION		-		-		-		-		-
SOFTBALL		4,109		14,804		13,494		(1,021)		4,398
SOFTBALL TRANSPORTATION		789		-		313		1,021		1,498
TENNIS		678		4,794		4,321		(951)		200
TENNIS TRANSPORTATION		6		-		-		1,051		1,057
TRACK		0		3,810		2,769		(1,041)		0
TRACK TRANSPORTATION		0		-		-		(0)		0
VOLLEYBALL		4,289		18,899		19,499		(0)		3,689
VOLLEYBALL TRANSPORTATION		-		-		1,334		1,334		-
CROSS COUNTRY		1		8,515		8,030		(335)		151
CROSS COUNTRY TRANSPORT		-		-		747		747		-
CHEERLEADING		3,496		40,388		39,656		(233)		3,995
CHEERLEADING TRANSPORTATION		1		-		979		1,325		347
WRESTLING TRANSPORTATION		-		-		1,121		1,570		449
WRESTLING		788		6,562		5,106		(1,982)		262
GIRLS SOCCER TRANSPORTATION		73		-		-		(73)		-
COUGAR DANCE TEAM		2,533		13,063		13,973		(741)		881
DANCE TRANSPORTATION		-		-		204		693		489
DRAMA DRINK SALES		-		-		-		-		-
FB VARSITY CONCESSIONS		0		3,550		2,449		(1,101)		-
FB RESERVED SEATS		74		7,030		1,225		(5,585)		294
DRAMA		14,952		51,721		55,447		(190)		11,036
ACTIVITY COORDINATOR		-		-		-		-		-
BIOLOGY		664		260		-		-		923
STLP		206		75		276		-		5
AP SPANISH		424		110		110		-		424
BOYS SOCCER TRANSPORTATION		-		-		899		899		-
PTO		705		-		-		-		705
SOCCER		-		-		-		-		-
BOYS SOCCER		36		6,287		4,746		(999)		578
GIRLS SOCCER		1,131		7,088		6,464		43		1,798
LETCHER CENTRAL STATE		-		2,000		-		(2,000)		-
ACADEMIC TEAM		1,182		3,402		3,229		-		1,355
ARCHERY		22		23,868		17,706		(165)		6,019
JUMBO TRON		0		7,300		-		(7,300)		0
FANTASY LIT		303		46		-		-		349
NATIONAL HISTORY DAY		-		-		-		-		-
BETA CLUB		387		-		-		-		387
THE DEN		64		-		-		-		64
PEER COUNSELING		1		-		-		-		1
DISTRICT PROGRAM		-		-		-		-		-
DISTRICT TOURNAMENT		-		15,077		13,475		(1,494)		108
REGIONAL TOURNAMENT		160		-		-		-		160
DANCE DRINK SALES		-		-		-		-		-
FCCLA		3		4,534		2,080		-		2,457
BIBLE CLUB		192		-		-		-		192
STUDENT GOVERNMENT		519		-		-		-		519
PEP CLUB		293		-		-		-		293

See accompanying notes to the financial statements.

Letcher County School District
Statement of Revenue, Expenses, and Changes in Fund Balance - Letcher Co. Central High School
Year ended June 30, 2015

	FUND BALANCE				FUND BALANCE
	<u>BEGINNING</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>ENDING</u>
JR. ROTC	311	6,318	4,868	150	1,911
BAND	1,803	36,286	34,211	(2,568)	1,311
BAND TRANSPORTATION	-	-	600	1,703	1,103
MIDDLE SCHOOL BAND	712	5,829	5,808	565	1,298
BAND COLOR GUARD	281	-	-	-	281
SENIOR ENG IV	-	-	-	-	-
CHOIR	75	175	-	-	250
POWDER PUFF	33	-	-	-	33
SCORETABLE ADS	1,000	6,500	-	(7,500)	0
LIBRARY	2,516	81	-	-	2,597
SENIOR TRIP	354	107,497	108,822	1,011	39
SR. JR. PROM	2,759	9,400	10,067	(1,000)	1,092
ANNUAL	3,437	4,473	5,750	-	2,160
	<u>3,437</u>	<u>4,473</u>	<u>5,750</u>	<u>-</u>	<u>2,160</u>
	<u>\$ 101,836.03</u>	<u>\$ 563,779</u>	<u>\$ 552,956</u>	<u>\$ 0</u>	<u>\$ 112,659</u>

See the accompanying notes to the financial statements.

LETCHER COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

NOTE A – BASIS OF PRESENTATION

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

NOTE B – 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 \$103,645.

LETCHER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2015

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Expended
U.S. Department of Agriculture				
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 15		510.4950	\$ N/A	\$ 103,645
Passed Through State Department of Education				
* National School Lunch Program	10.555			
Fiscal Year 14		7750002 14	N/A	306,697
Fiscal Year 15		7750002 15	N/A	896,202
* School Breakfast Program	10.553			
Fiscal Year 14		7760005 14	N/A	204,775
Fiscal Year 15		7760005 15	N/A	581,569
* Summer Food Service Program for Children	10.559			
Fiscal Year 14		7690024 14	N/A	2,302
* Summer Food Service Program for Children	10.559			
Fiscal Year 14		7740023 14	N/A	22,283
Child Nutrition Cluster Subtotal				<u>2,013,827</u>
Fresh Fruit & Vegetable Program	10.582			
Fiscal Year 14		7720012 14	N/A	7,145
Fiscal Year 15		7720012 15	N/A	28,898
				<u>36,043</u>
Child & Adult Care Food Program	10.558			
Fiscal Year 15		7790021 15	N/A	65,959
Fiscal Year 15		7800016 15	N/A	5,478
				<u>71,437</u>
Total U.S. Department of Agriculture				<u><u>2,224,952</u></u>
U.S. Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 14		3100002 14	1,355,289	401,384
Fiscal Year 14M		3100002 14	30,000	2,457
Fiscal Year 15		3100002 15	1,290,439	880,873
Fiscal Year 15M		3100002 15	26,000	23,940
				<u>1,308,654</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	737,123	148
Fiscal Year 14		3810002 14	685,905	69,464
Fiscal Year 15		3810002 15	700,274	530,302
Special Education-Preschool Grants	84.173A			
Fiscal Year 13		3800002 13	39,783	2,945
Fiscal Year 14		3800002 14	39,330	27,329
Fiscal Year 15		3800002 15	39,330	24
Special Education Cluster Subtotal				<u>630,212</u>
Vocation Education-Basic Grants to States	84.048			
Fiscal Year 15		4621232 15	14,373	12,777
21st Century Community Learning Centers Program	84.287C			
Fiscal Year 12J		3400002 12	2,000	157
Fiscal Year 13		3400002 13	262,500	20,614
Fiscal Year 13J		3400002 13	1,000	1,000
Fiscal Year 13U		3400002 13	10,000	7,462
Fiscal Year 13Z		3400002 13	17,000	9,285
Fiscal Year 14		3400002 14	225,000	204,783
Fiscal Year 14U		3400002 14	10,000	10,000
				<u>253,301</u>
Rural Education	84.358B			
Fiscal Year 15		3140002 15	66,781	31,754
* Improving Teacher Quality State Grants	84.367A			
Fiscal Year 14		3230002 14	287,723	163,986
Fiscal Year 15		3230002 15	287,188	266,477
				<u>430,462</u>
Race to the Top District	84.416A			
Fiscal Year 15		B416A140080	175,618	175,618
Fiscal Year 15B		B416A140080	7,000	5,684
Fiscal Year 15C		B416A140080	6,362	4,602
Fiscal Year 15M		B416A140080	5,000	4,513
				<u>190,416</u>
Race to the Top	84.413A			
Fiscal Year 11		39600024	65,234	7,330
Passed Through Morehead State University				
Kentucky Appalachian Higher Education (KYAHED)	23.011			
Fiscal Year 15		688A	3,261	3,261

LETCHER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2015

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Expended
Passed through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs II	84.334S			
Fiscal Year 15A		379AA	166,250	154,023
Fiscal Year 15G		379AG	150,000	87,998
Fiscal Year 15R		379AR	N/A	2,718
				<u>244,739</u>
Total U.S. Department of Education				<u>3,112,906</u>
U.S. Department of the Army				
ROTC	12.000			
Fiscal Year 14		5044	N/A	5,006
Fiscal Year 15		504A	N/A	49,329
Total U.S. Department of the Army				<u>54,335</u>
U.S. Department of Commerce				
Passed Through PRIDE KCE				
PRIDE Environmental Education	11.420			
Fiscal Year 15		270A	1,500	1,270
Total U.S. Department of Commerce				<u>1,270</u>
Total Federal Programs Expended				<u>\$ 5,393,462</u>

* Major Programs

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

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

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the 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 Letcher County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Letcher County School District, in a separate letter dated November 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 Letcher County Board of Education and
State Committee for School District Audits
Whitesburg, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

White & Associates, P.C.

Richmond, Kentucky
November 13, 2015

**LETCHER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SUMMARY OF AUDITORS' RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559] Title 1 [CFDA 84.010A] Improving Teacher Quality [CFDA 84.367A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

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

No findings at the major federal award programs level.

**LETCHER COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no prior audit findings.