

PENDLETON COUNTY BOARD OF EDUCATION

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
And
INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2013

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PENDLETON COUNTY BOARD OF EDUCATION
 TABLE OF CONTENTS

	Pages
Unmodified Opinions on Basic Financial Statements Accompanied By Required Supplementary Information and Other Information - State or Local Governmental Entity Independent Auditor’s Report	4-6
Management’s Discussion and Analysis	7-12
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of the Balance Sheet – Governmental Funds To the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the District-Wide Statement of Activities	18
Statement of Net Position – Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Statement of Net Position – School Activity Funds	22

PENDLETON COUNTY BOARD OF EDUCATION
 TABLE OF CONTENTS

	Pages
Notes to the Financial Statements	23-40
Supplementary Information:	
Budget Comparison:	
Budgetary Comparison Schedule for the General Fund	42
Budgetary Comparison Schedule for Special Revenue	43
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	45
Combining Statements – School Activity Funds:	
Combining Statement of Net Position – School Activity Funds	46
Combining Statement of Receipts, Disbursements, and Due To Student Groups – School Activity Funds	47
Statement of Receipts, Disbursements, and Due to Student Groups Pendleton County High School	48-50
Schedule of Expenditures of Federal Awards	51-52
Notes to the Schedule of Expenditures of Federal Awards	53
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> (for a Governmental Entity) (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance, or Other Matters Identified)	54-55
Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures Of Federal Awards Required by OMB Circular A-133 (Unmodified Opinion On Compliance for each Major Program; Significant Deficiencies in Internal Control Over Compliance Identified)	56-58
Schedule of Findings and Questioned Costs	59-60
Schedule of Prior Year Audit Findings	61
Management Letter	62-65

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**Unmodified Opinions on Basic Financial Statements Accompanied by
Required Supplementary Information and Other
Information – State or Local Governmental Entity**

INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits
Members of the Board of Education
Pendleton County Board of Education
Falmouth, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pendleton County Board of Education as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board'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; the provisions of Office of Management and Budget Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board 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 on pages 7 through 12 and budgetary comparison information on pages 42 and 43 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 Board's basic financial statements. The combining statements for nonmajor governmental funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Pendleton County High School, and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements for nonmajor funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Pendleton County High School, and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other

additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements for nonmajor funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Pendleton County High School, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013 on our consideration of the Board'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 Board's internal control over financial reporting and compliance.

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
October 25, 2013

**PENDLETON COUNTY BOARD OF EDUCATION
FALMOUTH, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the Pendleton 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.

FINANCIAL HIGHLIGHTS

The beginning cash balance, including activity funds, for the District was \$5,581,297. The ending cash balance, including activity funds, for the District was \$4,653,201.

The General Fund had \$18,410,485 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfer, there were \$18,731,989 in General Fund expenditures. This includes on-behalf payments.

Staff received raises during the fiscal year. Employees got rank and step increases equal to or greater than 1%. Work was done last year and continues into this year to make salary schedules show a step increase each year.

The District purchased two school buses. Improvements are being made in bus fleet in terms of establishment of a schedule for purchase rather than buying 4 or 5 one year then skip some years. The District is also looking at reducing the spare bus fleet to reduce maintenance cost and insurance cost.

A change to the kindergarten program was started in 2012-2013 school year which netted a savings of approximately \$150,000 to the district. No services to students were lost during this change, however, a structure change allows for the students to experience a full-day kindergarten atmosphere with the teacher teaching core subjects uninterrupted for a half day.

The enrollment for grades K-12 continues to decline. The enrollment for preschool has decreased as well. Measures are being put in place to enhance day-care settings with transportation services to/from the appropriate elementary school.

During the fiscal year the District was notified the Kentucky School Board Insurance Trust (KSBIT) would be dissolving as the self insurance provider for school districts in Kentucky. KSBIT has informed Districts there is an unfunded liability that will be assessed. However, the exact amount of the assessment has not been determined.

The compensating rate for property taxes was taken. Motor vehicle taxes remained at 55 cents per \$100.

The Board issued \$657,050 in bonds to refinance the 2002 KISTA Energy bonds.

By refinancing, the Board will be saving \$35,026.

The Board issued \$14,690,000 in refunding bonds on July 1, 2013 to refund the 2009 bond series.

By refinancing, the Board will save \$1,806,520, which includes \$500,000 commitment from the Building Fund. The District is working to eliminate using general fund money for bond payments.

During the school year we continued the instructional focus that was started in 2011-2012.

The focus was geared toward continued revision of the Pacing guides/syllabus to the common core for each grade and class at each level. This task also helped in the facilitation of unit development with time spent in developing meaningful common assessments. In order to accomplish this task the board approved 3 planning days in the school calendar so staff could use this time for work within Professional Learning Communities in addition to time that schools used for professional development. We continue to provide the MAP assessment for each school in order for the schools to have a way to measure student progress and growth toward individual learning. Compass Odyssey is an on-line computer program that is provided for all schools which is linked to our MAP assessment data. In addition to these resources Benchmark reading resources were secured for both elementary schools.

The Teaching and Learning Department was also involved in assisting the schools in providing technology resources (for example, iPads) and trainings so that each classroom has access to updated technology. Technology resourced teachers were given a new job description with comparable stipends to provide staff trainings.

As we move forward, attention will continue to be given to resource allocation and how to better serve the needs of students. In an effort to reduce expenditures to outside programs/agencies in 2012-2013. Pendleton County added one EBD classroom at Sharp Middle School and a low-incidence classroom at Southern Elementary.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The district-wide financial statements can be found on pages 13 and 14 of this report.

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

The basic governmental fund financial statements can be found on pages 15-22 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 23-40 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$18 million as of June 30, 2013.

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

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

	Net Position (in thousands)					
	Governmental		Business-type		Total	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Assets	\$54,904	\$51,806	\$1,076	\$954	\$55,980	\$52,760
Deferred Outflows of Resources	\$315	\$294	\$0	\$0	\$315	\$294
Liabilities	\$35,870	\$34,150	\$7	\$1	\$35,877	\$34,151
Deferred Inflows of Resources	\$572	\$210	\$0	\$0	\$572	\$210
Investment in capital assets (net of debt)	\$13,754	\$13,993	\$599	\$555	\$14,353	\$14,548
Restricted	3,276	2,986	470	398	3,746	3,384
Unrestricted	<u>1,747</u>	<u>761</u>			<u>1,747</u>	<u>761</u>
Total Net Position	\$18,777	\$17,740	\$1,069	\$953	\$19,846	\$18,693

Budgetary Implications

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2 percent contingency. The district adopted a budget with \$522,238 in contingency, which is 2.8 percent.

Comments on Budget Comparisons

The original budget was amended to reflect changes in the site based allocations and anticipated revenues. The changes made were based on more accurate data being available after the first couple of months of the fiscal year.

The District recorded "On-Behalf" payments as revenues and expenditures during the fiscal year. On-Behalf payments were not included in the budget. Therefore budget comparisons have some large negative variances. Caution should be used when reading the budget comparison reports.

	Changes in Net Position (in thousands)					
	Governmental		Business-type		Total	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Revenues						
Local Revenue Sources	\$5,937	\$5,396	\$538	\$443	\$6,475	\$5,839
State Revenue Sources	16,974	16,259	319	248	17,293	16,507
Federal Revenue Sources	2,188	1,857	900	906	3,088	2,763
Investments	<u>15</u>	<u>27</u>	<u>2</u>	<u>2</u>	<u>17</u>	<u>29</u>
Total Revenues	25,114	23,539	1,759	1,599	26,873	25,138

Expenses

Instruction	12,349	11,261	0	0	12,349	11,261
Student Support Services	864	859	0	0	864	859
Instructional Support	1,352	1,224	0	0	1,352	1,224
District Administration	899	1,197	0	0	899	1,197
School Administration	1,004	1,276	0	0	1,004	1,276
Business Support	637	620	0	0	637	620
Plant Operations	2,207	2,136	0	0	2,207	2,136
Student Transportation	1,756	1,964	0	0	1,756	1,964
Other Instruction	0	16	0	0	0	16
Facilities Acquisition & Construction	162	306	0	0	162	306
Community Support	254	219	99	79	353	298
Food Service	6	6	1,691	1,571	1,697	1,577
Debt Service	<u>3,611</u>	<u>4,304</u>	<u>0</u>	<u>0</u>	<u>3,611</u>	<u>4,304</u>
Total Expenses	25,101	25,388	1,790	1,650	26,891	27,038
Transfers	75	64	(75)	(64)	0	0
Sale of assets	4	19	0	0	4	19
Bond Proceeds	<u>119</u>	<u>1,236</u>	<u>0</u>	<u>0</u>	<u>119</u>	<u>1,236</u>
Change in Net Position	211	(530)	(106)	(115)	105	(645)
Beginning Net Position	4,887	5,023	1,175	1,069	6,062	6,092
Prior period adjustment	(75)	0	0	0	(75)	0
Ending Net Position	\$5,023	\$4,493	\$1,069	\$954	\$6,092	\$5,447

The government's overall financial position and results of operations declined as a result of the year's operations as reflected in the decrease in net position for the year.

INFRASTRUCTURE

The District has not reported any infrastructure in the current financial statements.

Analysis of balances and transactions of individual funds (in thousands)

Fund	Beginning	Revenues	Expenses	Transfer	Ending
General Fund	\$2,209	\$19,009	\$18,732	(\$484)	\$2,002
Special Revenue	\$0	\$2,319	\$2,356	\$37	\$0
Capital Outlay	\$179	\$229	\$0	(\$229)	\$179
Building	\$2,059	\$2,015	\$0	(\$2,515)	\$1,559
Construction	\$413	\$0	\$306	\$0	\$107
Debt Service	\$162	\$565	\$3,994	\$3,912	\$645

Capital Assets and Long-Term Debt Activity (in thousands)

	Beginning	Additions	Deductions	Ending
Governmental				
Capital Assets	\$66,688	\$974	\$284	\$67,378
Accumulated Depreciation	\$17,884	\$2,607	\$175	\$20,316
Business-Type				
Capital Assets	\$1,751	\$0	\$0	\$1,751
Accumulated Depreciation	\$1,152	\$44	\$0	\$1,196
Bonds Payable	\$33,460	\$657	\$2,410	\$31,707
Capital Lease Payable	\$1,238	\$579	\$308	\$1,509
Sick Leave Payable	\$362	\$103	\$22	\$443

CURRENT ISSUES

Staff received raises in 2013-2014. The amount of the raise varied depending on the cell the teacher was in. The average increase for the overall salary schedule in 2013-2014 is 2.08%.

The District anticipates a reduction in federal funds again this year.

Due to the dissolution of KSBIT, Districts have been informed there is an unfunded liability that will be assessed. However, the exact amount of the assessment has not been determined.

The Board issued \$14,690,000 in refunding bonds on July 1, 2013 to refund the 2009 bond series. By refinancing, the Board will save \$1,806,520, which included \$500,000 commitment from the Building Fund.

One of the greatest concerns looking ahead at the future fiscal years is the impact of the federal sequestration - or loss of federal funds for the next nine years, averaging a decline of 7.8% to 9.1%. The loss of these funds would constitute a reduction of \$679,069 to \$750,833. A reduction of this nature - over the next 9 years - would reduce the amount of resources to be allocated to the schools.

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 Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information should be directed to the Superintendent, Anthony Strong, or to the Treasurer, Jan Johnston, 859-654-6911, or by mail at 2525 Hwy 27 N. Falmouth, Kentucky 41040.

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
DISTRICT WIDE
As of June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents - Note C	\$3,932,981	\$292,799	\$4,225,780
Accounts receivable	538,674	77,674	616,348
Inventory		28,048	28,048
Prepaid expenses	272,613		272,613
Capital assets			
Land and construction in progress	674,221		674,221
Other capital assets, net of depreciation	<u>46,387,416</u>	<u>555,272</u>	<u>46,942,688</u>
Total capital assets	<u>47,061,637</u>	<u>555,272</u>	<u>47,616,909</u>
TOTAL ASSETS	\$51,805,905	\$953,793	\$52,759,698
DEFERRED OUTFLOWS OF RESOURCES			
Bond issue costs	\$293,671		\$293,671
LIABILITIES			
Accounts payable	\$1,580	\$106	\$1,686
Accrued salaries and benefits payable	39,358		39,358
Interest payable	298,251		298,251
KSBIT liability	151,469		151,469
Long-term Liabilities			
Due within 1 year	2,279,606		2,279,606
Due in more than 1 year	<u>31,379,794</u>		<u>31,379,794</u>
TOTAL LIABILITIES	\$34,150,058	\$106	\$34,150,164
DEFERRED INFLOWS OF RESOURCES			
Deferred revenues	209,849		209,849
NET POSITION			
Net investment in capital assets	\$13,992,759	\$555,272	\$14,548,031
Restricted			
Inventories		28,048	28,048
Prepays	272,613		272,613
Accrued sick leave	221,816		221,816
Food Service		370,367	370,367
SFCC	1,738,883		1,738,883
Other	107,263		107,263
Debt Service	645,014		645,014
Unrestricted	<u>761,321</u>		<u>761,321</u>
TOTAL NET POSITION	\$17,739,669	\$953,687	\$18,693,356

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
DISTRICT WIDE

For the year ended June 30, 2013

FUNCTIONS/PROGRAMS

Governmental Activities

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Position Business-type Activities	Total
Instruction	\$13,234,018		\$1,320,657		(\$11,913,361)	\$	(\$11,913,361)
Support services:							
Student	964,350		106,319		(858,031)		(858,031)
Instruction staff	1,227,210		669,792		(557,418)		(557,418)
District administrative	1,201,165				(1,201,165)		(1,201,165)
School administrative	1,276,540				(1,276,540)		(1,276,540)
Business	620,301		5,390		(614,911)		(614,911)
Plant operation and maintenance	2,280,760		9,676		(2,280,760)		(2,280,760)
Student transportation	2,013,234		15,680		(2,003,558)		(2,003,558)
Other instruction	15,680		5,674		0		0
Food service	5,674		186,333		0		0
Community service activities	219,524				(33,191)		(33,191)
Interest on long-term debt	1,602,067			71,074	(1,530,993)		(1,530,993)
Total governmental activities	24,660,523	0	2,319,521	71,074	(22,269,928)		(22,269,928)

Business-type Activities

Food service	1,570,983	386,450	1,134,136			(50,397)	(50,397)
Other enterprise	79,491	56,444	20,075			(2,972)	(2,972)
Total business-type activities	1,650,474	442,894	1,154,211			(53,369)	(53,369)
Total school district	\$26,310,997	\$442,894	\$3,473,732	\$71,074	(\$22,269,928)	(\$53,369)	(\$22,323,297)

General Revenues

Property taxes	\$3,715,251						\$3,715,251
Motor Vehicle taxes	504,268						504,268
Utility taxes	779,599						779,599
State aid-formula grants	15,754,355						15,754,355
Investment earnings	27,073					1,716	28,789
Gain on sale of assets	19,809						19,809
Transfers	63,762					(63,762)	0
Miscellaneous	368,053						368,053
Total general & special	21,232,170					(62,046)	21,170,124
Change in net positions						(115,415)	(1,153,173)
Net position - beginning						1,069,102	19,846,529
Net position - ending						\$953,687	\$18,693,356

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2013

	General Fund	Special Revenue	Building Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$1,592,252	(\$150,431)	\$1,559,386	\$645,014	\$286,760	\$3,932,981
Other receivables	176,885	361,789				538,674
Prepaid expenses	272,613					272,613
TOTAL ASSETS	\$2,041,750	\$211,358	\$1,559,386	\$645,014	\$286,760	\$4,744,268
LIABILITIES						
Accounts payable	\$71	\$1,509	\$0	\$0	\$0	\$1,580
Accrued salaries and benefits payable	39,358					39,358
TOTAL LIABILITIES	39,429	1,509	\$0	\$0	\$0	40,938
DEFERRED INFLOWS OF RESOURCES						
Deferred Revenues		209,849				209,849
Fund Balances						
Nonspendable						
Prepaids	272,613					272,613
Restricted						
Sick Leave Payable	221,816		1,559,386		179,497	221,816
SFCC					107,263	1,738,883
Other						107,263
Debt Service				645,014		645,014
Unassigned	1,507,892					1,507,892
Total fund balances	2,002,321		1,559,386	645,014	286,760	4,493,481
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	\$2,041,750	\$211,358	\$1,559,386	\$645,014	\$286,760	\$4,744,268

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF NET POSITION
 As of June 30, 2013

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

Total Fund Balance - Governmental Funds		\$4,493,481
Certain assets are not reported in this fund financial statement because they are recorded as current expenditures		
	Bond Issue Costs	293,671
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		
		47,061,637
Certain liabilities 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		
	Bonds Payable	(31,707,150)
	Capital Lease Payable	(1,508,617)
	KSBIT Liability	(151,469)
	Accrued Interest on Bonds	(298,251)
	Accumulated Sick Leave	<u>(443,633)</u>
Total Net Position - Governmental Activities		\$17,739,669

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2013

	General Fund	Special Revenue	Building Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
From local sources						
Property taxes	\$2,648,010	\$	\$1,067,241	\$	\$	\$3,715,251
Motor vehicle taxes	504,268					504,268
Utility taxes	779,599					779,599
Earnings on investments	27,073					27,073
Other local revenues	368,053	29,081				397,134
Intergovernmental - State	13,960,922	859,915	948,142	261,043	228,915	16,258,937
Intergovernmental - Federal	<u>122,560</u>	<u>1,430,525</u>		<u>303,847</u>		<u>1,856,932</u>
Total revenues	18,410,485	2,319,521	2,015,383	564,890	228,915	23,539,194
Expenditures						
Instruction	9,903,464	1,357,284				11,260,748
Support services						
Student	752,712	106,319				859,031
Instruction staff	554,798	669,792				1,224,590
District administration	1,197,247					1,197,247
School administration	1,276,540					1,276,540
Business	614,911	5,390				620,301
Plant operation and maintenance	2,135,823					2,135,823
Student transportation	1,953,918	9,676				1,963,594
Other instructional		15,680				15,680
Food Service		5,674				5,674
Community service activities	32,250	186,333				218,583
Facilities					305,982	305,982
Debt service	<u>310,326</u>			<u>3,994,100</u>		<u>4,304,426</u>
Total expenditures	18,731,989	2,356,148		3,994,100	305,982	25,388,219
Excess(deficit)of revenues over expenditures	(321,504)	(36,627)	2,015,383	(3,429,210)	(77,067)	(1,849,025)
Other Financing Sources (Uses)						
Sale of equipment	19,809					19,809
Bond/Capital Lease Proceeds	578,731			657,050		1,235,781
Operating transfers in	63,762	36,627		3,254,771		3,355,160
Operating transfers out	<u>(547,100)</u>		<u>(2,515,383)</u>		<u>(228,915)</u>	<u>(3,291,398)</u>
Total other financing sources (uses)	115,202	36,627	(2,515,383)	3,911,821	(228,915)	1,319,352
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(206,302)	0	(500,000)	482,611	(305,982)	(529,673)
Fund balance, July 1, 2012	<u>2,208,623</u>	<u>0</u>	<u>2,059,386</u>	<u>162,403</u>	<u>592,742</u>	<u>5,023,154</u>
Fund balance, June 30, 2013	\$2,002,321	\$0	\$1,559,386	\$645,014	\$286,760	\$4,493,481

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
 For The Year Ended June 30, 2013

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

Total net change in fund balances - governmental funds (\$529,673)

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.

Depreciation Expense	(2,607,059)	
Capital Outlays	<u>865,128</u>	(1,741,931)

Bond issue costs are expensed as incurred in the fund balance statement, but are amortized over the life of the bond in the statement of activities:

Amortization Expense		(25,120)
Bond Issuance Cost		2,942

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bond Principal Payments	2,409,900
Capital Lease Payments	308,196
Bond Proceeds	(657,050)
Capital Lease Proceeds	(578,731)

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

Change in Accrued Interest	6,441
KSBIT liability	(151,469)
Change in Sick Leave	<u>(81,263)</u>

Total Change in Net Position - Governmental Activities (\$1,037,758)

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2013

		Business-Type Activities Enterprise Funds		
	Food Service Fund	Other Enterprise Funds		Total
ASSETS				
Cash and Equivalents	\$282,884	\$9,915		\$292,799
Accounts Receivable	77,674			77,674
Inventory	28,048			28,048
Capital Assets, net of depreciation	<u>555,272</u>	<u> </u>		<u>555,272</u>
TOTAL ASSETS	\$943,878	\$9,915		\$953,793
LIABILITIES				
Accounts Payable	\$0	\$106		\$106
TOTAL LIABILITIES	<u>0</u>	<u>106</u>		<u>106</u>
NET POSITION				
Net Investment in Capital Assets	555,272			555,272
Nonspendable-Inventories	28,048			28,048
Restricted Net Position	<u>360,558</u>	<u>9,809</u>		<u>370,367</u>
TOTAL NET POSITION	\$943,878	9,809		953,687

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For The Year Ended June 30, 2013

		Business-Type Activities Enterprise Funds	
	Food Service Fund	Other Enterprise Funds	Total
OPERATING REVENUES			
Lunchroom sales	\$385,267		\$385,267
Other revenues	<u>1,183</u>	<u>56,444</u>	<u>57,627</u>
Total Operating Revenues	386,450	56,444	442,894
OPERATING EXPENSES			
Salaries and wages	751,517	73,698	825,215
Contract services	19,707	1,834	21,541
Materials and supplies	756,232	3,959	760,191
Depreciation	<u>43,527</u>		<u>43,527</u>
Total Operating Expenses	1,570,983	79,491	1,650,474
Operating income (loss)	(1,184,533)	(23,047)	(1,207,580)
NON-OPERATING REVENUES (EXPENSES)			
Federal grants	830,258		830,258
Commodities received	75,738		75,738
State grants	14,009		14,009
State on-behalf payments	214,131	20,075	234,206
Interest income	1,716		1,716
Indirect cost transfer to general fund	<u>(63,762)</u>		<u>(63,762)</u>
Non-operating revenues (expenses)	1,072,090	20,075	1,092,165
Net income (loss) before Capital Contributions	(112,443)	(2,972)	(115,415)
Increase (decrease) in Net Position	(112,443)	(2,972)	(115,415)
Net Position, July 1, 2012	<u>1,056,321</u>	<u>12,781</u>	<u>1,069,102</u>
Net Position, June 30, 2013	\$943,878	\$9,809	\$953,687

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2013

	Business-Type Activities Enterprise Funds		
	Food Service Fund	Other Enterprise Funds	Total
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from customers	\$386,450	\$56,444	\$442,894
Cash paid to employees, including benefits	(537,386)	(53,623)	(591,009)
Cash paid to suppliers	<u>(682,027)</u>	<u>(5,687)</u>	<u>(687,714)</u>
Net cash provided by operating activities	(832,963)	(2,866)	(835,829)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from government funding	766,593		766,593
Indirect cost transfer to general fund	<u>(63,762)</u>		<u>(63,762)</u>
Net cash provided from capital and related financing activities	702,831		702,831
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest Income	<u>1,716</u>		<u>1,716</u>
Net cash provided from capital and related financing activities	1,716		1,716
Net increase (decrease) in cash	(128,416)	(2,866)	(131,282)
Cash and equivalents, July 1, 2012	<u>411,300</u>	<u>12,781</u>	<u>424,081</u>
Cash and equivalents, June 30, 2013	\$282,884	\$9,915	\$292,799
Reconciliation of Operating income (loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	(\$1,184,533)	(\$23,047)	(\$1,207,580)
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	43,527		43,527
On-behalf payments	214,131	20,075	234,206
Commodities used	75,738		75,738
Decrease in inventory	10,650		10,650
Decrease in prepaid expenses	14,225		14,225
Increase (decrease) in accounts payable	<u>(6,701)</u>	<u>106</u>	<u>(6,595)</u>
Net cash provided by operating activities and increase in cash and equivalents	(\$832,963)	(\$2,866)	(\$835,829)
Schedule of Non-Cash Financing Activities			
Donated commodities	\$75,738		
On Behalf payments	\$234,206		

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
SCHOOL ACTIVITY FUNDS
As of June 30, 2013

	Agency Fund
ASSETS	
Cash and equivalents	\$427,421
Accounts receivable	<u>2,927</u>
TOTAL ASSETS	\$430,348
LIABILITIES	
Accounts payable	\$14,608
Due to student groups	<u>415,740</u>
TOTAL LIABILITIES	\$430,348

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Pendleton 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 Board 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:

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

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 Board that are governmental and those that are considered business-type activities.

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.

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

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

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and proprietary 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 total net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for and reports all financial resources not accounted for and reported in another fund. 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

- (C) Capital Project Funds are used to account for and report financial resource that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) Fund 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. This is a major fund.
 3. The Construction Fund includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or renovations.

II. Debt Service Fund

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years are reported in debt service funds. This is a major fund.

III. Proprietary Funds (Enterprise Fund)

1. 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). This is a major fund for the District.
2. The Child Care Fund is used to account for after school child care activities.
3. The Adult/Community Education Fund is used to account for adult and community education activities.

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

1. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.
2. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments. The District does not currently have any Private Purpose Trust Funds.

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

V. Permanent Funds

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Basis of Accounting

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 – Exchanges and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when used 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 fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance operations were \$.607 per \$100 valuation for real property, \$.607 per \$100 valuation for business personal property and \$.55 per \$100 valuation for motor vehicles.

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

Fund Balance Classification Policies and Procedures

The Board intends that accounting practices follow state and federal laws and regulations and generally accepted accounting policies.

Nonspendable Fund Balance

Amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact will be classified as Nonspendable Fund Balance.

Restricted Fund Balance

Fund Balance will be reported as restricted when constraints placed on the use of resources are either; (a) externally imposed by creditors, grantors, contributors, or laws or regulations or other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

The Board will use restricted amounts before unrestricted amounts when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

Committed Fund Balance

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education will be reported as committed fund balance.

Assigned Fund Balance

Amounts that have been assigned for a specific purpose by formal resolution of the Board of Education will be reported as assigned fund balance for a specific purpose.

Unassigned Fund Balance

Unassigned Fund Balance is the residual classification for the general fund.

When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, the funds will first be spent from committed, then assigned, and then finally unassigned.

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.

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2013

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 government-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 government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District 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>Governmental Activities 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	12 years
Furniture and fixtures	20 years
Rolling stock	15 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 School District's past experience of making termination payments.

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

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

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). 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).

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

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

Cash and Cash Equivalents

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

Inventories

On district-wide financial statements inventories are stated at cost and are expensed when used.

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

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. Prepaid assets are only recorded if material to the financial statements.

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

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.

Net Position

Net position represent 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 and collections for services such as child care.

Contributions of Capital

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

Subsequent Events

Subsequent events were considered through October 25, 2013, which represents the date of my report.

The Board issued \$14,690,000 in refunding bonds on July 1, 2013 to refund the 2009 bond series.

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

Interfund Activity

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.

Uses of Estimates

The process of preparing financial statements in conformity with general accepted accounting principles of 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 financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Encumbrances

Encumbrances are not liabilities and therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

NOTE B – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2013 were levied on the assessed valuation of property located in the School District as of January 1, 2012 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	per KRS 134.020
Due date for payment of taxes	Upon receipt
Face value amount payment date	December 31
Delinquent date, 10% penalty	January 1

Vehicle taxes are collected by the County Clerk and are due and collected in the birth month of the vehicle's licensee.

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2013

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$4,653,201. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

	Bank Balance	Book Balance
General Checking Account		
Fund 1 (General Fund)	\$	\$ 1,592,252
Fund 2 (Special Revenue Fund)		(150,431)
Fund 310 (Capital Outlay Fund)		179,497
Fund 320 (Building Fund)		1,559,386
Fund 360 (Construction Fund)		25,369
Fund 51 (Food Service)		282,884
Fund 52 (Day Care)		8,297
Fund 54 (Adult/Community Education)		<u>1,618</u>
Total General Checking Account	4,331,212	3,498,872
Activity and Trust Funds	438,979	427,421
Construction Fund	81,894	81,894
Debt Service Funds	<u>645,014</u>	<u>645,014</u>
TOTALS	\$ 5,497,099	\$4,653,201

Breakdown per financial statements:

Governmental Funds	\$ 3,932,981
Proprietary Funds	292,799
Agency Funds	<u>427,421</u>
TOTALS	\$ 4,653,201

NOTE D – CAPITAL ASSETS

Depreciation expense was charged to functions of the governmental activities as follows:

Instruction	\$ 2,178,692
Support Services	
Student	105,319
Instructional staff	2,620
District administration	3,918
Plant operations & maintenance	54,778
Student transportation	260,791
Community services	<u>941</u>
Total Depreciation expense, governmental activities	\$ 2,607,059

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2013

NOTE D - CAPITAL ASSETS

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

Governmental Activities	Beginning	Additions	Deletions	Ending
Land	\$674,221			\$674,221
Land Improvements	2,252,187	301,292		2,553,479
Buildings/Bldg Improvements	55,269,599	113,478		55,383,077
Technology Equipment	3,324,451	286,685		3,611,136
Vehicles	3,509,664	211,151	174,730	3,546,085
General Equipment	1,549,088	61,310		1,610,398
Construction Work In Process	<u>108,788</u>	<u>0</u>	<u>108,788</u>	<u>0</u>
Totals at historical cost	66,687,998	973,916	283,518	67,378,396
Less Accumulated Depreciation				
Land Improvements	1,122,253	111,169		1,233,421
Buildings/Bldg Improvements	10,838,000	1,839,967		12,677,967
Technology Equipment	2,493,302	330,764	174,730	2,824,066
Vehicles	2,421,553	234,600		2,481,423
General Equipment	<u>1,009,322</u>	<u>90,559</u>		<u>1,099,882</u>
Total accumulated depreciation	17,884,430	2,607,059	174,730	20,316,759
Governmental Activities Capital Assets - Net	\$48,803,568	(\$1,633,143)	\$108,788	\$47,061,637
Business-Type Activities	Beginning	Additions	Deletions	Ending
Food Service				
Buildings/Bldg Improvements	\$875,390			\$875,390
Technology Equipment	18,813			18,813
Vehicles	27,554			27,554
General Equipment	<u>829,478</u>			<u>829,478</u>
Totals at historical cost	1,751,235			1,751,235
Less Accumulated Depreciation				
Buildings/Bldg Improvements	417,112	17,508		434,620
Technology Equipment	16,408	1,854		18,262
Vehicles	27,555			27,555
General Equipment	<u>691,362</u>	<u>24,164</u>		<u>715,526</u>
Total accumulated depreciation	1,152,437	43,526		1,195,963
Business-Type Activities Capital Assets - Net	\$598,798	(\$43,526)	\$0	\$555,272

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2013

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued aggregating the original amount of each issue, the issue date, and interest rates are summarized below:

Issue Date	Proceeds	Rates
2005	\$ 5,050,000	3.45%
2007	13,600,000	4.00% - 4.125%
2008	2,150,000	2.00% - 3.25%
2009	17,340,000	2.00% - 6.50%
2012	657,050	2.00% - 6.50%

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

There are a number of limitations and restrictions contained in the various bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of June 30, 2013.

The District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below 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 outstanding has been recorded in the financial statements.

The District issued \$657,050 in KISTA Educational Facilities Bond to refund the 2002 KISTA Energy Bond.

The following is a summary of the District's long-term debt transactions for the year ended.

	Beginning Balance	Additions	Payments	Ending Balance
Bonds	\$33,460,000	\$657,050	\$2,409,900	\$31,707,150
Sick Leave	\$362,370	\$102,872	\$21,609	\$443,633
Capital Leases	\$1,238,082	\$578,731	\$308,196	\$1,508,617

The bonds may be called prior to maturity and redemption premiums are specified in each issue. 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:

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2013

Year	Pendleton County School		SFCC		U.S.	Total
	Principal	Interest	Principal	Interest	Treasury	
2013-14	1,607,014	1,143,449	196,136	64,907	309,574	1,579,497
2014-15	1,661,260	1,093,908	202,640	58,402	299,540	1,565,829
2015-16	1,710,681	1,040,730	199,519	51,739	288,358	1,558,879
2016-17	1,750,158	995,924	171,042	45,525	275,173	1,536,210
2017-18	1,806,677	934,649	177,023	39,544	261,392	1,521,835
2018-19	1,751,730	869,968	183,270	33,295	246,473	1,504,210
2019-20	1,808,503	803,451	71,497	26,823	230,024	1,462,210
2020-21	1,875,643	731,916	74,357	23,963	213,118	1,443,909
2021-22	1,942,669	657,183	77,331	20,989	195,291	1,417,975
2022-23	2,014,576	579,637	80,424	17,895	176,855	1,390,300
2023-24	2,086,359	498,501	83,641	14,678	157,496	1,364,988
2024-25	2,167,908	413,010	87,092	11,228	137,480	1,337,800
2025-26	2,249,316	323,408	90,684	7,636	116,395	1,307,557
2026-27	2,340,575	230,440	94,425	3,895	94,640	1,285,400
2027-28	1,545,000	132,876	0	0	71,549	1,749,425
2028-29	1,600,000	67,600	0	0	36,400	1,704,000
Totals	29,918,069	10,516,650	1,789,081	420,519	3,109,758	23,730,024

NOTE F – CAPITAL LEASE PAYABLE

The District leases buses under capital leases with KISTA. The leases expire on various dates from June 2014 through June 2023.

<u>Classes of Property</u>	<u>Book value as of</u>
Buses	June 30, 2013
	\$ 1,069,800

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

<u>Year Ending</u>	<u>Capital Lease</u>
<u>June 30,</u>	<u>Payable</u>
2014	\$ 362,678
2015	311,005
2016	275,588
2017	241,665
2018	165,343
Thereafter	<u>322,632</u>
Total minimum lease payments	\$ 1,678,911
Less Amount representing interest	(170,294)
Present Value of Net Minimum Lease Payments	\$ 1,508,617

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2013

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2013 as follows:

Year ending June 30,

2014	\$ 37,421
2015	36,903
2016	35,347
2017	0
2018	0
Later years	<u>0</u>
Total	\$ 109,671

NOTE H – RETIREMENT PLANS

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

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers’ Retirement System, 479 Versailles Road, Frankfort, KY 40601

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

Medical Insurance Plan

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

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

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2013

NOTE H – RETIREMENT PLANS (continued)

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan and description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of member's salary for the 2012-2013 fiscal year.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 19.55% of the employee's total compensation subject to contribution.

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

The following are payroll and retirement amounts for the years ended June 30, 2013, 2012, and 2011.

	2013	2012	2011
Total payroll	12,803,656	13,696,882	14,401,984
KTRS total payroll	9,559,119	9,835,542	10,775,367
CERS total payroll	3,037,637	3,152,113	3,477,214
Contribution requirement for CERS	752,493	757,333	762,599
District portion - CERS contribution	598,506	597,603	588,126
Employee portion - CERS contribution	153,987	159,730	174,473
KTRS contribution - Commonwealth of KY	1,159,194	1,297,408	1,247,576
KTRS contribution - District Federal Employees	178,375	163,230	171,134

NOTE I - CONTINGENCIES

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 based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE J - INSURANCE AND RELATED ACTIVITIES

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

NOTE K – 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. At June 30, 2013, this amount totaled \$443,633 of which \$221,816 is restricted in the current year fund balance of the General Fund.

NOTE L – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2013, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
None		

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 purchases various insurance policies, including participating in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis. The District purchased unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE N – DEFICIT OPERATING/FUND BALANCES

Funds with a current year deficit of revenues over expenditures

Fund 1	(206,302)
Fund 320	(500,000)
Fund 360	(305,982)
Fund 51	(112,443)
Fund 52	(3,649)

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2013

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 school district at risk for a substantial loss. The District notifies the Department of Employee Insurance (DEI) when an employee is no longer employed. DEI sends the employee the COBRA requirements.

NOTE P – TRANSFER OF FUNDS

The following transfers were made during the year.

Type	From Fund	To Fund	Purpose	Amount
Operating	1	2	KETS Matching	\$ 36,627
Debt Service	1	400	Bond Payment	510,473
Operating	51	1	Indirect Cost	63,762
Debt Service	310	400	Bond Payment	228,915
Debt Service	320	400	Bond Payment	2,515,383

NOTE Q – ON-BEHALF PAYMENTS

The financial statements include payments made by the Commonwealth of Kentucky for insurance, flexible spending, vocational and retirement benefits. The following amounts are included in each of the functions.

Health Insurance	\$ 2,177,474
Life Insurance	5,327
Administrative Fees	25,626
Health Reimbursement Account	152,600
Federal Reimbursement	(136,534)
KTRS	1,159,194
Technology On Behalf Payments	79,530
Debt Service On Behalf Payments	<u>261,043</u>
Total On-Behalf Payments	\$ 3,724,260
General Fund	\$ 3,249,086
Debt Service	261,043
Food Service	<u>214,131</u>
Total On-Behalf Payments	\$ 3,724,260

NOTE R – DEPOSITS AND INVESTMENTS

Interest rate risk. In accordance with the District's investment policy, interest rate risk is limited by investing in public funds with the highest rate of return with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of the capital in its portfolio.

Credit risk. The District's investment policy limits the types of authorized investment instruments to obligations of the United States, its agencies, and instrumentalities. In addition, certificates of deposit or bonds of a bank or the Commonwealth of Kentucky, securities issued by a state or local government or shares of mutual funds are acceptable investments.

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE R – DEPOSITS AND INVESTMENTS (continued)

Concentration of credit risk. The district may invest, at any one time, funds in any one of the above listed categories with no limitation of the total amount of funds invested on behalf of the District.

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2013, the District's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance.

NOTE S – KSBIT ASSESSMENT

During the fiscal year the District was notified the Kentucky School Board Insurance Trust (KSBIT) would be dissolving as the self-insurance provider for school districts in Kentucky. KSBIT has informed Districts there is an unfunded liability that will be assessed. The exact amount of the assessment has not been determined. The District has shown a liability of \$151,469 based on the "Novation" calculation provided by KSBIT.

NOTE T – GASB 68

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 68, Accounting and Financial Reporting for Pensions. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of the statement must be implemented by the District no later than the fiscal year beginning July 1, 2014.

SUPPLEMENTARY INFORMATION

PENDLETON COUNTY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes	4,367,600	5,616,020	3,931,877	(1,684,143)
Other Local Sources	535,250	553,729	395,126	(158,603)
State Sources	10,045,000	10,731,859	13,960,922	3,229,063
Federal Sources	<u>75,000</u>	<u>76,000</u>	<u>122,560</u>	<u>46,560</u>
TOTAL REVENUES	15,022,850	16,977,608	18,410,485	1,432,877
EXPENDITURES				
Instruction	7,221,689	7,879,227	9,903,464	(2,024,237)
Support Services				
Student	689,482	663,341	752,712	(89,371)
Instructional Staff	808,259	550,273	554,798	(4,525)
District Administration	943,830	1,401,840	1,197,247	204,593
School Administration	896,142	985,482	1,276,540	(291,058)
Business	590,773	646,716	614,911	31,805
Plant Operation and Maintenance	1,938,980	2,125,397	2,135,823	(10,426)
Student Transportation	1,473,894	1,541,249	1,953,918	(412,669)
Community Services	87,466	0	32,250	(32,250)
Debt Service	365,250	1,287,527	310,326	977,201
Contingency	<u>508,980</u>	<u>522,238</u>		<u>522,238</u>
TOTAL EXPENDITURES	15,524,745	17,603,290	18,731,989	(1,128,699)
Excess (Deficit) of Revenues Over Expenditures	(501,895)	(625,682)	(321,504)	304,178
OTHER FINANCING SOURCES (USES)				
Sale of Equipment	0	0	19,809	19,809
Capital Lease Proceeds	0	13,000	578,731	565,731
Operating Transfers In	80,000	65,000	63,762	(1,238)
Operating Transfers Out	<u>(59,033)</u>	<u>(387,033)</u>	<u>(547,100)</u>	<u>(160,067)</u>
TOTAL OTHER FINANCING SOURCES (USES)	20,967	(309,033)	115,202	424,235
Excesss (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(480,928)	(934,715)	(206,302)	728,413
Fund Balance, July 1, 2012	<u>480,928</u>	<u>1,747,344</u>	<u>2,208,623</u>	<u>461,279</u>
Fund Balance, June 30, 2013	\$0	\$812,629	\$2,002,321	\$1,189,692

On-Behalf payments are not budgeted. Both revenues and expenditures are equally increased by the amount of on-behalf payments totaling \$3,249,086.

PENDLETON COUNTY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR SPECIAL REVENUE
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
State Sources	\$1,033,928	\$562,055	\$859,915	297,860
Federal Sources	1,598,907	1,708,871	1,430,525	(278,346)
Local Sources	<u>0</u>	<u>0</u>	<u>29,081</u>	<u>29,081</u>
TOTAL REVENUES	2,632,835	2,270,926	2,319,521	48,595
EXPENDITURES				
Instruction	1,513,060	1,361,577	1,357,284	4,293
Support Services				
Student	130,246	60,627	106,319	(45,692)
Instructional Staff	749,749	586,330	669,792	(83,462)
Business	2,666	3,611	5,390	(1,779)
Student Transportation	136,841	107,460	9,676	97,784
Other Instructional		15,680	15,680	0
Food Service		0	5,674	(5,674)
Community Service Operations	<u>159,306</u>	<u>157,275</u>	<u>186,333</u>	<u>(29,058)</u>
TOTAL EXPENDITURES	2,691,868	2,292,560	2,356,148	(63,588)
Excess (Deficit) of Revenues Over Expenditures	(59,033)	(21,634)	(36,627)	(14,993)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	<u>59,033</u>	<u>36,627</u>	<u>36,627</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	59,033	36,627	36,627	0
Excesss (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	0	14,993	0	(14,993)
Restricted Fund Balance, July 1, 2012	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Restricted Fund Balance, June 30, 2013	\$0	\$14,993	\$0	(\$14,993)

PENDLETON COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 As of June 30, 2013

	SEEK Capital Outlay Fund	Construction Fund	Total
ASSETS AND RESOURCES			
Cash and equivalents	\$179,497	\$107,263	\$286,760
TOTAL ASSETS AND RESOURCES	\$179,497	\$107,263	\$286,760
FUND BALANCES			
Restricted - SFCC	\$179,497	\$	\$179,497
Restricted - Future Constr BG-1		<u>107,263</u>	<u>107,263</u>
TOTAL FUND BALANCES	<u>179,497</u>	<u>107,263</u>	<u>286,760</u>
TOTAL LIABILITIES AND FUND BALANCES	\$179,497	\$107,263	\$286,760

PENDLETON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For The Year Ended June 30, 2013

	SEEK Capital Outlay Fund	Construction Fund	Total
REVENUES			
Intergovernmental-State	<u>\$228,915</u>		<u>\$228,915</u>
TOTAL REVENUES	228,915		228,915
EXPENDITURES			
Building Improvements		<u>305,982</u>	<u>305,982</u>
TOTAL EXPENDITURES		305,982	305,982
Excess (deficit) revenues over expenditures	228,915	(305,982)	(77,067)
OTHER FINANCING SOURCES (USES)			
Operating transfers out	<u>(228,915)</u>		<u>(228,915)</u>
TOTAL OTHER FINANCING SOURCES (USES)	(228,915)	0	(228,915)
Excess (deficit) revenues and other financing sources over expenditures and other financing uses	0	(305,982)	(305,982)
Restricted Fund Balance, July 1, 2012	<u>179,497</u>	<u>413,245</u>	<u>592,742</u>
Restricted Fund Balance, June 30, 2013	\$179,497	\$107,263	\$286,760

PENDELTON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 SCHOOL ACTIVITY FUNDS
 As of June 30, 2013

	Pendleton County High School	Phillip A. Sharp Middle School	Northern Elementary School	Southern Elementary School	Total
ASSETS					
Cash and equivalents	\$228,710	\$102,691	\$41,840	\$54,180	\$427,421
Accounts receivable	<u>466</u>	<u>0</u>	<u>2,461</u>	<u>0</u>	<u>2,927</u>
TOTAL ASSETS	\$229,176	\$102,691	\$44,301	\$54,180	\$430,348
LIABILITIES					
Accounts payable	\$5,354	\$552	\$1,880	\$6,822	\$14,608
Due to student groups	<u>223,822</u>	<u>102,139</u>	<u>42,421</u>	<u>47,358</u>	<u>415,740</u>
TOTAL LIABILITIES	\$229,176	\$102,691	\$44,301	\$54,180	\$430,348

PENDLETON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 SCHOOL ACTIVITY FUNDS

For The Year Ended June 30, 2013

	Cash Balances		Receipts		Disbursement		Cash Balances		Accounts		Due To	
	July 1, 2012			June 30, 2013		June 30, 2013	June 30, 2013	June 30, 2013	Receivable	Payable	Student Groups	June 30, 2013
Pendleton County High School	\$142,869	\$665,404	\$579,563	\$228,710	\$466	\$5,354	\$223,822					
Phillip A. Sharp Middle School	\$113,915	\$182,928	\$194,152	\$102,691	0	552	\$102,139					
Northern Elementary School	\$39,364	\$79,686	\$77,210	\$41,840	2,461	1,880	\$42,421					
Southern Elementary School	<u>\$47,239</u>	<u>\$94,304</u>	<u>\$87,363</u>	<u>\$54,180</u>	<u>0</u>	<u>6,822</u>	<u>\$47,358</u>					
TOTAL ACTIVITY FUNDS	\$343,387	\$1,022,322	\$938,288	\$427,421	\$2,927	\$14,608	\$415,740					

PENDLETON COUNTY BOARD OF EDUCATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 PENDLETON COUNTY HIGH SCHOOL
 For The Year Ended June 30, 2013

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Ending	Accounts Receivable Ending	Accounts Payable Ending	Due To Student Groups Ending
General Fund	\$1,684	\$1,037	\$262	(\$239)	\$2,220	\$0	\$0	\$2,220
Mileage	117			1,231	1,348			1,348
Summer School Program	11,083	1,300	7,008	29	5,404			5,404
Parking Permits	1,920	1,570	422	10	3,078			3,078
PHS Health Grant	890		875	(15)	0			0
Environmental 109	984	1,984	1,632		1,336			1,336
FEA	415	75		(30)	460			460
PTSO/Sidne Pribble Schol	0	300	300		0			0
Concession A/Student	2,661	5,897	4,086	(1,487)	2,985			2,985
Concession A/Staff	2,565	2,449	3,628	(750)	636	30		606
Credit Recovery	29			(29)	0			0
Apple VPP	0		300	301	1			1
Fresh. Academy/Red/Blac	166				166			166
Faculty/Gift	221		295		26	290		316
PBIS/Student	90	100	501	500	689			689
PBIS/Staff	80	510	430	500	660			660
Y Club	0	6,310	5,940		370			370
Student Fees	20,458	38,832	26,286	(110)	32,894			32,894
Ross Family	0	1,000	1,000		0			0
Athletic Department	0	841	1,380	1,762	1,223			1,223
Boys Basketball	17	21,534	31,211	12,810	3,150			3,150
Cheerleaders	0	529	1,610	2,127	1,046			1,046
Girls Basketball	0	9,821	13,610	5,957	2,168			2,168
Football	3,128	9,741	15,214	4,752	2,407			2,407
Girls Volleyball	0	2,177	4,428	2,251	0			0
Athletic Trainer	0	396	1,104	708	0			0
Athletic Director	642	1,327	17,578	16,609	1,000			1,000
Baseball	274	2,241	4,736	4,820	2,599			2,599
Cross Country	1	3,317	2,928	(142)	248			248
Boys Golf	38	22	1,553	1,970	477			477
Girls Soccer	0	1,897	4,076	2,179	0			0
Softball	0	751	6,170	6,085	666			666
Tennis	0	1,997	3,821	1,884	60			60
Track	3	1,566	3,914	2,912	567			567
Girl's Golf	9	1,375	3,052	1,668	0			0
Athletic Programs	556	83,672	65	(82,622)	1,541			1,541
Athletic Banquets	0		4,771	5,721	950		578	372
Boys Soccer	0	4,682	6,795	2,163	50			50
Athletic Uniforms	(6,689)	44,400		(28,527)	9,184			9,184

PENDLETON COUNTY BOARD OF EDUCATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 PENDLETON COUNTY HIGH SCHOOL
 For The Year Ended June 30, 2013

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Ending	Accounts Receivable Ending	Accounts Payable Ending	Due To Student Groups Ending
Academic Team	3	475	775	297	0			0
Dance Team	209	1,448	1,161	(37)	459			459
Chess Club	3				3			3
CATS Club	933	390	695	(69)	628			628
DDR	69				0			0
DECA	1,128	3,285	3,742	(101)	671			671
FBLA	315	10,060	10,033	(101)	241			417
FFA	7,773	17,219	16,204	(1,192)	7,596	176		7,596
Doug Dawson	0		1,000	1,000	0			0
Ag Mechanics	344				344			344
FCCLA Club	1,552	8,851	8,609	(28)	1,766			1,766
Spanish Club	318	373	280		411			411
Literary Magazine Club	2,072			(2)	2,070			2,070
National Honor Society	2,685	3,792	4,621		1,856			1,856
French Club	36				36			36
Project Graduation	3,117	17,026	18,035	2,605	4,713			4,713
Jr. Council (Prom)	0	17,201	18,454	1,254	1			1
SADD	38	230			268			268
Senior Trip	0	54,000	55,729	1,730	1			1
Senior Council	2,432	22,413	16,741	(1,103)	7,001			7,001
Drama Club	2,131	2,419	3,629		921			921
Student Council	4,218	9,787	10,563		3,442			3,442
TSA	122	441	451		112			112
STLP	0	206			206			206
A.P. Exams	1,193	7,011	7,111		1,093			1,093
Business (Reg)	26		120	95	1			1
Concession B	293	16,971	8,090	(7,496)	1,678			1,678
Computer Lab (Reg)	512		44		468			468
FMD	409	238	259	(60)	328			328
Home Ec (Reg)	3,268	2,592	2,457	(45)	3,358		300	3,058
Horticulture	3,558	2,985	3,183		3,360			3,360
Library	2,329	4,505	3,485	45	3,394		848	2,546
Math (Reg)	775	2,698	2,654	(31)	788			788
School Store	3,005	1,371	1,482	56	2,950		144	2,806
Broadcasting	734	2,405	2,319		820			820
Technology Ed	1,747				1,747			1,747
Yearbook 10/11	30,765	20,014	26,530	(5)	24,244			24,244
Art I (Reg)	773	3,422	3,795	(102)	298			298

PENDLETON COUNTY BOARD OF EDUCATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 PENDLETON COUNTY HIGH SCHOOL
 For The Year Ended June 30, 2013

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Ending	Accounts Receivable Ending	Accounts Payable Ending	Due To Student Groups Ending
Arts & Humanities	116				0			0
Band	3,540	3,827	3,829	(116)	3,492		275	3,217
Chorus	678	2,200	2,887	9	0			0
Baseball Boosters	0	11,299	10,818	2,265	2,746		550	2,746
Boys Basketball Boosters	0	21,474	14,060	3,103	10,517			9,967
Girls Basketball Boosters	0	13,901	12,191	3,032	4,742			4,742
Cheerleaders Boosters	0	19,387	21,053	7,254	5,588		175	5,413
Football Boosters	0	8,715	5,334	982	4,363		1850	2,513
CC/Track Boosters	0	6,177	5,807	1,973	2,343			2,343
Boys Golf Boosters	0		1,781	4,100	2,319			2,319
Girls Golf Boosters	0	2,325	4,327	2,383	381			381
Boys Soccer Boosters	0	14,195	13,524	4,103	4,774			4,774
Girls Soccer Boosters	0	12,781	13,048	6,244	5,977			5,977
Softball Boosters	0	11,326	6,312	(127)	4,887		334	4,553
Tennis Boosters	0			7	7			7
Volleyball Boosters	0	7,766	10,344	7,217	4,639			4,639
NJROTC Activity	10,775	28,701	32,006	1,169	8,639			8,639
NJROTC Unit Support	1,980	511	922	(1,169)	400		270	130
Guidance (Reg)	113	2,082	1,980		215			215
Health, P.E. (Reg)	2,664			15	2,679			2,679
Language Arts (Reg)	5				5			5
Marketing (Reg)	665	651	792		524			524
Science (Reg)	1,491	4,085	3,892	(24)	1,660			1,660
Social Studies Reg	88	220	396	88	0			0
Griffin Fitness Center	0	997	859	267	405			405
Charitable Gaming	0	4,591		(4,508)	83			83
Special Ed (Reg)	527	115	169	(30)	443			443
Totals	142,869	665,404	579,563	0	228,710	466	5,354	223,822

PENDLETON COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended June 30, 2013

Federal Grantor/Passed-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through Kentucky Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 12	\$119,311
National School Lunch Program	10.555	7750002 13	503,484
School Breakfast Program	10.553	7760005 12	37,937
School Breakfast Program	10.553	7760005 13	169,526
Summer Food Service Program for Children	10.559	7690024 13	50
Summer Food Service Program for Children	10.559	7690024 12	571
Summer Food Service Program for Children	10.559	7740023 12	1,103
Summer Food Service Program for Children	10.559	7740023 13	3,927
Commodities	10.555	510 4950	<u>75,738</u>
Total Child Nutrition Cluster			911,647
TOTAL U.S. DEPARTMENT OF AGRICULTURE			911,647
<u>U.S. Department of Labor</u>			
Passed through NKADD			
WIA -Adult Program	17.258	3813	165,268
WIA-Dislocated Workers	17.278	3819D	<u>(586)</u>
Total WIA Cluster			164,682
TOTAL U.S. DEPARTMENT OF LABOR			164,682
<u>U.S. Department of Education</u>			
Passed through Kentucky Department of Education			
Improving America's School Act of 1994			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	3100002 10	(20,636)
Title I Grants to Local Educational Agencies	84.010	3100002 12	466,911
Title I Grants to Local Educational Agencies	84.010	3100202 10	<u>58,972</u>
		subtotal	505,247
Special Education Cluster (IDEA)			
Special Education-Grants to States (IDEA, Part B)	84.027	3810002 11	11,261
Special Education-Grants to States (IDEA, Part B)	84.027	3810002 12	338,591
Special Education-Preschool Grants (IDEA, Preschool)	84.173	3800002 10	9,777
Special Education-Preschool Grants (IDEA, Preschool)	84.173	3800002 11	42,709
Special Education-Preschool Grants (IDEA, Preschool)	84.173	3800002 12	<u>39,806</u>
		subtotal	442,144

The accompanying notes are an integral part of this schedule

PENDLETON COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended June 30, 2013

Federal Grantor/Passed-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed through Kentucky Department of Education			
Education Jobs Fund (Ed Jobs)	84.410	EJOB00	13,878
Race to the Top	84.413A	3960002 11	5,830
Striving Readers Grant	84.371A	3180001 10	2,410
Vocational Education	84.048	4621332 11	<u>20,278</u>
		subtotal	20,278
Improving Teacher Quality State Grants	84.367	3230002 12	<u>134,067</u>
		subtotal	134,067
Pass through NKCES Fund for the Improvement of Education	84.215E	S215E120422	28,947
Passed through Workforce Cabinet			
Adult Education - Recruitment, Retention and Results	84.002	3652	391
Adult Education - Recruitment, Retention and Results	84.002	3653	4,677
Adult Education - Basic	84.002	3732	746
Adult Education - Basic	84.002	3733	<u>39,463</u>
		subtotal	45,277
TOTAL U.S. DEPARTMENT OF EDUCATION			1,198,078
<u>Department of Defense</u>			
Federal Direct			
NJROTC-NAVY	12.000	5043	62,114
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$2,336,521

The accompanying notes are an integral part of this schedule

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2013

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3 – Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities disbursed, totaling \$75,738.

**DENISE M. KEENE
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GEORGETOWN, KENTUCKY 40324
502-857-2579**

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

(for a Governmental Entity)

**(No Material Weaknesses Identified, No Significant Deficiencies Identified,
No Reportable Instances of Noncompliance, or Other Matters Identified)**

Independent Auditor's Report

State Committee For School District Audits
Members of the Board of Education
Pendleton County School District
Falmouth, Kentucky

We have audited, 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, the provisions of Office of Management and Budget Circular A-133, Audits of States and Local Governments, and Non-profit Organizations, and the audit requirement prescribed by the Kentucky Committee for School District Audits, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pendleton County Board of Education as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 25, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Compliance and Other Matters

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

Purpose of this Report

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

I noted certain matters that I reported to management of the District in a separate letter dated October 25, 2013.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, pass-through entities and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
October 25, 2013

**DENISE M. KEENE
CERTIFIED PUBLIC ACCOUNTANT
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133
(Unmodified Opinion on Compliance for each Major Program;
Significant Deficiencies in Internal Control Over Compliance Identified)

INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits
Members of the Board of Education
Pendleton County School District
Falmouth, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Pendleton 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 on 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.

Report on Internal Control Over Compliance

Management of the Pendleton County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major 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, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-01, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Pendleton County School District as of and for the year ended June 30, 2013, and have issued our report thereon dated October 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, pass-through entities and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
October 25, 2013

PENDLETON COUNTY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting
 Material weakness(es) identified? yes no
 Significant deficiency(s) identified that are not
 considered to be material weakness(es)? yes none reported
 Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? yes no
 Significant deficiency(s) identified that are not
 Considered to be material weakness(es)? yes none reported

An unmodified opinion was issued on compliance for all major programs.

Any audit findings disclosed that are required to be reported
 in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster
84.027, 84.173	Special Education Cluster (IDEA)
17.258, 17.278	WIA Cluster
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

None

PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2013

Section III – Federal Award Findings and Questioned Costs

2013-01

Identification : CFDA 84.010, CFDA 84.027, and CFDA 84.367 Title I and IDEA , and Teacher Quality 7/1/12 to 9/30/14.

Department of Education.

Criteria: Quarterly financial reports are to be filed by the 25th of the month following the end of the quarter.

Condition: The District filed 2 of 4 of the quarterly financial reports late.

Questioned Cost: None

Information: The District did not file financial reports timely.

Possible effect: The report information may not have been included with the consolidated reports the Kentucky Department of Education are required to file..

Recommendation: Staff should file all reports timely. Someone should monitor report filings.

Management's Response:

The quarterly Consolidated District Report will be submitted in a timely manner as this has been added as an Outlook reminder to complete within the first month following the close of a quarter. The Superintendent will follow up to assure compliance.

PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For The Year Ended June 30, 2013

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

None were reported last year

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-01
Corrective action was taken

Finding 2012-02
This was not corrected and is repeated as a current year finding 2013-01.

MANAGEMENT LETTER

**DENISE M. KEENE
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 1444
GEORGETOWN, KENTUCKY 40324
502-857-2579**

Pendleton County Board of Education
Falmouth, Kentucky

We have audited the financial statements of the Pendleton County School District for the year ended June 30, 2013 and have issued our report thereon dated October 25, 2013. As part of our audit, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary for expressing an opinion on the system of internal accounting control taken as a whole.

The management of the Pendleton County School District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors, or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system of internal accounting control. Accordingly, we do not express an opinion on the system of internal accounting control of the Pendleton County School District taken as a whole. Our study and evaluation disclosed no condition that we believe to be a material weakness.

The following items from last year's management letter points were corrected during the current fiscal year as outlined in the District's response: 2012-01, 2012-03, 2012-04, 2012-06, 2012-07, 2012-08, 2012-09, 2012-10, 2012-11, 2012-12, 2012-13, 2012-14.

The following items from last year's management letter points were not corrected: 2012-02, 2012-05.

CURRENT YEAR MANAGEMENT POINTS

2013-01

The District did not file quarterly federal financial reports on time. Two (2) of four (4) reports were filed late. Someone should monitor the filing of reports. **This is a repeat finding from last year. (2012-02)**

Management's response:

The quarterly Consolidated District Report will be submitted in a timely manner as this has been added as an Outlook reminder to complete within the first month following the close of a quarter.

2013-02

Purchase orders shall be completed and sent to the Superintendent/designee for approval. All purchases shall require the prior approval of the Superintendent or the Superintendent's designee. Testing disclosed 10 out of 111 invoices tested had dates prior to the purchase order date, and 37 did not have a purchase order at all. The District needs to enforce its policies and procedures for purchases. **This is a repeat finding from last year. (2012-05)**

Management's response:

The finance officer will ensure that a PO has been requested prior to an invoice being entered. The two employees who enter the invoices into MUNIS has been instructed to deny paying of invoice that does not have an associated Purchase Order.

SOUTHERN ELEMENTARY SCHOOL –no comments, nice job

NORTHERN ELEMENTARY SCHOOL

2013-03

According to the Red Book, "Amounts may be transferred between activity funds only by proper completion of a Transfer Form. The sponsor of the remitting (paying) activity account and the principal shall sign the Transfer Form." There were two (2) out of seven (7) forms that were not signed by the sponsor of the bookstore.

Management's response:

The audit point deals with two transfers that were not signed by the sponsor of the bookstore. There are two sponsors of the bookstore. Prior to school starting the two sponsors each sent an email requesting the transfer. The transfer form was completed based on the email.

PHILLIP A. SHARP MIDDLE SCHOOL

2013-04

According to the Red Book, "Amounts may be transferred between activity funds only by proper completion of a Transfer Form. The sponsor of the remitting (paying) activity account and the principal shall sign the Transfer Form." There were eight (8) out of sixty-eight (68) forms not signed by the sponsor. One form was recorded for an amount different than the amount on the form. Transfer Forms should be completed and properly signed before they are executed.

Management's response:

The bookkeeper was mistakenly under the impression that the transfer form only needed to be signed by the principal since the term (if applicable) was used on the transfer. She has been notified of the change and will act accordingly.

PENDLETON COUNTY HIGH SCHOOL

2013-05

The school purchased coaches cards for administrators and school board members. Coaches cards should only be purchased for coaches and used for the direct benefit of students. The school should review the current Red Book and the frequently asked questions posted on the Kentucky Department of Education to assure compliance in this area.

Management's response:

Upon reviewing the current Redbook, no student generated funds will be used to purchase coaching cards for employees who are not current coaches. Any coaches card that is purchased for non-coaching persons will be purchased out of the district athletic activity fund.