

**ESTILL 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 Estill County Board of Education and
State Committee for School District Audits
Irvine, 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 Estill 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 District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Estill 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 Estill County School District's basic financial statements. The additional supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Estill County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Estill County School District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky

October 21, 2013

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013

As management of the Estill 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 ending cash balance for the General Fund was \$3,745,513 in 2013, which is greater than the 2% contingency as required by law. This is an increase of over \$31,000.
- Installed a new cooling tower at South Irvine Pre-K Center.
- Completed the West Irvine Elementary construction project. The new library was dedicated in March.
- Purchased a 2012 Dodge Caravan for student groups to use.
- Certified employees received a \$300 per salary cell increase and classified employees received .20 per hour raise for 2012-2013.
- Approved Phase 5 construction at the high school to replace the existing roof over the gymnasium and academic building.
- Property tax rates were set at 43.1 for real estate and tangible property. This includes .02 for exonerations. Motor vehicle and watercraft tax rate remained at 54.8. The board voted to continue adding an additional nickel to the building fund.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components:

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

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

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

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

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of Estill County Schools, assets plus deferred outflows exceeded liabilities by \$15,046,954 for Governmental Activities and \$410,647 for Business Type Activities 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, equipment, and construction in progress); less any related debt used to acquire those assets that are 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.

**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013**

Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Current Assets	6,272,814	9,194,968	(2,922,154)
Non-current Assets	<u>35,149,398</u>	<u>33,623,313</u>	<u>1,526,085</u>
Total Assets	41,422,213	42,818,281	(1,396,068)
Loss for the difference in reacquisition and carrying value of refunding debt	143,806	-	143,806
	2,508,585	2,655,043	(146,458)
Non-current Liabilities	<u>23,599,833</u>	<u>24,529,006</u>	<u>(929,173)</u>
Total Liabilities	26,108,417	27,184,049	(1,075,632)
Invested in capital assets, net of debt	11,152,595	8,131,348	3,021,247
Restricted	1,884,891	4,347,546	(2,462,655)
Unrestricted	<u>2,420,115</u>	<u>3,155,339</u>	<u>(735,224)</u>
Total Net position	15,457,601	15,634,233	(176,632)

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013

Table 2
Changes in Net Position
(in Millions \$)

	Governmental		Business-Type		Total School		Percent
	Activities		Activities		District		
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	
Program Revenues:							
Charges for services	0.07	0.09	0.38	0.33	0.45	0.42	(0.58)
Operating grants and contributions	8.08	3.96	1.02	1.06	9.10	5.01	4.01
Capital grants and contributions	2.08	2.09	-	-	2.08	2.09	1.09
General revenues	14.18	17.94	-	0.00	14.18	17.94	16.94
Total revenue	24.41	24.08	1.40	1.39	25.81	25.46	24.46
Expenses:							
Instruction	12.40	12.10			12.40	12.10	11.10
Student	1.30	1.29			1.30	1.29	0.29
Instructional staff	1.29	1.43			1.29	1.43	0.43
District administration	0.46	0.66			0.46	0.66	(0.34)
School administration	1.25	1.29			1.25	1.29	0.29
Business	0.69	0.66			0.69	0.66	(0.34)
Plant operation & maintenance	1.85	1.78			1.85	1.78	0.78
Student transportation	2.23	1.76			2.23	1.76	0.76
Food service operations	0.04	0.03	1.37	1.39	1.41	1.42	0.42
Community services operations	0.34	0.35			0.34	0.35	(0.65)
Loss on retirement of assets	-	0.32			-	0.32	1.00
Debt service	-	-			-	-	1.00
Depreciation and Amortization	0.76	0.70	0.01	0.01	0.77	0.71	(0.29)
Interest on long-term debt	1.08	0.98			1.08	0.98	(0.02)
Extraordinary item	-	0.48			-	0.48	1.00
Total Expenses	23.69	23.84	1.38	1.41	25.07	25.24	24.24

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013

CAPITAL ASSETS

At the end of fiscal 2013, the District had \$35million invested in capital assets, including land, building, buses, computers and other equipment.

Table 3
 Capital Assets at Year-End
 (Net of Depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Land	\$ 442,930	\$ 442,930			\$ 442,930	\$ 442,930
Land Improvements	447,319	412,739			447,319	412,739
Buildings	20,899,486	33,303,127			20,899,486	33,303,127
Technology Equipment	605,365	523,942	38,479	30,061	643,844	554,003
Vehicles	246,760	175,329			246,760	175,329
General Equipment	283,852	241,581	22,311	19,689	306,163	261,270
Construction in Progress	10,636,810	-			10,636,810	-
Totals	\$ 33,562,522	\$ 35,099,647	\$ 60,790	\$ 49,751	\$ 33,623,312	\$ 35,149,398

Debt

No new debt was issued during the year.

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

	Government Activities	
	2012	2013
General Obligation Bonds	\$24.98	\$23.69
Capital Lease Obligations	0.52	0.45
Total Obligations	\$25.50	\$24.14

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013

Food Service Activity

Operating Revenue for Food Service Fund totals \$ 330,442 and non-operating revenues total \$1,057,227 of June 30, 2013. Operating Expenditures for Food Service Fund total \$1,408,205 as of June 30, 2013. Expense exceeds revenue by \$20,536.

The District's Funds

The majority of general fund revenue, (84.6%) net of other financing sources, is derived from state funding with local taxes making up 15% of revenue. Instructional expense comprised 55.6% of expenditures in 2013, other support functions 23.6%, transportation 10% and plant operation and maintenance 10%.

Revenue & Expenditures by Fund

	General	Special	Construction	Debt Service	Other Gov't Funds	Food Service
Local Revenue	2.66	0.05	0.00	0.00	0.51	0.33
State Revenue	14.73	0.89	-	0.87	0.77	0.11
Federal Revenue	0.03	3.07	-	0.45	-	1.12
Transfers	0.30	0.04	-	1.06	-	-
Other	0.03	-	-	-	-	-
Totals	17.76	4.05	0.00	2.38	1.28	1.57
Instruction	9.75	2.50	-	-	-	-
Student Support	0.81	0.50	-	-	-	-
Instructional Staff	0.81	0.62	-	-	-	-
District Admin	0.64	0.02	-	-	-	-
School Admin	1.29	-	-	-	-	-
Business Support	0.60	0.06	-	-	-	-
Plant Operation & Maintenance	1.76	-	-	-	-	-
Student Transportation	1.76	-	-	-	-	-
Food Service	0.03	0.00	-	-	-	1.39
Community Svc.	0.00	0.35	-	-	-	-
Facility Acq & Const	-	-	2.41	-	-	-
Bond Issue Costs	-	-	-	-	-	-
Depreciation	-	-	-	-	-	0.01
Debt Service	0.08	-	-	2.31	-	-
Transfers	-	-	-	-	1.40	-
Other	-	-	-	-	-	0.18
	17.53	4.05	2.41	2.31	1.40	1.59

**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013**

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 to June 30; other programs, i.e., some federal programs operate on a different fiscal calendar, but are reflected in the district's overall budget. By law, the budget must have a minimum 2.0% contingency in the Working Budget. The contingency was above the minimum for 2013. The district continues to leave the two unfunded days in the instructional calendar. This continues to have an impact on district funds.

Issues that continue to impact future budgets include:

- . federal funding not maintaining the pace of mandated pay increases, insurance, and retirement costs
- . insufficient funding of the state transportation formula
- . loss of local funding due to the 4% cap on increases in property taxes, which in turn results in a penalty to the District in the state SEEK funding formula.

Questions regarding this report should be directed to the Superintendent, Mr. Bert Hensley or the Director of Finance/Treasurer, Ms. Angela D. Howell at (606) 723-2181 or by mail at P.O. Box 930, Irvine, KY 40336

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

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,250,599	\$ 349,270	\$ 5,599,869
Receivables (net)	661,319	2,852	664,171
Inventories		8,774	8,774
Capital assets:			
Land, improvements, and construction in progress	442,930		442,930
Other capital assets, net of depreciation	34,656,718	49,751	34,706,468
Total capital assets	35,099,647	49,751	35,149,398
Total assets	41,011,566	410,647	41,422,213
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	143,806		143,806
LIABILITIES			
Accounts payable and accrued expenses	216,506		216,506
Payroll taxes payable	217,593		217,593
Accrued interest payable	242,720		242,720
Unearned revenue	433,133		433,133
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,332,000		1,332,000
Capital lease obligations	66,631		66,631
Total due within 1 year	1,398,631	-	1,398,631
Due in more than 1 year:			
Bond obligations	22,356,000		22,356,000
Capital lease obligations	385,978		385,978
KSBIT payable	476,289		476,289
Sick leave	381,566		381,566
Total due in more than 1 year	23,599,833	-	23,599,833
Total liabilities	26,108,417	-	26,108,417
NET POSITION			
Net Investment in capital assets	11,102,844	49,751	11,152,595
Restricted for:			
Expendable restricted for capital projects	1,172,250		1,172,250
Expendable restricted for debt service	150,393		150,393
Expendable restricted for food services		360,896	360,896
Expendable restricted for trust	978		978
Nonexpendable restricted for trust	200,374		200,374
Unrestricted	2,420,115		2,420,115
Total net position	\$ 15,046,954	\$ 410,647	\$ 15,457,601

See the accompanying notes to the financial statements.

Estill 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	\$ 12,099,340	\$ 60,050	\$ 2,256,272	\$	\$ (9,783,017)		\$ (9,783,017)
Support Services							
Student	1,294,133	27,982	237,502		(1,028,649)		(1,028,649)
Instructional Staff	1,427,656		237,502		(1,190,153)		(1,190,153)
District Administration	656,386		118,751		(537,635)		(537,635)
School Administration	1,285,478		237,502		(1,047,976)		(1,047,976)
Business	660,505		118,751		(541,753)		(541,753)
Plant Operation & Maintenance	1,781,431		316,670	772,054	(692,707)		(692,707)
Student Transportation	1,761,560		316,670		(1,444,891)		(1,444,891)
Food Service Operations	30,233				(30,233)		(30,233)
Community Services Operations	354,880		79,167		(275,712)		(275,712)
Loss on retirement of assets	324,789		39,584		(285,205)		(285,205)
Amortization	13,568				(13,568)		(13,568)
Depreciation	687,157				(687,157)		(687,157)
Interest on long-term debt	982,067			1,321,637	339,569		339,569
Total governmental activities	<u>23,359,182</u>	<u>88,032</u>	<u>3,958,372</u>	<u>2,093,691</u>	<u>(17,219,087)</u>		<u>(17,219,087)</u>
Business-type activities:							
Food service operations	1,394,277	330,442	1,056,136			\$ (7,699)	(7,699)
Depreciation	13,927					(13,927)	(13,927)
Total business-type activities	<u>1,408,205</u>	<u>330,442</u>	<u>1,056,136</u>	<u>-</u>	<u>-</u>	<u>(21,626)</u>	<u>(21,626)</u>
Total primary government	\$ <u>24,767,386</u>	\$ <u>418,474</u>	\$ <u>5,014,508</u>	\$ <u>2,093,691</u>	<u>(17,219,087)</u>	<u>(21,626)</u>	<u>(17,240,713)</u>
General revenues:							
Taxes:							
Property taxes					1,873,337		1,873,337
Motor vehicle taxes					319,707		319,707
Franchise					285,083		285,083
Utility taxes					673,896		673,896
State and formula grants					14,733,283		14,733,283
Unrestricted investment earnings					20,126	1,090	21,216
Loss compensation					30,635		30,635
Total general revenues					<u>17,936,067</u>	<u>1,090</u>	<u>17,937,157</u>
Extraordinary item					(476,289)		(476,289)
Total general revenues and extraordinary item					<u>17,459,778</u>	<u>1,090</u>	<u>17,460,868</u>
Change in net position					240,691	(20,536)	220,155
Net position - beginning					15,203,049	431,183	15,634,233
Prior period adjustment					(396,787)		(396,787)
Restated net position - beginning					<u>14,806,263</u>	<u>431,183</u>	<u>15,237,446</u>
Net position - ending					\$ <u>15,046,954</u>	\$ <u>410,647</u>	\$ <u>15,457,601</u>

See the accompanying notes to the financial statements.

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

	Governmental Funds					
	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 3,745,513	\$ -	\$ 487,486	\$ 150,393	\$ 993,680	\$ 5,377,071
Receivables, net						
Taxes-current	25,834					25,834
Taxes-delinquent	7,256					7,256
Accounts	16,601	8,389				24,990
Intergovernmental-state		78,045				78,045
Intergovernmental-federal		525,195				525,195
Total assets	<u>3,795,203</u>	<u>611,629</u>	<u>487,486</u>	<u>150,393</u>	<u>993,680</u>	<u>6,038,391</u>
LIABILITIES						
Accounts payable	56,920	52,023	107,564			216,506
Cash shortage		126,472				126,472
Payroll taxes payable	217,593					217,593
Unearned revenue		433,133				433,133
Total liabilities	<u>274,513</u>	<u>611,629</u>	<u>107,564</u>	<u>-</u>	<u>-</u>	<u>993,706</u>
FUND BALANCE						
Nonspendable					200,374	200,374
Restricted			379,922	150,393	793,306	1,323,620
Unassigned	3,520,690					3,520,690
Total fund balance	<u>\$ 3,520,690</u>	<u>\$ -</u>	<u>\$ 379,922</u>	<u>\$ 150,393</u>	<u>\$ 993,680</u>	<u>\$ 5,044,685</u>

See the accompanying notes to the financial statements.

Estill 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	\$	5,044,685
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		35,099,647
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the bond.</p>		143,806
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(242,720)
KSBIT payable		(476,289)
Bonds payable		(23,688,000)
Capital lease obligations		(452,609)
Noncurrent sick leave payable		(381,566)
		(381,566)
Net position of governmental activities	\$	15,046,954

See the accompanying notes to the financial statements.

Estill 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>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 1,362,915	\$ -	\$ -	\$ -	\$ 510,422	\$ 1,873,337
Motor vehicle	319,707					319,707
Franchise	285,083					285,083
Utilities	673,896					673,896
Earnings on investments	12,435	196	3,614	3,332	550	20,126
Other local revenue	9,936	50,114				60,050
Intergovernmental - state	14,733,283	890,837		871,432	772,054	17,267,606
Intergovernmental - federal	27,982	3,067,535		450,205		3,545,722
Total revenues	<u>17,425,237</u>	<u>4,008,682</u>	<u>3,614</u>	<u>1,324,968</u>	<u>1,283,026</u>	<u>24,045,528</u>
EXPENDITURES						
Instruction	9,751,058	2,496,967				12,248,025
Support Services						
Student	805,812	488,321				1,294,133
Instructional Staff	811,250	616,406				1,427,656
District Administration	636,951	19,436				656,386
School Administration	1,285,478					1,285,478
Business	601,049	59,456				660,505
Plant Operation & Maintenance	1,764,223	16,683				1,780,905
Student Transportation	1,761,560					1,761,560
Food Service Operations	29,852	382				30,233
Community Services Operations	1,738	353,142				354,880
Building Acquisitions & Construction			248,584			248,584
Other Facilities			2,159,157			2,159,157
Debt Service	76,717			2,305,394		2,382,110
Total expenditures	<u>17,525,687</u>	<u>4,050,791</u>	<u>2,407,742</u>	<u>2,305,394</u>	<u>-</u>	<u>26,289,613</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(100,450)	(42,109)	(2,404,127)	(980,425)	1,283,026	(2,244,086)
OTHER FINANCING SOURCES (USES)						
Loss compensation	30,635					30,635
Operating transfers in	343,627	42,109		1,056,423		1,442,159
Operating transfers (out)	(42,109)				(1,400,050)	(1,442,159)
Total other financing sources and (uses)	<u>332,153</u>	<u>42,109</u>	<u>-</u>	<u>1,056,423</u>	<u>(1,400,050)</u>	<u>30,635</u>
NET CHANGE IN FUND BALANCE	231,703	-	(2,404,127)	75,998	(117,024)	(2,213,451)
FUND BALANCE - BEGINNING	<u>3,288,988</u>	<u>-</u>	<u>2,784,049</u>	<u>74,395</u>	<u>1,110,704</u>	<u>7,258,136</u>
FUND BALANCE - ENDING	<u>\$ 3,520,690</u>	<u>\$ -</u>	<u>\$ 379,922</u>	<u>\$ 150,393</u>	<u>\$ 993,680</u>	<u>\$ 5,044,685</u>

See the accompanying notes to the financial statements.

Estill 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	\$	(2,213,451)
<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>		1,537,125
<p>Cost of issuance of bonds are capitalized and amortized over the life of the bond.</p>		(13,568)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		1,351,356
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		48,687
<p>KSBIT payable extraordinary item</p>		(476,289)
<p>Noncurrent portion of accumulated sick leave</p>		6,831
		6,831
Change in net position of governmental activities	\$	240,691
		240,691

See the accompanying notes to the financial statements.

Estill 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	\$ 1,390,000	\$ 1,390,000	\$ 1,362,915	\$ (27,085)
Motor vehicle	350,000	350,000	319,707	(30,293)
Franchise			285,083	285,083
Utilities	600,000	600,000	673,896	73,896
Earnings on investments	15,000	15,000	12,435	(2,565)
Other local revenue	2,005	2,005	9,936	7,931
Intergovernmental - state	11,109,847	11,109,847	* 11,311,271	201,424
Intergovernmental - federal	10,000	10,000	27,982	17,982
Total revenues	<u>13,476,852</u>	<u>13,476,852</u>	<u>14,003,225</u>	<u>526,373</u>
EXPENDITURES				
Instruction	7,144,896	7,144,896	* 7,315,751	(170,855)
Support Services				
Student	740,188	740,188	* 699,837	40,350
Instructional Staff	605,835	605,835	* 619,305	(13,470)
District Administration	545,529	545,529	* 586,315	(40,786)
School Administration	1,036,270	1,036,270	* 1,025,070	11,201
Business	298,772	298,772	* 505,441	(206,669)
Plant Operation & Maintenance	1,794,742	1,794,742	* 1,660,007	134,735
Student Transportation	1,317,921	1,317,921	* 1,586,742	(268,822)
Food Service Operations	35,398	35,398	* 26,752	8,646
Community Services	19,357		1,738	(1,738)
Debt Service	56,573	56,573	76,717	(20,143)
Building Improvements		19,357		19,357
Total expenditures	<u>13,595,481</u>	<u>13,595,481</u>	<u>14,103,675</u>	<u>(508,194)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(118,629)	(118,629)	(100,450)	18,179
OTHER FINANCING SOURCES (USES)				
Sale of equipment	5,000	5,000		(5,000)
Loss compensation			30,635	30,635
Operating transfers in			343,627	343,627
Operating transfers out			(42,109)	(42,109)
Total other financing sources and (uses)	<u>5,000</u>	<u>5,000</u>	<u>332,153</u>	<u>327,153</u>
NET CHANGE IN FUND BALANCE	(113,629)	(113,629)	231,703	345,332
FUND BALANCE - BEGINNING	<u>2,770,042</u>	<u>2,770,042</u>	<u>3,288,988</u>	<u>518,946</u>
FUND BALANCE - ENDING	<u>\$ 2,656,413</u>	<u>\$ 2,656,413</u>	<u>\$ 3,520,690</u>	<u>\$ 864,277</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 \$3,422,012.

See the accompanying notes to the financial statements.

Estill 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				
Tuition	\$ 1,108	\$ 1,108	\$ -	\$ (1,108)
Earnings on investments	24	24	196	172
Other local revenue	62,006	62,006	50,114	(11,892)
Intergovernmental - state	859,560	742,423	890,837	148,414
Intergovernmental - federal	2,437,660	1,711,663	3,067,535	1,355,872
Total revenues	<u>3,360,358</u>	<u>2,517,224</u>	<u>4,008,682</u>	<u>1,491,458</u>
EXPENDITURES				
Instruction	1,373,520	1,223,529	2,496,967	(1,273,438)
Support Services				
Student	135,824	84,985	488,321	(403,336)
Instructional Staff	1,736,010	1,109,256	616,406	492,850
District Administration	20,000	20,000	19,436	564
Business	71,100	71,100	59,456	11,644
Plant Operation & Maintenance	31,098	15,549	16,683	(1,134)
Food Service Operations	12,093	12,093	382	11,711
Community Services Operations	151,200	76,400	353,142	(276,742)
Total expenditures	<u>3,530,845</u>	<u>2,612,911</u>	<u>4,050,791</u>	<u>(1,437,880)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(170,488)	(95,688)	(42,109)	53,579
OTHER FINANCING SOURCES (USES)				
Loss compensation for equipment	1,596	1,596		(1,596)
Operating transfers in (out)	35,538	35,538	42,109	6,571
Total other financing sources and (uses)	<u>37,134</u>	<u>37,134</u>	<u>42,109</u>	<u>4,975</u>
NET CHANGE IN FUND BALANCE	(133,354)	(58,554)	-	58,554
FUND BALANCE - BEGINNING	-	-	-	-
FUND BALANCE - ENDING	<u>\$ (133,354)</u>	<u>\$ (58,554)</u>	<u>\$ -</u>	<u>\$ 58,554</u>

See the accompanying notes to the financial statements.

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

		School Food Services
ASSETS		
Cash and cash equivalents	\$	349,270
Accounts receivable, net		2,852
Inventories		8,774
Capital assets:		
Other capital assets, net of depreciation		49,751
Total assets		410,647
NET POSITION		
Net Investment in capital assets		49,751
Restricted for:		
Expendable Restricted for Food Service		360,896
Total net position	\$	410,647

See the accompanying notes to the financial statements.

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

	School Food Services
OPERATING REVENUES	
Lunchroom sales	\$ 330,442
Total operating revenues	<u>330,442</u>
OPERATING EXPENSES	
Depreciation	13,927
Food service operations	
Employee services	650,757
Operational expenses	743,520
Total operating expenses	<u>1,408,205</u>
Operating income (loss)	(1,077,763)
NONOPERATING REVENUES (EXPENSES)	
Federal grants	1,042,126
State grants	14,011
State on-behalf payments received	98,754
State on-behalf payments used	(98,754)
Commodities received	79,524
Commodities used	(79,524)
Earnings from investments	1,090
Total nonoperating revenues	<u>1,057,227</u>
CHANGE IN NET POSITION	(20,536)
NET POSITION, BEGINNING	<u>431,183</u>
NET POSITION, ENDING	<u>\$ 410,647</u>

See the accompanying notes to the financial statements.

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

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 330,442
Payments to suppliers	(746,787)
Payments to employees	(650,757)
Net cash provided (used) by operating activities	<u>(1,067,102)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Intergovernmental revenue	1,056,136
Net cash provided (used) by noncapital financing activities	<u>1,056,136</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Other	
Retirement of assets	(2,888)
Net cash provided (used) by capital financing activities	<u>(2,888)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	1,090
Net cash provided (used) by investing activities	<u>1,090</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,763)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>362,033</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 349,270</u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (1,077,763)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	13,927
Changes in assets and liabilities:	
Receivables	(2,852)
Accrued liabilities	(414)
Net cash used by operating activities	<u>\$ (1,067,102)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$79,524 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

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

	<u>School Activity Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Fiduciary Fund Total</u>
ASSETS			
Cash and cash equivalents	\$ 204,495	\$ 42,292	\$ 246,787
Accounts receivable		600	600
	<u>204,495</u>	<u>42,892</u>	<u>247,387</u>
TOTAL ASSETS	<u><u>204,495</u></u>	<u><u>42,892</u></u>	<u><u>247,387</u></u>
LIABILITIES			
Accounts payable	932	50	982
Due to student groups	<u>203,563</u>		<u>203,563</u>
	<u>204,495</u>	<u>50</u>	<u>204,545</u>
TOTAL LIABILITIES	<u><u>204,495</u></u>	<u><u>50</u></u>	<u><u>204,545</u></u>
NET POSITION HELD IN TRUST	<u><u>\$ -</u></u>	<u><u>\$ 42,842</u></u>	<u><u>\$ 42,842</u></u>

See the accompanying notes to the financial statements.

ESTILL COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Estill 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 Estill 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 Estill 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:

Estill County Board of Education Finance Corporation

The Board authorized establishment of the Estill 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 Estill 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. Non-major 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.

(E) Permanent Fund

The Permanent Fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

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

Trust Funds

Trust Funds report resources that are contributed by various people, and organizations to be spent for students for purposes that support the reporting governments programs.

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 non-exchange 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Property Taxes

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.429 per \$100 valuation of real property, \$.429 per \$100 valuation for business personal property and \$.548 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:

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The 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 Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Board, and are not made after fiscal year-end as dictated by law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

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

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 an expenditure in the governmental fund types when purchased.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as Net Position. Net Position are reported in three categories: 1) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

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 are interest bearing accounts with a local depository secured by FDIC and pledged assets of the bank. Due to the liquidity nature of these accounts the carrying value is the fair market value. Investments are certificates of deposits with a local depository with a maturity greater than 90 days.

		Bank Balance
		<hr/>
		<u>Demand</u>
<u>Citizens Guaranty Bank</u>		
FDIC	\$	250,000
Securities pledged to district		<hr/> 7,061,087
Bank balance	\$	<hr/> <hr/> 7,311,087
		 Book Balance
		<hr/>
		<u>Cash and equivalents</u>
Governmental Activities	\$	5,250,599
Business-type Activities		349,270
Fiduciary Funds		
School Activity Funds		204,495
Trust Fund		<hr/> 42,292
Total carrying amount	\$	<hr/> <hr/> 5,846,656

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 442,930	\$ -	\$ -	\$ 442,930
Land improvements	1,170,359	63	-	1,170,421
Buildings	28,912,895	13,043,964	1,190,968	40,765,890
Technology equipment	3,082,499	141,854	4,023	3,220,330
Vehicles	2,631,438	-	-	2,631,438
General equipment	619,915	-	3,000	616,915
Construction in progress	10,636,810	2,407,154	13,043,964	-
Total at historical cost	\$ <u>47,496,845</u>	\$ <u>15,593,034</u>	\$ <u>14,241,955</u>	\$ <u>48,847,925</u>
Less: Accumulated depreciation				
Land improvements	\$ 723,040	\$ 34,643	\$ -	\$ 757,683
Buildings	8,013,408	315,734	866,380	7,462,763
Technology equipment	2,477,135	223,277	4,023	2,696,388
Vehicles	2,384,677	71,432	-	2,456,109
General equipment	336,063	42,071	2,800	375,334
Total accumulated depreciation	\$ <u>13,934,323</u>	\$ <u>687,157</u>	\$ <u>873,203</u>	\$ <u>13,748,277</u>
Governmental Activities Capital Assets-net	\$ <u>33,562,523</u>	\$ <u>14,905,877</u>	\$ <u>13,368,753</u>	\$ <u>35,099,647</u>
<u>Business-Type Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Vehicles	\$ 109,961	\$ -	\$ -	\$ 109,961
Technology equipment	38,240	-	-	38,240
General equipment	332,228	2,888	-	335,116
Total at historical cost	\$ <u>480,429</u>	\$ <u>2,888</u>	\$ <u>-</u>	\$ <u>483,317</u>
Less: Accumulated depreciation				
Vehicles	\$ 71,482	\$ 8,418	\$ -	\$ 79,900
Technology equipment	38,240	-	-	38,240
General equipment	309,917	5,510	-	315,427
Total accumulated depreciation	\$ <u>419,639</u>	\$ <u>13,927</u>	\$ <u>-</u>	\$ <u>433,566</u>
Business-Type Activities Capital Assets-net	\$ <u>60,790</u>	\$ <u>(11,040)</u>	\$ <u>-</u>	\$ <u>49,751</u>

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

NOTE E – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the Estill County School District Finance Corporation aggregating \$23,688,000 and \$1,332,000 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 Estill County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

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

<u>Bond Issue Date</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
2007A Issue	\$ 6,275,000	1/1/2027	3.625-3.875%	\$ 5,090,000	\$	260,000	\$ 4,830,000
2010 BAB	5,630,000	9/1/2030	.7-5%	5,545,000		85,000	5,460,000
2010 QSCB	7,350,000	9/1/2027	4.94%	7,350,000		-	7,350,000
2012R	1,690,000	6/1/2024	1.0 - 2.25%	1,670,000		25,000	1,645,000
2003 Issue	490,000	6/1/2014	2-3.7%	115,000		55,000	60,000
2004 Issue	2,350,000	6/1/2024	3.5-4.75%	265,000		85,000	180,000
2004R Issue	6,760,000	8/1/2016	2-3.6%	4,125,000		755,000	3,370,000
2007B Issue	440,000	1/1/2028	4.15-4.2%	380,000		15,000	365,000
2009R	\$ 460,000	3/1/2018	3.50%	435,000		7,000	428,000
				<u>\$ 24,975,000</u>	<u>\$ -</u>	<u>\$ 1,287,000</u>	<u>\$ 23,688,000</u>

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

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

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year Ended <u>June 30</u>	<u>Principal</u>		<u>Urgent Need</u>		<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
	<u>Local</u>	<u>SFCC</u>	<u>Principal</u>	<u>Interest</u>	<u>Local</u>	<u>SFCC</u>	<u>Total</u>	<u>Total</u>
2014	\$ 799,616	\$ 305,530	\$ 226,854	\$ 607,948	\$ 240,670	\$ 128,191	\$ 1,332,000	\$ 976,809
2015	823,299	289,090	234,611	598,910	214,252	118,386	1,347,000	931,549
2016	852,115	298,226	242,659	589,499	186,670	108,751	1,393,000	884,920
2017	882,693	284,298	251,009	579,675	157,082	100,853	1,418,000	837,610
2018	447,891	245,322	259,787	569,187	141,441	93,600	953,000	804,229
2019-2023	601,364	1,334,675	1,463,961	2,667,855	617,416	357,761	3,400,000	3,643,031
2024-2028	7,971,004	1,814,075	1,419,921	2,116,369	543,597	151,087	11,205,000	2,811,053
2029-2031	2,380,101	259,899	-	69,938	110,743	19,142	2,640,000	199,823
	<u>\$ 14,758,083</u>	<u>\$ 4,831,115</u>	<u>\$ 4,098,802</u>	<u>\$ 7,799,380</u>	<u>\$ 2,211,872</u>	<u>\$ 1,077,771</u>	<u>\$ 23,688,000</u>	<u>\$ 11,089,023</u>

The District sold a 2010 Qualified School Construction Bond (QSCB bond) for which they are making semi-annual payments into an escrow account. These payments are being invested and accumulating interest for which will be used to retire the bond on September 21, 2027. As of June 30, 2013 the escrow account had accumulated \$150,393.

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 \$476,289 . 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 F – CAPITAL LEASE PAYABLE

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

<u>KISTA Issue Date</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2012</u>			<u>2013</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2012	\$ 463,299	3/1/2022	2.0 - 2.625%	\$ 463,299		\$ 50,390	\$ 412,909
2006 Issue	\$ 132,792	3/1/2016	3.3-4%	53,666		13,966.00	39,700
				<u>\$ 516,965</u>	<u>-</u>	<u>\$ 64,356</u>	<u>\$ 452,609</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:

<u>Year Ending 30-Jun</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2014	\$ 66,631	\$ 10,381	\$ 77,012
2015	56,173	8,795	64,968
2016	57,559	7,449	65,008
2017	45,582	6,041	51,623
2018	46,472	5,129	51,601
2019-2022	<u>180,192</u>	<u>10,729</u>	<u>190,921</u>
	<u>\$ 452,609</u>	<u>\$ 48,523</u>	<u>\$ 501,132</u>

Total minimum lease payments	\$ 501,132
Less: Amount representing interest	<u>(48,523)</u>
Present Value of Net Minimum Lease Payments	\$ 452,609

NOTE G – RETIREMENT PLANS

Kentucky Teachers’ Retirement System

Plan Description – The Estill 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

July 1, 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 Estill County Schools' total payroll for the year was \$14,397,463. The payroll for employees covered under KTRS was \$11,003,067. For the year ended June 30, 2013, the Commonwealth contributed \$1,255,850 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$215,338, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the years ended June 30, 2013, 2012, and 2011 were \$1,686,526 \$1,719,145, and \$1,715,172 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 \$598,782 of the employee's compensation during the fiscal year ended June 30, 2013.

The District's required contributions (both withholding and match) for pension obligation to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$757,968, \$747,305, and \$608,716 respectively.

NOTE H - CONTINGENCIES

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

NOTE I - LITIGATION

The Estill County School District currently has no pending litigation.

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 L – DEFICIT FUND AND OPERATING BALANCES

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Business Type Activities	\$ (20,536)
Construction	(2,404,127)
Capital Outlay	(121,516)
Food Service	(20,536)
Fiduciary Fund	\$ (7,284)

NOTE M - COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Special Revenue	\$ 42,109	KETS Matching Funds
FSPK	General	343,627	Operations
FSPK	Debt Service	\$ 1,056,423	Debt Payments

NOTE O – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Estill County School District for teacher’s retirement, health insurance, life insurance, administrative fees, technology, debt service, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, Debt Service and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$3,422,012 for the General Fund, \$871,432 and \$98,754 for the School Food Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE P – RESTRICTED FUND BALANCES

The following funds had restricted fund balances as of June 30, 2013

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 379,922	Future Construction
Debt Service	150,393	QSCB Bond Escrow Account
Capital Outlay	63,525	School Facilities Construction Commission Requirement
FSPK	728,804	School Facilities Construction Commission Requirement
Permanent	\$ 978	Trust Agreement

NOTE Q – 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 position. The term net position 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 R-Prior Period Adjustment to see how the change in accounting policy affects net position.

NOTE R – PRIOR PERIOD ADJUSTMENT

Due to the implementation of GASB 65 and GASB 63, bond issue costs, premiums, and discounts are no longer capitalized. This caused beginning net position to be overstated as follows:

Net Position July 1, 2012	\$ 15,203,049
Prior Period Adjustment	(396,787)
Restated Net Position July 1, 2012	<u><u>14,806,263</u></u>

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 21, 2013, the date of the audit report.

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

	Other Governmental Fund Types			
	Capital Outlay	FSPK	Permanent	Total
Assets				
Cash and Cash Equivalents	\$ 63,525	\$ 728,804	\$ 201,352	\$ 993,680
Total Assets	63,525	728,804	201,352	993,680
Fund Balances				
Nonspendable			200,374	200,374
Restricted	63,525	728,804	978	793,306
Total Fund Balances	\$ 63,525	\$ 728,804	\$ 201,352	\$ 993,680

See accompanying notes to the financial statements.

Estill County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
 Year ended June 30, 2013

	Other Governmental Fund Types			
	Capital Outlay	FSPK	Permanent	Total
Revenues				
From Local Sources				
Property Taxes	\$ -	\$ 510,422	\$ -	\$ 510,422
Earnings on investments			550	550
Intergovernmental - State	222,111	549,943		772,054
Total Revenues	<u>222,111</u>	<u>1,060,365</u>	<u>550</u>	<u>1,283,026</u>
Expenditures				
Debt Service				-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues Over Expenditures	<u>222,111</u>	<u>1,060,365</u>	<u>550</u>	<u>1,283,026</u>
Other Financing Sources (Uses)				
Operating transfers in (out)	(343,627)			(343,627)
Transfers In/(Out) for Debt Service		(1,056,423)		(1,056,423)
Total Other Financing Sources (Uses)	<u>(343,627)</u>	<u>(1,056,423)</u>	<u>-</u>	<u>(1,400,050)</u>
Net Change in Fund Balances	(121,516)	3,942	550	(117,024)
Fund Balance - Beginning	<u>185,041</u>	<u>724,862</u>	<u>200,802</u>	<u>1,110,704</u>
Fund balance - Ending	<u>\$ 63,525</u>	<u>\$ 728,804</u>	<u>\$ 201,352</u>	<u>\$ 993,680</u>

See accompanying notes to the financial statements.

Estill County School District
Combining Balance Sheet - School Activity Funds, Trust, Scholarships
As of June 30, 2013

	SCHOOL ACTIVITY FUNDS							FIDUCIARY FUND TOTAL
	<u>ESTILL COUNTY HIGH SCHOOL</u>	<u>ESTILL COUNTY MIDDLE SCHOOL</u>	<u>ESTILL SPRINGS ELEMENTARY</u>	<u>SOUTH IRVINE ELEMENTARY</u>	<u>WEST IRVINE ELEMENTARY</u>	<u>TRUST</u>	<u>SCHOLARSHIPS</u>	
ASSETS								
Cash and cash equivalents	\$ 122,613	\$ 23,478	\$ 21,361	\$ 17,946	\$ 19,096	\$ 490	\$ 41,801	\$ 246,787
Accounts receivable							600	600
Total Assets	<u>122,613</u>	<u>23,478</u>	<u>21,361</u>	<u>17,946</u>	<u>19,096</u>	<u>490</u>	<u>42,401</u>	<u>247,387</u>
LIABILITIES								
Accounts payable	829	57	8	38	-		50	982
Total Liabilities	<u>829</u>	<u>57</u>	<u>8</u>	<u>38</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>982</u>
FUND BALANCE								
School activities	<u>\$ 121,785</u>	<u>\$ 23,421</u>	<u>\$ 21,353</u>	<u>\$ 17,908</u>	<u>\$ 19,096</u>	<u>\$ 490</u>	<u>\$ 42,351</u>	<u>\$ 246,405</u>

See accompanying notes to the financial statements.

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

	SCHOOL ACTIVITY FUNDS							FIDUCIARY FUND TOTAL
	ESTILL COUNTY HIGH SCHOOL	ESTILL COUNTY MIDDLE SCHOOL	ESTILL SPRINGS ELEMENTARY	SOUTH IRVINE ELEMENTARY	WEST IRVINE ELEMENTARY	TRUST	SCHOLARSHIPS	
Revenues								
Student revenues	\$ 208,573	\$ 91,575	\$ 73,530	\$ 33,338	\$ 58,316	\$ -	\$ -	\$ 465,332
Miscellaneous revenues							2,300	2,300
Earnings from investments							180	180
Total Revenues	<u>208,573</u>	<u>91,575</u>	<u>73,530</u>	<u>33,338</u>	<u>58,316</u>	<u>-</u>	<u>2,480</u>	<u>467,812</u>
Expenses								
Student activities	216,670	85,550	77,536	32,391	56,349			468,496
Instruction							6,600	6,600
Total Expenses	<u>216,670</u>	<u>85,550</u>	<u>77,536</u>	<u>32,391</u>	<u>56,349</u>	<u>-</u>	<u>6,600</u>	<u>475,096</u>
Excess (Deficit) of Revenues Over Expenses	(8,097)	6,025	(4,006)	947	1,967	-	(4,120)	(7,284)
Fund balance July 1, 2012	<u>129,882</u>	<u>17,396</u>	<u>25,359</u>	<u>16,962</u>	<u>17,130</u>	<u>490</u>	<u>46,471</u>	<u>253,689</u>
Fund balance June 30, 2013	<u>\$ 121,785</u>	<u>\$ 23,421</u>	<u>\$ 21,353</u>	<u>\$ 17,908</u>	<u>\$ 19,096</u>	<u>\$ 490</u>	<u>\$ 42,351</u>	<u>\$ 246,405</u>

See the accompanying notes to the financial statements.

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

	FUND BALANCE July 1, 2012	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE June 30, 2013
GENERAL FUND	\$ 23,631	\$ 345	\$ -	\$ -	\$ 23,976
PARKING PERMITS	12,068	2,852	-	-	14,920
MISCELLANEOUS ACCOUNT	-	-	-	-	-
ADMINISTRATIVE FUNDS	41,098	1,944	9,870	-	33,172
FRESHMAN FUNDS	147	-	-	-	147
ENGINEER GUARANTY BANK	7	-	-	-	7
STUDENT VENDING	98	8	5,156	5,081	31
TEACHERS LOUNGE	3,461	4,180	3,182	-	4,459
STORE SALES	633	-	-	-	633
ATHLETIC	13,573	78,172	80,555	70	11,260
AGRICULTURE	2	-	-	-	2
ACADEMIC	145	-	-	-	145
GREENHOUSE	7,317	6,533	8,580	-	5,271
MUSIC	343	481	537	-	287
SPANISH	-	-	-	-	-
ART CLUB	8	-	-	-	8
AV-READING	1,357	421	83	(65)	1,630
BETA CLUB	1,365	13,205	12,244	-	2,327
COMPUTER GAMES	10	-	-	-	10
DECA	71	-	-	-	71
DESIGNER TICKETS	867	247	752	-	362
FBLA	769	4,674	3,661	-	1,782
FCA	127	-	-	-	127
FCCLA	778	1,642	2,317	-	103
FFA	662	9,428	10,264	-	(174)
FRENCH CLUB	803	-	-	-	803
GTO/RED CROSS	3	-	-	-	3
KEY CLUB	669	50	63	-	656
LITERARY ARTS	173	-	-	-	173
PEP CLUB	298	-	-	-	298
S.A.D.D.	74	-	-	-	74
SPEECH & DRAMA CLUB	634	-	-	-	634
STUDENT COUNCIL	2,361	240	323	-	2,278
CLASS OF 2003	290	-	-	(290)	-
CLASS OF 2004	387	-	-	(387)	-
CLASS OF 2005	2,043	-	-	(2,043)	-
CLASS OF 2006	32	-	-	(32)	-
CLASS OF 2007	258	-	-	(258)	-
CLASS OF 2008	941	-	-	(941)	-
CLASS OF 2009	1,201	-	-	(1,201)	-
CLASS OF 2010	1,007	-	-	-	1,007
CLASS OF 2011	955	-	-	-	955
CLASS OF 2012	1,147	-	-	-	1,147
CLASS OF 2013	3,703	864	3,712	-	855
CLASS OF 2014	-	7,952	4,724	-	3,229
LIBRARY COPIES	224	81	-	65	370
YEARBOOK	1,728	8,412	5,897	-	4,243
CHESS CLUB	237	-	-	-	237
VICA CLUB	35	-	-	-	35
GUIDANCE OFFICE	302	1,052	929	-	425
SENIOR TRIP	670	65,233	63,303	-	2,600
ECHS YOUNG DEMOCRATS	78	-	-	-	78
ECHS YOUNG REPUBLICANS	81	-	-	-	81
LOST BOOKS	716	-	-	-	716
TRAVEL CLUB	69	-	44	-	25
TATU	70	-	-	-	70
GREEN TEAM	3	-	-	-	3
ROTC	154	-	-	-	154
CERAMICS CLUB	-	270	188	-	82
FSFB	-	160	160	-	-
FILM CLUB	-	130	130	-	-
	-	-	-	-	-
	<u>\$ 129,882</u>	<u>\$ 208,573</u>	<u>\$ 216,670</u>	<u>\$ (0)</u>	<u>\$ 121,785</u>

See accompanying notes to the financial statements.

ESTILL COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Estill 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

Non-monetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had received food commodities totaling \$79,524.

ESTILL COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2013

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Total Expenditures
U.S. Department of Agriculture				
Passed through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 13		510.4950		\$ 79,524
Passed through State Department of Education				
* National School Lunch Program	10.555			
Fiscal Year 12		7750002 12	N/A	164,029
Fiscal Year 13		7750002 13	N/A	571,740
* School Breakfast Program	10.553			
Fiscal Year 12		7760005 12	N/A	68,258
Fiscal Year 13		7760005 13	N/A	238,761
* Summer Food Service Program for Children	10.559			
Fiscal Year 13		7720012 13	N/A	382
Child Nutrition Cluster Subtotal				<u>1,043,169</u>
Fresh Fruit and Vegetable Program	10.582			
Fiscal Year 12		7720012 12	N/A	3,264
Fiscal Year 13		7720012 13	N/A	13,355
				<u>16,619</u>
Total U.S. Department of Agriculture				<u><u>1,139,312</u></u>
U.S. Department of Education				
Passed through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 10		3100002 10	906,503	5,051
Fiscal Year 12		3100002 12	885,118	116,454
Fiscal Year 12D		3100002 12	205,000	22,335
Fiscal Year 13		3100002 13	1,072,063	893,709
Fiscal Year 13M		3100002 13	74,800	70,832
* School Improvement Part A	84.010A			
Fiscal Year 11		3100202 11	118,313	27,676
* Educational Recovery Staff	84.010A			
Fiscal Year 13		3100002 13	192,777	184,401
				<u>1,320,458</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	185,700	191,699
Special Education-Basic Plus Capacity Improvement	84.027A			
Fiscal Year 12		3810002 12	574,198	189,787
Fiscal Year 13		3810002 13	580,221	424,226
Special Education-Preschool Grants	84.173A			
Fiscal Year 12		3800002 12	50,961	45,761
Special Education Cluster Subtotal				<u>851,474</u>
Vocation Education - Basic Grant to States	84.048			
Fiscal Year 09		4621132 09	36,125	345
Fiscal Year 10A		4621132 10	409	409
Fiscal Year 12S		4621132 12	384	616
Fiscal Year 13		4621132 13	27,587	27,759
				<u>29,129</u>
* School Improvement Grants, Recovery Act	84.388B			
Fiscal Year 10C-ARRA		4100302 10	150,000	136,998
Fiscal Year 10B-ARRA		4100302 10	150,000	10,786
				<u>147,784</u>
Education Jobs Fund	84.410			
Fiscal Year 11		EJOB00 11	630,424	128,182
Tech Prep	84.243			
Fiscal Year 09		3639	9,514	516
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	46,706	15,298

ESTILL COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Total Expenditures
Safe and Drug Free Schools	84.186A			
Fiscal Year 10		4060	15,532	4,750
Education Technology State Grants	84.318X			
Fiscal Year 07		4210002 07	9,601	4,640
Fiscal Year 09		4210002 09	11,233	11,232
Fiscal Year 10		4210002 10	10,968	10,968
Fiscal Year 11		4210002 11	3,899	3,899
Education Technology State Grants, Recovery Act	84.386A			
Fiscal Year 09-ARRA		4210002 09	27,667	1,228
Fiscal Year 10-ARRA		4210002 10	67,824	253
Education Technology State Grants Cluster Subtotal				32,220
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 12		3230002 12	194,738	4,368
Fiscal Year 13		3230002 13	191,828	194,283
				198,651
Rural Education	84.358B			
Fiscal Year 11		3140002 11	66,892	57,456
Fiscal Year 12		3140002 12	53,488	150
				57,606
Passed through Berea College				
* Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A			
Fiscal Year 08P		3798P	50,000	112
Fiscal Year 09M		3799M	35,985	769
Fiscal Year 09T		3799T	4,980	49
Fiscal Year 09H		3799H	81,211	1,372
Fiscal Year 11H		3791H	68,499	34,441
Fiscal Year 11Y		3791Y	5,000	84
Fiscal Year 12A		3792A	29,096	1,154
Fiscal Year 12K		3792K	3,116	3,116
Fiscal Year 13A		3793A	118,544	118,544
Fiscal Year 13K		3793K	15,525	15,525
Fiscal Year 13M		3793M	70,042	70,042
Fiscal Year 13P		3793P	150,000	64,841
				310,049
Passed through Workforce Development Cabinet				
Recruitment, Rentention, and Results	84.002			
Fiscal Year 13		3653	7,336	7,195
Adult Education State Grant Program	84.002			
Fiscal Year 13		3733	67,350	66,130
Adult Education State Grant Program - Developmental Funds	84.002			
Fiscal Year 11S		3731S	2,880	2,559
Fiscal Year 13S		3733S	1,812	851
Total Adult Education				76,735
Total U.S. Department of Education				3,172,852
Corporation for National & Community Service				
Passed through the State Department of Education				
Learn & Serve America-School & Community Based Programs	94.004			
Fiscal Year 11		1000002 11	5,500	497
Total Corporation for National & Community Service				497
U.S. Department of Health and Human Services				
Passed Through Kentucky School Board Association				
Medical Assistance Program	93.778			
Fiscal Year 13		110.4810	N/A	27,982
Total U.S. Department of Health and Human Services				27,982
Grand Totals of All Federal Programs				\$ 4,340,643

* Major Programs

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

To the Estill County Board of Education and
State Committee for School District Audits
Irvine, 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 Estill County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Estill 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 Estill 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 Estill County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Estill 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 Appendices. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Estill 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, P.C.

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 Estill County Board of Education and
State Committee for School District Audits
Irvine, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Estill 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 Estill 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 Estill County School District's compliance.

Opinion on Each Major Federal Program

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

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

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

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

White & Associates, P.C.

Richmond, Kentucky
October 21, 2013

ESTILL 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	Title I [CFDA 84.010A] School Improvement Grants, Recovery Act [CFDA 84.388B] Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559] Gaining Early Awareness & Readiness for Undergraduate Program [CFDA 84.334A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

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

No findings at the major federal award programs level.

**ESTILL COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no prior year audit findings.

MANAGEMENT LETTER

Estill County School District
Irvine, Kentucky

In planning and performing our audit of the financial statements of the Estill 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 Estill County School District. The conditions observed are as follows:

ESTILL SPRINGS ELEMENTARY

No conditions

SOUTH IRVINE ELEMENTARY

1-13

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 will be made payable to the responsible person to obtain change or start-up money.

WEST IRVINE ELEMENTARY

2-13

Statement of Condition: Activity Fund accounts “Pictures” and “Scholastic Book Order” ended the fiscal year (June 30) with a deficit balance.

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer

monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to the Recommendation: Money will be transferred in the future to cover deficit balances.

3-13

Statement of Condition: Several instances of 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/sponsors have been instructed to turn in money to the office daily.

4-13

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: Receipts will be deposited timely.

5-13

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

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: Requisitions will be completed prior to purchase order being issued and purchases made.

6-13

Statement of Condition: Instances of checks written not having two signatures (3359, 3360, 3361, 3444).

Recommendation for Correction: The principal (or appointed designee) and school treasurer should insure all checks written have two signatures; one of which shall be that of the principal (or appointed designee) and the other being the school treasurer.

Management Response to the Recommendation: Two signatures will be required on all checks.

ESTILL COUNTY MIDDLE SCHOOL

7-13

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

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: Requisitions will be completed for a purchase order prior to purchases being made.

8-13

Statement of Condition: Monthly Financial Reports were not being reconciled timely for December, January, and February.

Recommendation for Correction: 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: This was due to a software technology program glitch. It took some time to get the issues resolved. This was a onetime incident. Reports have always been timely.

ESTILL COUNTY HIGH SCHOOL

9-13

Statement of Condition: Activity Fund account "FFA" ended the fiscal year (June 30) with a deficit balance.

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to the Recommendation: Money will be transferred in the future to cover deficit balances.

We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We would like to add that we have seen a tremendous improvement from the previous year throughout all the schools in the area of internal control compliance.

Conditions 2-13 and 3-13 were repeat conditions from the prior year. All other prior year conditions have been implemented and corrected. Mr. Bert Hensley, 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