

HARLAN COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Districts' 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 Harlan County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Harlan County School Districts' 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 Harlan County School Districts' internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
October 21, 2013

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

For the year ended June 30, 2013

As management of the Harlan County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the district was \$5,803,784 of which \$1,372,208 was General Fund, \$3,279,284 Construction Fund and \$1,152,291 was in the building fund. Ending fund balance was \$ 2,104,441 of which \$412,865 was General Fund, \$401,505 was in the Construction Fund, \$1,832 was in the Capital Outlay Fund and \$1,288,239 was in the Building Fund.
- The ending cash balance was (\$186,622) for the General Fund.
- The General Fund Revenue totaled \$28,445,795 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$29,509,390 exclusive of inter-fund transfers.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

For the year ended June 30, 2013

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows exceeded liabilities by approximately \$15.36 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.

2013 District-Wide Governmental Net position compared to 2012 as follows:

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2013**

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

	Governmental		Business-type		Total		Total Percentage Change 2012-2013
	Activities		Activities		School District		
	2012	2013	2012	2013	2012	2013	
Assets:							
Current and Other Assets	8.18	2.82	0.47	0.63	8.65	3.45	-60%
Capital Assets	61.60	60.67	0.23	0.20	61.83	60.87	-2%
Total Assets	69.78	63.49	0.70	0.83	70.48	64.32	-9%
Loss for the difference							
in reacquisition and carrying value of refunding debt		4.18			0.00	4.18	
	0.00	4.18	0.00	0.00	0.00	4.18	
Liabilities:							
Current Liabilities	4.30	3.41	0.00	0.00	4.30	3.41	-21%
Noncurrent Liabilities	46.20	45.98	0.00	0.00	46.20	45.98	0%
Total Liabilities	50.50	49.39	0.00	0.00	50.50	49.39	-2%
Net Assets:							
Invested in Capital Assets							
Net of Debt	12.39	13.33	0.29	0.20	12.68	13.53	7%
Restricted	4.61	1.85	0.00	0.63	4.61	2.48	-46%
Unrestricted Net Position	2.28	-0.66	0.41	0.00	2.69	-0.66	-125%
Total Net Position	19.28	14.52	0.70	0.83	19.98	15.35	-23%

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2013**

GOVERNMENTAL ACTIVITIES

Ending net position was \$14.5 million for the District. This was a decrease of \$4.75 million.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2012-2013
					School District		
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	
Revenues:							
Charges for services	\$ -	\$ 0.39	\$ 0.25	\$ 0.52	\$ 0.25	\$ 0.91	266%
Operating grants and contributions	32.09	5.25	1.94	2.22	34.03	7.47	-78%
Capital grants and contributions	2.22	3.18	0.32		2.54	3.18	25%
General revenues	6.98	29.56	-		6.98	29.56	323%
Total revenue	41.29	38.38	2.51	2.74	43.80	41.12	-6%
Expenses:							
Instruction	\$ 22.04	\$ 21.16			\$ 22.04	\$ 21.16	-4%
Student	2.17	2.14			2.17	2.14	-2%
Instructional staff	2.25	2.04			2.25	2.04	-9%
District administration	1.21	1.11			1.21	1.11	-9%
School administration	2.48	2.38			2.48	2.38	-4%
Business	0.54	0.47			0.54	0.47	-13%
Plant operation & maintenance	6.25	3.73			6.25	3.73	-40%
Student transportation	2.58	1.82			2.58	1.82	-29%
Other instructional	-	0.34			-	0.34	100%
Community services operations	0.50	0.53			0.50	0.53	6%
Land Improvements	-	-			-	-	0%
Amortization	-	0.04			-	0.04	
Depreciation	-	1.85		0.03	-	1.88	100%
Interest on long-term debt	2.01	1.52			2.01	1.52	-24%
Food Service Operations			2.65	2.46	2.65	2.46	-7%
Extraordinary Item		0.50				0.50	100%
Transfers				0.13		0.13	100%
Debt Service		0.07				0.07	100%
Total Expenses	\$ 42.05	\$ 39.70	\$ 2.65	\$ 2.62	\$ 44.70	\$ 42.32	-5%
Change in net position	\$ (0.76)	\$ (1.32)	\$ (0.15)	\$ 0.13	\$ (0.90)	\$ (1.20)	-32%

CAPITAL ASSETS

At the end of fiscal 2013, the District had \$60.87 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$.96 million over last year.

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

For the year ended June 30, 2013

Capital Assets at Year-End FY2013
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Land	1,897,472	1,897,472	-	-	1,897,472	1,897,472
Land and Improvements	746,241	681,151	-	-	746,241	681,151
Buildings & Improvements	50,513,627	49,073,059	-	-	50,513,627	49,073,059
Technology Equipment	300,369	187,554	3,823	2,099	304,192	189,653
Vehicles	979,145	1,203,770	-	-	979,145	1,203,770
General Equipment	174,565	138,107	230,356	199,368	404,921	337,475
Construction In Progress	3,474,109	7,488,910			3,474,109	7,488,910

DEBT

Capital lease and general obligation debt decreased \$.68 million from FY 2012.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2012	2013
Capital Lease Obligations	\$ 0.14	\$ 0.70
General Obligation Bonds	<u>48.3</u>	<u>47.06</u>
Total Obligations	\$ <u>48.44</u>	\$ <u>47.76</u>

THE DISTRICT'S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$412,865 which is less than last year's fund balance of \$1,372,208. The unassigned portion of the fund balance at the end of fiscal year 2013 is \$250,985 compared to \$779,464 from the preceding year.

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2013:

*Note This chart does not include beginning balances.

**HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2013**

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	5,671,484	58,738		1,307,124	6,663		524,480
State Revenue Sources	22,651,382	1,667,375	354,381	631,068		2,139,289	24,568
Federal Revenue Sources	122,929	4,891,268				53,852	2,197,736
Other	4,688						2,265
Transfers	126,476						
TOTALS	28,576,959	6,617,381	354,381	1,938,192	6,663	2,193,141	2,749,049
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	16,162,246	4,972,234					
Student Support Services	1,899,361	199,368					
Instructional Staff Support Services	1,170,880	872,680					
District Admin Support	1,111,082						
School Admin Support	2,379,804						
Business Support Services	462,132	4,704					
Plant Operation & Management	3,734,778						
Student Transportation	2,175,588	67,210					
Other Instructional	343,482						
Food Service Operations							2,494,792
Community Services	7,466	526,335					
Debt Service	56,205	-			16,950	4,416,689	
Site Improvement							
Building Renovations	6,365	1,763			4,014,801		
Other Items							32,712
Transfers	26,913		352,549	1,802,243			126,476
TOTALS	29,536,302	6,644,294	352,549	1,802,243	4,031,751	4,416,689	2,653,980
Excess / (Deficit)	(959,343)	(26,913)	1,832	135,949	(4,025,088)	(2,223,548)	95,069

HARLAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (M&DA)
For the year ended June 30, 2013

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2013 net of other financing sources and uses, were \$28.6 million including "On-Behalf" payments.
- General fund budget compared to actual revenue varied slightly from line item to line item except for the other revenue from local sources item with the ending actual revenue being \$22,585,227 more than budget by approximately 3 percent.
- The total cost of all general fund programs and services was \$23,648,821 million excluding transfers.
- General fund budget expenditures to actual varied by approximately (\$1,262,498) in total.

BUDGETARY IMPLICATIONS

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2013-2014 with a 5% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates
- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the "shared" KTRS (which requires a .50% district match of gross pay for all KTRS eligible employees in FY2013 and will continue to increase to a 2.0% contribution rate), initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, and additional anticipated reductions in funding continues to press the district's ability to continue programs. The district contribution rate for CERS increased by 2.8% for 2012/2013.
- Continued Insufficient funding of the state transportation formula

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

Harlan County School District
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 672,289	\$ 373,923	\$ 1,046,212
Investments	1,956,297		1,956,297
Receivables (net)	196,337	196,712	393,049
Inventories		60,555	60,555
Capital assets:			
Land, improvements, and construction in progress	9,386,382		9,386,382
Other capital assets, net of depreciation	51,283,640	201,468	51,485,107
Total capital assets	60,670,022	201,468	60,871,489
Total assets	63,494,946	832,657	64,327,603
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	417,852		417,852
LIABILITIES			
Accounts payable and accrued expenses	183,883		183,883
Accrued interest payable	153,267		153,267
Unearned revenue	266,072		266,072
Payroll taxes payable	173,790		173,790
Accrued salaries and benefit payable	96,738		96,738
Long-term liabilities:			
Due within 1 year:			
Bond obligations	2,439,000		2,439,000
Capital lease obligations	96,338		96,338
Total due within 1 year	2,535,338	-	2,535,338
Due in more than 1 year:			
Bond obligations	44,616,900		44,616,900
Capital lease obligations	606,270		606,270
KSBIT payable	504,366		504,366
Sick leave	250,156		250,156
Total due in more than 1 year	45,977,692	-	45,977,692
Total liabilities	49,386,780	-	49,386,780
NET POSITION			
Net Investment in capital assets	13,329,366	201,468	13,530,833
Restricted for:			
Expendable restricted for encumbrances	48,136		48,136
Expendable restricted for sick leave	113,744		113,744
Expendable restricted for capital projects	1,691,576		1,691,576
Expendable restricted for food services		631,190	631,190
Unrestricted (deficit)	(656,804)		(656,804)
Total net position	\$ 14,526,017	\$ 832,657	\$ 15,358,674

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 21,155,034	\$ 265,859	\$ 3,306,297	\$ -	\$ (17,582,878)		\$ (17,582,878)
Support Services							
Student	2,098,730	122,929	262,405		(1,713,396)		(1,713,396)
Instructional Staff	2,043,559		262,405		(1,781,155)		(1,781,155)
District Administration	1,111,082		157,443		(953,640)		(953,640)
School Administration	2,379,804		314,885		(2,064,919)		(2,064,919)
Business	466,836		52,481		(414,355)		(414,355)
Plant Operation & Maintenance	3,734,778		524,809	985,449	(2,224,520)		(2,224,520)
Student Transportation	1,822,302		262,405		(1,559,898)		(1,559,898)
Other Instructional	343,482		52,481		(291,001)		(291,001)
Community Services Operations	533,802		52,481		(481,321)		(481,321)
Building Improvements	8,128				(8,128)		(8,128)
Loss on retirement of assets	472				(472)		(472)
Amortization	44,132				(44,132)		(44,132)
Depreciation	1,852,443				(1,852,443)		(1,852,443)
Debt Service	68,756				(68,756)		(68,756)
Interest on general long-term debt	1,519,896			2,193,141	673,245		673,245
Total governmental activities	<u>39,183,236</u>	<u>388,789</u>	<u>5,248,091</u>	<u>3,178,590</u>	<u>(30,367,767)</u>		<u>(30,367,767)</u>
Business-type activities:							
Food service operations	2,462,081	524,480	2,222,304			\$ 284,703	284,703
Depreciation	32,712					(32,712)	(32,712)
Total business-type activities	<u>2,494,792</u>	<u>524,480</u>	<u>2,222,304</u>	<u>-</u>	<u>-</u>	<u>251,992</u>	<u>251,992</u>
Total primary government	\$ <u>41,678,028</u>	\$ <u>913,269</u>	\$ <u>7,470,394</u>	\$ <u>3,178,590</u>	<u>(30,367,767)</u>	<u>251,992</u>	<u>(30,115,775)</u>
General revenues:							
Taxes:							
Property taxes					3,590,961		3,590,961
Motor vehicle taxes					524,005		524,005
Utility taxes					1,620,571		1,620,571
Unmined minerals tax					1,012,318		1,012,318
State and formula grants					22,651,382		22,651,382
Unrestricted investment earnings					30,295	2,265	32,560
Transfers					126,476	(126,476)	-
Total general revenues and transfers					<u>29,556,008</u>	<u>(124,211)</u>	<u>29,431,796</u>
Extraordinary item					(504,366)		(504,366)
Total general revenues, transfers and extraordinary item					<u>29,051,642</u>	<u>(124,211)</u>	<u>28,927,430</u>
Change in net position					(1,316,125)	127,780	(1,188,345)
Net position - beginning					19,273,356	704,877	19,978,233
Prior period adjustment					(3,431,213)		(3,431,213)
Restated net position - beginning					<u>15,842,143</u>	<u>704,877</u>	<u>16,547,020</u>
Net position - ending					\$ <u>14,526,017</u>	\$ <u>832,657</u>	\$ <u>15,358,674</u>

See the accompanying notes to the financial statements.

Harlan County School District
Balance Sheet
Governmental Funds
June 30, 2013

	Governmental Funds					
	General	Special Revenue	Debt Service	Construction Fund	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ -	\$ 319,626	\$ -	\$ 401,505	\$ 137,781	\$ 858,912
Investments	804,007				1,152,291	1,956,297
Receivables, net						
Taxes-current	166,764					166,764
Taxes-delinquent	18,527					18,527
Accounts	10,509					10,509
Intergovernmental-federal	537					537
Total assets	1,000,344	319,626	-	401,505	1,290,071	3,011,546
LIABILITIES						
Accounts payable	130,329	53,554				183,883
Cash shortage	186,622					186,622
Accrued salaries & benefits payable	96,738					96,738
Payroll taxes payable	173,790					173,790
Unearned revenue		266,072				266,072
Total liabilities	587,479	319,626	-	-	-	907,106
FUND BALANCE						
Restricted	113,744			401,505	1,290,071	1,805,320
Assigned	48,136					48,136
Unassigned	250,985					250,985
Total fund balance	\$ 412,865	\$ -	\$ -	\$ 401,505	\$ 1,290,071	\$ 2,104,441

See the accompanying notes to the financial statements.

Harlan County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
 June 30, 2013

Total fund balance per fund financial statements	\$	2,104,441
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		60,670,022
Capitalized the bond defeaance costs of the sale/refunding bonds and amortized over the life of the refunded bond.		417,852
Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:		
Accrued interest payable		(153,267)
Bonds payable		(47,055,900)
Capital lease payable		(702,608)
KSBIT payable		(504,366)
Noncurrent sick leave payable		(250,156)
		(500,337)
Net position of governmental activities	\$	14,526,017

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 2,283,837	\$ -	\$ -	\$ -	\$ 1,307,124	\$ 3,590,961
Motor vehicle	524,005					524,005
Unmined minerals	1,012,318					1,012,318
Utilities	1,620,571					1,620,571
Earnings on investments	23,433	199		6,663		30,295
Other local revenue	207,320	58,539				265,859
Intergovernmental - state	22,651,382	1,667,375	2,139,289		985,449	27,443,494
Intergovernmental - federal	122,929	4,891,268	53,852			5,068,049
Total revenues	<u>28,445,795</u>	<u>6,617,381</u>	<u>2,193,141</u>	<u>6,663</u>	<u>2,292,573</u>	<u>39,555,553</u>
EXPENDITURES						
Instruction	16,162,246	4,972,234				21,134,480
Support Services						
Student	1,899,361	199,368				2,098,730
Instructional Staff	1,170,880	872,680				2,043,559
District Administration	1,111,082					1,111,082
School Administration	2,379,804					2,379,804
Business	462,132	4,704				466,836
Plant Operation & Maintenance	3,734,778					3,734,778
Student Transportation	2,175,588	67,210				2,242,798
Other Instructional	343,482					343,482
Community Services Operations	7,466	526,335				533,802
Building Improvements	6,365	1,763		4,014,801		4,022,929
Debt Service	56,205		4,416,689	16,950		4,489,844
Total expenditures	<u>29,509,390</u>	<u>6,644,294</u>	<u>4,416,689</u>	<u>4,031,751</u>	<u>-</u>	<u>44,602,124</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,063,595)	(26,913)	(2,223,548)	(4,025,088)	2,292,573	(5,046,572)
OTHER FINANCING SOURCES (USES)						
Bond Proceeds			4,945,000	1,147,309		6,092,309
Payment to trustee for refunded bonds			(4,902,147)			(4,902,147)
Rounding Amount			(2,372)			(2,372)
Premium			28,275			28,275
Bond issuance	4,688					4,688
Operating transfers in	126,476	26,913	2,154,792			2,308,182
Operating transfers (out)	(26,913)				(2,154,792)	(2,181,706)
Total other financing sources and (uses)	<u>104,251</u>	<u>26,913</u>	<u>2,223,548</u>	<u>1,147,309</u>	<u>(2,154,792)</u>	<u>1,347,229</u>
NET CHANGE IN FUND BALANCE	(959,344)	-	-	(2,877,780)	137,781	(3,699,343)
FUND BALANCE-BEGINNING	<u>1,372,208</u>	<u>-</u>	<u>-</u>	<u>3,279,284</u>	<u>1,152,291</u>	<u>5,803,783</u>
FUND BALANCE-ENDING	<u>\$ 412,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 401,505</u>	<u>\$ 1,290,071</u>	<u>\$ 2,104,441</u>

See the accompanying notes to the financial statements.

Harlan County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2013

Net change in total fund balances per fund financial statements	\$	(3,699,343)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		2,584,494
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue, and the bond issuance costs associated with the sale of bonds amortized over the life of the bonds.</p>		335,804
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		679,338
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		621,165
Receivables		(1,310,552)
KSBIT payable		(504,366)
Other		3
Noncurrent sick leave payable		(22,669)
		(22,669)
Change in net position of governmental activities	\$	(1,316,125)

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 2,104,303	\$ 2,104,303	\$ 2,257,845	\$ 153,542
Motor vehicle	450,000	450,000	524,005	74,005
Unmined minerals	866,000	866,000	1,012,318	146,318
Utilities	1,650,000	1,650,000	1,620,571	(29,429)
Penalties & interest on taxes			25,992	25,992
Earnings on investments	100,000	100,000	23,433	(76,567)
Other local revenue	200,000	200,000	207,320	7,320
Intergovernmental - state	16,575,622	16,575,622	*	16,790,814
Intergovernmental - federal	50,000	50,000	122,929	72,929
Total revenues	<u>21,995,925</u>	<u>21,995,925</u>	<u>22,585,227</u>	<u>589,301</u>
EXPENDITURES				
Instruction	11,909,536	11,909,536	*	12,552,452
Support Services				
Student	975,502	975,502	*	1,451,915
Instructional Staff	435,554	435,554	*	900,789
District Administration	1,329,921	1,329,921	*	1,056,690
School Administration	1,839,088	1,839,088	*	1,824,287
Business	553,176	553,176	*	351,540
Plant Operation & Maintenance	3,235,132	3,235,132	*	3,271,888
Student Transportation	2,108,414	2,108,414	*	2,175,588
Other Instructional			*	-
Community Services			*	7,466
Building Improvements			*	-
Debt Service			56,205	(56,205)
Total expenditures	<u>22,386,323</u>	<u>22,386,323</u>	<u>23,648,821</u>	<u>(1,262,498)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(390,398)	(390,398)	(1,063,595)	(673,197)
OTHER FINANCING SOURCES (USES)				
Bond issuance			4,688	4,688
Operating transfers in	120,989	120,989	126,476	5,487
Operating transfers (out)			(26,913)	(26,913)
Total other financing sources and (uses)	<u>120,989</u>	<u>120,989</u>	<u>104,251</u>	<u>(16,738)</u>
NET CHANGE IN FUND BALANCE	(269,409)	(269,409)	(959,344)	(689,935)
FUND BALANCE-BEGINNING	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,372,208</u>	<u>372,208</u>
FUND BALANCE-ENDING	<u>\$ 730,591</u>	<u>\$ 730,591</u>	<u>\$ 412,865</u>	<u>\$ (317,727)</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$5,860,568.

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Earnings on investments	\$ -	\$ -	\$ 199	\$ 199
Other local revenue		14,676	58,539	43,863
Intergovernmental - state	1,190,875	1,581,647	1,667,375	85,727
Intergovernmental - federal	4,595,900	4,896,474	4,891,268	(5,206)
Total revenues	<u>5,786,775</u>	<u>6,492,797</u>	<u>6,617,381</u>	<u>124,584</u>
EXPENDITURES				
Instruction	4,224,092	4,895,626	4,972,234	(76,608)
Support Services				
Student	126,638	125,290	199,368	(74,078)
Instructional Staff	897,689	872,606	872,680	(74)
Business			4,704	(4,704)
Student Transportation	25,000	79,878	67,210	12,668
Community Services Operations	512,367	512,367	526,335	(13,968)
Building Improvements			1,763	(1,763)
Total expenditures	<u>5,785,786</u>	<u>6,485,767</u>	<u>6,644,294</u>	<u>(158,527)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	989	7,030	(26,913)	(33,943)
OTHER FINANCING SOURCES (USES)				
Operating transfers in			26,913	26,913
Operating transfers out	(989)	(989)		989
Total other financing sources and (uses)	<u>(989)</u>	<u>(989)</u>	<u>26,913</u>	<u>27,902</u>
NET CHANGE IN FUND BALANCE	-	6,041	-	(6,041)
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ 6,041</u>	<u>\$ -</u>	<u>\$ (6,041)</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Net Position
Proprietary Funds
June 30, 2013

		School Food Services
ASSETS		
Cash and cash equivalents	\$	373,923
Accounts receivable, ent		196,712
Inventories		60,555
Capital assets:		
Other capital assets, net of depreciation		201,468
Total assets		832,657
NET POSITION		
Net Investment in capital assets		201,468
Restricted for:		
Expendable Restricted for Food Service		631,190
Total net position	\$	832,657

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2013

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	520,142
Other revenue from local sources		4,338
Total operating revenues		<u>524,480</u>
OPERATING EXPENSES		
Depreciation		32,712
Food service operations		
Employee services		1,355,933
Operational expenses		1,106,148
Total operating expenses		<u>2,494,792</u>
Operating income (loss)		<u>(1,970,312)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		2,197,736
State grants		24,568
State on-behalf payments received		201,183
State on-behalf payments used		(201,183)
Commodities received		155,133
Commodities used		(155,133)
Transfers		(126,476)
Earnings from investments		2,265
Total nonoperating revenues		<u>2,098,093</u>
CHANGE IN NET POSITION		127,780
NET POSITION-BEGINNING		<u>704,877</u>
NET POSITION-ENDING	\$	<u><u>832,657</u></u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

Enterprise Funds

**School
Food
Services**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$	524,480
Payments to suppliers		(1,304,772)
Payments to employees		(1,355,933)
Net cash provided (used) by operating activities		<u>(2,136,225)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating grants and contributions		2,222,304
Net cash provided (used) by noncapital financing activities		<u>2,222,304</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest		(124,211)
Net cash provided (used) by investing activities		<u>(124,211)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(38,132)

CASH AND CASH EQUIVALENTS-BEGINNING

412,055

CASH AND CASH EQUIVALENTS-ENDING

\$ 373,923

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

Operating income (loss)	\$	(1,970,312)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation		32,712
Changes in assets and liabilities:		
Receivables		(193,089)
Payables		(5,535)
Net cash used by operating activities	\$	<u><u>(2,136,225)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$155,133 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

		<u>School Activity Funds</u>
ASSETS		
Cash and cash equivalents	\$	<u>324,190</u>
Total Assets		<u><u>324,190</u></u>
 LIABILITIES		
Accounts payable		1,361
Due to student groups		<u>322,829</u>
Total Liabilities		<u>324,190</u>
NET POSITION HELD IN TRUST	\$	<u><u>-</u></u>

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Harlan County Board Of Education Finance Corporation

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

Basis of Presentation

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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

(B) Special Revenue (Grant) Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

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

Construction Fund

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

(D) Debt Service Fund

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

II. Proprietary Funds (Enterprise Funds)

(A) Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Basis of Accounting

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.387 (including exonerations) per \$100 valuation of real property, \$.395 per \$100 valuation for business personal property and \$.336 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Activities

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

Budgetary Process

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Cash and Cash Equivalents

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

Inventories

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

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

Prepaid Assets

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

Nonspendable: Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

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

Net Position

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

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Investments are CD’s deposited with various local banks that have a maturity date longer than ninety (90) days.

		Bank
		Balance
		<hr/>
		<u>Demand</u>
FDIC	\$	250,000
Securities pledged to district		<hr/> 2,414,948
Bank balance	\$	<hr/> <hr/> 2,664,948
		Book
		Balance
		<hr/>
		<u>Cash equivalents</u>
Governmental Activities	\$	672,289
Business-type Activities		373,923
Agency funds		
School activity funds		<hr/> 324,190
Total carrying amount	\$	<hr/> <hr/> 1,370,402

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District currently has \$1,956,297 in investments that are stated at their fair market value.

NOTE D – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 1,897,472	\$ -	\$ -	\$ 1,897,472
Land improvements	1,301,811	-	-	1,301,811
Buildings	66,233,493	-	-	66,233,493
Technology equipment	6,284,049	2,112	15,483	6,270,678
Vehicles	6,015,021	420,496	-	6,435,517
General equipment	719,075	-	7,301	711,774
Construction in progress	3,474,109	4,014,801	-	7,488,910
Total at historical cost	\$ <u>85,925,030</u>	\$ <u>4,437,409</u>	\$ <u>22,784</u>	\$ <u>90,339,655</u>
Less: Accumulated depreciation				
Land improvements	\$ 555,570	\$ 65,091	\$ -	\$ 620,660.13
Buildings	15,719,866	1,440,568	-	17,160,434.03
Technology equipment	5,983,680	114,928	15,483	6,083,125.27
Vehicles	5,035,876	195,871	-	5,231,747.38
General equipment	544,511	35,985	6,829	573,666.96
Total accumulated depreciation	\$ <u>27,839,503</u>	\$ <u>1,852,443</u>	\$ <u>22,312</u>	\$ <u>29,669,634</u>
Governmental Activities				
Capital Assets-net	\$ <u>58,085,527</u>	\$ <u>2,584,966</u>	\$ <u>472</u>	\$ <u>60,670,022</u>
<u>Business-Type Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Technology equipment	93,527	-	-	93,527
General equipment	1,715,514	-	-	1,715,514
Total at historical cost	\$ <u>1,809,041</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,809,041</u>
Less: Accumulated depreciation				
Technology equipment	89,704	1,724	-	91,428
General equipment	1,485,158	30,988	-	1,516,146
Total accumulated depreciation	\$ <u>1,574,862</u>	\$ <u>32,712</u>	\$ <u>-</u>	\$ <u>1,607,574</u>
Business-Type Activities				
Capital Assets-net	\$ <u>234,179</u>	\$ <u>(32,712)</u>	\$ <u>-</u>	\$ <u>201,468</u>

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

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Harlan County School District Finance Corporation aggregating \$47,055,900 and \$2,439,000 is the portion due within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2013 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
2000B	\$ 775,000	12/1/2020	4.5 - 5.2%	\$ 440,000		\$ 45,000	\$ 395,000
2002 KADD	350,000	44,531	2.0 - 5.4%	225,000		225,000	-
2012 Refinance	2,990,000	6/1/2024	.90 - 2.0%	-	2,990,000	50,000	2,940,000
2002B	2,850,000	5/1/2013	1.3 - 3.45%	630,000		630,000	-
2003	710,000	6/1/2014	1.2 - 3.3%	165,000		70,000	95,000
2004A	670,000	2/1/2024	1.3 - 4.5%	455,000		425,000	30,000
2004B	3,950,000	6/1/2024	3.0 - 4.75%	2,700,000		2,515,000	185,000
2004C	1,865,000	5/1/2024	1.75 - 4.9%	1,190,000		1,105,000	85,000
2004D	985,000	6/1/2025	2.55 - 4.6%	825,000		735,000	90,000
2006	31,920,000	7/1/2026	4.25 - 4.5%	28,455,000		890,000	27,565,000
2007	2,050,000	10/1/2027	3.625 - 4.0%	1,755,000		80,000	1,675,000
2008	2,880,000	8/1/2018	2.0 - 3.2%	2,225,000		275,000	1,950,000
2009 Refinance	1,400,000	2/1/2019	2.2 - 3.35%	1,340,000		15,000	1,325,000
2012B Refinance	1,955,000	12/1/2024	1.0 - 2.125%	-	1,955,000	40,000	1,915,000
2010	3,165,000	8/1/2030	2.25 - 5.45%	3,105,000		70,000	3,035,000
2011	2,085,000	6/1/2031	3.2 - 4.25%	2,075,000		10,000	2,065,000
2012	2,350,000	6/1/2033	3.375%	2,350,000		5,000	2,345,000
2012 Second Series	1,145,000	8/1/2032	1.0 - 3.0%	-	1,145,000	-	1,145,000
2012 KADD	\$ 229,900	6/1/2022	2.0 - 3.0%	-	229,900	14,000	215,900
Totals				\$ 47,935,000	\$ 6,319,900	\$ 7,199,000	\$ 47,055,900

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

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service, (principal and interest) are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended	<u>Principal</u>		<u>Interest</u>		<u>Federal</u> <u>Interest</u> <u>Rebate</u>	<u>Total</u>	
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,154,479	\$ 1,284,521	\$ 1,010,500	\$ 756,619	\$ 53,576	\$ 2,439,000	\$ 1,820,695
2015	1,189,958	1,234,642	971,032	707,188	53,064	2,424,600	1,731,284
2016	1,222,850	1,275,450	933,232	666,061	52,592	2,498,300	1,651,885
2017	1,271,215	1,315,785	893,957	622,584	52,119	2,587,000	1,568,660
2018	1,310,018	1,354,982	851,792	576,880	51,164	2,665,000	1,479,836
2019-2023	7,354,865	7,432,135	3,441,912	2,067,359	243,715	14,787,000	5,752,985
2024-2028	8,374,362	5,820,638	1,755,008	597,596	222,734	14,195,000	2,575,337
2029-2033	4,967,747	492,253	410,843	37,212	53,408	5,460,000	501,463
	<u>\$ 26,845,494</u>	<u>\$ 20,210,406</u>	<u>\$ 10,268,273</u>	<u>\$ 6,031,500</u>	<u>\$ 782,373</u>	<u>\$ 47,055,900</u>	<u>\$ 17,082,146</u>

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 \$504,366. 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. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

NOTE G – CAPITAL LEASE PAYABLE

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

<u>KISTA Issue</u>	<u>Original</u> <u>Amount</u>	<u>Maturity</u> <u>Dates</u>	<u>Interest</u> <u>Rates</u>	<u>2012</u>			<u>2013</u>
				<u>Outstanding</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u> <u>Balance</u>
2006	\$ 270,315	3/1/2017	3.5 - 3.875%	\$ 140,390	\$ -	\$ 27,882	\$ 112,508
2012	\$ 176,231	3/1/2022	2.0 - 2.625%	-	176,231	19,167	157,064
2013	\$ 433,036	3/1/2023	2.0%	-	433,036	-	433,036
Totals				<u>\$ 140,390</u>	<u>\$ 609,267</u>	<u>\$ 47,049</u>	<u>\$ 702,608</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2013:

Fiscal Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
<u>30-Jun</u>			
2014	\$ 96,338	\$ 16,101	\$ 112,439
2015	95,067	13,847	108,914
2016	84,333	11,417	95,750
2017	86,421	9,273	95,694
2018	60,382	7,036	67,418
2019-2023	<u>280,067</u>	<u>16,465</u>	<u>296,532</u>
	<u>\$ 702,608</u>	<u>\$ 74,139</u>	<u>\$ 776,747</u>
Total minimum lease payments			\$ 776,747
Less: Amount representing interest			(74,139)
Present Value of Net Minimum Lease Payments			\$ 702,608

NOTE H – RETIREMENT PLANS

Kentucky Teachers’ Retirement System

Plan Description – The Harlan County School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

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

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members hired before July 1, 2008 and 14.105% of salaries for members after July 1,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2008. The federal program for any salaries paid by that program pays the matching contribution 14.105%.

Medical Insurance Plan

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

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

Funding policy –In order to fund the post-retirement healthcare benefit, three and a half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and .75% from state appropriation and .50% from the employer. Members after July 1, 2008 contribute an additional 1.00% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Harlan County School System's total payroll for the year was \$23,691,532. The payroll for employees covered under KTRS was \$17,619,613. For the year ended June 30, 2013, the Commonwealth contributed \$1,905,194 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$446,809, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$2,418,724, \$3,060,114, and \$3,026,061 and respectively.

County Employees Retirement System

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 19.55%. The District contributed \$1,125,070 of the employee’s compensation during the fiscal year ended June 30, 2013.

The District’s required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,432,529, 1,407,897, and \$1,137,067 respectively.

NOTE I – COMMITMENTS

The District has committed \$401,505 in the construction fund for current construction projects.

NOTE J – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 113,744	Sick Leave
Capital Outlay	1,832	School Facilities Construction Commission Requirement
FSPK	1,288,239	School Facilities Construction Commission Requirement
Construction	\$ 401,505	Future Construction

NOTE K - CONTINGENCIES

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

NOTE L - LITIGATION

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

NOTE M – INSURANCE AND RELATED ACTIVITIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE N – RISK MANAGEMENT

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

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

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.

NOTE O – DEFICIT FUND AND OPERATING BALANCES

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Governmental Activities	\$ (1,316,125)
General Fund	(959,344)
Construction	\$ (2,877,780)

NOTE P - COBRA

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

NOTE Q – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$26,913	KETS Matching
Food Service	General Fund	126,476	Indirect Costs
Capital Outlay Fund	Debt Service Fund	352,549	Debt Service
FSPK Fund	Debt Service Fund	\$1,802,243	Debt Service

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE R – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Harlan County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$5,860,568 for the General Fund and \$201,183 for the School Food Service Fund.

NOTE S – CHANGE IN ACCOUNTING POLICY

During the fiscal year ended June 30, 2013, management adopted the Governmental Accounting Standards Board Statement No. 63. This statement created the statement of net position which replaced the previous statement of net assets. The term net assets is no longer used and has been replaced with net position. The District also implemented GASB 65 early, resulting in asset and liability classifications of deferred inflows and deferred outflows. This change is preferable so the District can be better prepared for the mandatory adoption in the upcoming fiscal year. The District recorded a deferred outflow of resources for the difference in reacquisition and carrying value of refunding debt. Refer to Note T-Prior Period Adjustment to see how the change in accounting policy affects net position.

NOTE T – PRIOR PERIOD ADJUSTMENT

Bond defeasance costs were not recorded in the prior year in the amount of \$82,048 and construction in progress was overstated by 43,513,946 causing beginning net position to be misstated as follows:

Net Position July 1, 2012	\$ 19,273,356
Prior Period Adjustment	(3,431,213)
Restated Net Position July 1, 2012	<u>\$ 15,842,143</u>

NOTE U – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 21, 2013, the date the financial statements were available to be issued.

Owsley County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2013

	Other Governmental Funds		
	Capital Outlay	FSPK	Total
Assets			
Cash and Cash Equivalents	\$ 1,832	\$ 135,949	\$ 137,781
Investments		1,152,291	1,152,291
Total Assets	1,832	1,288,239	1,290,071
Fund Balances			
Restricted	1,832	1,288,239	1,290,071
Total Fund Balances	\$ 1,832	\$ 1,288,239	\$ 1,290,071

See the accompanying notes to the financial statements.

Harlan County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2013

	Other Governmental Funds		
	Capital Outlay	FSPK	Total
Revenues			
From Local Sources			
Taxes			
Property	\$ -	\$ 1,307,124	\$ 1,307,124
Intergovernmental - State	354,381	631,068	985,449
Total Revenues	354,381	1,938,192	2,292,573
Expenditures			
Building Acquisitions & Construction			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	354,381	1,938,192	2,292,573
Other Financing Sources (Uses)			
Transfers In			-
Transfers Out	(352,549)	(1,802,243)	(2,154,792)
Total Other Financing Sources (Uses)	(352,549)	(1,802,243)	(2,154,792)
Net change in fund balances	1,832	135,949	137,781
Fund Balance beginning		1,152,291	1,152,291
Fund Balance ending	\$ 1,832	\$ 1,288,239	\$ 1,290,071

See the accompanying notes to the financial statements.

Harlan County School District
Combining Balance Sheet - School Activity Funds
As of June 30, 2013

	SCHOOL ACTIVITY FUNDS									
	HARLAN COUNTY HIGH SCHOOL	BLACK MTN ELEMENTARY	CAWOOD ELEMENTARY	CUMBERLAND ELEMENTARY	EVARTS ELEMENTARY	GREEN HILLS ELEMENTARY	JAMES A CAWOOD ELEMENTARY	ROSSPOINT ELEMENTARY	WALLINS ELEMENTARY	FIDUCIARY FUND TOTAL
ASSETS										
Cash and cash equivalents	\$ 51,466	\$ 13,744	\$ 10,728	\$ 41,690	\$ 58,099	\$ 7,165	\$ 33,032	\$ 36,965	\$ 71,299	\$ 324,190
Total Assets	<u>51,466</u>	<u>13,744</u>	<u>10,728</u>	<u>41,690</u>	<u>58,099</u>	<u>7,165</u>	<u>33,032</u>	<u>36,965</u>	<u>71,299</u>	<u>324,190</u>
LIABILITIES										
Accounts payable	800	-	561	-	-	-	-	-	-	1,361
Total Liabilities	<u>800</u>	<u>-</u>	<u>561</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,361</u>
FUND BALANCE										
School activities	\$ 50,666	\$ 13,744	\$ 10,168	\$ 41,690	\$ 58,099	\$ 7,165	\$ 33,032	\$ 36,965	\$ 71,299	\$ 322,829

See the accompanying notes to the financial statements.

Harlan County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds
For the period ended June 30, 2013

	SCHOOL ACTIVITY FUNDS									FIDUCIARY FUND TOTAL
	<u>HARLAN COUNTY HIGH SCHOOL</u>	<u>BLACK MTN ELEMENTARY</u>	<u>CAWOOD ELEMENTARY</u>	<u>CUMBERLAND ELEMENTARY</u>	<u>EVARTS ELEMENTARY</u>	<u>GREEN HILLS ELEMENTARY</u>	<u>JAMES A CAWOOD ELEMENTARY</u>	<u>ROSSPOINT ELEMENTARY</u>	<u>WALLINS ELEMENTARY</u>	
REVENUES										
Student/Trust revenues	\$ 378,797	\$ 76,677	\$ 72,760	\$ 123,715	\$ 160,913	\$ 35,889	\$ 32,581	\$ 67,883	\$ 102,929	\$ 1,052,145
EXPENSES										
Student/Trust activities	358,799	70,713	72,566	139,052	139,457	33,499	47,913	64,253	101,217	1,027,469
Excess (Deficit) of Revenues Over Expenses	19,999	5,964	194	(15,337)	21,456	2,390	(15,332)	3,630	1,712	24,675
Fund balance July 1, 2012	<u>30,667</u>	<u>7,781</u>	<u>9,973</u>	<u>57,028</u>	<u>36,643</u>	<u>4,775</u>	<u>48,364</u>	<u>33,336</u>	<u>69,587</u>	<u>298,153</u>
Fund balance June 30, 2013	<u>\$ 50,666</u>	<u>\$ 13,744</u>	<u>\$ 10,168</u>	<u>\$ 41,690</u>	<u>\$ 58,099</u>	<u>\$ 7,165</u>	<u>\$ 33,032</u>	<u>\$ 36,965</u>	<u>\$ 71,299</u>	<u>\$ 322,829</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Harlan County High School
For the period ended June 30, 2013

	FUND BALANCE		REVENUES		EXPENSES		TRANSFERS	FUND BALANCE
	<u>July 1, 2012</u>							<u>June 30, 2013</u>
GENERAL FUND	\$ 5,193	\$	24,422	\$	25,385	\$	(1,459)	\$ 2,771
BLACK BEAR CAFÉ	557		1,370		1,285		(260)	382
SCHOOL PICTURES	-		1,907		1,677		-	230
SENIOR PICTURES	250		1,551		1,631		-	169
SODA	39		-		-		-	39
PARKING	49		2,160		1,000		(1,089)	120
ATHLETICS	3,915		136,038		129,454		(8,679)	1,820
BASEBALL	-		1,050		-		105	1,155
BOYS BASKETBALL	2,741		7,585		5,084		-	5,242
CHEERLEADING	415		2,818		2,924		2,646	2,954
CONCESSIONS	-		1,670		7,294		8,070	2,446
DANCE TEAM	(54)		231		117		360	420
FOOTBALL	-		-		-		-	-
GIRLS BASKETBALL	-		7,585		2,194		-	5,391
GIFTED LEADERSHIP	-		100		100		-	-
RC MACHINES	-		153		312		159	-
SOFTBALL	-		1,274		-		-	1,274
TRACK	127		1,717		1,844		-	-
ART CLUB	612		622		834		-	400
AP/SAT PLAN	135		462		462		-	135
BAND	2,288		17,158		18,514		(578)	353
HONOR BAND	3		-		-		-	3
BETA CLUB	4,346		3,360		2,939		-	4,767
BLACK BEAR STORE	30		6,548		6,465		-	113
CHORUS	139		5,635		4,675		233	1,332
COMMERCE	180		-		-		80	260
DISTRIBUTED ED	10		-		-		-	10
DRAMA CLUB	1,979		5,669		2,745		(80)	4,822
DRIVERS ED	3		-		-		-	3
FBLA	-		40		-		-	40
FCCLA	79		8,183		7,570		(578)	113
FRENCH CLUB	439		-		-		-	439
FUTURE EDUCATORS	353		-		-		-	353
HISTORY CLUB	65		-		-		-	65
HOME EC/NANCE	192		4,282		4,887		889	476
HOME EC/PHILLIPS	45		313		1,579		1,297	77
JROTC	300		10,239		11,949		2,253	842
LIBRARY	523		247		-		-	770
NATIONAL HONORS	1,700		1,935		1,752		-	1,883
PARENT VOLUNTEER O	66		-		-		-	66
PEP CLUB	385		-		-		-	385
PRIDE/AWARDS	7		-		-		-	7
PROM	(100)		19,375		17,599		(1,576)	100
PUBLIC RELATIONS	-		-		-		-	-
SENIOR TRIP	17		347		363		-	-
BLACK BEAR SNACK SH	-		50		50		-	-
SPECIAL NEEDS	44		-		41		-	3
TECHNICAL STUDENTS	782		-		717		-	65
WINTER GUARD	-		3,911		3,518		(60)	333
YEARBOOK	1,795		3,044		4,216		65	688
YOUTH SERVICE CENTER	1,020		1,220		717		(217)	1,306
13TH REGION TOURNAMENT	-		93,944		86,428		(1,625)	5,891
GUIDANCE OFFICE FUN	-		120		-		-	120
PEP BAND	-		466		476		45	35
TOTALS	\$ 30,667	\$	378,797	\$	358,799	\$	-	\$ 50,666

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had food commodities totaling \$155,133.

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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
US Department of Agriculture				
Passed Through State Department of Education:				
* School Breakfast Program	10.553			
Fiscal Year 12		7760005 12	\$ N/A	\$ 137,828
Fiscal Year 13		7760005 13	N/A	462,922
* National School Lunch Program	10.555			
Fiscal Year 12		7750002 12	N/A	355,418
Fiscal Year 13		7750002 13	N/A	1,244,298
Child Nutrition Cluster Subtotal				<u>2,200,466</u>
Fresh Fruits & Vegetables	10.582			
Fiscal Year 12		7720012 12	N/A	3,623
Passed Through State Department of Agriculture:				
Food Donation-Commodities	10.565			
Fiscal Year 13		510.4950	N/A	155,133
Total US Department of Agriculture				<u>2,359,221</u>
US Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 12		3100002 12	2,226,670	569,182
Fiscal Year 12D		3100002 12	399,000	130,294
Fiscal Year 12M		3100002 12	26,738	18,713
Fiscal Year 12T		3100002 12	21,414	3,094
Fiscal Year 13		3100002 13	2,107,898	1,627,937
Fiscal Year 13D		3100002 13	405,610	249,108
Fiscal Year 13M		3100002 13	25,390	7,658
				<u>2,605,986</u>
Special Education Grants to States	84.027A			
Fiscal Year 12		3810002 12	1,032,814	38
Fiscal Year 13		3810002 13	999,053	845,235
Special Education - Preschool Grants	84.173A			
Fiscal Year 12		3800002 12	95,020	37,495
Fiscal Year 13		3800002 13	94,759	48,233
Special Education Cluster Subtotal				<u>931,001</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 09		4621132 09	78,780	312
Fiscal Year 11A		4621132 11	2,876	2,876
Fiscal Year 12		4621132 12	61,047	6,035
Fiscal Year 12A		4621132 12	2,350	2,380
Fiscal Year 13		4621132 13	47,349	47,561
				<u>59,163</u>
21st Century Community Learning	84.287			
Fiscal Year 11		3400002 11	412,000	265,238
Fiscal Year 11J		3400002 11	18,000	18,000
Fiscal Year 11S		3400002 11	15,000	1,112
Fiscal Year 12		3400002 12	337,000	126,316
Fiscal Year 12S		3400002 12	15,000	9,289
				<u>419,955</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	107,823	81,082
Education Jobs Fund	84.410			
Fiscal Year 11		EJOB00 11	1,042,785	7,737
Education Technology State Grants	84.318X			
Fiscal Year 11		4210002 11	9,297	304
Fiscal Year 11C		4210002 11	118,300	31,337
				<u>31,641</u>
Rural Education	84.358B			
Fiscal Year 12		3140002 12	87,844	15,547
Fiscal Year 13		3140002 13	75,967	77,621
				<u>93,168</u>
Homeless Children & Youth	84.196			
Fiscal Year 12		3162	103,605	30,349
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 12		3230002 12	486,404	453,079
Fiscal Year 13		3230002 13	475,777	44,398
Fiscal Year 14H		3230002 14	575,903	82
				<u>497,559</u>
Rehabilitation Services	84.126			
Fiscal Year 13		3763	33,913	33,913
Total US Department of Education				<u>4,791,555</u>

HARLAN COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 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.S. Department of Defense				
Passed directly from the U.S. Department of the Army				
ROTC	12.000			
Fiscal Year 13		5043	49,068	<u>49,068</u>
Total U.S. Department of the Army				<u><u>49,068</u></u>
US Department of Health and Human Services				
Passed Through Kentucky School Board Association				
Medical Assistance Program	93.778			
Fiscal Year 13		110.4810	\$	N/A
Total US Department of Health and Human Services				<u>122,929</u>
				<u><u>122,929</u></u>
Total Expenditure of Federal Awards				\$ <u><u>7,322,773</u></u>

* Major program

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlan County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Harlan County School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the

Kentucky Public School Districts' Audit Contract and Requirements or Appendicies. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

White & Associates, PSC

Richmond, Kentucky
October 21, 2013

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

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

Report on Compliance for Each Major Federal Program

We have audited Harlan County School Districts' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Harlan County School Districts' major federal programs for the year ended June 30, 2013. Harlan County School Districts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Harlan County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

White & Associates, P.C.

Richmond, Kentucky
October 21, 2013

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	No
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	No
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553] Title I [CFDA 84.010A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No major federal award findings.

**HARLAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

There were no prior audit findings.

MANAGEMENT LETTER

Harlan County School District
Harlan, Kentucky

In planning and performing our audit of the financial statements of the Harlan County School District for the year ended June 30, 2013, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated October 21, 2013. This letter does not affect our report dated October 21, 2013, on the financial statements of the Harlan County School District. The conditions observed are as follows:

HARLAN COUNTY HIGH SCHOOL

1-13

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: Teachers and sponsors will be notified by email and in teachers' meeting that all money collected must be turned in to the treasurer on the day the money is collected along with the appropriate supporting documentation. Students will be given a receipt for money received.

2-13

Statement of Condition: Instances of advances for events that involve students being made without proper supporting documentation.

Recommendation for Correction: Make sure that all advances have supporting documentation for all monies spent. The balance in cash shall be receipted in and deposited timely. If the original invoice/receipts are not available, then a Standard Invoice (F-SA-8) shall be completed and signed by the principal, this must also have the payee's signature.

Management Response to the Recommendation: Money advancements will be documented and teacher will be required to return remaining money the day after the activity with receipts showing money spent.

3-13

Statement of Condition: Instances of receipts not written at the time monies were received by the school treasurer.

Recommendation for Correction: Receipts shall be written to the individual giving the monies to the school treasurer at the time the monies are received.

Management's Response to the Recommendation: School treasure will write receipts to individuals at the time monies are received.

BLACK MOUNTAIN ELEMENTARY

4-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The Principal will initial and date all the pages of the bank statement after review.

5-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: Sponsor will fill out a fundraiser form work sheet (F-SA-2B) and submit it completed to the Principal for review and approval. The treasure will file the worksheets with the financial documents.

CAWOOD ELEMENTARY

6-13

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly snack room sales.

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: Inventory Control Worksheets will be filled out monthly for all activities that require one, Principal will review, sign and date all ICW.

7-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: Fund Raiser Worksheets will be utilized for all fundraising events that require one. All sponsors of any fundraiser will be required to complete the FRW and turn in to the Principal for review after said fundraiser. Copies will be filed with other financial documents.

8-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: All monies in the amount of 100.00 or more will be deposited daily. A deposit will be made weekly even if the amount of receipts is less than 100.00.

9-13

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being signed and dated by the teacher and bookkeeper.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: Multiple Receipt Form will be utilized each time money is collected from students. Teacher or sponsor will fill out the MRF and have each student sign when there is a transfer of funds of cash from student to teacher/sponsor. The MRF will be turned in along with the funds daily to the school treasurer.

10-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone

other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer.

Management Response to the Recommendation: All mail entering the school will be opened by the Principal. Any checks received will be recorded on the MRF by the Principal and submitted to the school treasurer.

11-13

Statement of Condition: The Principal is not initialing or dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The Principal will sign and date all bank statements after complete review.

12-13

Statement of Condition: Purchase Orders are being utilized but not consistently.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Any person requesting to make a purchase or expend activity funds will be required to prepare a Purchase Request/Order and have it approved by the sponsor and Principal. After approval a Purchase Order # will be issued.

CUMBERLAND ELEMENTARY

13-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: Sponsors will be given Fundraiser Worksheets (F-SA-2B) and informed that these MUST accompany any fundraising events.

14-13

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: Money collected/deposited will be done on same day (if possible).

15-13

Statement of Condition: Instances of advances for events that involve students being made without proper supporting documentation.

Recommendation for Correction: Make sure that all advances have supporting documentation for all monies spent. The balance in cash shall be receipted in and deposited timely. If the original invoice/receipts are not available, then a Standard Invoice (F-SA-8) shall be completed and signed by the principal, this must also have the payee's signature.

Management Response to the Recommendation: Standard invoices/receipts/invoices are completed and signed by principal and payee.

16-13

Statement of Condition: Checks written to "cash" or to the "bank" for change or start-up money.

Recommendation for Correction: All checks for start-up money or change shall be written to the athletic director, sponsor or responsible person.

Management Response to the Recommendation: Checks for start up money will be written to the Athletic Director.

17-13

Statement of Condition: The Principal is not initialing or dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Bank statement will be initialed/dated by principal.

18-13

Statement of Condition: The bank statement is not being reconciled timely which could cause Monthly Financial Reports to be misstated.

Recommendation for Correction: Bank reconciliation and Monthly financial reports shall be prepared and submitted to the superintendent or finance officer no later than the 15th of the following month. The original shall be signed and reviewed for accuracy and reasonableness by the principal and submitted to the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

Management Response to the Recommendation: All financial reports will be turned in by the 15th of each month.

19-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer.

Management Response to the Recommendation: Mail is now being handled by the secretary at the front desk before bookkeeper gets it. She opens all mail also.

EVARTS ELEMENTARY

20-13

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on bookstores, pencil machines, concessions and vending machines (vending machines exempt if full service).

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

21-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

22-13

Statement of Condition: Instances of lack of segregation of duties in the current process of collecting money from students.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: Teachers or sponsors will fill our Multiple Receipt Forms and count all money they submit to treasurer.

23-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

24-13

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

25-13

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being signed and dated by the teacher.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: All teachers/sponsors will sign and date F-SA-6 before giving money to treasurer.

26-13

Statement of Condition: Instances of receipts not written at the time monies were received by the school treasurer.

Recommendation for Correction: Receipts shall be written to the individual giving the monies to the school treasurer at the time the monies are received.

Management's Response to the Recommendation: Receipts shall be written to the individual giving the monies to the school treasurer at the time the monies are received.

27-13

Statement of Condition: The Principal is not initialing or dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The Principal should initial and date the front page of the bank statement after a complete review.

28-13

Statement of Condition: The bank statement is not being reconciled timely which could cause Monthly Financial Reports to be misstated.

Recommendation for Correction: Bank reconciliation and Monthly financial reports shall be prepared and submitted to the superintendent or finance officer no later than the 15th of the following month. The original shall be signed and reviewed for accuracy and reasonableness by the principal and submitted to the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

Management Response to the Recommendation: Bank reconciliation and Monthly financial reports shall be prepared and submitted to the superintendent or finance officer no later than the 15th of the following month. The original shall be signed and reviewed for accuracy and reasonableness by the principal and submitted to the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

GREEN HILLS ELEMENTARY

29-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of

the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: The sponsor will be informed about filling out the fundraiser worksheet and a copy of the worksheet will be provided to each sponsor. Principal and treasurer will call or inform the sponsor to turn in the worksheet in a timely manner. Principal will review the worksheet and the treasurer will file it away.

30-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Will make sure that the deposit is taken in the same day the deposit is worked up, if over \$100. If the deposit is less than \$100, we will deposit it at least weekly when school is in session.

31-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal will sign and date the bank statement as well as initial that it was reconciled. Treasurer will make sure this is done.

JAMES A CAWOOD ELEMENTARY

32-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: All monies will be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts will be held in a secure location until \$100 is collected. At a minimum, deposits will be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip will match the total receipts written since the last deposit. Each deposit is verified by a second person daily. This is my (Mr. Cater) first year as principal of James

A. Cawood Elementary School. Therefore, there might have been a lapse in time during the changing of the guard when this error occurred.

33-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The Principal will and has been initialing and dating the front page of the bank statement after a complete review. This is my (Mr. Carter) first year as principal of James A. Cawood Elementary School. Therefore, there might have been a lapse in time during the changing of the guard when this error occurred.

ROSSPOINT ELEMENTARY

34-13

Statement of Condition: The Principal is not initialing or dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: The Principal will initial and date the front page of the bank statement after a complete review.

35-13

Statement of Condition: The bank statement is not being reconciled timely which could cause Monthly Financial Reports to be misstated.

Recommendation for Correction: Bank reconciliation and Monthly financial reports shall be prepared and submitted to the superintendent or finance officer no later than the 15th of the following month. The original shall be signed and reviewed for accuracy and reasonableness by the principal and submitted to the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

Management Response to the Recommendation: Bank reconciliation and Monthly financial reports will be prepared and submitted to the superintendent or finance officer no later than the 15th of the following month. The original shall be signed and reviewed for accuracy and reasonableness by the principal and submitted to the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

WALLINS ELEMENTARY

36-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected.

At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: All monies that are greater than or equal to \$100 will be deposited on a daily basis. When the total reaches \$100 dollars the deposit will be made at a minimum of one per week.

37-13

Statement of Condition: The vendor invoice or Standard Invoice must have a confirmation signature of the person receiving the goods or services before the payment process can be continued.

Recommendation for Correction: After receiving the product or service, the person receiving the goods or service shall sign the original invoice or Standard Invoice before the school treasurer processes the invoice for payment.

Management Response to the Recommendation: All vendor invoices and standard invoices will be confirmed with a signature to insure that all goods and services have been delivered.

38-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: All bank statements will be initialed and dated by the Principal.

Mr. T. Michael Howard, 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.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
October 21, 2013