

Kenton County School District

Financial Statements

Year ended June 30, 2013

Kenton County School District

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Independent Auditor's Report

To the Members of the Board of Education
Kenton County School District

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 Kenton County School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, *Appendix III of the Independent Auditor's Contract - Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract - Instructions for Submission of the Audit Report*. 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 opinion.

Independent Auditor's Report (Continued)

Opinion

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 Kenton County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows 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 and budgetary comparison information on pages four and eight be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining statements – activity funds and the statement of revenues, expenditures and changes in due to/from other student groups 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 not a required part of the basic financial statements.

The combining financial statements – activity funds 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 combining financial statements – activity funds and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "M. C. Chilton Muddly, LLP". The signature is written in a cursive, flowing style.

Louisville, Kentucky
November 13, 2013

**Kenton County School District
Management Discussion and Analysis
Year Ended June 30, 2013**

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

FINANCIAL HIGHLIGHTS

- Enrollment in Kenton County Schools reached 14,602 students in the 2012-2013 fiscal year, an increase of 88 students from the previous school year. Over the last five years, the District's student membership has grown by 5.2%. Students are served by 18 schools including 3 high schools, a technology academy, 4 middle schools and 11 elementary schools. More than half of these schools are operating at their student capacity.
- District facility activity during 2013 included new construction as well as renovation and improvement projects to maintain an adequate and safe learning environment for all students and teachers. The District modifies its facilities consistent with a long-range facilities plan established with community input and in keeping with the Kentucky Department of Education's (KDE) regulations. During 2013, the Board approved the second phase of construction to the Scott High School buildings and grounds, with an estimated total cost of \$ 12.005 million. The project consists of an estimated 30,460 square feet of enclosed building space for 28 additional classrooms.
- In April, 2013 the Board issued bonds with a par amount of \$12.005 million for the Scott High School Phase II construction project. Of this amount, \$8.1 million will be serviced by the District and the remaining \$3.9 million will be serviced by the Kentucky School Facility Construction Commission.
- In February, 2013 the Board approved school building refunding revenue bonds in the amount of \$30.545 million for the purpose of refinancing the 2005 Series School Building Revenue Bonds. The bonds sold in February, 2013 with coupon rates ranging from 2.0 – 3.0%. Interest savings to be realized over the life of the debt, 2014 – 2025, is approximately \$ 2.2 million.
- Net Position at June 30, 2013 was \$ 45.1 million, including cash, receivables and capital assets reduced by outstanding debt and liabilities.
- Total Revenues were \$133.5 million for the year. General revenues accounted for \$114 million, 85 percent of the total, while program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$19 million or 15 percent of total revenues. The Board had \$135.1 million in total expenses.
- Governmental Fund Revenues were \$130.0 million with \$104.3 million accounted for in the General Fund. Local tax revenues remained stable at \$52.9 million and state SEEK revenues increased slightly from \$45.9 to \$ 46.0 million. However state and federal grant revenues dropped to \$9.5 million in 2013 from \$11.6 million in 2012.

Governmental Fund Expenses totaled \$135.2 million during 2013. General Fund expenses amounted to \$107.4 million. The 2013 salary schedule reflected a 2% increase in addition to the 1% annual experience increase. Transportation expenses also reflected an increase in 2013.

- The General Fund ended the year with a reserve balance of \$16.5 million which represents 15 % of the non-construction budget for the year. This fund balance decrease of \$2.4 million was anticipated to fund 2013 educational initiatives from fund balance additions occurring in 2011

and 2012.

- The Kentucky General Assembly has authorized use of restricted Capital Outlay funds for District maintenance costs. The District received approval to transfer \$1,073,390 from the Capital Outlay Fund to the General Fund for maintenance personnel costs in May, 2013. This transfer of funds is reflected in both funds in the fund statements.

OVERVIEW OF FINANCIAL STATEMENTS

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

District-wide Financial Statements

The district-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. This financial perspective is provided via the Statement of Net Position and the Statement of Activities.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Net position is one indication of financial health and position to support future operations. 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. Other non-financial factors, such as changes in the Board's property tax base and the condition of school facilities, also contribute to evaluating the District's overall financial position.

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, the revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods.

The district-wide financial statements are divided into two categories, governmental activities and business-type activities. Governmental activities include functions of the District that are principally supported by property taxes and intergovernmental revenues and 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. Business-type activities are those that charge a fee to assist in covering the cost of the service. Food Service is the only business-type activity reported in these financial statements.

The district-wide financial statements can be found on pages 12 and 13 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kentucky public school districts utilize a state mandated uniform system and chart of accounts with all financial transactions processed by the MUNIS administrative software. 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 proprietary funds include vending and food service operations. The District's funds include General, Special Revenue, Capital Outlay, Building, Construction, Debt Service, Proprietary and Food Service. School activity funds maintained at each school are reflected as Fiduciary funds in this report.

The basic governmental fund financial statements can be found on pages 14 through 22 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 40 of this report.

DISTRICT WIDE FIANANCIAL ANALYSIS

Statement of Net Position

The perspective of the Statement of Net Position is of the District as a whole. The following table provides a summary of the District's net position as of June 30, 2013 and 2012.

Table 1
Kenton County School District
Net Position
June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<u>Assets</u>						
Current Assets	\$ 28,950,415	\$ 22,020,510	\$ 780,953	\$ 1,938,441	\$ 29,731,368	\$ 23,958,951
Noncurrent Assets	203,438,655	206,833,851	1,358,388	1,141,531	204,797,043	207,975,382
TOTAL ASSETS	\$ 232,389,070	\$ 228,854,361	\$ 2,139,341	\$ 3,079,972	\$ 234,528,411	\$ 231,934,333
<u>Liabilities</u>						
Current Liabilities	\$ 14,290,430	\$ 13,730,149	\$ 45,432	\$ 57,605	\$ 14,335,862	\$ 13,787,754
Noncurrent Liabilities	175,045,532	171,375,637	-	-	175,045,532	171,375,637
TOTAL LIABILITIES	\$ 189,335,962	\$ 185,105,786	\$ 45,432	\$ 57,605	\$ 189,381,394	\$ 185,163,391
<u>Net Position</u>						
Invested in Capital Assets,						
Net of Related Debt	\$ 18,656,438	\$ 27,649,837	\$ 1,358,388	\$ 1,141,531	\$ 20,014,826	\$ 28,791,368
Restricted	10,746,551	1,488,584	-	-	10,746,551	1,488,584
Unrestricted	13,650,119	14,610,154	735,521	1,880,836	14,385,640	16,490,990
TOTAL NET POSITION	\$ 43,053,108	\$ 43,748,575	\$ 2,093,909	\$ 3,022,367	\$ 45,147,017	\$ 46,770,942

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$45,147,017 as of June 30, 2013. The District's financial position is the product of many 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.

Total net position decreased 3.4%, \$1.6 million, during 2013. Governmental net position decreased \$695,467 due to reduced program grant revenue and increased salary costs. Business-type net position decreased \$928,458 due to operations and staffing changes, food nutrition requirements and equipment

replacements.

The district's property tax base remains strong and increased by \$ 34 million providing a stable source of operating revenue. Both real estate and motor vehicle tax values increased. Student enrollment continues to climb each year providing some increases in SEEK revenue. School building and facility additions and improvements have occurred each year in accordance with the District's Facility Plan.

Capital Assets

The largest portion of the District's net position resides in its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related outstanding debt used to acquire those assets. 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.

Capital asset additions occurred in essentially every asset type during 2013 and totaled \$5.1 million. The largest additions occurred in Land Improvements (Scott High School project), Technology Equipment and Food Service Equipment. See Note E – Capital Assets in the Notes to Financial Statements.

During 2013, the Board approved the second phase of construction of additions and improvements to the Scott High School buildings and grounds, with an estimated total cost of \$12.005 million. The project consists of an estimated 30,460 square feet of enclosed building space for 28 additional classrooms.

Construction on this phase began in June, 2013 with a projected completion date of July, 2014. Construction expenses of \$1.5 million have been incurred through June, 2013 and are reflected in the Capital Asset Schedule as Construction in Progress. Funding for the project is provided by a revenue bond issue described below.

Debt

At June 30, 2013, the District had \$182.5 million in outstanding bonds. The bonds are being paid from the Debt Service Fund. A portion of this debt, \$17.7 million is also serviced by the Kentucky School Facility Construction Commission. See Note F – Bonded Debt in the Notes to Financial Statements.

In April, 2013 the Board issued bonds with a par amount of \$12.005 million for the School High School Phase II construction project. Of this amount, \$8.1 million will be serviced by the District and the remaining \$3.9 million will be serviced by the Kentucky School Facility Construction Commission. The proceeds from this bond sale are reflected in the Construction Fund as of June 30, 2013.

In February, 2013 the Board approved school building refunding revenue bonds in the amount of \$30.545 million for the purpose of refinancing the 2005 Series School Building Revenue Bonds. The bonds sold in February, 2013 with coupon rates ranging from 2.0 – 3.0% with interest savings to be realized over the life of the debt of approximately \$ 2.2 million.

Statement of Activities (Changes In Net Position)

The Statement of Activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2013 and 2012.

Table 2
Kenton County School District
Changes In Net Position
June 30, 2013 and 2012

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Operating grants and contributions	\$ 9,586,604	\$ 11,338,432	\$ 3,162,328	\$ 3,675,434	\$ 12,748,932	\$ 15,013,866
Capital grants and contributions	2,725,697	2,653,870	401,892	-	3,127,589	2,653,870
Charges for services	1,027,818	2,166,539	2,304,212	2,764,401	3,332,030	4,930,940
Total Program Revenues	13,340,119	16,158,841	5,868,432	6,439,835	19,208,551	22,598,676
General Revenues:						
Taxes	51,228,127	51,465,210	-	-	51,228,127	51,465,210
Grants and entitlements	63,516,321	63,211,518	-	-	63,516,321	63,211,518
Earnings on investments	156,317	217,859	497	2,496	156,814	220,355
Miscellaneous	(546,702)	(3,136,613)	(27,253)	1,245,553	(573,955)	(1,891,060)
Total General Revenues	114,354,063	111,757,974	(26,756)	1,248,049	114,327,307	113,006,023
Total Revenues	\$ 127,694,182	\$ 127,916,815	\$ 5,841,676	\$ 7,687,884	\$ 133,535,858	\$ 135,604,699
Expenses:						
Instructional	73,535,042	74,824,881	-	-	73,535,042	74,824,881
Student Support	7,539,039	7,561,934	-	-	7,539,039	7,561,934
Instructional Support	3,934,483	3,939,347	-	-	3,934,483	3,939,347
District Administration	2,263,442	2,241,597	-	-	2,263,442	2,241,597
School Administration	7,010,495	7,005,971	-	-	7,010,495	7,005,971
Business Support	1,533,310	1,343,341	-	-	1,533,310	1,343,341
Plant Operations	14,238,547	15,148,980	-	-	14,238,547	15,148,980
Student transportation	10,721,235	9,475,101	-	-	10,721,235	9,475,101
Facilities Acquisition and Construction	488,451	14,741	-	-	488,451	14,741
Community Support	808,804	793,704	-	-	808,804	793,704
Interest - Long term debt	5,874,751	6,021,612	-	-	5,874,751	6,021,612
Food Service Operations	-	-	6,770,134	6,419,374	6,770,134	6,419,374
Other	442,050	459,040	-	-	442,050	459,040
Total Expenses	\$ 128,389,649	\$ 128,830,249	\$ 6,770,134	\$ 6,419,374	\$ 135,159,783	\$ 135,249,623
Change in Net Position	\$ (695,467)	\$ (913,434)	\$ (928,458)	\$ 1,268,510	\$ (1,623,925)	\$ 355,076

GOVERNMENTAL ACTIVITY

The Governmental Program Revenue decrease of \$2.8 million reflects the expiration of the Federal Edu Jobs grant funds which decreased to \$16,675 in 2013 from \$1.9 million in 2012. Federal Title I and Special Education entitlements also declined by approximately \$94,000 and \$283,000 respectively. Other recurring revenue items remained stable. Total Governmental Expenses decreased by approximately \$440,600 in 2013.

BUSINESS-TYPE ACTIVITY

The only business-type activity of the District is the food service operation. This program had revenues of \$5.8 million and expenditures of \$6.7 million for fiscal year 2013.

Significant changes in food nutrition requirements resulted in an increase of \$211,306 in 2013 food and supply costs. Operational changes and benefit rate increases resulted in additional salary and benefits costs. Equipment updates to school kitchens added \$ 356,663 to 2013 expenditures and will support future operations for an estimated 10 years. All of the costs were paid from the 2012 accumulated net asset reserve. The District continues to examine the food service operation in an effort to be self-operating without assistance from the General Fund. The business activity receives no support from tax revenues.

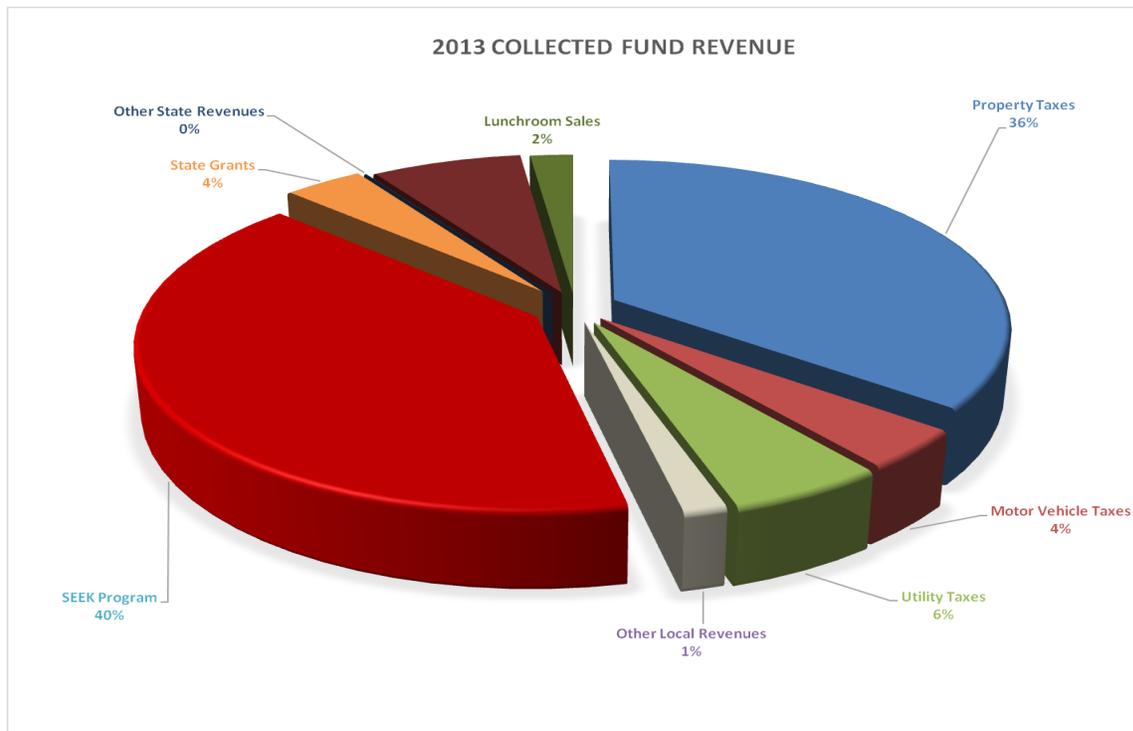
THE DISTRICT’S FUNDS

The District’s governmental funds are accounted for using the modified accrual basis of accounting. Fund financial statements are included on pages 14 – 22. The District accounts include seven different funds with the General Fund reflecting the most activity. Total governmental fund revenues, including on-behalf payments, were \$130.0 million with expenditures of \$135.2 million. Table 3 reflects the 2013 and 2012 fund revenues by type. Chart 1 reflects the percentage for each collected revenue type.

Table 3
Kenton County School District
Fund Revenues
June 30, 2013

	Governmental		Business-Type		Total	
	Funds		Fund			
	2013	2012	2013	2012	2013	2012
<u>Local Sources:</u>						
Property Taxes	40,477,086	41,392,313	-	-	40,477,086	41,392,313
Motor Vehicle Taxes	4,422,925	4,119,740	-	-	4,422,925	4,119,740
Utility Taxes	6,328,116	5,953,156	-	-	6,328,116	5,953,156
Other Local Revenues	1,764,642	1,897,343	497	2,496	1,765,139	1,899,839
<u>State Sources:</u>						
SEEK Program	46,016,083	45,919,852	-	-	46,016,083	45,919,852
State Grants	4,188,375	3,526,784	71,190	64,937	4,259,565	3,591,721
Other State Revenues	32,830	83,990	-	-	32,830	83,990
Federal Revenues	5,347,427	8,044,916	2,729,275	2,898,598	8,076,702	10,943,514
Lunchroom Sales	-	-	2,304,211	2,764,401	2,304,211	2,764,401
Other Revenues	1,273,248	1,789,166	401,892	398,593	1,675,140	2,187,759
Collected Revenue	109,850,732	112,727,260	5,507,065	6,129,025	115,357,797	118,856,285
State On-Behalf	20,225,935	17,903,326	361,863	313,306	20,587,798	18,216,632
Total Revenue	130,076,667	130,630,586	5,868,928	6,442,331	135,945,595	137,072,917

Chart 1 Collected Fund Revenues



General Fund 2013 revenues from all sources totaled \$105.4 million reflecting lower tax collections as compared to 2012 and a small increase of \$35,000 in SEEK revenue. This fund also reflects an approved transfer of \$1,073,390 from the Capital Outlay Fund for facility maintenance expenses during the year.

General Fund 2013 expenses and uses of funds totaled \$107.8 million reflecting increases in Salaries and Benefit costs. The 2013 salary schedules included a 2% increase for each position as well as the experience step increase of approximately 1%. The District is committed to hiring and retaining the most qualified personnel. The current compensation schedule is now competitive with other Northern Kentucky districts as well as Ohio and Indiana. This has been effective in attracting highly qualified applicants and retaining staff that have been trained by the District.

The General Fund ended the year with a significant fund balance at June 30, 2013 of \$16.5 million. And while this is a decrease of \$2.4 million from 2012, these results were expected as a use of the fund balance increases experienced over the past two years.

The Construction Fund balance increased to \$10.5 million reflecting the proceeds of the April, 2013 revenue bond issue.

GENERAL FUND BUDGETING HIGHLIGHTS

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal, operate on a different fiscal calendar but are reflected in the overall budget. A tentative budget is adopted by the Board by the end of May for the following year. A working budget is adopted by the end of September for each fiscal year utilizing new school year enrollment, tax assessments and rates and salaries for new employees/positions.

The most significant budgeted fund is the General Fund. The budget must have a minimum 2% contingency based on budgets for all non-construction funds. The District adopted a working budget for 2013 with \$16.1 million in contingency (14.6 %). The beginning fund balance for the fiscal year was \$18.9 million.

For the General Fund, total budgeted revenues and other financing sources were \$106.3 million and actual revenues, excluding on-behalf payments, were \$105.7 million. State and federal revenues were both lower in 2013 compared to 2012.

General Fund budgeted expenditures, excluding contingency, were \$90.1 million while actual expenditures, excluding on-behalf totaled \$89.2 million.

During the course of fiscal 2013, the District amended its General Fund budget as needed. The District uses a site-based budget. The budgeting systems are designed to tightly control total site budgets, but provide flexibility for site management.

On-Behalf Payments

The District recorded on-behalf payments in the General Fund in 2013 totaling \$18.6 million as required by KDE. On behalf payments represent amounts paid on behalf of the Kenton County School District by the Commonwealth of Kentucky for employee health insurance, Teachers' Retirement and Vocational Education. These revenues and expenditures are not budgeted but are required to be reflected in the annual financial fund reports as a revenue and expense. As a result, it should be noted that large variances between budgeted and actual amounts for the General Fund are the result of this inconsistency.

CURRENT ISSUES

Local taxes continue to provide approximately 45% of annual fund revenue and are critical to the General Fund. Both property and motor vehicle assessed values experienced an increase for the 2013 tax year. The recovery of the real estate market as well as business/industry activity in the county remain critical factors in sustaining local tax revenues.

SEEK revenues account for another 40% of fund revenue but unfortunately have not kept pace with enrollment increases and increased operating costs. For example, in 2013 ADA increased by 118 students while the total SEEK revenue realized by the General Fund increased only \$35,000. The annual per student allocation was reduced for the third year in a row and increased property values will continue to reduce the SEEK contribution for a county experiencing economic expansion. State revenue projections continue to look very bleak, however, and make it difficult to fund new initiatives and state mandates.

The District remains committed to increasing staff salaries and responding to the competitive educational environment that exists in Northern Kentucky. The 2013 beginning teacher salary was increased to \$38,860 while the top end of the 187 day salary schedule for teachers stands at \$71,082. Kenton County School District staff salaries have become more and more attractive in comparison to other Northern Kentucky school districts. Staff retention and stability have increased significantly across all employee categories and are competitive with neighboring districts in Ohio. Applicants for all job categories are more plentiful than past years.

There continues to be a concerted focus on investing in capital construction considering the age and size of our facilities and the population growth that the district has experienced. Major renovations inside and out are continuing at Scott High School through a third phase. Improvements and replacements in lighting, boilers, hot water systems, heat recovery systems and fans will improve energy efficiency and reduce future operating costs. Security enhancements to elementary school entrances are scheduled and planned. Also planned is an upgrade to a bus lot at the Twenhofel School.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to Dr. Teri Cox-Cruey, Superintendent or Mr. Gerald Turner, Treasurer, at 859-344-8888, or by mail at 1055 Eaton Drive, Fort Wright, Kentucky 41017.

**Kenton County School District
Statement of Net Position
June 30, 2013**

	Governmental Activities	Business Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 23,195,693	\$ 211,714	\$ 23,407,407
Inventory	-	292,243	292,243
Accounts receivable	2,120,363	276,996	2,397,359
Investments	3,634,359	-	3,634,359
Total current assets	<u>28,950,415</u>	<u>780,953</u>	<u>29,731,368</u>
Noncurrent Assets			
Capital assets, net	202,311,078	1,358,388	203,669,466
Bond issue costs	1,127,577	-	1,127,577
Total noncurrent assets	<u>203,438,655</u>	<u>1,358,388</u>	<u>204,797,043</u>
Total assets	<u>232,389,070</u>	<u>2,139,341</u>	<u>234,528,411</u>
Liabilities			
Current liabilities			
Accounts payable	648,337	705	649,042
Accrued payroll and related liabilities	431,172	-	431,172
Accrued interest	1,550,280	-	1,550,280
Current portion of accrued sick leave	12,123	44,727	56,850
Deferred revenue	824,350	-	824,350
Current portion of long term liabilities	10,824,168	-	10,824,168
Total current liabilities	<u>14,290,430</u>	<u>45,432</u>	<u>14,335,862</u>
Noncurrent liabilities			
Noncurrent portion of long term liabilities	172,830,472	-	172,830,472
Noncurrent portion of accrued sick leave	2,215,060	-	2,215,060
Total noncurrent liabilities	<u>175,045,532</u>	<u>-</u>	<u>175,045,532</u>
Total liabilities	<u>189,335,962</u>	<u>45,432</u>	<u>189,381,394</u>
Net Position			
Invested in capital assets, net of related debt	18,656,438	1,358,388	20,014,826
Restricted	10,819,875	-	10,819,875
Unrestricted	13,576,795	735,521	14,312,316
Total net position	<u>\$ 43,053,108</u>	<u>\$ 2,093,909</u>	<u>\$ 45,147,017</u>

See accompanying notes.

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental Activities:							
Instruction	\$ 73,535,042	\$ 303,223	\$ 9,535,802	\$ -	\$ (63,696,017)	\$ -	\$ (63,696,017)
Support services:							
Student	7,539,039	-	-	-	(7,539,039)	-	(7,539,039)
Instruction staff	3,934,483	-	-	-	(3,934,483)	-	(3,934,483)
District administration	2,263,442	-	-	-	(2,263,442)	-	(2,263,442)
School administration	7,010,495	-	-	-	(7,010,495)	-	(7,010,495)
Business	1,533,310	-	-	-	(1,533,310)	-	(1,533,310)
Plant operation and maintenance	14,238,547	389,286	-	-	(13,849,261)	-	(13,849,261)
Student transportation	10,721,235	887,698	32,830	-	(9,800,707)	-	(9,800,707)
Facilities acquisition and construction	488,451	-	-	2,725,697	2,237,246	-	2,237,246
Community service activities	808,804	-	17,972	-	(790,832)	-	(790,832)
Education specific	442,050	-	-	-	(442,050)	-	(442,050)
Interest	5,874,751	-	-	-	(5,874,751)	-	(5,874,751)
Total governmental activities	128,389,649	1,580,207	9,586,604	2,725,697	(114,497,141)	-	(114,497,141)
Business-Type Activities:							
Food service	6,770,134	2,304,212	3,162,328	401,892	-	(901,702)	(901,702)
Total business-type activities	6,770,134	2,304,212	3,162,328	401,892	-	(901,702)	(901,702)
Total primary government	\$ 135,159,783	\$ 3,884,419	\$ 12,748,932	\$ 3,127,589	\$ (114,497,141)	\$ (901,702)	\$ (115,398,843)
General Revenues:							
Taxes					51,228,127	\$ -	\$ 51,228,127
State aid formula grants					43,290,386	-	43,290,386
On behalf revenues					20,225,935	-	20,225,935
Investment earnings					156,317	497	156,814
Loss on disposal of capital assets					(108,277)	(27,253)	(135,530)
Loss on bond refunding					(2,274,208)	-	(2,274,208)
Miscellaneous					1,283,394	-	1,283,394
Total general revenues					<u>113,801,674</u>	<u>(26,756)</u>	<u>113,774,918</u>
Change in net position					(695,467)	(928,458)	(1,623,925)
Net position, beginning of year					<u>43,748,575</u>	<u>3,022,367</u>	<u>46,770,942</u>
Net position, ending					<u>\$ 43,053,108</u>	<u>\$ 2,093,909</u>	<u>\$ 45,147,017</u>

See accompanying notes.

Kenton County School District
Balance Sheet – Governmental Funds
June 30, 2013

	General Fund	Special Revenue Fund	Construction Fund	Building Fund	Debt Service	Capital Outlay (Nonmajor)	Total Governmental Funds
Assets and resources							
Cash and cash equivalents	\$ 12,394,639	\$ 18,545	\$ 10,774,295	\$ -	\$ -	\$ 8,214	\$ 23,195,693
Accounts receivable	1,314,556	805,805	-	-	-	-	2,120,361
Investments	3,634,359	-	-	-	-	-	3,634,359
Total assets and resources	\$ 17,343,554	\$ 824,350	\$ 10,774,295	\$ -	\$ -	\$ 8,214	\$ 28,950,413
Liabilities and fund balances							
Liabilities							
Accounts payable	\$ 385,105	\$ -	\$ 256,265	\$ -	\$ -	\$ 6,959	\$ 648,329
Accrued payroll and related liabilities	431,179	-	-	-	-	-	431,179
Current portion of accrued sick leave	12,123	-	-	-	-	-	12,123
Other current liabilities	-	-	-	-	-	-	-
Deferred revenue	-	824,350	-	-	-	-	824,350
Total liabilities	828,407	824,350	256,265	-	-	6,959	1,915,981
Fund balances							
Restricted							
Grants	300,590	-	-	-	-	-	300,590
Capital projects	-	-	10,518,030	-	-	1,255	10,519,285
Committed							
Sick leave	1,117,221	-	-	-	-	-	1,117,221
Capital projects	587,115	-	-	-	-	-	587,115
Site-based carryforward	228,361	-	-	-	-	-	228,361
Assigned							
Encumbrances	436,048	-	-	-	-	-	436,048
Unassigned	13,845,812	-	-	-	-	-	13,845,812
Total fund balances	16,515,147	-	10,518,030	-	-	1,255	27,034,432
Total liabilities and fund balances	\$ 17,343,554	\$ 824,350	\$ 10,774,295	\$ -	\$ -	\$ 8,214	\$ 28,950,413

See accompanying notes.

**Kenton 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	\$ 27,034,432
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	202,311,079
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.	1,127,577
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	<u>(187,419,980)</u>
Net position for governmental activities	<u>\$ 43,053,108</u>

See accompanying notes.

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
Year ended June 30, 2013

	General Fund	Special Revenue	Construction Fund	Building Fund	Debt Service	Capital Outlay (Nonmajor)	Total Governmental Funds
Revenues							
From local sources							
Property taxes	\$ 28,069,801	\$ -	\$ -	\$ 12,261,000	\$ -	\$ -	\$ 40,330,801
Motor vehicle taxes	4,422,925	-	-	-	-	-	4,422,925
Utilities taxes	6,328,116	-	-	-	-	-	6,328,116
Other taxes	146,285	-	-	-	-	-	146,285
Tuition and fees	1,027,818	-	-	-	-	-	1,027,818
Earnings on investments	156,317	-	-	-	-	-	156,317
Other local revenues	550,938	29,569	-	-	-	-	580,507
State sources							
SEEK	43,290,386	-	-	1,404,522	-	1,321,175	46,016,083
On-behalf revenues	18,657,037	-	-	-	1,568,898	-	20,225,935
Restricted state revenues	256,184	3,932,191	-	-	-	-	4,188,375
Other	32,830	-	-	-	-	-	32,830
Federal - indirect	104,764	5,242,663	-	-	-	-	5,347,427
Other revenues	1,273,248	-	-	-	-	-	1,273,248
Total revenues	104,316,649	9,204,423	-	13,665,522	1,568,898	1,321,175	130,076,667
Expenditures							
Instruction	65,421,755	6,743,226	-	-	-	-	72,164,981
Support services:							
Student	7,168,890	359,818	-	-	-	-	7,528,708
Instruction staff	2,963,058	979,724	-	-	-	-	3,942,782
District administration	2,265,737	-	-	-	-	-	2,265,737
School administration	6,982,812	19,888	-	-	-	-	7,002,700
Business	1,530,629	-	-	-	-	-	1,530,629
Plant operation and maintenance	10,343,925	21,211	-	-	-	753,883	11,119,019
Student transportation	10,388,562	58,704	-	-	-	-	10,447,266
Facilities acquisition and construction	-	-	1,825,152	-	-	67,799	1,892,951
Community service activities	18,701	790,103	-	-	-	-	808,804
Education specific	-	442,050	-	-	-	-	442,050
Debt service	317,543	-	-	-	15,766,773	-	16,084,316
Total expenditures	107,401,612	9,414,724	1,825,152	-	15,766,773	821,682	135,229,943
Excess (deficit) of revenues over expenditures	(3,084,963)	(210,301)	(1,825,152)	13,665,522	(14,197,875)	499,493	(5,153,276)

See accompanying notes

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Continued)
Year Ended June 30, 2013

	General Fund	Special Revenue	Construction Fund	Building Fund	Debt Service (Nonmajor)	Capital Outlay (Nonmajor)	Total Governmental Funds
Other financing sources (uses)							
Proceeds from sale of fixed assets	41,152	-	-	-	-	-	41,152
Proceeds from the sale of bonds	-	-	12,005,000	-	-	-	12,005,000
Issuance of refunding debt	-	-	-	-	30,564,208	-	30,564,208
Premium on bonds	-	-	-	-	-	-	-
Payment to refunded debt escrow agent	-	-	-	-	(30,564,208)	-	(30,564,208)
Operating transfers in	1,073,390	210,301	-	-	14,197,875	-	15,481,566
Operating transfers out	(495,273)	-	-	(13,665,522)	-	(1,320,771)	(15,481,566)
Total other financing sources (uses)	<u>619,269</u>	<u>210,301</u>	<u>12,005,000</u>	<u>(13,665,522)</u>	<u>14,197,875</u>	<u>(1,320,771)</u>	<u>12,046,152</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(2,465,694)	-	10,179,848	-	-	(821,278)	6,892,876
Fund balance, July 1, 2012	<u>18,980,841</u>	<u>-</u>	<u>338,182</u>	<u>-</u>	<u>-</u>	<u>822,533</u>	<u>20,141,556</u>
Fund balance, June 30, 2013	<u>\$ 16,515,147</u>	<u>\$ -</u>	<u>\$ 10,518,030</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,255</u>	<u>\$ 27,034,432</u>

See accompanying notes.

**Kenton County School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2013**

Net change in total fund balances per fund financial statements	\$ 6,892,876
Amounts reported for governmental activities in the statement of activities are different because:	
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 depreciation expense exceeds capital outlays for the year as well as differences in gains and losses on capital asset sales	(3,538,081)
Bond proceeds are recorded as revenues in the fund financial statements but are additions to liabilities in the statement of net position.	(42,569,208)
Capital lease payments and bond 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.	40,353,582
Accrued interest payable is not reported as a liability in the fund financial statements but is recorded in the statement of net position	258,095
Noncurrent accrued sick leave is not reported as a liability in the fund financial statements but is recorded in the statement of net position	19,381
Bond issuance costs are recognized as expenditures of current financial resources in the fund financial statement but are capitalized and amortized in the statement of activities. This amount is in the current year amortization expense.	162,096
Gains and losses are not presented in this financial statement because they do not provide or use current financial resources, but they are presented in the statement of activities.	<u>(2,274,208)</u>
Change in net position of governmental activities	<u><u>\$ (695,467)</u></u>

See accompanying notes.

**Kenton County School District
Statement of Net Position – Proprietary Fund
June 30, 2013**

	<u>Food Service</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 211,714
Inventory	292,243
Accounts receivable	<u>276,996</u>
Total current assets	780,953
Noncurrent assets	
Capital Assets	3,605,005
Less: accumulated depreciation	<u>(2,246,617)</u>
Total noncurrent assets	<u>1,358,388</u>
Total assets	<u><u>\$ 2,139,341</u></u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 705
Accrued sick leave	<u>44,727</u>
Total liabilities	<u>45,432</u>
NET POSITION	
Invested in capital assets, net of related debt	1,358,388
Nonspendable fund balance - inventories	292,243
Unrestricted	<u>443,278</u>
Total net position	<u><u>\$ 2,093,909</u></u>

See accompanying notes.

Kenton County School District
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund
Year Ended June 30, 2013

	<u>Food Service</u>
Operating revenues	
Lunchroom sales	\$ 2,291,212
Other operating revenues	<u>13,000</u>
Total operating revenues	<u>2,304,212</u>
Operating expenses	
Salaries and wages	3,195,997
Materials and supplies	3,389,372
Depreciation	<u>184,765</u>
Total operating expenses	<u>6,770,134</u>
Operating loss	(4,465,922)
Non-operating revenues (expenses)	
Federal grants	2,729,275
Donated commodities	401,892
On-behalf revenues	361,863
State grants	71,190
Investment income	497
Loss on disposal of fixed assets	<u>(27,253)</u>
Total non-operating revenues	<u>3,537,464</u>
Net loss	(928,458)
Net position beginning of year	<u>3,022,367</u>
Net position, end of year	<u><u>\$ 2,093,909</u></u>

See accompanying notes.

**Kenton County School District
Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2013**

Cash Flows from Operating Activities

Cash Received From:	
Lunchroom Sales	\$ 2,291,212
Other Activities	13,000
Cash Paid To/For:	
Employees	(3,151,270)
Supplies	<u>(3,731,340)</u>
Net cash used by operating activities	(4,578,398)

Cash Flows from Capital and Related Financing Activities

Purchases of capital assets	(428,875)
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Cash Flows from Investing Activities

Investment income	497
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Cash Flows from Noncapital Financing Activities

Cash received from non-operating revenues	<u>3,579,900</u>
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Net decrease in Cash and Cash Equivalents	(1,426,876)
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Balances - beginning of year	<u>1,638,590</u>
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Balances - end of year	<u><u>\$ 211,714</u></u>
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Reconciliation of Operating Loss to Net Cash Provided

by Operating Activities	
Operating Loss	\$ (4,465,922)

Adjustments to Reconcile Operating Income to Net Cash Used

by Operating Activities:	
Depreciation	184,765
Change in Assets and Liabilities:	
Inventory	(285,068)
Accounts payable	(56,900)
Accrued sick leave	<u>44,727</u>

Net Cash Used by Operating Activities	<u><u>\$ (4,578,398)</u></u>
----------------------------------------------	------------------------------

SCHEDULE OF NON-CASH TRANSACTIONS

Donated commodities received from federal government	<u><u>\$ 401,892</u></u>
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On-behalf payments	<u><u>\$ 361,863</u></u>
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See accompanying notes.

**Kenton County School District
Statement of Fiduciary Net Position
June 30, 2013**

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 1,824,264
Accounts receivable	<u>9,961</u>
Total assets	<u><u>\$ 1,834,225</u></u>
Liabilities	
Accounts payable	\$ 54,645
Due to student groups	<u>1,779,580</u>
Total liabilities	<u><u>\$ 1,834,225</u></u>

See accompanying notes.

Kenton County School District
Notes to Financial Statements
June 30, 2013

Note A – Nature of Organization and Operations

The Kenton County Board of Education (the “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 Kenton County School District (the “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 and account groups relevant to the operation of the Kenton 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 Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Kenton County School District Finance Corporation - The Board authorized the establishment of the Kenton County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Kenton County Board of Education also comprise the Corporation's Board of Directors.

Note B – Summary of Significant Accounting Policies

A. Basis of Accounting: The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for government accounting and financial reporting.

B. Basis of Presentation:

District-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.

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note B – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

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

The district-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 for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

The District has the following funds:

1. Governmental Fund Types

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project period as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. This is a major fund of the District

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note B – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

1. Governmental Fund Types (cont'd)

- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan. This is a major fund of the District.
 2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

2. Proprietary Funds Types (Enterprise 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). The Food Service fund is a major fund of the District.

3. Fiduciary Fund Type (Agency Funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

Basis of Accounting and Financial Statement Presentation: The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note B – Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Financial Statement Presentation (Continued)

current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Deferred Revenue: Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures: On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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.

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 into the General Fund and then transferred to the appropriate fund.

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.

Budgetary Process: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP) of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note B – Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Financial Statement Presentation (Continued)

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: Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are valued at cost which approximates market.

Investments: In accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments are reported at fair value.

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 governmental funds. These assets are reported in the governmental activities column of the district-wide 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 district-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 asset's life are not.

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

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

Accumulated Unpaid Sick Leave Benefits: Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of 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 District's experience of making termination payments. The entire compensated absence liability is reported on the district wide financial statements.

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note B – Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Financial Statement Presentation (Continued)

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.

Accrued liabilities and Long-Term Obligations: All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

Fund Balance Reserves: The District follows GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions which defines fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance: Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance: Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance: Amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance: Amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance - Amounts that are available for purpose; positive amounts are reported only in the General fund.

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note B – Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Financial Statement Presentation (Continued)

Fund Balance Reserves (Continued)

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Position

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

Operating Revenues and Expenses

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

Interfund Activity

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

Note C - Estimates

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

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note D – Cash and Cash Equivalents

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's bank balances are covered by Federal Depository Insurance up to \$250,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with an original maturity of 90 days or less.

Cash and cash equivalents at June 30, 2013 consisted of the following:

	Bank Balance	Book Balance
First Financial Bank	\$29,603,658	\$25,155,907
US Bank	75,000	75,000
Kentucky Bank	779	764

Breakdown per financial statements is as follows:

Governmental funds	\$23,195,693
Proprietary funds	211,714
Fiduciary funds	1,824,264
	<u>\$25,231,671</u>

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note E - Capital Assets

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

<u>Governmental Activities</u>	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Cost				
Land	\$ 6,359,319	\$ -	\$ -	\$ 6,359,319
Land improvements	3,410,127	146,508	-	3,556,635
Buildings	253,767,618	442,724	-	254,210,342
Technology	7,943,586	2,058,269	669,095	9,332,760
Vehicles	11,287,426	525,713	333,609	11,479,530
General equipment	2,160,426	151,283	216,254	2,095,455
Construction in progress	111,339	1,404,500	-	1,515,839
Totals at historical cost	<u>\$ 285,039,841</u>	<u>\$ 4,728,997</u>	<u>\$ 1,218,958</u>	<u>\$ 288,549,880</u>
	Balance June 30, 2012	Depreciation	Disposals	Balance June 30, 2013
Accumulated Depreciation				
Land improvements	\$ 2,268,139	\$ 67,778	\$ -	\$ 2,335,917
Buildings and improvements	62,830,424	6,073,018	-	68,903,442
Technology equipment	5,543,713	991,271	592,650	5,942,334
Vehicles	7,039,090	857,106	323,358	7,572,838
General equipment	1,509,313	128,482	153,524	1,484,271
Total accumulated depreciation	<u>\$ 79,190,679</u>	<u>\$ 8,117,655</u>	<u>\$ 1,069,532</u>	<u>\$ 86,238,802</u>
<u>Governmental Activities</u>				
Depreciable capital assets	199,489,843			195,951,759
Non-depreciable capital assets	6,359,319			6,359,319
Capital assets, net	<u>\$ 205,849,162</u>			<u>\$ 202,311,078</u>
	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
<u>Business-Type Activities</u>				
Cost				
Food service equipment	\$ 3,340,465	\$ 403,155	\$ 217,003	\$ 3,526,617
Vehicles	51,668	22,820	-	74,488
Technology equipment	-	3,900	-	3,900
Totals at historical cost	<u>\$ 3,392,133</u>	<u>\$ 429,875</u>	<u>\$ 217,003</u>	<u>\$ 3,605,005</u>
	Balance June 30, 2012	Depreciation	Disposals	Balance June 30, 2013
Accumulated Depreciation				
Food service equipment	\$ 2,198,934	\$ 180,616	\$ 188,750	\$ 2,190,800
Vehicles	51,668	3,423	-	55,091
Technology equipment	-	726	-	726
Total accumulated depreciation	<u>\$ 2,250,602</u>	<u>\$ 184,765</u>	<u>\$ 188,750</u>	<u>\$ 2,246,617</u>
<u>Business-Type Activities</u>				
Capital assets, net	<u>\$ 1,141,531</u>			<u>\$ 1,358,388</u>

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note E - Capital Assets (Continued)

Depreciation expense for the year ended June 30, 2013 for governmental activities by function is summarized below:

Instructional	\$ 3,492,758
Instruction student support	11,931
District administration	9,614
School administration	9,195
Business support services	6,182
Plant operations and maintenance	3,782,841
Student transportation	<u>805,134</u>
 Total	 <u>\$ 8,117,655</u>

Note F - Bonded Debt

The original amount of each issue, the issue date, and interest rates are summarized below:

Issue	Purpose of Issue	Original Issue	Interest Rate	Final Maturity	Amount Outstanding
2005 Revenue Bonds	Twenhofel Middle and Cawood Elementary Schools	\$ 3,500,000	2.07-4.50%	7/1/2015	\$ 1,610,000
2005 Refinance Bonds	Refinance 1997 bond obligations	18,290,000	3.00-4.00%	3/1/2017	8,590,000
2006A Revenue Bonds	Additions to Summit View and Ryland Heights Elementary Schools	3,560,000	3.20-4.25	2/1/2026	2,675,000
2006B Revenue Bonds	Improvements at Dixie High School	8,625,000	4.0-4.375%	4/1/2026	6,635,000
2006C Revenue Bonds	Improvements at Dixie High School	8,220,000	3.625-4.250%	10/1/2026	7,185,000
2009 Revenue Bonds	New middle school	29,400,000	3.0-4.625%	2/1/2029	27,195,000
2009B Revenue Bonds	Refinance 1999 bond obligations	3,635,000	2.0-3.5%	2/1/2019	2,540,000
2009C Revenue Bonds	Refinance 2000 bond obligations	6,355,000	1.2-3.6%	8/1/2020	5,310,000
2009D Revenue Bonds	Improvements at Scott High School and Kenton High School	10,100,000	1.4-5.85%	9/1/2029	9,285,000
2010 Refinancing Bonds	Refinance 2002 bond obligations	19,855,000	0.5-2.5%	4/1/2022	17,265,000
2011 Revenue Bonds	Improvements at Scott High School	9,105,000	2.5-4.5%	5/1/2031	8,710,000
2012R Revenue Bonds	Refinance 2004 bond obligations	43,530,000	2.5%-6.5%	6/1/2024	39,840,000
2013R Revenue Bonds	Refinance 2005 bond obligations	30,545,000	2.0-3.0%	2/1/2025	30,545,000
2013 Revenue Bonds	Scott High School Renovations	12,005,000	2.0-3.125%	5/1/2033	12,005,000
2008 Conservation Bonds	Energy Conservation Improvements	3,880,000	2.5-4.25%	10/1/2025	<u>3,140,000</u>
Bonds payable, net					<u>\$ 182,530,000</u>

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note F - Bonded Debt (Continued)

Bonds payable activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due in One Year
2005 Revenue Bonds	\$ 30,665,000	\$ -	\$ (29,055,000)	\$ 1,610,000	\$ 790,000
2005R Refinance Bonds	10,530,000	-	(1,940,000)	8,590,000	2,020,000
2006A Revenue Bonds	2,815,000	-	(140,000)	2,675,000	140,000
2006B Revenue Bonds	6,950,000	-	(315,000)	6,635,000	325,000
2006C Revenue Bonds	7,375,000	-	(190,000)	7,185,000	200,000
2009 Revenue Bonds	27,770,000	-	(575,000)	27,195,000	590,000
2009B Revenue Bonds	2,875,000	-	(335,000)	2,540,000	350,000
2009C Revenue Bonds	5,830,000	-	(520,000)	5,310,000	555,000
2009D Revenue Bonds	9,560,000	-	(275,000)	9,285,000	280,000
2010R Revenue Bonds	19,035,000	-	(1,770,000)	17,265,000	1,790,000
2011 Revenue Bonds	8,905,000	-	(195,000)	8,710,000	195,000
2012R Revenue Bonds	42,245,000	-	(2,405,000)	39,840,000	2,445,000
2013R Revenue Bonds	-	30,545,000	-	30,545,000	330,000
2013 Revenue Bonds	-	12,005,000	-	12,005,000	400,000
2008 Energy Bonds	3,295,000	-	(155,000)	3,140,000	160,000
	<u>\$ 177,850,000</u>	<u>\$42,550,000</u>	<u>\$ (37,870,000)</u>	<u>\$ 182,530,000</u>	<u>\$ 10,570,000</u>

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kenton County Fiscal Court and the Kenton County School District Finance Corporation to construct school facilities.

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Note P sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. As of June 30, 2013 the total bond principal and interest due was \$182,530,000 and \$57,113,704, respectively. Assuming no bonds are called prior to scheduled 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:

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note F - Bonded Debt (Continued)

	Kenton County Board of Education		Kentucky School Facility Construction Commission		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2014	\$ 9,260,544	\$ 6,551,141	\$ 1,309,456	\$ 522,287	\$ 10,570,000	\$ 7,073,428
2015	9,436,380	6,371,965	1,338,620	486,679	10,775,000	6,858,644
2016	9,716,942	4,879,899	1,378,058	448,954	11,095,000	5,328,853
2017	9,987,494	4,597,416	1,417,506	410,158	11,405,000	5,007,574
2018	10,287,380	4,299,277	1,457,620	369,640	11,745,000	4,668,917
2019-2023	55,653,884	17,179,736	6,451,116	1,248,121	62,105,000	18,427,857
2024-2028	47,567,893	8,237,285	3,057,107	454,483	50,625,000	8,691,768
2029-2033	12,924,402	942,093	1,285,598	114,570	14,210,000	1,056,663
	<u>\$ 164,834,919</u>	<u>\$ 53,058,812</u>	<u>\$ 17,695,081</u>	<u>\$ 4,054,892</u>	<u>\$ 182,530,000</u>	<u>\$ 57,113,704</u>

Defeased Bonds

As of June 30, 2013, the outstanding principal amount of indebtedness that is considered to be extinguished under "in substance defeasance" and therefore excluded from the financial statements was approximately \$64,775,000.

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note G – Capital Lease Obligations

The Company leases several buses under long-term capital leases. Future minimum lease payments are as follows:

	<u>Amount</u>
Years Ending June 30,	
2014	\$ 289,449
2015	289,452
2016	142,254
2017	142,012
2018	142,100
2018-2019	<u>242,654</u>
	1,247,921
Less amount representing interest	<u>(123,278)</u>
Present Value of Minimum Lease Payments	<u>\$ 1,124,643</u>
Current maturities	\$ 254,168
Non-current maturities	<u>870,475</u>
	<u>\$ 1,124,643</u>
Leased property under capital leases at June 30, 2013 includes:	
Equipment	\$ 10,627,464
Less accumulated depreciation	<u>(7,258,748)</u>
	<u>\$ 3,368,716</u>

Note H – Commitments Under Operating Leases

The District entered into a five-year operating lease for office space on July 1, 2007. The annual lease payments at inception were \$102,000. The lease was extended to July 1, 2017 per the terms in the original agreement and the annual payments were increased by 10% per year in accordance with the terms of the lease.

The District entered into a five-year operating lease for office space on June 1, 2011. The annual lease payments at inception were \$102,996. The lease contains an open-ended option to renew.

**Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013**

Note H – Commitments Under Operating Leases (Continued)

Minimum future lease payments as of June 30, 2013, are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2014	\$ 289,449
2015	289,452
2016	142,253
2017	142,012
2018	142,100
Thereafter	121,304
	<u>\$ 1,126,570</u>

Note I - On-Behalf Payments

For the year ended June 30, 2013 total payments of \$20,225,935 made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities. In addition, for the year ended, June 30, 2013, total payments of \$361,863 made for the proprietary fund for food service were made by the Commonwealth of Kentucky on behalf of the district.

Note J – Retirement Plans

Kentucky Teachers Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), a cost sharing, multiple-employer retirement system created by and maintained by Kentucky legislature. KTRS provides retirement, death and disability benefits to Plan members.

Plan members are required to contribute 10.355% of their annual creditable compensation. Members hired on or after July 1, 2008 are required to contribute 10.855% of their salaries to KTRS. Matching contributions are made by the state at a rate of 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008 in the form of on behalf payments. The District is required to remit matching contributions on those school district employees whose salaries are paid by federally programs. This federal matching rate is 13.605% for members hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. The contribution requirement for KTRS for the year ended June 30, 2013, was \$7,371,645, which consisted of \$959,143 from the District and \$6,412,502 from the employees. Total contributions for the year ended June 30, 2012 and 2011 were \$7,044,105 and 6,466,502, respectively. The contributions have been contributed in full for fiscal years 2013, 2012 and 2011.

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note J – Retirement Plans (Continued)

County Employees Retirement System

Classified employees who work an average of 80 hours per month over the actual days worked during the school year participate in the County Employees Retirement System (CERS). This is a cost sharing, multiple-employer, public employers retirement plan created and maintained by Kentucky legislature and provides retirement, death and disability benefits to Plan members.

Participating employees contribute 5% of creditable compensation. Participants hired after August 31, 2008 are required to contribute 6%. Matching contributions are made by the state at a rate as required by the Board of Trustees to be necessary for the actuarial soundness per Kentucky Revised Statute 61.565. The contribution requirement for CERS for the year ended June 30, 2013, was \$4,321,703, which consisted of \$3,410,102 from the District and \$911,601 from the employees. Total contributions for the year ended June 30, 2012 and 2011 were \$3,241,315 and \$3,806,053, respectively. The contributions have been contributed in full for fiscal years 2013, 2012 and 2011.

The District's total payroll for the year was \$83,350,190. The payroll for employees covered under KTRS was \$61,869,289 and for CERS was \$21,480,901.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers. KTRS and CERS both issue a publicly available financial report that includes all financial statements and required supplementary information. The reports can be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 and the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601

Note K – Contingencies

Grant Fund Approval

The District receives funding from federal, state, and local government 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 unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note K – Contingencies (continued)

Kentucky School Board Insurance Trust

On January 14, 2013, the Kentucky School Board Insurance Trust (KSBIT), of which Kenton County Board of Education was a policy holder, notified the District of significant deficits in their Workers' Compensation and Property & Liability Self-Insurance Pools. KSBIT has estimated the total combined fund deficit to be between \$50,000,000 - \$60,000,000. KSBIT's Board of Trustees announced plans to collect the deficit by assessing each of the participating school districts. At this time the financial impact to Kenton County Board of Education cannot be determined.

Note L – Insurance and Related Activities

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

Note M – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

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

Note N – Deficit Operating/Fund Balances

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance: General, Special Revenue, Construction and Debt Service.

Note O - COBRA

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

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note P – Transfer of Funds

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special revenue	KETS General Fund Match	\$210,301
Operating	General	Debt service	Debt service	284,972
Operating	Capital Outlay	General	Capital Funds Transfer	1,073,390
Operating	Capital Outlay	Debt service	Debt service	247,381
Operating	Building	Debt service	Debt service	13,665,522

Note Q - Subsequent Events

Subsequent events have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

Note R – Implementation of GASB 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance relative to deferred outflows of resources, a consumption of net assets by the entity that is applicable to a future reporting period, and deferred inflows of resources, an acquisition of net assets by the entity that is applicable to a future reporting period. GASB Statement No. 63 incorporates deferred outflows and inflows of resources into the definitions of the required components of the residual measure, renaming such measure as net position, rather than net assets. The provisions of GASB Statement No. 63 are effective for fiscal periods beginning after December 15, 2011 (the fiscal year ended June 30, 2013 for the District). The District adopted GASB 63 for the year ended June 30, 2013, the adoption of this standard did not have an impact on the District's financial position, results of operations, and/or cash flows.

Note S – Recent Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

Kenton County School District
Notes to Financial Statements (Continued)
June 30, 2013

Note S – Recent Pronouncements (continued)

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Kenton County Board of Education has not yet determined the impact on the Board's financial position, results of operations and/or cash flows during the year of implementation.

SUPPLEMENTARY INFORMATION

Kenton County School District
Combining Statement of Assets, Liabilities and Due To/From Student Groups – Activity Funds
June 30, 2013

	Dixie Heights High School	Scott High School	Simon Kenton High School	Kenton County Acadamies of Innovation and Technology	Turkey Foot Middle School	Twenhofel Middle School	Woodland Middle School
Assets							
Cash	\$ 334,396	\$ 229,866	\$ 410,177	\$ 67	\$ 51,809	\$ 97,573	\$ 60,077
Accounts receivable	-	-	685	-	-	9,276	-
Total assets	<u>\$ 334,396</u>	<u>\$ 229,866</u>	<u>\$ 410,862</u>	<u>\$ 67</u>	<u>\$ 51,809</u>	<u>\$ 106,849</u>	<u>\$ 60,077</u>
Liabilities							
Accounts payable	\$ 16,155	\$ 8,489	\$ 4,731	\$ -	\$ -	\$ 9,421	\$ -
Due to/from other student groups	318,241	221,377	406,131	67	51,809	97,428	60,077
Total liabilities and due to/from other student groups	<u>\$ 334,396</u>	<u>\$ 229,866</u>	<u>\$ 410,862</u>	<u>\$ 67</u>	<u>\$ 51,809</u>	<u>\$ 106,849</u>	<u>\$ 60,077</u>

See Independent Auditor's Report

**Kenton County School District
Combining Statement of Assets, Liabilities and Due To/From Student Groups – Activity Funds (Continued)
June 30, 2013**

	Summit View Middle School	Northern Kentucky Development Center	Beechgrove Elementary	J.A. Caywood Elementary	Fort Wright Elementary	Kenton Elementary	Piner Elementary
Assets							
Cash	\$ 49,285	\$ 764	\$ 76,233	\$ 51,435	\$ 28,123	\$ 43,390	\$ 85,243
Accounts receivable	-	-	-	-	-	-	-
Total assets	<u>\$ 49,285</u>	<u>\$ 764</u>	<u>\$ 76,233</u>	<u>\$ 51,435</u>	<u>\$ 28,123</u>	<u>\$ 43,390</u>	<u>\$ 85,243</u>
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 12,423	\$ -	\$ -
Due to/from other student groups	49,285	764	76,233	51,435	15,700	43,390	85,243
Total liabilities and due to/from other student groups	<u>\$ 49,285</u>	<u>\$ 764</u>	<u>\$ 76,233</u>	<u>\$ 51,435</u>	<u>\$ 28,123</u>	<u>\$ 43,390</u>	<u>\$ 85,243</u>

See Independent Auditor's Report

**Kenton County School District
Combining Statement of Assets, Liabilities and Due To/From Student Groups – Activity Funds (Continued)
June 30, 2013**

	R.C. Hinsdale Elementary	River Ridge Elementary	Ryland Heights Elementary	Summit View Elementary	Taylor Mill Elementary	White's Tower Elementary	Totals
Assets							
Cash	\$ 61,103	\$ 26,621	\$ 22,887	\$ 60,633	\$ 93,690	\$ 40,892	\$ 1,824,264
Accounts receivable	-	-	-	-	-	-	9,961
Total assets	<u>\$ 61,103</u>	<u>\$ 26,621</u>	<u>\$ 22,887</u>	<u>\$ 60,633</u>	<u>\$ 93,690</u>	<u>\$ 40,892</u>	<u>\$ 1,834,225</u>
Liabilities							
Accounts payable	\$ 2,866	\$ 560	\$ -	\$ -	\$ -	\$ -	\$ 54,645
Due to/from other student groups	58,237	26,061	22,887	60,633	93,690	40,892	1,779,580
Total liabilities and due to/from other student groups	<u>\$ 61,103</u>	<u>\$ 26,621</u>	<u>\$ 22,887</u>	<u>\$ 60,633</u>	<u>\$ 93,690</u>	<u>\$ 40,892</u>	<u>\$ 1,834,225</u>

See Independent Auditor's Report

**Kenton County School District
Combining Statement of Revenues, Expenses and Changes in Due to/from Student Groups – Activity Funds
June 30, 2013**

	Dixie Heights High School	Scott High School	Simon Kenton High School	Kenton County Academies of Innovation and Technology	Turkey Foot Middle School	Twenhofel Middle School	Woodland Middle School
Revenues from student activities	\$ 712,886	\$ 382,800	\$ 783,017	\$ 67	\$ 239,246	\$ 307,640	\$ 181,783
Non-instructional expenses	697,621	391,502	804,697	-	221,549	323,274	174,739
Excess (deficit) of revenue over expenditures	15,265	(8,702)	(21,680)	67	17,697	(15,634)	7,044
Due to/from other student groups, June 30, 2012	302,976	230,079	427,811	-	34,112	113,062	53,033
Due to/from other student groups, June 30, 2013	\$ 318,241	\$ 221,377	\$ 406,131	\$ 67	\$ 51,809	\$ 97,428	\$ 60,077

**Kenton County School District
Combining Statement of Revenues, Expenditures and Changes in Due to/from Other Student Groups – Activity Funds (Combining)
June 30, 2013**

	Summit View Middle School	Northern Kentucky Development Center	Beechgrove Elementary	J.A. Caywood Elementary	Fort Wright Elementary	Kenton Elementary	Piner Elementary
Revenues from student activities	\$ 248,391	\$ -	\$ 125,556	\$ 92,748	\$ 90,762	\$ 112,333	\$ 86,064
Non-instructional expenses	260,081	15	115,764	84,839	120,956	102,705	83,511
Excess (deficit) of revenue over expenditures	(11,690)	(15)	9,792	7,909	(30,194)	9,628	2,553
Due to/from other student groups, June 30, 2012	60,975	779	66,441	43,526	45,894	33,762	82,690
Due to/from other student groups, June 30, 2013	\$ 49,285	\$ 764	\$ 76,233	\$ 51,435	\$ 15,700	\$ 43,390	\$ 85,243

See Independent Auditor's Report

**Kenton County School District
Combining Statement of Revenues, Expenditures and Changes in Due to/from Other Student Groups – Activity Funds (Combining)
June 30, 2013**

	R.C. Hinsdale Elementary	River Ridge Elementary	Ryland Heights Elementary	Summit View Elementary	Taylor Mill Elementary	White's Tower Elementary	Totals
Revenues from student activities	\$ 144,630	\$ 222,629	\$ 117,521	\$ 120,547	\$ 96,192	\$ 90,205	\$ 4,155,017
Non-instructional expenses	125,639	219,270	116,229	112,017	88,195	57,581	4,100,184
Excess (deficit) of revenue over expenditures	18,991	3,359	1,292	8,530	7,997	32,624	54,833
Due to/from other student groups, June 30, 2012	39,246	22,702	21,595	52,103	85,693	8,268	1,724,747
Due to/from other student groups, June 30, 2013	\$ 58,237	\$ 26,061	\$ 22,887	\$ 60,633	\$ 93,690	\$ 40,892	\$ 1,779,580

See Independent Auditor's Report

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due to/From
Other Student Groups – Dixie Heights High School
Year Ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Transfers, Net	Due To/From Student Group June 30, 2013
11-12 General fees collected	\$ 13,975	\$ -	\$ -	\$ (13,975)	\$ -
11-12 Fees received KCBOE	-	300	334	10,792	10,758
10-11 Fees collected	-	-	74	84,722	84,648
12-13 KCBOE Fees received	-	137,622	50,939	(83,786)	2,897
2012 Kaea-all state	-	-	(75)	-	75
2012 Math fair	-	-	(25)	-	25
2012 Fast pitch fun	-	-	(954)	(954)	-
2012 G Basketball fund	-	-	(300)	-	300
2012 Little Colonel	-	-	(100)	-	100
2012 G Track expense	-	-	(75)	-	75
2012 Field trip balance	-	-	224	278	54
9th Region baseball tourney	473	17,984	13,852	(472)	4,133
9th Region tournament - FPSB	-	-	150	150	-
34 D Tourn - FPSB	-	998	923	-	75
Academic dept	-	-	656	656	-
Academic team	-	167	279	112	-
ACT testing	462	2,267	5,625	5,499	2,603
Advanced placement	34,481	44,168	30,221	-	48,428
Africa fund/internet fund	66	-	-	-	66
Art	1,418	5,000	6,801	2,629	2,246
Art Club	194	916	1,000	15	125
Art/Best Buy grant	78	-	-	(78)	-
Art KAEA All State competition	-	2,804	2,953	149	-
Aquarium - Wadsworth	-	605	598	-	7
Athletics general	2,346	89,610	51,431	(38,796)	1,729
B Tennis Expenses	-	-	586	486	(100)
B/G track home meets	482	-	-	(482)	-
Baldwin - fire museum	-	349	132	-	217
Band	5,332	10,300	12,683	-	2,949
Baseball	-	80	4,492	4,412	-
Baseball 34 Dist Tourney	142	-	-	-	142
BETA club	504	2,508	929	(1,570)	513
Birkenhauer gateway	-	60	60	-	-
Borrow from account	-	63,687	68,093	4,406	-
Bowling club	-	-	1,915	1,915	-
Boys' basketball district tournament	1	-	-	-	1
Boys' basketball expenses	-	315	5,222	4,907	-
Boys' basketball fundraiser	3,126	12,733	39,878	24,595	576
Boys' golf	-	-	2,684	2,684	-
Boys' golf fundraiser	1,440	500	837	(75)	1,028
Boys' track	-	-	4,982	4,982	-
Boys track fundraising	-	-	122	122	-
Boys' soccer	-	-	4,219	4,219	-
Boys' soccer fundraising	-	185	140	(45)	-
Broadway Nights	99	-	-	-	99
Business education	-	-	743	743	-

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due to/From
Other Student Groups – Dixie Heights High School
Year Ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Transfers, Net	Due To/From Student Group June 30, 2013
CBI - Community based education	-	1,025	2,036	2,407	1,396
Celebrating differences	27	-	-	(27)	-
Cheerleaders - varsity	3,427	-	-	(3,427)	-
Cheerleading expenses	-	-	894	894	-
Cheerleading fundraising	-	8,932	8,494	3,352	3,790
Choir	502	11,672	12,759	1,913	1,328
Chorus	323	-	109	-	214
Choir-Music festival trip	-	3,183	2,576	(607)	-
Clark	-	660	660	-	-
Colonels for Christ	17	-	-	(17)	-
Conference registrations	-	-	3,702	3,702	-
Consumer economics	-	1	1,273	1,272	-
Cross country	-	-	2,830	2,830	-
Dance team	655	1,593	1,688	-	560
Dances	13,708	21,709	19,108	-	16,309
Dixie design class	60	-	-	-	60
Dixie Pit	-	14,119	13,793	-	326
Drama	3,072	10,186	7,985	(119)	5,154
Drug Free Club	203	300	325	45	223
Energy Wise Team	652	-	-	(652)	-
English Department	-	-	2,725	2,725	-
Environmental club	390	34	-	-	424
F.B.L.A.	1,272	1,138	1,968	-	442
F.E.A.	162	47	22	-	187
Facility rental	930	-	-	(930)	-
Facility custodial	-	-	56	930	874
Faculty	1,875	2,325	2,637	259	1,822
Faculty events	-	76	18	(58)	-
Fast pitch fundraiser	1,688	5,996	9,180	879	(617)
Fast pitch team exp	-	-	5,900	5,900	-
Field trip - Crotts	-	648	752	104	-
Field trip fees collected	278	-	-	(278)	-
Flower fund	-	40	40	-	-
Football	-	700	9,617	8,917	-
Football fundraisers	2,612	1,006	1,667	(174)	1,777
Freshman academy trips	-	100	174	100	26
Fuel up to play 60 grant	225	-	153	-	72
G Soccer Fundraiser	7,727	-	-	(7,727)	-
G Tennis Expenses	-	-	1,364	1,364	-
Girls tennis fundraising	-	1,105	1,030	(75)	-
G Track Expenses	-	333	5,804	5,471	-
General	834	2,149	2,877	2,874	2,980
German NHS	180	220	80	-	320
GBK Colonel Classic	-	2,128	2,225	97	-
Girls' basketball expenses	-	925	5,032	4,107	-
Girls' basketball fundraiser	9,985	12,359	16,300	326	6,370
Girl's golf expenses	-	-	2,174	2,174	-

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due to/From
Other Student Groups – Dixie Heights High School
Year Ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Transfers, Net	Due To/From Student Group June 30, 2013
Girl's soccer	-	257	4,519	4,262	-
Girls soccer fundraising	-	4,292	5,189	7,652	6,755
Graduation expenses	88	464	5,935	5,530	147
Guidance dept	2,676	1,077	2,076	-	1,677
Ham radio technology	100	210	210	179	279
Health dept	-	-	508	508	-
Honors night expenses	433	-	72	100	461
Horticulture grant	425	169	410	-	184
IMPACT	3,370	686	226	-	3,830
Intramural Soccer	-	1,007	948	-	59
Intramural Volleyball	-	360	-	(360)	-
Janie fund	-	500	35	-	465
Lacrosse expenses	277	-	1,642	1,365	-
Lacrosse fundraiser	2,192	1,836	3,634	500	894
Library fines	1,155	876	1,465	1	567
Little Colonel League	-	42,075	30,317	(11,758)	-
Locks	1,222	-	-	(1,222)	-
Marketing class	638	-	-	-	638
Marketing/advertising	3,691	-	-	-	3,691
Math dept	-	18	7,846	7,828	-
May term class fees	2,000	-	-	-	2,000
Membership fees paid	-	-	(340)	-	340
Membership fees	-	-	3,562	3,562	-
Mock trial team	-	1,137	1,095	27	69
National art honor society	15	-	-	(15)	-
National Honor Society	4,766	3,360	2,545	-	5,581
Nurse/Medical treatments	205	250	-	-	455
Odyssey of the mind	467	9,139	9,574	500	532
Parking stickers	7,146	5,305	456	-	11,995
Participation fees	16,679	15,388	150	(31,236)	681
Physical fitness dept	-	-	4,677	4,677	-
Project prom	1,497	1,093	4,486	4,250	2,354
Project transition	3,121	-	1,567	(411)	1,143
Retirement Party	-	435	160	-	275
Science	-	-	5,502	5,502	-
Scott scholarship	-	11,569	11,569	-	-
Senior class	-	8,205	7,904	179	480
Senior spirit fest	209	180	2,547	2,158	-
Senior project/Movie Production	16	-	-	(16)	-
Senior project/Sunrise Ranch	-	1,166	874	(292)	-
Senior project/For the Heros	-	86	70	-	16
Senior project/Leadership	-	-	41	41	-
Senior project/Diabetes Aware	-	243	154	(89)	-
Senior project/Ronald McDonald	-	390	390	-	-
Site Based	150	-	500	350	-
Soccer district tournament	-	2,566	2,016	(550)	-
Social Norms Project	-	284	188	-	96

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due to/From
Other Student Groups – Dixie Heights High School
Year Ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Transfers, Net	Due To/From Student Group June 30, 2013
Social studies department	-	-	541	541	-
Spanish NHS	-	380	318	-	62
State testing expense	-	-	3,000	3,000	-
Structured teaching unit	-	-	90	90	-
Student council	14,242	14,944	7,980	(546)	20,660
Student enrichment	6,072	8,317	10,938	(505)	2,946
Student needs	1,737	-	475	(1,262)	-
Students Taking Charge	300	-	-	-	300
Summer basketball camp	16,108	46,491	36,149	(14,122)	12,328
Summer school	911	6,900	4,696	-	3,115
Swim and dive expense	-	-	3,903	3,903	-
Ready set teach	-	353	353	-	-
Technology expenses	-	10,553	29,175	26,207	7,585
Textbook	84,722	-	-	(84,722)	-
TLC - YSC	-	4,345	2,996	-	1,349
Track boy's t-shirts	122	-	-	(122)	-
Track maintenance	500	250	-	-	750
Track meet entry fees	320	-	-	(320)	-
Track meet gate/entrance	-	3,382	877	(1,181)	1,324
Transportation	806	-	-	-	806
Turkey dinner/A.T.	747	-	-	(747)	-
Volleyball Expenses	-	-	3,454	3,454	-
Volleyball fundraising	-	705	500	285	490
Weight room	200	-	74	-	126
World language dept	-	-	160	160	-
Wrestling	-	150	3,197	3,047	-
Yearbook	7,370	3,096	598	-	9,868
YSC - days of play	-	250	242	-	8
Youth Service Center	858	280	911	2,827	3,054
Subtotal	\$ 302,976	\$ 712,886	\$ 697,621	\$ -	\$ 318,241

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due to/From
Other Student Groups – Simon Kenton High School
Year Ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Transfers, Net	Due To/From Student Group June 30, 2013
Academic team	\$ 617	\$ 630	\$ 992	\$ -	\$ 255
Agriculture	4,218	1,538	6,013	2,490	2,233
AP Testing Fund	22,693	27,671	22,373	76	28,067
Art department	1,542	350	3,465	3,000	1,427
Athletic	22,535	128,989	140,132	12,158	23,550
Band	4,094	15,946	20,326	2,500	2,214
Bookstore	4,426	6,590	6,335	183	4,864
Business department	559	946	4,889	3,600	216
Chorus	462	9,386	7,485	2,500	4,863
Class of 2016	-	543	434	950	1,059
Class of 2015	1,071	2,752	1,296	(950)	1,577
Class of 2013	2,242	42,710	42,881	(2,071)	-
Class of 2014	2,350	12	153	-	2,209
Community based class	11,998	96	6,885	-	5,209
Counseling	1,349	2,533	2,002	-	1,880
Dance Team	524	2,136	2,566	-	94
Drama	1,758	5,586	4,586	2,575	5,333
Energy Wise	1,688	53	-	958	2,699
English	2,530	682	376	1,500	4,336
Entrepreneurship	602	4,567	3,901	(625)	643
Facility usage	6,144	-	-	(6,144)	-
Farmers market	265	300	40	-	525
FBLA	584	649	602	-	631
FCA	27	-	-	(27)	-
Fine arts support fund	4,950	9,594	1,372	(76)	13,096
Fire fund	27,000	-	-	-	27,000
French club	3	-	-	66	69
Freshman orientation	2,473	4,214	5,195	-	1,492
Future Educators	809	-	-	(809)	-
Future Farmers of America	5,172	8,655	8,273	(546)	5,008
General	1,257	62,623	61,310	(19)	2,551
Greendot	21	258	224	-	55
Greenhouse	11,015	264	2,881	523	8,921
Janie fund	-	620	834	625	411
Library	2,450	376	768	-	2,058
Math	-	-	410	410	-
National Honor Society	2,075	2,287	1,896	-	2,466
Pioneer Pride	2,149	2,110	2,950	(225)	1,084
Pioneer publishing	1,336	5	120	735	1,956
Project need	958	-	-	(958)	-
Robert Roden Scholarship	1,300	100	500	-	900

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due to/From
Other Student Groups – Simon Kenton High School
Year Ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Transfers, Net	Due To/From Student Group June 30, 2013
Scholarship	13,927	1,036	2,500	-	12,463
Scott Scholarship	31,239	11,569	10,742	-	32,066
School fees	24,066	157,711	66,230	(70,084)	45,463
Science	2,476	1,294	20,011	25,250	9,009
SBDM	263	-	524	261	-
Spanish Club	66	50	50	(66)	-
Social Studies	-	6,196	5,718	-	478
Student council	8,808	4,540	7,919	57	5,486
Student incentive	17,995	18,254	15,643	935	21,541
Summer school	9,654	13,147	13,495	-	9,306
Technology education	974	-	-	-	974
Technology maintenance	3,637	(387)	33,323	33,994	3,921
Textbook rental	111,050	3,698	73,183	-	41,565
Tornado Relief Fund	911	179	1,090	-	-
Val's VIP's	2,175	-	1,467	-	708
World Language	2,801	157	840	(25)	2,093
Yearbook	5,486	5,058	1,167	-	9,377
Youth Service Center	1,009	19,453	6,677	(66)	13,719
Baseball	728	32,062	30,408	(1,440)	942
Bowling Team	1,337	5,277	3,601	-	3,013
Basketball - Boys	5,757	54,425	55,429	(90)	4,663
Basketball - Girls	2,149	16,111	16,695	-	1,565
Cheerleading	344	1,505	-	-	1,849
Cross Country	31	-	-	(31)	-
Concession Stand	-	19,407	8,074	(11,333)	-
Football	8,954	21,758	25,864	-	4,848
Golf - Boy	404	280	426	-	258
Golf - Girls	50	450	608	108	-
Hall of Fame	9,803	13,577	8,447	-	14,933
Soccer - Boys	300	3,282	3,338	-	244
Softball	1,290	5,931	6,924	100	397
Sports Medicine	1,035	1,340	2,290	-	85
Swimming	1,314	3,676	2,110	-	2,880
Tennis - Boys	146	2,667	2,570	-	243
Tennis - Girls	75	3,196	2,714	-	557
Track - Boys	2	-	-	(2)	-
Track - Girls	309	10,347	10,155	33	534
	\$ 427,811	\$ 783,017	\$ 804,697	\$ -	\$ 406,131

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due to/From
Other Student Groups – Scott High School
Year Ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Transfer, Net	Due To/From Student Group June 30, 2013
Academic Team	\$ 25	\$ 814	\$ 534	\$ -	\$ 305
After prom	4,416	150	224	(3,416)	926
Annual	14,583	2,713	-	700	17,996
AP exams	17,200	8,318	20,366	11,364	16,516
Art	563	2,084	2,601	-	46
Athletic concession	2,013	-	-	-	2,013
Athletics	954	137,247	144,426	(486)	(6,711)
Awareness/Concession	-	40	-	-	40
Band	7,992	10,309	12,407	-	5,894
Bookstore	838	-	399	(439)	-
Business education	42	-	-	(42)	-
Class of 2012	2,895	-	2,865	(30)	-
Class of 2013	8,165	7,589	12,670	665	3,749
Class of 2014	1,120	9,828	8,932	920	2,936
Class of 2015	1,270	2,029	2,428	630	1,501
Class of 2016	-	2,007	1,097	500	1,410
Creative writing club	417	211	100	-	528
Culinary arts club	-	430	-	-	430
Drama	197	8,025	3,994	-	4,228
Environmental club	1,682	22	-	(1,705)	(1)
Family assistance	-	695	1,353	2,296	1,638
FBLA/FBLA Meijer	9	-	-	(9)	-
FCCLA	146	-	-	-	146
Fees	16,328	71,374	69,452	(9,560)	8,690
Fellowship Christian	14	-	-	-	14
Flower fund	101	155	70	-	186
Foreign language	1,020	-	330	300	990
French club	611	573	483	(300)	401
French NHS	517	409	288	-	638
Future Teachers of America	276	-	-	-	276
General	12,808	8,260	6,613	136	14,591
German	397	962	435	-	924
German NHS	375	-	50	-	325
Guidance	237	270	265	-	242
Health and physical education	2,216	609	910	735	2,650
Janie fund	283	511	339	-	455
Junior statesman	3,096	15,438	17,173	-	1,361
Key club	209	147	147	-	209
Learning links	943	155	206	-	892
Library	682	927	1,010	27	626
Lockers	3,028	-	1,300	(1,728)	-
Math	-	510	488	-	22
MOS	356	-	-	1,000	1,356

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due to/From
Other Student Groups – Scott High School
Year Ended June 30, 2013

Activity	Due To/From Student Group June 30, 2012	Receipts	Disbursements	Transfer, Net	Due To/From Student Group June 30, 2013
National art HS	546	-	185	-	361
National Honor Society	1,367	829	726	-	1,470
Parking/assessment	740	2,860	2,980	-	620
Philosophy club	7	-	-	-	7
Professional development	369	-	45	-	324
PSAT/plan	327	425	470	-	282
Right track program	2,660	-	-	(2,659)	1
Science	1,616	-	771	-	845
Science field trips	3,609	17,577	19,757	-	1,429
Scott student support	1,690	2,413	6,114	7,394	5,383
Scott swimming pool	860	-	-	-	860
Shirts for students	9,786	-	150	-	9,636
SHS scholarship fund	20,377	11,569	15,000	-	16,946
SHS teacher	2,585	-	1,356	-	1,229
Site Based	504	-	24	-	480
Social studies	1,496	-	-	-	1,496
Spanish Honor Society	637	-	255	-	382
Special Ed. FMD	1,391	921	559	-	1,753
STLP	23	1,554	1,280	-	297
Student council	3,896	9,391	7,841	(2,950)	2,496
Structured teaching	495	972	380	-	1,087
Teachers' coke	565	1,705	1,315	-	955
Teacher Support	2,745	4,517	1,555	(3,882)	1,825
Teen leadership club	623	167	120	-	670
Textbooks	61,546	32,748	13,040	539	81,793
Volleyball	-	120	120	-	-
Visual/performing arts	1,595	2,221	3,504	-	312
	\$ 230,079	\$ 382,800	\$ 391,502	\$ -	\$ 221,377

KENTON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND
Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
Revenues				
From local sources				
Property taxes	\$ 28,689,070	\$ 28,689,070	\$ 28,069,801	\$ (619,269)
Motor vehicle taxes	4,327,090	4,327,090	4,422,925	95,835
Utilities taxes	6,405,000	6,405,000	6,328,116	(76,884)
Other taxes	168,300	168,300	146,285	(22,015)
Tuition and fees	1,086,035	1,067,542	1,027,818	(39,724)
Earnings on investments	177,532	177,532	156,317	(21,215)
Other local revenues	625,032	625,032	550,938	(74,094)
State sources			-	
SEEK	43,315,324	43,315,324	43,290,386	(24,938)
On-behalf revenues	-	-	18,657,037	18,657,037
Restricted state revenues	239,521	315,251	256,184	(59,067)
Other	29,365	29,365	32,830	3,465
Federal - indirect	143,500	143,500	104,764	(38,736)
Other revenues	1,185,641	1,253,516	1,273,248	19,732
Total revenues	86,391,410	86,516,522	104,316,649	17,800,127
Expenditures				
Instruction	53,077,164	53,247,311	65,421,755	(12,174,444)
Support services:				
Student	5,610,937	5,641,937	7,168,890	(1,526,953)
Instruction staff	2,201,283	2,389,414	2,963,058	(573,644)
District administration	2,059,522	2,081,098	2,265,737	(184,639)
School administration	5,486,794	5,499,894	6,982,812	(1,482,918)
Business	1,120,523	1,120,523	1,530,629	(410,106)
Plant operation and maintenance	10,212,166	10,062,166	10,343,925	(281,759)
Student transportation	9,630,387	9,748,556	10,388,562	(640,006)
Community service activities	45,410	45,410	18,701	26,709
Debt service	-	150,000	317,543	(167,543)
Contingency	16,148,772	16,119,092	-	16,119,092
Total expenditures	105,592,958	106,105,401	107,401,612	(1,296,211)
Excess (deficit) of revenues over expenditures	(19,201,548)	(19,588,879)	(3,084,963)	16,503,916
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets	42,000	42,000	41,152	(848)
Operating transfers in	772,276	772,276	1,073,390	301,114
Operating transfers out	(206,239)	(206,239)	(495,273)	(289,034)
Total other financing (uses)	608,037	608,037	619,269	11,232
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ (18,593,511)	\$ (18,980,842)	\$ (2,465,694)	\$ 16,515,148
Fund Balance, July 1, 2012	18,593,511	18,980,842	18,980,841	
Fund Balance, June 30, 2013	\$ -	\$ -	\$ 16,515,147	

See Independent Auditor's Report

KENTON COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

SPECIAL REVENUE FUND

Year ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Other local revenues	\$ 138,054	\$ 136,785	\$ 29,569	\$ (107,216)
State sources				
Restricted state revenues	3,792,383	3,528,138	3,932,191	404,053
Federal - indirect	6,425,679	5,352,472	5,242,663	(109,809)
Total revenues	<u>10,356,116</u>	<u>9,017,395</u>	<u>9,204,423</u>	<u>187,028</u>
Expenditures				
Instruction	5,988,477	6,810,042	6,743,226	66,816
Support services:				
Student	453,339	364,507	359,818	4,689
Instruction staff	1,113,110	792,224	979,724	(187,500)
District administration	-	-	-	-
School administration	(14,083)	19,844	19,888	(44)
Plant operation and maintenance	556,741	136,785	21,211	115,574
Student transportation	1,205,787	57,628	58,704	(1,076)
Community service activities	797,427	797,307	790,103	7,204
Education specific	412,477	404,352	442,050	(37,698)
Total expenditures	<u>10,513,275</u>	<u>9,382,689</u>	<u>9,414,724</u>	<u>(32,035)</u>
Deficit of revenues over expenditures	(157,159)	(365,294)	(210,301)	154,993
Other Financing Sources (Uses)				
Operating transfers in	157,159	223,177	210,301	12,876
Total other financing sources	<u>157,159</u>	<u>223,177</u>	<u>210,301</u>	<u>12,876</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ (142,117)	\$ -	\$ 142,117
Fund Balance, July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ (142,117)</u>	<u>\$ -</u>	<u>\$ 142,117</u>

See Independent Auditor's Report

KENTON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2013

	CFDA Number	Pass-Through Number	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through Kentucky Department of Education			
Title I Cluster			
Title I C - Perkins	84.010	3100002	\$ 114,789
Title I A	84.010	0531	1,464,324
Title I Program for Neglected and Delinquent Children	84.010		<u>7,258</u>
Total Title I Cluster			<u>1,586,371</u>
Title II Improving Teacher Quality	84.367	3230002	546,456
IDEA-Basic Grants to States	84.048	4621332	2,998,210
Education Jobs Fund	84.410	EJOB00	16,675
Race to the Top	84.413	3960002	43,864
Education of Homeless Children and Youth	84.196	3990002	1,246
English Language Acquisition Grants	84.365	3300002	<u>49,838</u>
Total U.S. Department of Education			<u>5,242,660</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through State Department of Education			
Child Nutrition Cluster:			
National School Lunch Program	10.555	7750002	2,220,106
School Breakfast Program	10.553	7760005	490,693
Summer Food Service Program	10.559	7710023	<u>15,426</u>
Total Child Nutrition Cluster			<u>2,726,225</u>
Total of U.S. Department of Agriculture			<u>2,726,225</u>
Total Expenditures of Federal Awards			<u>\$ 7,968,885</u>

See Independent Auditor's Report

KENTON COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2013

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Kenton 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.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

KENTON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2013

SUMMARY OF AUDITOR’S RESULTS

1. The auditor’s report expresses an unmodified opinion on the financial statements of Kenton County School District.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Kenton County School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor’s report on compliance for the major federal award programs for Kenton County School District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

<u>CFDA Number(s)</u>	<u>Name of Federal Program Cluster</u>
84.367	Improving Teacher Quality State Grants
10.555	National School Lunch Program

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Kenton County School District did not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

No matters were reported.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

No matters were reported.

KENTON COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

Year ended June 30, 2013

In the prior year, the following two deficiencies were noted:

2012-01

Condition: Internal controls established in the District are not being followed consistently.
Criteria: Controls established by the District require proper authorization prior to disbursement of any funds for reimbursement or other expenditure.
Cause: Proper supervisory authorization for purchases and reimbursement was being obtained properly

2012-02

Condition: Internal controls established in the District are not being followed consistently.
Criteria: Controls established by the District require proper authorization prior to disbursement of any funds for reimbursement or other expenditure.
Cause: While supervisors did approve some requests, those requests made by individuals in a management position were often missing an additional supervisory signature

Through current year testing, no findings or questioned costs were noted. As such, it appears the prior year findings have been resolved.



Independent Auditors' 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*

Members of the Board of Education
Kenton County School District

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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kenton County School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

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

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

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



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Independent Auditors' 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* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Mountjoy Chilton Medley LLP".

Mountjoy Chilton Medley LLP
November 13, 2013

Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Members of the Board of Education
Kenton County School District

Report on Compliance for Each Major Federal Program

We have audited Kenton County School District’s (the “District”) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2013. The 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 the 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*. 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 the 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 the District’s compliance.

Opinion on Each Major Federal Program

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

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 (Continued)

Report on Internal Control Over Compliance

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



Lexington, Kentucky
November 13, 2013

MANAGEMENT LETTER COMMENTS

Members of the Board of Education
Kenton County School District

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kenton County School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, 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, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, during our audit we became aware of certain deficiencies and other matters that are opportunities for strengthening internal controls and operating efficiency as summarized on pages 68 through 89.

This communication is intended solely for the information and use of management the U.S. Department of Education and the Kentucky Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to serve the District and are available at your convenience to answer questions or assist in the implementation of these suggestions.



Mountjoy Chilton Medley LLP
November 13, 2013

KENTON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2013

Current Year

See comments for each school, and management's response to each to each comment in the following pages.

Status of Prior Year Recommendations

In the prior year, the following management letter comment was noted:

- | | |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Condition: | Internal controls established in the District are no being followed consistently. |
| Criteria: | Controls established by the District require proper authorization prior to disbursement of any funds for reimbursement or other expenditure. |
| Cause: | Override of controls by the principal. |

Based on testing performed in the current year, resulting in no management letter comments, at the school, it appears that the prior year comment noted above has been resolved.

**BEECHGROVE ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
June 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**CAYWOOD ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Purchase Orders

We noted instances in which the purchase order was not signed by the person who received the goods purchased and/or the person responsible for approving the purchase. According to the *"Accounting Procedures for Kentucky School Activity Funds"* the signature of the person receiving, and the person approving the goods or services must be present before the payment process can be continued.

Management Response

Bookkeeper training sessions will emphasize the signatures and authorizations required for purchases and payment of all related invoices. Individual training and subsequent reviews of purchase orders and invoices will also occur at this school.

Dual Signatures

One instance was noted where a check did not have dual signatures. According to the *"Accounting Procedures for Kentucky School Activity Funds"* all checks written on the Activity Fund shall contain the signatures of the principal or his/her designee, and the school treasurer.

Management Response

Bookkeeper training sessions will emphasize the requirement for two signatures on all checks. Individual training and subsequent reviews of cancelled checks will also occur at this school.

Receipts

We noted receipts from a fund raiser did not have a completed Fund Raiser Worksheet which is to be completed and signed by the principal. According to the *"Accounting Procedures for Kentucky School Activity Funds"* the Fund Raiser Worksheet is to be used to reconcile the number of items taken, sold, and returned with money turned in.

Management Response

Bookkeeper training sessions will emphasize the requirement that all fundraisers have an approved Fund Raiser Worksheet. Individual training and subsequent reviews of fundraising activities will also occur at this school.

Annual Report

Two activity funds had deficit balances as of June 30, 2013. According to the *"Accounting Procedures for Kentucky School Activity Funds"* no school activity fund shall end the fiscal year with a deficit balance.

Management Response

All principals and bookkeepers will be instructed to closely review the activity fund balances at the end of the year to prevent deficit activity fund balances. Monthly school activity fund balances will also be reviewed by district Finance Department personnel.

**CAYWOOD ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS (Continued)
JUNE 30, 2013**

Bank Statement

The principal does not receive the bank statement unopened and review it prior to the bookkeeper reconciling the account. According to the “*Accounting Procedures for Kentucky School Activity Funds*” the principal is to receive the bank statement unopened for review and should initial the bank statement to document his or her review.

Management Response

The mailing address with the district financial institution has been updated to add an attention line of Principal, to ensure direct delivery of the monthly bank statement to the principal. This requirement will also be included in bookkeeper and principal training sessions.

Prior Year

No exceptions reported.

**FT. WRIGHT ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**RC HINSDALE ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Purchase Orders

One purchase order was noted to not have the signature and date of the person receiving the goods. According to the "*Accounting Procedures for Kentucky School Activity Funds*" the signature of the person receiving the goods or services must be present before payment process can be continued.

Management Response

Bookkeeper training sessions will emphasize the signatures and authorizations required for purchases and payment of all related invoices. Individual training and subsequent reviews of purchase orders and invoices will occur at this school.

Bank Statement

The principal does not receive the bank statement unopened and review it prior to the bookkeeper reconciling the account. According to the "*Accounting Procedures for Kentucky School Activity Funds*" the principal is to receive the bank statement unopened for review and should initial the bank statement to document his or her review.

Management Response

The mailing address with the district financial institution has been updated to add an attention line of Principal, to ensure direct delivery of the monthly bank statement to the principal. This requirement will also be included in bookkeeper and principal training sessions.

Prior Year

No exceptions reported.

**KENTON ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Purchase Orders

All purchases should have an approved purchase order and an invoice to be processed for payment. We noted one instance in which a referee was paid for his services but the disbursement was only supported by a purchase order because a vendor invoice was unavailable. According to the *"Accounting Procedures for Kentucky School Activity Funds"* if a vendor invoice is not available, the disbursement shall be supported by a standard invoice, which must be signed by the payee.

Management Response

Bookkeeper training sessions will include the requirement of a signed standard invoice for all personal services. Subsequent review of supporting documentation for payments will occur at this school.

Prior Year

No exceptions reported.

**PINER ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**RIVER RIDGE ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**RYLAND HEIGHTS ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Bank Accounts

We noted that the school had two bank accounts during the year. According to the "*Accounting Procedures for Kentucky School Activity Funds*" each school shall have one checking account.

Management Response

The additional bank account held at the Bank of Kentucky remained open from the change of financial institution in 2010. The account has since been closed and the funds have been deposited into Ryland's account with the district approved financial institution.

Prior Year

No exceptions reported.

**SUMMIT VIEW ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Receipts

We noted several instances where the school was using a multiple receipt form that did not match the template provided by the "*Accounting Procedures for Kentucky School Activity Funds*".

Management Response

While the template for the multiple receipt form was not used, all required information was included on the substituted form. The district has reviewed this requirement with the school level bookkeepers and all schools are using forms that contain the minimum level of information required by the "*Accounting Procedures for Kentucky School Activity Funds*."

Prior Year

No exceptions reported.

**TAYLOR MILL ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**WHITES TOWER ELEMENTARY SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**SUMMIT VIEW MIDDLE SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Dual Signatures

Three instances were noted where checks did not have dual signatures. According to *the "Accounting Procedures for Kentucky School Activity Funds"* all checks written on the Activity Fund shall contain the signatures of the principal or his/her designee, and the school treasurer.

Management Response

Bookkeeper training sessions will emphasize the requirement for two signatures on all checks. Individual training and subsequent reviews of cancelled checks will occur at this school.

Prior Year

No exceptions reported.

**TURKEYFOOT MIDDLE SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**TWENHOFEL MIDDLE SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**WOODLAND MIDDLE SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

Prior year comment on disbursements have been addressed and corrected.

**DIXIE HEIGHTS HIGH SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Annual Report

Two activity funds had deficit balances as of June 30, 2013 after accounts payable were recorded. According to the "*Accounting Procedures for Kentucky School Activity Funds*" no school activity fund shall end the fiscal year with a deficit balance, including accounts receivable and payable balances.

Management Response

All principals and bookkeepers will be instructed to closely review the activity fund balances at the end of the year to prevent deficit activity fund balances. Monthly school activity fund balances will also be reviewed by the district Finance Department personnel.

Prior Year

No exceptions reported.

**SCOTT HIGH SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Annual Report

One activity fund had deficit balance as of June 30, 2013 after accounts payable were recorded. According to the "*Accounting Procedures for Kentucky School Activity Funds*" no school activity fund shall end the fiscal year with a deficit balance, including accounts receivable and payable balances.

Management Response

All principals and bookkeepers will be instructed to closely review the activity fund balances at the end of the year to prevent deficit activity fund balances. Monthly school activity fund balances will also be reviewed by the district Finance Department personnel.

Prior Year

No exceptions reported.

**SIMON KENTON HIGH SCHOOL
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

Voided Checks

We noted one check that was not properly voided. The check did not have the word "VOID" written across the face of the check, and while the signature portion was torn off, the signatures were attached to the check. According to the "*Accounting Procedures for Kentucky School Activity Funds*," to void checks, print the word VOID across the face of the check and tear the signature portion off.

Management Response

All bookkeepers will be instructed to void checks following the '*Accounting Procedures for Kentucky School Activity Funds*,' procedures. Subsequent reviews of voided checks will be conducted at this school.

Prior Year

No exceptions reported.

**KENTON COUNTY ACADEMICS OF INNOVATION AND TECHNOLOGY
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.

**NORTHERN KENTUCKY YOUTH DEVELOPMENT CENTER
MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

No exceptions noted.

Prior Year

No exceptions reported.