

FLEMING COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky 41041

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 the Fleming County School District (the "District") as of and for the year ended June 30, 2013, 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 Fleming County School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 9 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 Fleming County School District's basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial

statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards is 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 October 15, 2013, on our consideration of Fleming County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley, Galloway & Company, PSC

October 15, 2013

**FLEMING COUNTY SCHOOL DISTRICT
FLEMINGSBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2013**

As management of the Fleming County School District ("the 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, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$9,293,948 and the ending balance was approximately \$6,302,839, a decrease of approximately \$2,991,109 for the year, principally due to construction in the current year. The majority of the cash balance is restricted for construction and debt service.
- The General Fund had \$16,511,612 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$18,402,330 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent 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's total debt increased by \$5,209,382 during the current fiscal year.

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 and 11 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 funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The primary proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic fund financial statements can be found on pages 12 through 22 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. The notes to the financial statements can be found on pages 23 - 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$8.5 million as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Net Position for the period ending June 30, 2013

	2013	2012
Current Assets	\$ 8,888,171	\$ 12,737,171
Noncurrent Assets	35,761,266	26,505,828
Total Assets	<u>\$ 44,649,437</u>	<u>\$ 39,242,999</u>
Current Liabilities	\$ 5,019,656	\$ 2,049,041
Noncurrent Liabilities	31,106,418	27,158,515
Total Liabilities	<u>36,126,074</u>	<u>29,207,556</u>
Net Position		
Investment in capital assets (net of debt)	4,138,600	446,007
Restricted	5,121,960	9,855,831
Unrestricted Fund Balance	(737,197)	(266,395)
Total Net Position	<u>\$ 8,523,363</u>	<u>\$ 10,035,443</u>

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2013, with comparison to 2012.

	<u>2013</u>	<u>2012</u>
Revenues:		
Local Revenue Sources	\$ 6,135,343	\$ 5,228,801
State Revenue Sources	16,323,568	16,081,478
Federal Revenue	2,685,609	2,869,557
Other Sources	<u>(15,244)</u>	<u>(109,421)</u>
Total Revenues	<u>25,129,276</u>	<u>24,070,415</u>
Expenses:		
Instruction	14,665,794	14,757,758
Student Support Services	1,194,224	1,265,083
Instructional Support	1,071,777	1,210,307
District Administration	1,043,241	910,471
School Administration	894,514	775,149
Plant Operations	2,421,781	2,302,473
Student Transportation	1,443,853	1,313,028
Business and Other Support Services	228,608	139,936
Community Services	231,694	190,078
Debt Service	1,257,954	578,744
Food Services	<u>1,687,778</u>	<u>1,627,427</u>
Total Expenses before KSBIT	26,141,218	25,070,454
Extraordinary item – KSBIT	<u>500,138</u>	<u>-</u>
Total Expenses	<u>26,641,356</u>	<u>25,070,454</u>
Deficiency of Revenues under Expenses	<u>\$ (1,512,080)</u>	<u>\$ (1,000,039)</u>

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 65.0% and federal funding of 10.7% of total revenue. Local revenues make up 24.4% of total revenue (21.7% in 2012).

District-Wide Support Allocation

District-wide support services expenditures were Transportation 5.4%, Maintenance & Operations 9.1%, and Business Functions .9% (as compared to 5.2%, 9.2%, and .1% in 2012, respectively).

The total cost of all programs and services for governmental activities was \$24,453,440, compared with \$23,443,027 in 2012.

Funds Analysis

The District's total revenues for the governmental funds for the fiscal year ended June 30, 2013 and 2012, net of inter-fund transfers and bond proceeds, was approximately \$23.5 million and \$22.5 million, respectively.

Comments on Budget Comparisons

- After adjustments for contingency, the General fund budget compared to actual expenditures varied somewhat from line item to line item with the ending actual balance being \$1,042,869 more than budget or approximately 5.8%. This variance was due to on-behalf payments paid by the state being greater than budgeted and the purchase of buses with KISTA monies not being budgeted.

- General Fund revenue compared to budget varied from line item to line item more this year than in the past due to state funding being lower in the General Fund than anticipated.

Budgetary Implications

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with approximately \$1 in contingency which is well below the 2% requirement making it subject to state assistance for FY 2014. The general fund cash balance for beginning the next fiscal year is \$102,106. The Board continues to look for ways to cut spending for the next fiscal year.

Questions regarding this report should be directed to the Superintendent Thomas Price or by mail at:

Fleming County School District
121 E Second Street
Morehead, Kentucky 40351

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,502,555	\$ 262,864	\$ 6,765,419
Investments	1,086,104	45,356	1,131,460
Receivables (net of allowances for uncollectibles):			
Taxes	96,748	-	96,748
Other	31,922	3,426	35,348
Intergovernmental - state	715,018	-	715,018
Intergovernmental - federal	30,385	94,799	125,184
Inventories	-	18,994	18,994
Bond issue costs, net of amortization	411,157	-	411,157
Capital assets, not being depreciated	12,142,494	-	12,142,494
Capital assets, being depreciated, net	23,055,125	152,490	23,207,615
Total assets	44,071,508	577,929	44,649,437
Liabilities			
Accounts payable	1,803,126	487	1,803,613
Cash deficit balance	462,580	-	462,580
Accrued salaries and benefits	1,180,582	-	1,180,582
Deferred revenue	213,048	-	213,048
Accrued interest payable	98,354	-	98,354
Portion due or payable within one year:			
Debt obligations	1,038,313	-	1,038,313
Accrued sick leave	223,166	-	223,166
Noncurrent liabilities:			
Portion due or payable after one year:			
Debt obligations	30,173,196	-	30,173,196
KSBIT payable	500,138	-	500,138
Accrued sick leave	433,084	-	433,084
Total liabilities	36,125,587	487	36,126,074
Net Position			
Invested in capital assets, net of related debt	3,986,110	152,490	4,138,600
Restricted for:			
Capital projects	4,207,225	-	4,207,225
Other purposes	489,783	424,952	914,735
Unrestricted	(737,197)	-	(737,197)
Total net position	\$ 7,945,921	\$ 577,442	\$ 8,523,363

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 14,665,794	\$ -	\$ 2,295,610	\$ -	\$ (12,370,184)	\$ -	\$ (12,370,184)
Support services:							
Students	1,194,224	-	311,928	-	(882,296)	-	(882,296)
Instructional staff	1,071,777	-	621,223	-	(450,554)	-	(450,554)
District administration	1,043,241	-	-	-	(1,043,241)	-	(1,043,241)
School administration	894,514	-	27,236	-	(867,278)	-	(867,278)
Business and other support services	228,608	-	-	-	(228,608)	-	(228,608)
Operation and maintenance of plant	2,421,781	-	66,428	-	(2,355,353)	-	(2,355,353)
Student transportation	1,443,853	-	1,877	-	(1,441,976)	-	(1,441,976)
Community services	231,694	-	231,694	-	-	-	-
Debt service	1,257,954	-	-	1,084,019	(173,935)	-	(173,935)
Total governmental activities	24,453,440	-	3,555,996	1,084,019	(19,813,425)	-	(19,813,425)
Business-type activities:							
Food service	1,687,778	451,044	1,196,425	-	-	(40,309)	(40,309)
Total business-type activities	1,687,778	451,044	1,196,425	-	-	(40,309)	(40,309)
Total primary government	\$ 26,141,218	\$ 451,044	\$ 4,752,421	\$ 1,084,019	\$ (19,813,425)	\$ (40,309)	\$ (19,853,734)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 2,276,072	\$ -	\$ 2,276,072
Motor vehicle					497,338	-	497,338
Utilities					711,105	-	711,105
Intergovernmental revenues:							
State					14,637,325	-	14,637,325
Investment earnings					43,629	2,680	46,309
Gain (loss) on sale of assets					(14,729)	(515)	(15,244)
Other local revenues					688,887	-	688,887
Total general revenues and transfers					18,839,627	2,165	18,841,792
Extraordinary item - KSBIT assessment					(500,138)	-	(500,138)
Change in net position					(1,473,936)	(38,144)	(1,512,080)
Net position, June 30, 2012					9,419,857	615,586	10,035,443
Net position, June 30, 2013					\$ 7,945,921	\$ 577,442	\$ 8,523,363

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 102,106	\$ -	\$ 5,910,666	\$ 489,783	\$ 6,502,555
Investments	1,086,104	-	-	-	1,086,104
Receivables (net of allowances for uncollectibles):					
Property taxes	96,748	-	-	-	96,748
Other	31,922	-	-	-	31,922
Intergovernmental - state	-	715,018	-	-	715,018
Intergovernmental - federal	30,385	-	-	-	30,385
Total assets	<u>\$ 1,347,265</u>	<u>\$ 715,018</u>	<u>\$ 5,910,666</u>	<u>\$ 489,783</u>	<u>\$ 8,462,732</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 60,295	\$ 39,390	\$ 1,703,441	\$ -	\$ 1,803,126
Cash deficit balance	-	462,580	-	-	462,580
Accrued salaries and benefits	1,180,582	-	-	-	1,180,582
Deferred revenue	-	213,048	-	-	213,048
Total liabilities	<u>1,240,877</u>	<u>715,018</u>	<u>1,703,441</u>	<u>-</u>	<u>3,659,336</u>
Fund balances:					
Assigned	-	-	-	-	-
Restricted	-	-	4,207,225	489,783	4,697,008
Non-spendable	-	-	-	-	-
Unassigned	106,388	-	-	-	106,388
Committed	-	-	-	-	-
Total fund balances	<u>106,388</u>	<u>-</u>	<u>4,207,225</u>	<u>489,783</u>	<u>4,803,396</u>
Total liabilities and fund balances	<u>\$ 1,347,265</u>	<u>\$ 715,018</u>	<u>\$ 5,910,666</u>	<u>\$ 489,783</u>	<u>\$ 8,462,732</u>

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2013**

Fund balances—total governmental funds	\$ 4,803,396
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	35,197,619
Certain other assets and liabilities are not available to pay current period expenditures and therefore are not reported in the funds.	312,803
Some liabilities, including debt obligations, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(32,367,897)</u>
Net position of governmental activities	<u>\$ 7,945,921</u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	\$ 1,636,160	\$ -	\$ -	\$ 639,912	\$ 2,276,072
Motor vehicles	497,338	-	-	-	497,338
Utilities	711,105	-	-	-	711,105
Interest income	43,465	164	-	-	43,629
Other local revenues	88,887	268,163	600,000	-	957,050
Intergovernmental - State	13,506,136	1,184,932	-	1,632,500	16,323,568
Intergovernmental - Indirect federal	28,521	2,102,901	-	-	2,131,422
Intergovernmental - Federal subsidy	-	-	-	554,187	554,187
Total revenues	<u>16,511,612</u>	<u>3,556,160</u>	<u>600,000</u>	<u>2,826,599</u>	<u>23,494,371</u>
Expenditures:					
Current:					
Instruction	11,574,692	2,332,147	-	-	13,906,839
Support services:					
Students	865,351	311,928	-	-	1,177,279
Instructional staff	443,220	621,223	-	-	1,064,443
District administration	1,039,759	-	-	-	1,039,759
School administration	864,468	27,236	-	-	891,704
Business and other support services	227,146	-	-	-	227,146
Operation and maintenance of plant	1,944,647	66,428	-	-	2,011,075
Student transportation	1,443,047	1,877	-	-	1,444,924
Community services	-	231,694	-	-	231,694
Facilities acquisition and construction	-	-	10,947,072	19,290	10,966,362
Debt service	-	-	-	1,931,889	1,931,889
Total expenditures	<u>18,402,330</u>	<u>3,592,533</u>	<u>10,947,072</u>	<u>1,951,179</u>	<u>34,893,114</u>
Excess (deficiency) of revenues over expenditures	<u>(1,890,718)</u>	<u>(36,373)</u>	<u>(10,347,072)</u>	<u>875,420</u>	<u>(11,398,743)</u>
Other financing sources (uses):					
Loss on sale of equipment	(3,992)	-	-	-	(3,992)
Bond proceeds	157,950	-	5,700,701	-	5,858,651
Transfers in	951,022	36,373	-	1,337,653	2,325,048
Transfers out	(36,373)	-	-	(2,288,675)	(2,325,048)
Total other financing sources and uses	<u>1,068,607</u>	<u>36,373</u>	<u>5,700,701</u>	<u>(951,022)</u>	<u>5,854,659</u>
Net change in fund balances	(822,111)	-	(4,646,371)	(75,602)	(5,544,084)
Fund balances, June 30, 2012	<u>928,499</u>	<u>-</u>	<u>8,853,596</u>	<u>565,385</u>	<u>10,347,480</u>
Fund balances, June 30, 2013	<u>\$ 106,388</u>	<u>\$ -</u>	<u>\$ 4,207,225</u>	<u>\$ 489,783</u>	<u>\$ 4,803,396</u>

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances—total governmental funds \$ (5,544,084)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	10,600,534	
Gain (loss) adjustment	(10,737)	
Depreciation expense	<u>(1,277,239)</u>	9,312,558

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave	442,444
Accrued interest payable	(2,155)
KSBIT Liability	(500,138)
Bond issue costs, net of amortization	(30,873)

Bond and capital lease proceeds are recognized as revenues of current financial resources in the fund financial statements, but are increases in liabilities in the statement of net position.	(6,007,950)
--	-------------

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	<u>856,262</u>
--	----------------

Change in net position of governmental activities \$ (1,473,936)

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	Food Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 262,864
Investments	45,356
Receivables (net of allowances for uncollectibles)	
Intergovernmental - federal	94,799
Other	3,426
Inventories	18,994
Total current assets	425,439
Noncurrent assets:	
Capital assets, net of accumulated depreciation	152,490
Total noncurrent assets	152,490
Total assets	\$ 577,929
Liabilities	
Current liabilities:	
Accounts payable	\$ 487
Total current liabilities	487
Total liabilities	487
Net Position	
Invested in capital assets	152,490
Restricted	424,952
Total net assets	577,442
Total liabilities and net position	\$ 577,929

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 451,044
Total operating revenues	<u>451,044</u>
Operating expenses:	
Salaries and wages	430,783
Employee benefits	253,240
Materials and supplies	941,433
Depreciation	25,731
Other operating expenses	36,591
Total operating expenses	<u>1,687,778</u>
Operating loss	<u>(1,236,734)</u>
Nonoperating revenues :	
Federal grants	959,826
Investment income	2,680
Donated commodities	74,937
Loss on disposal of asset	(515)
On-behalf payments	147,434
State grants	14,228
Total nonoperating revenue	<u>1,198,590</u>
Decrease in net position	(38,144)
Net position, June 30, 2012	<u>615,586</u>
Net position June 30, 2013	<u><u>\$ 577,442</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 448,303
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(873,172)
Payments to employees	(536,589)
Other payments	(36,591)
Net cash used for operating activities	<u>(998,049)</u>
 Cash flows from noncapital financing activities:	
Government grants	<u>879,255</u>
Net cash provided by noncapital and related financing activities	<u>879,255</u>
 Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>-</u>
Net cash used for capital and related financing activities	<u>-</u>
 Cash flows from investing activities:	
Interest received on investments	<u>2,324</u>
Net cash provided by investing activities	<u>2,324</u>
 Net decrease in cash and cash equivalents	(116,470)
 Cash and cash equivalents, June 30, 2012	<u>379,334</u>
 Cash and cash equivalents, June 30, 2013	<u>\$ 262,864</u>
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,236,734)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	25,731
Donated commodities	74,937
On-behalf payments	147,434
Change in assets and liabilities:	
Accounts receivable	(2,741)
Inventory	(4,399)
Accounts payable	<u>(2,277)</u>
 Net cash provided by (used for) operating activities	<u>\$ (998,049)</u>
 Non-cash items:	
Donated commodities	\$ 74,937
On-behalf payments	147,434

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	<u>Scholarship Trust Funds</u>	<u>Activity Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 194,822
Accounts receivable	28,433	2,427
Total assets	<u>28,433</u>	<u>197,249</u>
Liabilities		
Accounts payable	28,433	7,741
Interfund payable	-	-
Due to students	-	189,508
Total liabilities	<u>-</u>	<u>197,249</u>
Net position held in trust	<u>\$ 28,433</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

**FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Scholarship Trust Funds</u>
Additions -	
Interest income	\$ 16
Other local revenues	61,317
	<u>61,333</u>
Deductions -	
Operating expenses	-
Community services	56,000
	<u>56,000</u>
Change in net position	5,333
Restricted net position, June 30, 2012	<u>(5,333)</u>
Restricted net position, June 30, 2013	<u><u>\$ -</u></u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 1,670,000	\$ 1,665,000	\$ 1,636,160	\$ (28,840)
Motor vehicles	525,000	485,000	497,338	12,338
Utilities	740,000	675,000	711,105	36,105
Interest income	40,000	120,000	43,465	(76,535)
Other local revenues	202,000	776,000	88,887	(687,113)
Intergovernmental - State	9,772,546	13,333,377	13,506,136	172,759
Intergovernmental - Indirect federal	40,000	35,000	28,521	(6,479)
Total revenues	<u>12,989,546</u>	<u>17,089,377</u>	<u>16,511,612</u>	<u>(577,765)</u>
Expenditures:				
Current:				
Instruction	8,746,500	11,409,595	11,574,692	(165,097)
Support services:				
Students	362,161	813,859	865,351	(51,492)
Instructional staff	274,489	453,108	443,220	9,888
District administration	841,659	708,141	1,039,759	(331,618)
School administration	701,363	731,818	864,468	(132,650)
Business and other support services	160,588	175,142	227,146	(52,004)
Operation and maintenance of plant	1,805,587	1,710,323	1,944,647	(234,324)
Student transportation	1,252,592	1,357,475	1,443,047	(85,572)
Community services	-	-	-	-
Debt service	-	-	-	-
Facilities acquisition and construction	749,000	-	-	-
Contingency	913,015	661,915	-	661,915
Total expenditures	<u>15,806,954</u>	<u>18,021,376</u>	<u>18,402,330</u>	<u>(380,954)</u>
Excess (deficiency) of revenues over expenditures	<u>(2,817,408)</u>	<u>(931,999)</u>	<u>(1,890,718)</u>	<u>(958,719)</u>
Other financing sources (uses):				
Bond proceeds	-	-	157,950	157,950
Gain (loss) on sale of assets	7,500	3,500	(3,992)	(7,492)
Transfers in	-	-	951,022	951,022
Transfers out	-	-	(36,373)	(36,373)
Total other financing sources and uses	<u>7,500</u>	<u>3,500</u>	<u>1,068,607</u>	<u>1,065,107</u>
Net change in fund balances	(2,809,908)	(928,499)	(822,111)	106,388
Fund balances, June 30, 2012	<u>2,809,908</u>	<u>928,499</u>	<u>928,499</u>	<u>-</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,388</u>	<u>\$ 106,388</u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Interest income	\$ 66	\$ 66	\$ 164	\$ 98
Other local revenues	197,997	197,997	268,163	70,166
Intergovernmental - State	1,171,825	1,171,825	1,184,932	13,107
Intergovernmental - Indirect federal	1,355,847	1,355,847	2,102,901	747,054
Total revenues	<u>2,725,735</u>	<u>2,725,735</u>	<u>3,556,160</u>	<u>830,425</u>
Expenditures:				
Current:				
Instruction	1,616,545	1,616,545	2,332,147	(715,602)
Support services:				
Students	315,632	315,632	311,928	3,704
Instructional staff	510,802	510,802	621,223	(110,421)
District administration	-	-	-	-
School administration	26,700	26,700	27,236	(536)
Business and other support services	-	-	-	-
Operation and maintenance of plant	62,534	62,534	66,428	(3,894)
Student transportation	1,373	1,373	1,877	(504)
Community services	202,710	202,710	231,694	(28,984)
Total expenditures	<u>2,736,296</u>	<u>2,736,296</u>	<u>3,592,533</u>	<u>(856,237)</u>
Excess (deficiency) of revenues over expenditures	<u>(10,561)</u>	<u>(10,561)</u>	<u>(36,373)</u>	<u>(25,812)</u>
Other financing sources (uses):				
Transfers in	10,561	10,561	36,373	25,812
Transfers out	-	-	-	-
Total other financing sources and uses	<u>10,561</u>	<u>10,561</u>	<u>36,373</u>	<u>25,812</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

(1) REPORTING ENTITY

The Fleming 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 Fleming County School District (“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 as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

The financial statements of the 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. Copies of this organization’s financial statements may be obtained from the District’s Finance Office at 211 West Water Street, Flemingsburg, Kentucky 41041.

Fleming County Board of Education Finance Corporation - In a prior year the Board of Education resolved to authorize the establishment of the Fleming County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

Basis of Presentation

The accounting policies of the Fleming County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the 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 a major fund of the District.
- B. The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project

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

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

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund.

D. Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The 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.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for 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, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue

from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue - Deferred 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 deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.411 per \$100 valuation for real property, \$.419 per \$100 valuation for business personal property and \$.559 per \$100 valuation for motor vehicles. The assessed value of property upon which the levy for the 2013 fiscal year was based, was \$552,181,613.

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 telegraphic communications services, cablevision services, electric power, water, and gas.

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The District also receives commodities from USDA. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund 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 (\$1,000) 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 capitalized.

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

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

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 is required by state law to adopt annual budgets. Each budget is presented on the modified accrual basis of accounting which is consistent with the fund financial statement presentation. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

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 judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all 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 Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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 the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the vesting method of calculation and that the assumption that it is probable that all vested employees with ten years of experience will eventually retire from the District and become eligible for termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the District was not required to change the reporting of current or past transactions.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position".

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District has not completed the process of the evaluation of GASB No. 65; however, the District does expect it to have an impact on its future financial statements.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015.

(3) ESTIMATES

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

(4) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$6,497,661 and the related bank balances totaled \$6,874,743. Of the total cash balance, \$472,349 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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) Fund, Education Building Fund, Special Revenue (Grant) Funds, Bond and Interest Redemption Fund, School Food Service Funds, and School Activity Funds.

Kentucky Revised Statutes authorizes the District to invest in the following: obligations of the United States Government and of its agencies and instrumentalities, repurchase agreements and specially approved AAA rated corporate bonds; bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities; certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution up to FDIC insured amount, and in larger amounts provided that the bank pledges as security obligations having a current market value at least equal to any uninsured deposits.

During the year, the District's temporary investments were comprised of certificates of deposit held at various banks located within the county. At year-end, \$1,131,460 in certificates of deposits with an interest rate of .20% and maturity dates of 180 days were held at one bank. Such investments are stated at cost, which approximates market value. These investments were covered by FDIC

insurance of \$250,000 and \$881,460 was covered by collateral agreements and collateral held by pledging bank's trust department in the District's name.

(5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance			Balance		
<u>Governmental Activities</u>	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>		
Land	\$ 572,899	\$ -	\$ -	\$ 572,899		
Construction in progress	5,244,644	10,347,072	4,022,121	11,569,595		
Land improvements	1,327,959	18,382	-	1,346,341		
Buildings and improvements	27,825,549	4,022,121	-	31,847,670		
Technology equipment	1,738,273	54,074	177,776	1,614,571		
General equipment	427,931	-	37,632	390,299		
Vehicles	<u>2,509,877</u>	<u>181,006</u>	<u>135,274</u>	<u>2,555,609</u>		
Totals	<u>39,647,132</u>	<u>14,622,655</u>	<u>4,372,803</u>	<u>49,896,984</u>		
Less: accumulated depreciation						
Land improvements	791,981	50,433	-	842,414		
Buildings and improvements	9,813,029	813,911	-	10,626,940		
Technology equipment	1,189,152	221,748	175,790	1,235,110		
General equipment	282,408	25,023	28,881	278,550		
Vehicles	<u>1,685,501</u>	<u>166,124</u>	<u>135,274</u>	<u>1,716,351</u>		
Total accumulated depreciation	<u>13,762,071</u>	<u>1,277,239</u>	<u>339,945</u>	<u>14,699,365</u>		
Governmental Activities						
Capital Assets - Net	<u>\$ 25,885,061</u>	<u>\$ 13,345,416</u>	<u>\$ 4,032,858</u>	<u>\$ 35,197,619</u>		
<u>Business-Type Activities</u>						
Food service equipment	\$ 529,592	\$ -	\$ 1,807	\$ 527,785		
Food service technology equipment	<u>1,420</u>	<u>-</u>	<u>-</u>	<u>1,420</u>		
	<u>531,012</u>	<u>-</u>	<u>1,807</u>	<u>529,205</u>		
Less: accumulated depreciation						
Food service equipment	350,973	25,731	1,292	375,412		
Food service technology equipment	<u>1,303</u>	<u>-</u>	<u>-</u>	<u>1,303</u>		
	<u>352,276</u>	<u>25,731</u>	<u>1,292</u>	<u>376,715</u>		
Business-Type Activities						
Capital Assets - Net	<u>\$ 178,736</u>	<u>\$ (25,731)</u>	<u>\$ 515</u>	<u>\$ 152,490</u>		

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 677,621
Student support services	16,945
Instructional staff support services	7,334
District administration	3,482
School administration	2,810
Business support	1,462
Plant operation & maintenance	410,706
Student transportation	156,879
	<u>\$ 1,277,239</u>

(6) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as debt obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fleming County School District Finance Corporation, with original amounts of issues totaling \$37,543,000 and notes payable to Kentucky Interlocal School Transportation Association with original amounts of issues totaling \$1,888,130.

Bonds and Notes

The General Fund, including utility taxes, the Facility Support Program Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide, among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Fleming County School District Finance Corporation, and Kentucky School Facility Construction Commission (KSFCC) to construct school facilities and (2) the District with the 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 present outstanding issues, the issue dates, and interest rates are summarized below:

<u>ORIGINAL ISSUE</u>	<u>ISSUER</u>	<u>AMOUNT</u>	<u>INTEREST RATES</u>
Issue of 1998-K	Fleming County School District & KSFCC	\$ 400,180	4.00% to 5.40%
Issue of 2003R	Fleming County School District Finance Corporation & KSFCC	2,970,000	1.10% to 3.50%
Issue of 2004	Fleming County School District Finance Corporation & KSFCC	855,000	3.00% to 4.90%
Issue of 2004B	Fleming County School District Finance Corporation	2,725,000	2.00% to 4.30%
Issue of 2006	Fleming County School District Finance Corporation & KSFCC	1,545,000	3.65% to 4.30%
Issue of 2008R	Fleming County School District Finance Corporation & KSFCC	2,320,000	3.00% to 3.30%
Issue of 2008	Fleming County School District Finance Corporation & KSFCC	2,330,000	4.05%
Issue of 2010R	Fleming County School District Finance Corporation	2,875,000	1.00% to 2.50%
Issue of 2011	Fleming County School District Finance Corporation	2,665,000	1.20% to 4.25%
Issue of 2011-QSCB	Fleming County School District Finance Corporation & KSFCC	11,918,000	4.65%
Issue of 2012R	Fleming County School District Finance Corporation & KSFCC	2,820,000	.50% to 2.40%

Issue of 2012-K	Fleming County School District	1,000,000	2.00% to 3.375%
Issue of 2013	Fleming County School District Finance Corporation & KSFCC	4,520,000	1.40% to 3.00%
Issue of 2013-K	Fleming County School District	157,950	2.00%
Issue of 2013-K	Fleming County School District	330,000	1.50% to 3.625%

The bonds may be called prior to maturity dates at redemption premiums specified in each issue.

In connection with the bond issues, the District entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the District notice of its intention not to participate within sixty days prior to the expiration of the two year period.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2013, for debt service, (principal and interest) are as shown below:

Year	Kentucky School Facilities Construction Commission		Fleming County School District		Total
	Principal	Interest	Principal	Interest	
2014	\$ 300,270	\$ 138,522	\$ 758,043	\$ 439,453	\$ 1,636,288
2015	309,169	128,610	780,425	417,783	1,635,987
2016	293,032	119,715	799,984	396,237	1,608,968
2017	301,164	111,094	819,132	377,969	1,609,359
2018	310,111	101,842	805,465	357,963	1,575,381
2019-2023	1,415,477	367,759	4,066,678	1,478,846	7,328,760
2024-2028	1,094,628	144,155	3,885,372	920,809	6,044,964
2029-2031	<u>3,214,072</u>	<u>25,165</u>	<u>12,568,928</u>	<u>308,377</u>	<u>16,116,542</u>
	<u>\$7,237,923</u>	<u>\$1,136,862</u>	<u>\$ 24,484,027</u>	<u>\$ 4,697,437</u>	<u>\$ 37,556,249</u>

On October 1, 2011, the District issued \$11,918,000 in Qualified School Construction Bonds (QSCB). Of this amount, the Kentucky School Facilities Construction Commission has a participation agreement with the Board to pay \$2,888,709 of the debt. Interest on the bond accrues at 4.65% annually; however, the interest payments are being made with a Federal Interest Subsidy by the United States Treasury in the amount of \$554,187 annually. Thus, the District does not actually have an interest payment. Principal payments are made each year by the District and the SFCC into a Sinking Fund account, which will accumulate and earn interest until the bonds are due on October 1, 2030.

KSBIT Payable

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$500,138. Members will have the option of making a lump-sum payment of their assessment or to take advantage of

bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. The District has recorded this estimated amount in their long-term obligations since ultimate payment is probable and is included as an extraordinary item on the Statement of Activities.

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2013</u>
General obligation bonds – \$37,543,000 originally issued with interest rates ranging from 0.50% to 4.90%	\$ 26,493,000	\$ 4,520,000	\$ 890,000	\$ 30,123,000
KISTA Loans	135,000	1,487,950	24,000	1,598,950
KSBIT Liability	-	500,138	-	500,138
Accumulated unpaid sick leave benefits	1,098,694	-	442,444	656,250
Less: Discount on bonds	(568,179)	-	(57,738)	(510,441)
	<u>\$ 27,158,515</u>	<u>\$ 6,508,088</u>	<u>\$ 1,298,706</u>	<u>\$ 32,367,897</u>

(7) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

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

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

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The Federal program for any salaries paid by that program pays the matching contributions.

The District's total payroll for the year was \$13,864,327. The payroll for employees covered under KTRS was \$10,630,212. For the years ended June 30, 2013, 2012, and 2011, the Commonwealth of Kentucky contributed \$1,248,655, \$1,138,850, and

\$1,085,699, respectively, to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2013, 2012, and 2011 were \$165,077, \$264,456, and \$272,699, respectively, which represent those employees covered by Federal programs.

B. Medical Insurance Plan:

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

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

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, the District pays 1.0% of members' salary.

C. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or from the KRS website at <https://kyret.ky.gov>.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 19.55% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's total payroll for the year was \$13,864,327. The payroll for employees covered under CERS was \$3,234,115. The District's contributions to CERS for the year ending June 30, 2013, 2012, and 2011 were \$632,189, \$561,258, and \$539,402, respectively, equal to the required contributions for the year.

(8) CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements.

The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District has outstanding construction commitments of approximately \$2,453,000 at June 30, 2013.

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

The Board and the Peoples Bank of Kentucky, Inc. (referred to as "Booster") entered into a "FFA School Farm – Agricultural Complex" booster agreement whereby the Booster can effectively donate \$139,688 plus accrued interest over a period of ten years to the Board for the construction of structural facilities upon premises leased by the Board. The Booster agrees to forgive on an annual basis both the principal and interest needed to amortize a loan as long as the Board satisfies certain conditions.

(9) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District's liability would be \$500,138. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014.

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

(10) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is managements' opinion that the District is in compliance with the COBRA requirements.

(11) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 36,373
Operating	Building	General	Capital Funds Request/ Operating	951,022
Operating	Building	Debt Service	Debt Service	1,144,822
Operating	Capital Outlay	Debt Service	Debt Service	192,831

(12) ON-BEHALF PAYMENTS

For the year ended June 30, 2013, total payments of \$4,556,158 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, debt service, and KTRS matching and administrative fees, and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance. The On-Behalf payments are not budgeted in the Statement of Revenues, Expenditures, and Changes in Fund balance - Budget and Actual.

On-behalf payments at June 30, 2013 consisted of the following:

Teacher Retirement	\$ 1,248,655
Health & Life Insurance	2,702,213
Technology	75,458
Debt Service	529,832

SUPPLEMENTARY INFORMATION

FLEMING COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Capital Project Funds	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ -	\$ 489,783	\$ 489,783
Accounts receivable	-	-	-
Total assets	\$ -	\$ 489,783	\$ 489,783
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	-	-	-
Fund Balances:			
Assigned	-	-	-
Restricted	-	489,783	489,783
Total fund balance	-	489,783	489,783
Total liabilities and fund balances	\$ -	\$ 489,783	\$ 489,783

FLEMING COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	Capital Project Funds	Debt Service Funds	Total Non-Major Governmental Funds
REVENUES:			
From local sources -			
Property taxes	\$ 639,912	\$ -	\$ 639,912
Intergovernmental - State	1,102,668	529,832	1,632,500
Intergovernmental - Federal Subsidy	-	554,187	554,187
Total revenues	<u>1,742,580</u>	<u>1,084,019</u>	<u>2,826,599</u>
EXPENDITURES:			
Current -			
Facilities acquisition and construction	19,290	-	19,290
Debt service	-	1,931,889	1,931,889
Total expenditures	<u>19,290</u>	<u>1,931,889</u>	<u>1,951,179</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,723,290</u>	<u>(847,870)</u>	<u>875,420</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	-	1,337,653	1,337,653
Operating transfers out	(2,288,675)	-	(2,288,675)
Total other financing sources (uses)	<u>(2,288,675)</u>	<u>1,337,653</u>	<u>(951,022)</u>
NET CHANGE IN FUND BALANCES	(565,385)	489,783	(75,602)
FUND BALANCE JUNE 30, 2012	<u>565,385</u>	<u>-</u>	<u>565,385</u>
FUND BALANCE JUNE 30, 2013	<u>\$ -</u>	<u>\$ 489,783</u>	<u>\$ 489,783</u>

**FLEMING COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR CAPITAL PROJECT FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	SEEK Funds	FSPK Fund	Total Capital Project Funds
REVENUES:			
From local sources -			
Property taxes	\$ -	\$ 639,912	\$ 639,912
Intergovernmental - State	211,222	891,446	1,102,668
Total revenues	<u>211,222</u>	<u>1,531,358</u>	<u>1,742,580</u>
EXPENDITURES:			
Current -			
Facilities acquisition and construction	19,290	-	19,290
Total expenditures	<u>19,290</u>	<u>-</u>	<u>19,290</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>191,932</u>	<u>1,531,358</u>	<u>1,723,290</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	-	-	-
Operating transfers out	(192,831)	(2,095,844)	(2,288,675)
Total other financing sources (uses)	<u>(192,831)</u>	<u>(2,095,844)</u>	<u>(2,288,675)</u>
NET CHANGE IN FUND BALANCES	(899)	(564,486)	(565,385)
FUND BALANCE JUNE 30, 2012	<u>899</u>	<u>564,486</u>	<u>565,385</u>
FUND BALANCE JUNE 30, 2013	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

**FLEMING COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2013**

	KISTA Energy	2003R Bond Fund	2004 Bond Fund	2004B Bond Fund	2006 Bond Fund	2008R Bond Fund	2008 Bond Fund	2010R Bond Fund	2011 Bond Fund	2011 QSCB Bond Fund	2012R Bond Fund	Totals Debt Service Fund
ASSETS:												
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 489,783	\$ -	\$ 489,783
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>489,783</u>	<u>\$ -</u>	<u>\$ 489,783</u>
LIABILITIES AND FUND BALANCE:												
Liabilities:												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:												
Assigned	-	-	-	-	-	-	-	-	-	-	-	-
Restricted for debt service	-	-	-	-	-	-	-	-	-	489,783	-	489,783
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>489,783</u>	<u>-</u>	<u>489,783</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 489,783</u>	<u>\$ -</u>	<u>\$ 489,783</u>

FLEMING COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	KISTA Energy	2003R Bond Fund	2004 Bond Fund	2004B Bond Fund	2006 Bond Fund	2008R Bond Fund	2008 Bond Fund	2010R Bond Fund	2011 Bond Fund	2011 QSCB Bond Fund	2012R Bond Fund	Totals Debt Service Fund
REVENUES:												
Intergovernmental - State	\$ 28,229	\$ 25,478	\$ 39,105	\$ -	\$ 115,944	\$ 85,261	\$ 92,447	\$ -	\$ -	\$ 120,662	\$ 22,706	\$ 529,832
Intergovernmental - Federal subsidy	-	-	-	-	-	-	-	-	-	554,187	-	554,187
Interest income	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	<u>28,229</u>	<u>25,478</u>	<u>39,105</u>	<u>-</u>	<u>115,944</u>	<u>85,261</u>	<u>92,447</u>	<u>-</u>	<u>-</u>	<u>674,849</u>	<u>22,706</u>	<u>1,084,019</u>
EXPENDITURES:												
Debt service	43,183	304,611	43,280	82,150	115,944	259,040	141,771	156,288	138,023	554,187	93,412	1,931,889
Total expenditures	<u>43,183</u>	<u>304,611</u>	<u>43,280</u>	<u>82,150</u>	<u>115,944</u>	<u>259,040</u>	<u>141,771</u>	<u>156,288</u>	<u>138,023</u>	<u>554,187</u>	<u>93,412</u>	<u>1,931,889</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(14,954)</u>	<u>(279,133)</u>	<u>(4,175)</u>	<u>(82,150)</u>	<u>-</u>	<u>(173,779)</u>	<u>(49,324)</u>	<u>(156,288)</u>	<u>(138,023)</u>	<u>120,662</u>	<u>(70,706)</u>	<u>(847,870)</u>
OTHER FINANCING SOURCES (USES):												
Operating transfers in	14,954	279,133	4,175	82,150	-	173,779	49,324	156,288	138,023	369,121	70,706	1,337,653
Total other financing sources (uses)	<u>14,954</u>	<u>279,133</u>	<u>4,175</u>	<u>82,150</u>	<u>-</u>	<u>173,779</u>	<u>49,324</u>	<u>156,288</u>	<u>138,023</u>	<u>369,121</u>	<u>70,706</u>	<u>1,337,653</u>
NET CHANGE IN FUND BALANCES	-	-	-	-	-	-	-	-	-	489,783	-	489,783
FUND BALANCE JUNE 30, 2012	-	-	-	-	-	-	-	-	-	-	-	-
FUND BALANCE JUNE 30, 2013	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 489,783</u>	<u>\$ -</u>	<u>\$ 489,783</u>						

**FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance June 30, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2013
Fleming County High School	\$ 72,143	\$ 599,261	\$ 572,641	\$ 98,763	\$ 2,427	\$ 1,338	\$ 99,852
Simon Middle School	25,367	124,933	119,040	31,260	-	6,403	24,857
Flemingsburg Elementary	19,815	67,518	65,464	21,869	-	-	21,869
Ewing Elementary	5,579	35,737	28,883	12,433	-	-	12,433
Hillsboro Elementary	23,206	33,381	35,854	20,733	-	-	20,733
Ward Elementary	12,926	27,650	30,812	9,764	-	-	9,764
	<u>\$ 159,036</u>	<u>\$ 888,480</u>	<u>\$ 852,694</u>	<u>\$ 194,822</u>	<u>\$ 2,427</u>	<u>\$ 7,741</u>	<u>\$ 189,508</u>

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FLEMING COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance June 30, 2012	Receipts	Disbursements	Cash Balance June 30, 2013	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2013
General Fund	\$ 253	\$ 5,721	\$ 5,849	\$ 125	\$ -	\$ 125
Math-Grant	731	-	-	731	-	731
Interest	115	168	-	283	-	283
Sr. Magazine Sales Prize Money	-	2,075	2,075	-	-	-
CBI (FMD)	424	4,059	3,282	1,201	-	1,201
Jr/Sr Prom	1,227	5,239	6,466	-	-	-
Climate Committee	1,236	475	1,490	221	-	221
Student Data Binders	-	100	-	100	-	100
Senior Trip Scholarship	-	1,986	1,786	200	-	200
Academic Team	2,012	1,620	1,764	1,868	-	1,868
Freshman Academy	212	-	-	212	-	212
Culinary	769	278	339	708	-	708
Library	143	1,862	1,992	13	-	13
Pepsi	1,005	1,726	1,882	849	-	849
Pepsi-Faculty	398	1,093	1,436	55	-	55
Picture Fund	1,918	5,351	5,607	1,662	-	1,662
Senior Mag Sales	-	89,841	89,841	-	-	-
Nat. Art Honor Society	150	530	500	180	-	180
Game Club	382	3,003	2,857	528	-	528
Swim Team	260	2,627	2,577	310	-	310
Bowling	467	1,250	1,467	250	-	250
Girls Soccer	3,612	3,020	3,416	3,216	-	3,216
Boys Soccer	3,123	3,020	3,141	3,002	-	3,002
Baseball	8	6,973	6,981	-	-	-
AAU Boys B-Ball	383	-	-	383	-	383
Boys Basketball	-	13,732	13,732	-	-	-
Boys B-Ball Fundraiser	347	23,741	24,088	-	-	-
Cheerleaders	3,276	12,709	15,563	422	-	422
Cheerleaders Fundraiser	23	11,605	3,774	7,854	-	7,854
Track/Cross Country	-	6,120	5,981	139	-	139
Football	2,300	16,551	18,848	3	-	3
Football Fundraisers	35	-	23	12	-	12
Girls Basketball	158	13,277	12,523	912	-	912
Girls Golf	-	1,061	1,061	-	-	-
Boys Golf	-	1,829	1,829	-	-	-
Girls Softball	-	6,440	6,380	60	-	60
Athletic Dept	516	132,208	129,689	3,035	1,500	4,535
Concessions	-	20,925	20,718	207	-	207
District Games	-	165	165	-	-	-
Girls Volleyball	1,580	3,000	3,921	659	-	659
English	760	3,319	3,825	254	-	254
Yearbook Sales	6,924	12,010	14,574	4,360	-	4,360
Journalism	9,990	16,304	9,737	16,557	-	16,557
English	2,081	1,496	1,766	1,811	-	1,811
CAD	893	500	-	1,393	-	1,393
FCA	47	889	480	456	-	456
Pep Club	331	-	54	277	-	277
School Farm	1,975	55,691	39,316	18,350	-	18,350
FFA	2,514	28,800	29,870	1,444	(411)	1,033
FFA Barn	113	-	97	16	-	16
FBLA	706	14,084	13,384	1,406	-	1,406
FCCLA	2,274	24,517	25,018	1,773	-	1,773
Ag Business/Floral Design	2,509	7,447	4,766	5,190	-	5,190
Vocational Shop Class	-	2,099	1,533	566	-	566
French Club	42	300	290	52	-	52
H.O.S.A	1,562	6,427	6,921	1,068	-	1,068
Skill USA	850	2,304	3,130	24	-	24

FLEMING COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FLEMING COUNTY HIGH SCHOOL (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balance June 30, 2012	Receipts	Disburse- ment	Cash Balance June 30, 2013	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2013
Tri-M Music Society	85	-	-	85	-	85
Guidance Office	595	9,620	9,533	682	-	682
Nat'l Honor Society	33	425	458	-	-	-
Science Club/ Fair	2	750	300	452	-	452
Senior Class	-	1,275	495	780	-	780
Senior Beta Club	369	2,219	868	1,720	-	1,720
Spanish Club	944	304	458	790	-	790
Student Leadership	55	250	-	305	-	305
STLP	3,231	697	2,257	1,671	-	1,671
TSA	226	2,418	2,644	-	-	-
Choir	77	2,584	2,373	288	-	288
Future Educators	180	-	-	180	-	180
Drama Club	56	600	-	656	-	656
Band	121	1,500	1,432	189	-	189
Media	346	-	297	49	-	49
CWE (Career Work EXP)	4,649	21,074	19,559	6,164	-	6,164
Panther Den	540	145	330	355	-	355
Subtotal	72,143	625,428	598,808	98,763	1,089	99,852
Less Inter-fund Transfers	-	26,167	26,167	-	-	-
TOTALS	\$ 72,143	\$ 599,261	\$ 572,641	\$ 98,763	\$ 1,089	\$ 99,852

**FLEMING COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>				
Passed through Kentucky Department of Education:				
School Improvement	84.010	3203	55,000	52,872 *
Title I Grants to Local Educational Agencies	84.010	3100202-12	820,202	789,023 *
Title I Grants to Local Educational Agencies	84.010	3100202-11	849,633	14,214 *
				<u>856,109</u>
Migrant Education-State Grant Programs	84.011	3113R	470,572	345,131 *
Migrant Education-State Grant Programs	84.011	3112F	47,700	15,656 *
Migrant Education-State Grant Programs	84.011	3111R	460,176	77 *
Migrant Education-State Grant Programs	84.011	3112R	494,600	155,876 *
				<u>516,740</u>
Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA, Part B	84.027	3810002-12	487,899	414,828 *
Special Education Preschool Grants	84.173	3800002-12	22,667	4,293 *
Special Education Preschool Grants	84.173	3800002-11	22,776	12,191 *
				<u>431,312</u>
Education Technology State Grants	84.318	3210002-10	15,890	282
Rural Education	84.358	3140002-12	51,463	6,057
Rural Education	84.358	3140002-13	45,039	31,291
				<u>37,348</u>
Improving Teacher Quality State Grants	84.367	3230002-12	148,600	133,076
Improving Teacher Quality State Grants	84.367	3230002-11	150,232	22,891
				<u>155,967</u>
Vocational Education Basic Grants to States	84.048	4622132-12	30,328	30,328
Vocational Education Basic Grants to States	84.048	4622132-11	3,986	3,986
				<u>34,314</u>
Education Jobs Fund	84.410	EJOB00	575,190	4,056
Total U.S. Department of Education				<u>2,036,128</u>

**FLEMING COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Pass-through - State Department of Education:				
Cash Assistance:				
Fresh Fruit and Vegetable Program	10.582	7720012-12	-	1,177
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-12	-	131,504 *
National School Lunch Program	10.555	7750002-13	-	508,878 *
School Breakfast Program	10.553	7760005-13	-	251,610 *
School Breakfast Program	10.553	7760005-12	-	66,657 *
Cash Assistance Subtotal				<u>958,649</u>
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	012-0100	-	74,937 *
Total Child Nutrition Cluster				<u>1,033,586</u>
Total U.S. Department of Agriculture				<u>1,034,763</u>
Total Federal Assistance				<u>\$ 3,070,891</u>

* Denotes a major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fleming County School District under the programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Fleming County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

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 represent 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

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, the organization had total inventory of \$18,994.



Kelley,
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**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**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fleming County School District (the "District") as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

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.

Kelley, Galloway & Company, PSC

October 15, 2013



Kelley,
Galloway &
Company, PSC

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Fleming 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 the District's major federal programs for the year ended June 30, 2013. Fleming 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 Fleming County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the 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 Fleming 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 Fleming County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2013.

Report on Internal Control Over Compliance

Management of Fleming 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 the 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 Fleming 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.

Purpose of this Report

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.

Kelley, Galloway & Company, PSC

October 15, 2013

**FLEMING COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued:			Unmodified
Internal Control over financial reporting:			
Material weakness(es) identified?	_____	yes	_____ <input checked="" type="checkbox"/> _____ no
Significant deficiency(ies) identified?	_____ <input checked="" type="checkbox"/> _____	yes	_____ none reported
Noncompliance material to the financial statements noted?	_____	yes	_____ <input checked="" type="checkbox"/> _____ no
Federal Awards			
Internal control over major programs:			
Material weakness(es) identified?	_____	yes	_____ <input checked="" type="checkbox"/> _____ no
Significant deficiency(ies) identified?	_____	yes	_____ <input checked="" type="checkbox"/> _____ none reported
Type of audit auditor's report issued on compliance for major programs:			Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	yes	_____ <input checked="" type="checkbox"/> _____ no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2013:

- Title I (84.010)
- Special Education Cluster (IDEA) (84.027, 84.173)
- Migrant Education (84.011)
- Child Nutrition Cluster (10.553, 10.555)

Dollar threshold to distinguish between Type A and Type B Programs:			\$ <u>300,000</u>
The District qualified as a low risk auditee	_____ <input checked="" type="checkbox"/> _____	yes	_____ no

(B) FINANCIAL STATEMENT FINDINGS

2013-1 Purchase Orders

Statement of Condition: We noted several instances where amounts reported on the purchase order did not agree to the supporting documentation or invoices/receipts. Invoices were approved and paid for amounts greater than what the purchase order had authorized. For example, one purchase order was approved for attending a conference for \$510 for 1 person, but the actual invoice that was paid was for \$2,419.86 for 6 people; another example was a purchase order for food service in the amount of \$65,000 and the actual payment was for \$104,665.

Criteria for Condition: In accordance with District policy, the school finance officer shall match up the purchase order, shipping document (if applicable), and vendor or standard invoice and verify that all items ordered have been received, services have been satisfactorily performed, all amounts agree, and that all necessary approvals and signatures have been obtained.

Cause of Condition: Actual expenditures would come in higher than the amounts approved on purchase orders.

Effect of Condition: Supporting documentation does not agree to purchase orders.

Recommendation of the Condition: We recommend that the District:

- Advise District personnel of the policy of when a revised/new purchase order should be obtained when actual expenditures are anticipated to be higher than the approved purchase order;
- Ensure all expenditures are supported by sufficient documentation and that expenditure amounts reported on purchase orders match supporting documentation; and,
- Evaluate policies to determine if changes are necessary to provide for more complete and accurate documentation of expenditures.

Management Response and Corrective Action Plan: All District and school personnel will be advised that the purchase order is completed with a set amount and additional approval is required if the purchase amount will be exceeded. This will require a revised purchase order or an additional purchase order.

Personnel will be trained regarding the required documentation in order to submit items for payment approval. The Accounts Payable Clerk has been trained to review all Purchase Order and Accounts Payable documents to ensure accuracy.

Policies and Procedures are currently being revised to ensure that all requests for purchases and payment meet the required documentation standards before being entered for payment approval.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

FLEMING COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

There were no findings in the prior year.



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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Kentucky State Committee for School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky

In planning and performing our audit of the financial statements of Fleming County School District (the "District") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 15, 2013, on the financial statements of the District.

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

Kelley, Galloway & Company, PSC

October 15, 2013

FLEMING COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2013

13-01 Time Clock/Time Sheet

Statement of Condition: We noted the District has Virtual Time Clock software; however, several employees (primarily classified employees) are not using it and it is not monitored. In addition, several employees are not required to complete a timesheet. Also, there is not a full-time, back-up employee who could perform the payroll duties in the event of an emergency. In addition, there is not an independent review of the monthly payroll reports.

Criteria for Condition: Pay should be based upon actual time worked. Payroll is a very time intensive function at a school district and the largest expenditure.

Cause of Condition: Due to limited staffing, employees are paid their set contract amounts throughout the year (whether working or not) and each employee turns in a calendar of non-contract days at year end to settle up.

Effect of Condition: Employees may not be compensated correctly.

Recommendation of the Condition: We recommend that:

- All classified employees should be required to complete a timesheet that is reviewed and approved by a supervisor;
- The District should consider hiring or reassigning a person to assist with payroll due to the complexities and time involved; and
- Employees should be paid based upon actual time worked supported by timesheets.
- Someone independent of the payroll process should review payroll reports at least on a monthly basis.

Management Response:

- Procedures will be implemented that will require all classified employees to complete a monthly time sheet that must be reviewed and signed by their immediate supervisor before being submitted to the Central Office.
- Two Central Office employees will be trained in all areas of payroll procedures and will be available as needed to assist in payroll job related duties.
- Payroll records will be reviewed for accuracy and employee pay will be adjusted for any days that are not reflected and signed off by their supervisor as days worked.
- A central office administrator will be trained and assigned to review for approval each monthly payroll.

13-02 National School Lunch Program

Statement of Condition: We noted the following:

- On 3 out of 40 free and reduced lunch applications tested, the last 4 digits of the social security number of the primary wage earner or adult who signed the application was not noted as required; and
- 2 out of 40 applications did not contain the “confirming official’s signature”.

- Employees are making personal food purchases to obtain discounts and then reimbursing the District for the purchases.

Criteria for Condition: Free and reduced lunch applications should be completed in accordance with guidelines. In addition, personal purchases of food should not be permitted.

Cause of Condition: Unfamiliarity with District policy and guidelines.

Effect of Condition: District policy is not being properly followed.

Recommendation of the Condition: We recommend that someone knowledgeable of the National School Lunch Program review all free and reduced lunch applications for accuracy and completeness. In addition, the Board should adopt a policy to prohibit employees from making personal purchases with District funds even if the employee intends to reimburse the District.

Management Response:

- All free and reduced meal applications are now being reviewed by a district level administrator for accuracy.
- All food service personnel have been advised that all personal purchases for employees are prohibited.

13-03 Travel Reimbursements

Statement of Condition: While reviewing disbursements, we noted the following:

- “Out of District Travel Request” forms not properly completed and approved.
- Purchase order for the travel was prepared and approved after the travel took place.
- Employee approved their own purchase order for travel.
- Payments made from hotel guest statements without supporting receipts for Champs Bar, Café Magnolia, and Thelma’s.

Criteria for Condition: Good internal controls dictate when determining discretionary purchases such as meals, the Board should consider its primary purpose of promoting public education. Good internal controls also dictate that all travel, lodging, and meals be for necessary activities for the school district employees, be accompanied by itemized receipts for all purchases, and be properly approved.

Cause of Condition: Disbursements are not properly supported.

Effect of Condition: Unauthorized disbursements could occur.

Recommendation of the Condition: We recommend that the District:

- Reevaluate all policies and procedures related to travel, lodging, and meals.
- Implement and enforce a review process to apply appropriate approvals on reimbursement of expenses for travel.
- Reevaluate the expenses incurred by the District related to travel, lodging, and meals to ensure they are in the best interest of the school district, are for necessary business functions, and are reasonable in amount. This evaluation should include meals and other expenses provided for staff appreciation events or other gifts.
- Consider a policy on maximum daily limits for meals for out of district travel for Board members, Superintendent, and Staff.

Management Response:

- All policies and procedures are being reviewed and changes will be made related to district employee travel, lodging and meal reimbursements.
- Administrative review for all travel is now required. All travel must now be reviewed and approved by the next level supervisor in each area.
- All procedures related to travel and district expenditures are currently under review as part of the overall district procedures update.
- The district is currently using the \$30.00 per day limit on meal reimbursement and a policy change on this will be recommended to the Board for approval.

13-04 Activity Funds Recordkeeping

Statement of Condition: We noted the following instances of violation in the recordkeeping for the activity funds:

1. Simons Middle School - We noted that Student Incentive Funds are being used to purchase gift cards for perfect attendance. School districts are not permitted by the Red Book to purchase gift cards or make checks out to “cash” for any purpose. Any awards should be funded by non-tax, non-Board controlled dollars such as donations or booster organizations. Also, 6 of the 8 booster clubs had not submitted an annual budget or listing of club officers as required.
2. Fleming County High School - We noted that general fund monies are used to pay for staff meetings. General fund monies are only to be utilized for students. In addition, the athletic director did not complete the Inventory Control Worksheets as required. Also, 5 of the 8 booster clubs had not submitted an annual budget or listing of club officers as required.
3. Hillsboro Elementary and Ewing Elementary – We noted that two individuals do not count money and initial deposit tickets. In addition, they do not utilize the Standard Invoice Form F-SA-8 for purchases without a vendor invoice, i.e. expense reimbursements.
4. Flemingsburg Elementary School – We noted that a budget had not been prepared for the school year. In addition, the school fundraising worksheet was not completed as required by the Red Book.

Criteria for Condition: Accounts should only be used to make appropriate purchases in accordance with Red Book guidelines.

Cause of Condition: Oversight.

Effect of Condition: Noncompliance with the Redbook guidelines.

Recommendation of the Condition: We recommend that more care be taken when paying for expenditures to ensure that amounts are paid from the correct accounts and for authorized expenditures.

Management Response:

- All building principals and bookkeepers were trained in New Redbook Procedures in August and are now aware that these items are no longer allowable purchases and that student generated funds should only be used for instructional related student activities.

- All booster clubs will be required to submit annual budgets as well as a completed listing of all officers.

13-05 Rewards Program

Statement of Condition: We noted the District gets 1% cash back rewards on the use of the District credit card. However, there is no policy on how the rewards would be used.

Criteria for Condition: Monies of the District should be spent in accordance with the District's policy.

Cause of Condition: This was a fairly new program and it was not envisioned that the rewards would build up so quickly and become such a material amount.

Effect of Condition: Without a policy, rewards could be used for unauthorized purposes.

Recommendation of the Condition: We recommend that the District adopt an official policy on how cash back rewards are to be used by the District.

Management Response: As part of the Policy and Procedures updates; the rewards program will be changed to allow for the district to receive a refund back to the district and all returned revenues will be distributed to the appropriate funds.

13-06 Account Coding

Statement of Condition: We noted instances where the District is not following the standard chart of accounts prescribed by the Kentucky Department of Education. In addition, we noted items that were misclassified between function codes.

Criteria for Condition: The Kentucky Department of Education prescribes a standard chart of accounts to promote consistency among all school districts in the state.

Cause of Condition: District personnel did not fully convert to the new chart of accounts.

Effect of Condition: Inconsistency in coding may occur.

Recommendation of the Condition: We recommend that the District adopt and fully utilize the standard chart of accounts as prescribed by the Kentucky Department of Education as much as possible.

Management Response: The District will adopt and begin full implementation and utilization of the new Chart of Accounts and staff will be trained on proper invoice coding for the new chart of accounts.

13-07 Credit Card Receipts

Statement of Condition: We noted instances where only the credit card charge slip was turned in without an itemized receipt.

Criteria for Condition: All disbursements should be properly supported by an itemized receipt.

Cause of Condition: The District does not clarify in their policy that the receipt turned in for credit card purchases should be an itemized receipt.

Effect of Condition: The District is unable to substantiate the purchase.

Recommendation of the Condition: We recommend that the District revise their policy to clarify that credit card charge receipts are no longer considered sufficient supporting documentation and that itemized receipts are required on all purchases.

Management Response: As part of the Procedures updates the district will implement clearly defined instructions for the use of credit cards. These procedures will include proper usage, required documentation, very specific detailed receipts, and detailed explanation for all credit card purchases.

13-08 Budgeting

Statement of Condition: For fiscal year 2013, the District budgeted on-behalf payments which is acceptable and preferable by the State. However, on-behalf payments were not recorded until year-end; thus, the budget comparison to actual during the year was misleading.

Criteria for Condition: Accurate budgets allow you to track how well the District is doing and aids in the decision-making process.

Cause of Condition: The District does not record on-behalf payments until year-end; therefore, causing large budget discrepancies until year-end when it can be too late to make changes.

Effect of Condition: The District is unable to make timely decisions.

Recommendation of the Condition: We recommend that the District revise the policy to either not budget on-behalf payments until year-end or to make quarterly estimates of the on-behalf payments throughout the year and revise the estimates at year-end for the actual amounts.

Management Response: As the Kentucky Department of Education now requires that On-Behalf payments be included in the district budget the district will investigate the best method to estimate incurred on behalf expenditures and revenues to insure the most accurate district financial reporting.

Status of Prior Year Management Points

Central Office

Central Office 12-01 Central Office Review of Activity Funds

Condition: This condition was corrected in the current year.

Central Office 12-02 Proper documentation for expense reports

Condition: This condition was repeated in the current year as part of a significant deficiency as Finding 2013-1.

Fleming County High School

High School 12-01 Concession Inventories

Condition: This condition was repeated in the current year as comment 13-04.

High School 12--02 Ticket Sales

Condition: This condition was corrected in the current year.

High School 12-03 Cash Disbursements
Condition: This condition was corrected in the current year.

High School 12-04 Booster Clubs
Condition: This condition was repeated in the current year as comment 13-04.

Simons Middle School

Middle School 12-01 Booster Club Reports
Condition: This condition was repeated in the current year as comment 13-04.

Middle School 12-02 Monthly Financial Reports
Condition: This condition was corrected in the current year.

Middle School 12-03 Concession Inventories
Condition: This condition was repeated in the current year as comment 13-04.

Middle School 12--04 Ticket Sales
Condition: This condition was corrected in the current year.

Flemingsburg Elementary

Flemingsburg 12--01 Purchase Orders
Condition: This condition was corrected in the current year.

Flemingsburg 12-02 Annual Financial Report
Condition: This condition was corrected in the current year.

Flemingsburg 12-03 Timely Deposit
Condition: This condition was corrected in the current year.

Flemingsburg 12-04 Fundraiser Worksheets
Condition: This condition was repeated in the current year as comment 13-04.

Flemingsburg 12-05 Proper Void Check Procedures
Condition: This condition was corrected in the current year.

Ewing Elementary

Ewing-12-01 Proper Void Check Procedures
Condition: This condition was corrected in the current year.

Ewing 12-02 Proper invoice filing
Condition: This condition was corrected in the current year.

Mr. Tom Price, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.