Union County
PUBLIC SCHOOLS
A Passion for Excellence

REPORT ON AUDIT OF FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

for the year ended June 30, 2013

ALFORD, NANCE & JONES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

UNION COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS
For the year ended June 30, 2013

Independent Auditor's Report	1-2
Required Supplementary Information:	
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position – Proprietary Funds	16
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds	18
Statement of Fiduciary Net Position – Fiduciary Funds	19
Notes to the Basic Financial Statements	20-35
Required Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	36
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	37
Summary of Significant Accounting Policies for Budgetary Process	38

UNION COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS, continued
For the year ended June 30, 2013

Combining Statements/Individual Schedules – Nonmajor Funds:

Combining Balance Sheet-Nonmajor Governmental Funds 39

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds 40

Combining Schedule of Receipts, Disbursements and Fund Balances – All Agency Funds 41

Schedule of Receipts, Disbursements and Fund Balances – Union County High School 42-43

Schedule of Expenditures of Federal Awards 44-45

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 46-47

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 48-49

Schedule of Findings and Questioned Costs 50-52

Management Letter 53-57

ALFORD, NANCE & JONES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

J. Wesley Alford, Jr., CPA
Jacqueline L. Nance, CPA
Theresa A. Jones, CPA
Lori A. Oakley, CPA

108 South Main Street, Suite 101 • Madisonville, Kentucky 42431 • 270-825-4578 • Fax: 270-821-3521

INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of the Board of Education
Union County School District
Morganfield, 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 Union County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Union County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract. Those standards and requirements 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 Union County School District as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 37 through 39 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 Union County School District's basic financial statements. The combining and individual nonmajor fund financial statements/schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 3, 2013, on our consideration of the Union County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Union County School District's internal control over financial reporting and compliance.

Alford, Nance & Jones, LLP

Alford, Nance, & Jones, LLP
Madisonville, KY
December 3, 2013

UNION COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

As management of the Union County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to review the school district's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance. We encourage readers to consider the information presented here in conjunction with the additional information found within the audit.

FINANCIAL HIGHLIGHTS

- The beginning Governmental Fund balance for the district was $5,246,467. The ending Governmental Fund balance was $4,628,117. This represents a decrease of $618,350 in the Governmental Fund balance as of June 30, 2013. The decrease was the result of a fund balance decrease in the General Fund of $865,966 offset by an increase in other Governmental Funds in the amount of $247,616.

- The beginning General Fund balance for the district was $5,079,923 and of that ending fund balance $120,828 is reserved for prepaid assets. The Board under GASB 54 regulations committed $2,029,634 for the following projects. Uniontown roof $110,000, Sick Leave $139,634, HVAC system Middle School $300,000, Transportation busses $1,350,000, Phone Systems $60,000 and Technology equipment $70,000. The ending General Fund balance for the district was $4,213,957 with $38,965 reserved for prepaid assets and $1,890,164 committed and restricted; $139,634 for sick leave payables, $30,530 for encumbrances, $1,720,000 for future projects construction. This represents a decrease in the general fund balance of $865,966.

- The District has maintained a solvent financial condition and has been able to withstand the financial pressures of lower interest rates, State unfunded mandates. The district has accomplished that due continually monitoring staffing and all instructional and support programs.

- The Annual Financial Report and 2013 Audit report includes the on behalf payments in revenue due to GASB 34 regulation. The revenue amount was $4,089,115 of that amount $3,750,702 was expensed to the General Fund, $123,035 Food Service, $41,877 Day Care and $173,501 was expensed to the Debt Service Fund.

Overview of Financial Statements

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

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

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

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

Both of these district-wide statements are divided into two district kinds of activities:

- ***Government Activities*** – The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. The fixed assets and related debt that are also supported by taxes and intergovernmental revenues are reported in this section.

- ***Business Type Activities*** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The types of activities reported in this category are the food service operations, childcare centers, and adult education courses. These activities are funded through fees charged and supported by federal grants and federal commodities used in the food service operations.

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 system. 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, and fiduciary funds.

- ***Governmental Funds*** - Most of the School District's activities are reported in the governmental funds that include: general fund, special revenue (grants), capital outlay, building fund (FSPK), construction fund, and debt service fund. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed *short-term* view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements provided.

- ***Proprietary Funds*** - The proprietary fund includes the food service, childcare centers, and adult education that are also found in the business type activities fund. These funds use the same basis of accounting as business type activities; therefore, the statements for the proprietary fund will essentially match.

- ***Fiduciary Funds*** - The fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The District's fiduciary funds are the school activity funds maintained at the school level. The schools' activity balances at the start of the year totaled $193,153 and the ending balance was $201,112, an increase of $7,959.

- ***Notes to the financial statements.*** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

These notes may either better explain data found in the financial statements or provide additional information that is not found in the financial statements provided.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets, which is outstanding at year-end.

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 those capital assets.

	Governmental Activities		Business Type Activities	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Current Assets	$ 5,221,713	$ 5,654,176	$ 128,020	$ 51,672
Capital or Non-current Assets	16,119,519	16,954,756	59,026	72,122
Total Assets	21,341,232	22,608,932	187,046	123,794
Current Liabilities	1,299,172	1,078,176	144,663	12,127
Non-current Liabilities	6,905,923	6,865,968	3,500	6,100
Total Liabilities	8,205,095	7,944,144	148,163	18,227
Investment in capital asset (net of debt)	9,584,321	9,584,321	38,849	72,122
Restricted	414,160	166,544	-	29,821
Unrestricted	3,137,656	4,913,923	34	3,624
Total Net Assets	$ 13,136,137	$ 14,664,788	$ 38,883	$ 105,567

The total assets exceeded the total liabilities by $13.14 million dollars and which indicates that the District is in a solvent financial position.

UNION COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

	Governmental Activities		Business- Type Activities	
	June 2013	June 2012	June 2013	June 2012
Program Revenues				
Charges for services	$ 164,230	$ 62,664	$ 600,328	$ 607,644
Operating grants and contributions	2,626,704	3,043,867	1,039,280	1,012,042
Capital grants and contributions	647,338	664,913		
Total Program Revenue	3,438,272	3,771,444	1,639,608	1,619,686
General Revenues				
Taxes	6,904,359	6,358,653	-	-
Intergovernmental	12,168,794	12,393,124	-	-
Earnings on investments	5,240	5,643	101	366
Miscellaneous	606,090	547,617	-	-
Total General Revenue	19,684,483	19,305,037	101	366
Total Revenues and Transfers	23,122,755	23,076,481	1,639,709	1,620,052
Program Expenses				
Instruction	14,015,009	13,427,140	-	-
Support services:	10,321,922	10,064,344	-	-
Facilities acquistion and construction	1,599	29,316	-	-
Other	494	20,807	-	-
Interest on long-term debt	276,382	265,585	-	-
Food services	-	-	1,524,404	1,542,679
Adult education	-	-	-	1,233
Daycare services	-	-	217,989	192,840
Total Program Expenses	24,615,406	23,807,192	1,742,393	1,736,752
Transfers	(36,000)	(27,000)	36,000	27,000
Increase (Decrease) in Net Assets	(1,528,651)	(757,711)	(66,684)	(89,700)

GOVERMENTAL FUND HIGHLIGHTS

- The beginning fund balance in the Governmental funds at July 1, 2012 was $5,246,467. The ending fund balance as of June 30, 2013 was $4,628,117. This is a net decrease of $618,350 and was due to the following: a decrease in the General fund balance of $865,966 and an increase in the other Governmental funds of $247,616.

- The Special Revenue fund expenditures for the year were $2,637,828 million. The primary sources of revenues for these grants were State Grants totaling $898,574 and Federal Grants totaling $1,702,271 million.

- The Governmental Fund for Debt Service payments was a total of $882,643 thousand that included $650,000 for principal payments and $232,643 thousand for interest.

CAPITAL ASSETS AND DEBT ADMINSTRATION

Capital Assets

As of June 30, 2013 the district had $15,824,761 in capital assets. This included land, construction in progress, school buildings, athletic facilities, maintenance facilities, transportation facilities, administrative facilities and other equipment. The cumulative total assets were $48.75 million with accumulated depreciation of $32.98 million.

Summary of Capital Assets (net of accumulated depreciation)

	Governmental	Business-Type	Total
Land	$ 323,153	$ -	$ 323,153
Construction in Progress	12,745	-	12,745
Land Improvements	332,971	-	332,971
Buildings & Improvements	12,679,788	-	12,679,788
Technology Equipment	586,343	9,130	595,473
Vehicles	1,146,085	-	1,146,085
General	675,651	49,895	725,546
Total Capital Assets	$ 15,756,736	$ 59,025	$ 15,815,761

Summary of Long-Term Debt

At the fiscal year-end the district had $7,678,068 in long- term debt with $7,019,568 in bonds outstanding, a KSBIT assessment of $418,000, and compensated absences in the amount of $240,500.

Comments on General Fund Budget Comparisons

General Fund Revenues:

The total general fund operating revenues budgeted for fiscal year 2013 in the original budget was $15,576,224. The final operating revenue budget for the general fund was $15,504,653. This is a decrease of the original general fund budget for revenues by $71,571. The actual operating revenue received was $15,607,383. That is an increase of $102,730 over the final General fund revenue budget.

General Fund Expenses:

The original general fund budget for expenses was $16,660,688. The original contingency amount budgeted in that total was $1,858,103. The final general fund budget for expenses was $17,116,632. The final budgeted amount for contingencies was $1,448,821. The actual expenses for the general fund for fiscal year 2013 were $16,422,393. The district general fund had expenses under the final budget in the amount of $694,239.

General Fund Budgetary Implications:

The legislative body of the State has not fully funded many of the mandates passed on to local school districts. This presents a financial challenge for all school districts. In addition, the time frames involved within the State of Kentucky's budgetary process does not allow management adequate time to make necessary adjustments to match revenue that will possibly be available. The school district financial management team does not have accurate data to identify the sources of revenues at the time the original budget is prepared and presented for approval in May before the start of the fiscal year. The local revenues which are approximately 46% of the general fund budget and primarily comes from local tax levies is not known until three months of the respective fiscal year have lapsed. The state revenues or SEEK funds, the remaining 54%, of the General Fund revenue will change numerous times from the original estimate given to the district preceding the start of the fiscal year. In addition, the management decisions to reduce programs and staffing must be implemented several months before the start of a respective fiscal year. The economy of nation and the State of Kentucky is in peril. Our financial stability is tied to this economy and we must be prudent in our use of our revenue, which by all estimates will decline in the upcoming year.

District Challenges for the Future

- The financial impact of declining enrollment has been a difficult challenge for the school district in the past 20 years. Since 1992-93 the Union County School district has experienced a decline in average daily attendance of 950 students. This decline represents a 31% decrease over this 20- year period and accounts for a decline in state revenue of approximately $3.1 million dollars per year. The district's student enrollment, which drives the majority of our funding, has stabilized in the past few years. However, we are still experiencing a slight decrease in enrollment yearly. We do not anticipate any significant decreases in the enrollment in the near future. However, we and other school districts in Kentucky experienced a decrease in funding due to the change in how the district's attendance is presently calculated. The State Legislators of Kentucky continue to pass an education budget that over the past few years significantly decreased our State education funding. The state of Kentucky continues to rank behind the majority of states in teacher compensation.

- The challenge will be to continue to attract the very best teachers and to continue to deliver a quality and ever improving education for our students while experiencing a decline in revenues. In recent years we have increased our beginning teacher salary schedule to become more competitive to surrounding districts.

  We completed our facility plan and as with most school districts our unmet needs exceeds our current bonding potential. We do have some funds restricted in the general fund for limited building projects or other projects. The implementation of Governmental Accounting Standards Board) GASB 54 required the Board of Education to commit those respective funds. The management discussion includes the specific information related to GASB 54.

  In the past two fiscal years the Union County school district's unreserved General Fund beginning balance has decrease by $1,872,128 or 52%. For two consecutive fiscal years food service program required a transfer from the General Fund as did the Day Care operations of the district. The passage of Senate Bill 1 required many additional funds to implement. However the State did not increase our funding to meet this mandate.

  The district cannot continue to significantly spend above the operating revenue it receives in the General Fund. In the upcoming budget cycle for fiscal year 2014 the management team in cooperation with the Board of Education must develop and implement plans to reverse this trend in the General fund. A significant part of that plan will be an extensive review of staffing allocations, staff benefits and all programs presently in place.

- **Report purpose and contact information:**

  This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, these inquiries should be directed to:

  Amy Morris, Assistant Superintendent Finance
  Union County Schools at 510 South Morgan Street, Morganfield, Kentucky
  Phone: 270-389-1694 or Email: amy.morris@union.kyschools.us

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets			
Current Assets			
Cash	$ 3,901,026	$ 910	$ 3,901,936
Accounts receivable:			
Taxes	317,343		317,343
Accounts, net	108,144	-	108,144
Intergovernmental - state	6,298		6,298
Intergovernmental - federal	310,292	80,494	390,786
Due from other funds	124,985		124,985
Inventory		46,616	46,616
Prepaid insurance	38,965		38,965
Restricted cash	414,660		414,660
Total Current Assets	5,221,713	128,020	5,349,733
Noncurrent Assets			
Capital assets, net of accumulated depreciation	15,765,735	59,026	15,824,761
Prepaid interest	250,259		250,259
Bond issue costs	158,662		158,662
Less: accumulated amortization	(55,137)		(55,137)
Total Noncurrent Assets	16,119,519	59,026	16,178,545
Total Assets	21,341,232	187,046	21,528,278
Liabilities			
Current Liabilities			
Accounts payable	141,148	18,899	160,047
Due to other funds		124,985	124,985
Accrued liabilities	141,993	279	142,272
Deferred revenue	220,247		220,247
Current portion of :			
Bond obligations	683,145		683,145
Accrued interest	27,639		27,639
Accrued sick leave	85,000	500	85,500
Total Current Liabilities	1,299,172	144,663	1,443,835
Noncurrent Liabilities			
Noncurrent portion of:			
Outstanding bonds	6,336,423		6,336,423
Accrued sick leave	151,500	3,500	155,000
KSBIT assessment	418,000		418,000
Total Noncurrent Liabilities	6,905,923	3,500	6,909,423
Total Liabilities	8,205,095	148,163	8,353,258
Net Position			
Net investment in capital assets	9,584,321	38,849	9,623,170
Restricted for:			
Capital outlay	404,339		404,339
Debt service	9,821		9,821
Unrestricted	3,137,656	34	3,137,690
Total Net Position	$ 13,136,137	$ 38,883	$ 13,175,020

The accompanying notes are an integral part of the financial statements

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	$ 14,015,009	$ 13,325	$ 2,016,745		$ (11,984,939)		$ (11,984,939)
Support Services:							
Student	1,156,617	43,798	18,416		(1,094,403)		(1,094,403)
Instructional staff	837,339		266,639		(570,700)		(570,700)
District administration	1,182,026				(1,182,026)		(1,182,026)
School administration	1,713,700		31,675		(1,682,025)		(1,682,025)
Business	747,655		22,231		(725,424)		(725,424)
Plant operations and maintenance	2,457,646				(2,457,646)		(2,457,646)
Student transportation	1,991,722	107,107	83,090		(1,801,525)		(1,801,525)
Community service	235,217		187,908		(47,309)		(47,309)
Facilities acquisition and construction	1,599				(1,599)		(1,599)
Interest on long-term debt	276,876			647,338	370,462		370,462
Total Governmental Activities	24,615,406	164,230	2,626,704	647,338	(21,177,134)	-	(21,177,134)
Business-Type Activities							
Food services	1,524,404	474,255	986,569			$ (63,580)	(63,580)
Daycare services	217,989	126,073	52,711			(39,205)	(39,205)
Total Business-Type Activities	1,742,393	600,328	1,039,280	-	-	(102,785)	(102,785)
Total Primary Government	$ 26,357,799	$ 764,558	$ 3,665,984	$ 647,338	(21,177,134)	(102,785)	(21,279,919)
			General Revenues:				
			Taxes:				
			Property taxes		4,560,970		4,560,970
			Motor vehicle taxes		632,204		632,204
			Utility taxes		1,283,275		1,283,275
			Unmined minerals		427,910		427,910
			Other local revenue		586,668		586,668
			Earnings on investments		5,240	101	5,341
			Gain (Loss) on disposal fixed assets		19,422		19,422
			State and formula grants		12,168,794		12,168,794
			Total general revenues		19,684,483	101	19,684,584
			Transfers		(36,000)	36,000	-
			Change in net position		(1,528,651)	(66,684)	(1,595,335)
			Net position - beginning		14,664,788	105,567	14,770,355
			Net position - ending		$ 13,136,137	$ 38,883	$ 13,175,020

The accompanying notes are an integral part of the financial statements

UNION COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 3,901,026	-		$ 3,901,026
Receivables:				
Taxes	317,343			317,343
Miscellaneous	108,144			108,144
Intergovernmental - State		$ 1,090		1,090
Intergovernmental - Federal		310,292		310,292
Due from other funds	253,883			253,883
Prepaid insurance	38,965			38,965
Restricted cash			$ 414,660	414,660
Total assets	$ 4,619,361	$ 311,382	$ 414,660	$ 5,345,403
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 138,411	$ 2,237	$ 500	$ 141,148
Accrued payroll and related expenses	141,993			141,993
Due to other funds		128,898		128,898
Current portion of accrued sick leave	85,000			85,000
Deferred revenue	40,000	180,247		220,247
Total liabilities	405,404	311,382	500	717,286
Fund Balances				
Nonspendable, Prepaid assets	38,965			38,965
Committed for:				
Sick Leave	139,634			139,634
Uniontown roof	110,000			110,000
Middle School HVAC	300,000			300,000
Transportation Buses	1,180,000			1,180,000
Phone system	60,000			60,000
Technology equipment	70,000			70,000
Restricted for:				
Capital Projects			404,339	404,339
Debt Service			9,821	9,821
Assigned to:				
Encumbrances	30,530			30,530
Unassigned				
General fund	2,284,828			2,284,828
Total fund balances	4,213,957	-	414,160	4,628,117
Total liabilities and fund balances	$ 4,619,361	$ 311,382	$ 414,660	$ 5,345,403

The accompanying notes are an integral part of the financial statements

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

Total governmental fund balance per fund financial statements.	$	4,628,117
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		15,765,735
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position. (Bond issue cost, net $103,525, prepaid interest $250,259 and Intergovernmental - state receivable for KSFCC portion of accrued interest $5,208)		358,992
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. Long-term liabilities at year end consist of:		
Bond obligations		(7,019,568)
Accrued interest		(27,639)
Compensated absences		(151,500)
KSBIT assessment		(418,000)
Net position of governmental activities	$	13,136,137

The accompanying notes are an integral part of the financial statements

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

	General Fund	Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	$ 4,063,896		$ 497,074	$ 4,560,970
Motor vehicle	632,204			632,204
Utility	1,283,275			1,283,275
Unmined mineral	427,910			427,910
Earnings on investments	5,049		191	5,240
Other local revenues	285,184	$ 2,605		287,789
Intergovernmental - Local	445,170			445,170
Intergovernmental - State	12,171,599	898,574	647,338	13,717,511
Intergovernmental - Indirect federal		1,702,271		1,702,271
Intergovernmental - Direct federal	43,798			43,798
Total revenues	19,358,085	2,603,450	1,144,603	23,106,138
Expenditures:				
Current:				
Instruction	10,695,637	2,027,869		12,723,506
Support services:				
Student	1,148,464	18,416		1,166,880
Instruction staff	568,858	266,639		835,497
District administrative	1,181,580			1,181,580
School administrative	1,690,837	31,675		1,722,512
Business	669,009	22,231		691,240
Plant operation and maintenance	2,217,799			2,217,799
Student transportation	1,953,602	83,090		2,036,692
Community service activities	47,309	187,723		235,032
Adult education		185		185
Capital outlay:				
Facilities acquisition and construction			14,344	14,344
Debt service:				
Principal			650,000	650,000
Interest			232,643	232,643
Bond issuance costs			35,668	35,668
Total expenditures	20,173,095	2,637,828	932,655	23,743,578
Excess (deficiency) of revenues over (under) expenditures	(815,010)	(34,378)	211,948	(637,440)
Other Financing Sources (Uses)				
Proceeds from bond issues	-	-	2,440,000	2,440,000
Bond premiums	-	-	25,927	25,927
Payment to refunding agent			(2,430,259)	(2,430,259)
Proceeds from sale of assets	19,422			19,422
Transfers in		34,378	772,282	806,660
Transfers out	(70,378)		(772,282)	(842,660)
Total other financing sources (uses)	(50,956)	34,378	35,668	19,090
Net change in fund balance	(865,966)	-	247,616	(618,350)
Fund balance, July 1, 2012	5,079,923	-	166,544	5,246,467
Fund balance, June 30, 2013	$ 4,213,957	$ -	$ 414,160	$ 4,628,117

The accompanying notes are an integral part of the financial statements

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

Net change in fund balance - total governmental funds	$	(618,350)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.		(1,109,763)
Certain accruals do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund statements.(KSBIT assessment $418,000 and change in accrued sick leave $14,500)		(403,500)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position.		650,000
Bond issuance cost, call premiums and discounts are reported as expenditures in this fund financial statement because they are current financial resources, but they are presented as assets in the statement of net position and amortized over the remaining life of the bonds. The difference is the amount of amortization expense for the year.		(45,399)
Proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement, but they are presented as liabilities in the statement of net position.		(2,440,000)
Payments to bond escrow agents are recognized as other financing uses in the fund financial statements, but are reductions in liabilities and prepaid interest in the statement on net position		2,430,259
Accruals of interest payments on long-term debt do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund statements. (Net of receivable for KSFCC for their share of accrued interest)		8,102
Change in net position of governmental activities.	$	(1,528,651)

The accompanying notes are an integral part of the financial statements

UNION COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	SCHOOL FOOD SERVICES	NONMAJOR ENTERPRISE FUND	TOTAL ENTERPRISE FUNDS
Assets:			
Current Assets:			
Cash and cash equivalents	$ 597	$ 313	$ 910
Accounts receivable			
Accounts, net	-		-
Intergovermental - Indirect Federal	80,494		80,494
Inventories	46,616		46,616
Total Current Assets	127,707	313	128,020
Non-Current Assets:			
Capital assets	455,240		455,240
Less: accumulated depreciation	(396,214)		(396,214)
Total Non-Current Assets	59,026	-	59,026
Total Assets	$ 186,733	$ 313	$ 187,046
Liabilities and Net Position:			
Current Liabilities:			
Accounts payable	$ 18,899		$ 18,899
Due to other funds	124,985		124,985
Accrued liabilitites	-	$ 279	279
Current portion of accrued sick leave	500		500
Total Current Liabilities	144,384	279	144,663
Noncurrent Liabilities:			
Accrued sick leave	3,500		3,500
Total noncurrent liabilities	3,500	-	3,500
Total Liabilities	147,884	279	148,163
Net Position:			
Restricted			
Net investment in capital assets	38,849		38,849
Unrestricted	-	34	34
Total Net Position	38,849	34	38,883
Total Liabilities and Net Position	$ 186,733	$ 313	$ 187,046

The accompanying notes are an integral part of the financial statements

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

	SCHOOL FOOD SERVICES	NONMAJOR ENTERPRISE FUND	TOTAL ENTERPRISE FUNDS
Operating Revenues:			
Lunchroom sales	$ 474,255		$ 474,255
Community service activities		$ 126,073	126,073
Other operating revenues			-
Total Operating Revenues	474,255	126,073	600,328
Operating Expenses:			
Salaries and wages	477,699	130,218	607,917
Employee benefits	269,198	78,017	347,215
Professional and contract services	3,991	1,189	5,180
Materials and supplies	757,663	7,789	765,452
Depreciation	13,096		13,096
Other operating expenses	2,757	776	3,533
Total Operating Expenses	1,524,404	217,989	1,742,393
Operating loss	(1,050,149)	(91,916)	(1,142,065)
Non-Operating Revenues:			
Federal grants	770,617		770,617
Donated commodities	81,200		81,200
State grants	134,752	52,711	187,463
Gain (Loss) on disposal of fixed assets			-
Interest income	101		101
Total Non-Operating Revenues	986,670	52,711	1,039,381
Operating transfers in	-	36,000	36,000
Change in Net Position	(63,479)	(3,205)	(66,684)
Total Net Position - Beginning	102,328	3,239	105,567
Total Net Position - Ending	$ 38,849	$ 34	$ 38,883

The accompanying notes are an integral part of the financial statements

UNION COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	SCHOOL FOOD SERVICES	NONMAJOR ENTERPRISE FUND	TOTAL ENTERPRISE FUNDS
Cash Flows from Operating Activities:			
Cash received from lunchroom sales	$ 475,202		$ 475,202
Cash received from user charges and other		$ 128,335	128,335
Cash payments to employees for services	(626,962)	(166,358)	(793,320)
Cash payments to suppliers for goods and services	(678,350)	(8,699)	(687,049)
Cash payments for other operating activities	(2,757)	(776)	(3,533)
Net cash used for operating activities	(832,867)	(47,498)	(880,365)
Cash Flows from Noncapital Financing Activities:			
Non-operating grants received	718,908	10,834	729,742
Operating transfers in(out)	-	36,000	36,000
Increase in due to other fund	113,858		113,858
Cash Flows from Capital and Related Financing Activities:			
Acquisition of capital assets			-
Cash Flows from Investing Activities:			
Interest on investments	101		101
Net increase(decrease) in cash and cash equivalents	-	(664)	(664)
Cash and cash equivalents - Beginning of the year	597	977	1,574
Cash and cash equivalents - End of the year	$ 597	$ 313	$ 910
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:			
Operating loss	$ (1,050,149)	$ (91,916)	$ (1,142,065)
Adjustments to Reconcile Operating Loss to Net Cash Provided(Used) in Operating Activities:			
Depreciation	13,096		13,096
Commodities received	81,200		81,200
On behalf payments recorded	123,035	41,877	164,912
Changes in assets and liabilities:			
Receivables	947	2,262	3,209
Inventory	(16,795)		(16,795)
Accounts payable	18,899	279	19,178
Accrued liabilities			-
Accrued sick leave	(3,100)		(3,100)
Net Cash Used by Operating Activities	$ (832,867)	$ (47,498)	$ (880,365)
Schedule of noncash transactions:			
Benefits paid by state of Kentucky on behalf of District	$ 123,035	$ 41,877	$ 164,912
Donated commodities received from Federal Government	81,200		81,200
	$ 204,235	$ 41,877	$ 246,112

The accompanying notes are an integral part of the financial statements

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

		AGENCY FUNDS
Assets:		
Cash and cash equivalents	$	119,096
Certificates of deposit		86,698
Accounts receivable		1
Total Assets	$	205,795
Liabilities:		
Accounts payable	$	4,683
Due to student groups		201,112
Total Liabilities	$	205,795

The accompanying notes are an integral part of the financial statements

Note 1. Summary of Significant Accounting Policies

a. Reporting Entity

The Union 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 Union County School District (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

These financial statements present the District and its component units, entities for which the District entity is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governmental entity's operations and so data from these units would be combined with data of the primary governmental entity. The Union County School District has one blended component unit.

Blended Component Unit:

Union County School District Finance Corporation - On April 20, 1989, the Union County, Kentucky, Board of Education resolved to authorize the establishment of the Union 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 District for financing the costs of school building facilities. The Board Members of the Union County Board of Education also comprise the Corporation's Board of Directors.

b. Basis of Presentation

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service program or department and are therefore, clearly identifiable with a specific function or segment. 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 expense 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.

Note 1. Summary of Significant Accounting Policies, continued

b. Basis of Presentation, continued

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

The financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All revenues not meeting this definition are reported as nonoperating revenues. The District applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

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

The District has the following funds:

Governmental Fund Types

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

2) The ***Special Revenue (Grant) Fund*** accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs, as well as state grant programs, where unused balances are returned to the grantor at the close of specified project periods. 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.

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

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

   b) The ***Facility Support Program (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 and corresponding debt service.

Note 1. Summary of Significant Accounting Policies, continued

b. Basis of Presentation, continued

c) The ***Construction Fund*** accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

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

Proprietary Fund Types

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District has two enterprise funds: the School Food Services Fund, and the After School Program Fund.

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

2) The ***After School Program Fund*** is used to account for after school programs established to provide supervised activities for children in the afternoon.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds). The District has no trust funds.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the board holds for others in an agency capacity. The Agency Fund consists of Activity funds and 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.*

c. Basis of Accounting

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the modified accrual basis of accounting, whereby revenues are recognized when they become both measurable and available. Revenues are considered to be "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenditures are generally recognized when the related liability is incurred.

Note 1. Summary of Significant Accounting Policies, continued

c. Basis of Accounting, continued

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

d. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, 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.

e. Cash and Cash Equivalents/Restricted Cash/Investments

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. Cash is restricted in the special revenue funds per grant and other agreements, in the capital projects funds per state requirements and in debt service funds per debt agreements. (See Note 2)

Cash balances of the District's funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to the various funds based on the fund's average cash balance. Funds with negative cash balances are not charged interest.

As security for deposits of the District, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the District. In addition, the District's accounts are insured, subject to FDIC coverage terms and limitations. (See Note 2)

State statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. Agencies, certain federal instruments, commercial bank's certificates of deposit, savings and loan deposits, repurchase agreements, and the Commonwealth of Kentucky Investment Pool.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

f. Allowance for Doubtful Accounts

Student accounts receivable are stated net of an allowance for doubtful accounts. The District estimated the allowance based on its historical experience of the uncollected accounts at June 30. The allowance for doubtful accounts was $25,121 at June 30, 2013.

Note 1. Summary of Significant Accounting Policies, continued

g. Inventories/Commodities

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary funds which record inventory using the accrual basis of accounting. Inventories are valued at cost or at the estimated fair value at the date of donation, using the first-in, first-out method. For the purposes of the statement of cash flows, federal grants received does not include non-cash commodities received in the amount of $81,200.

h. 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 capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets 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:

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

i. 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.

j. Accrued Sick Leave

The Union County School District allows employees to accumulate and carry over sick days from year to year. The amount of total days that may be carried over from year to year is unlimited. Upon retirement from the school system, employees will receive an amount up to thirty percent (30%) of the value of accumulated sick leave. Separation of employment for any reason other than retirement results in the employee forfeiting accumulated days. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. It is deemed probable that benefits will be paid to employees with more than twenty years of experience and any employee age 55 or older with at least five years experience.

Note 1. Summary of Significant Accounting Policies, continued

j. Accrued Sick Leave, continued

The entire accrued sick leave 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 "Current Portion of Accrued Sick Leave" in the general fund. The non-current portion of the liability is not reported.

k. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statement. Bond discounts and premiums are netted against the bond principle and issuance costs are recorded as deferred charges in the government-wide financial statements. Bond discounts, premiums and issuance costs are amortized on a straight line basis over the life of the bonds.

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

l. Net Position and Fund Balance

District-Wide Financial Statements

When the District incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted net position first unless unrestricted net position will have to be returned because they were not used. Net position on the Statement of Net Position include the following:

Net Investment in Capital Assets – The component of restricted net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Capital Outlay – The component of net position that reports the financial resources restricted to pay for construction activities.

Restricted for Debt Service – The component of net position that reports the financial resources restricted to pay for debt service on capital related debt less current accrual of interest.

Unrestricted – The difference between the assets and liabilities that is not reported in Net Position Invested in Capital Assets, Net of Related Debt, Net Position Restricted for Capital Outlay, or Net Position Restricted for Debt Service.

Governmental Fund Financial Statements

In July 2010, the District adopted Statement of Governmental Accounting standards No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, in the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned, or unassigned fund balance. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Note 1. Summary of Significant Accounting Policies, continued

l. Net Position and Fund Balance, continued

Nonspendable fund balances are those amounts that cannot be spent because they are either: (1) generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts or (2) amounts that are required to be maintained intact, such as the principal of a permanent fund. At June 30, 2013, the District had $38,965 of prepaid expenses recorded as nonspendable fund balance.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had the following amounts restricted for capital outlay: FSPK $157,806, SEEK $188,907, Construction $57,626 and $9,821 restricted for debt service.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments at June 30, 2013: Sick leave $139,634, Uniontown Roof project $110,000, Middle School HVAC $300,000, Buses $1,180,000, Telephone system $60,000 and Technology equipment $70,000.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which results in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. At June 30, 2013, the District had $30,530 assigned related to encumbrances.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

m. Property Taxes

Property taxes are levied annually by ordinance, usually in October on the assessed value listed as of the property January 1, for all real and personal property in the District. 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 were 55.7 cents per $100 valuation for real and personal property and 55.7 cents per $100 valuation for motor vehicles, of which 6 cents is for participation in Facility Support Program.

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.

n. Interfund Activity

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

Note 1. Summary of Significant Accounting Policies, continued

n. Interfund Activity, continued

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

o. Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid assets using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed. At June 30, 2013 the District had a prepaid interest balance of $250,259 resulting from the refunding of the Union County School District Finance Corporation School Building Refunding Series 2006 Bond Issue. The prepaid interest balance represents bond proceeds deposited into an escrow account to fund remaining interest payments for the Series 2006 Bonds in the amount of $271,635 which has been offset by estimated interest earnings from the Series 2013 Bond issue in the amount of $21,376. The balance is to be amortized over four years.

p. Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2013. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Note 2. Cash and Deposits

At June 30, 2013, the carrying amounts of the District's deposits were $4,521,868 (excluding cash on hand $526) and the bank balances were $5,428,345. Of the bank balances, $543,896 was insured by federal depository insurance, $4,884,449 was covered by collateral held by the pledging bank's escrow agent in District's name.

The District's Cash and cash equivalents at June 30, 2013 consisted of the following:

	Bank Balance	Book Balance
Fifth Third Bank Checking	$ 1,201,771	$ 1,195,874
Fifth Third Bank Certificates of Deposit	41,174	41,174
Old National Bank Certificate of Deposit	2,232	2,232
Old National Bank Checking	603	603
United Community Bank Checking	4,139,273	3,238,693
United Community Bank Certificate of Deposit	43,292	43,292
	$ 5,428,345	4,521,868
Restricted cash		(620,842)
Unrestricted cash and cash equivalents		$ 3,901,026
Reported in the financial statement:		
Governmental funds		$ 414,660
Proprietary funds		388
Fidiciary funds		205,794
		$ 620,842

Note 2. Cash and Deposits, continued

Restricted cash at June 30, 2013 consists of the following:

General Fund	$ 1,859,634
FSPK Fund	158,306
SEEK Fund	188,907
Construction Fund	57,626
Debt Service Fund	9,821
	$ 2,274,294

Note 3. Capital Assets

During the year ended June 30, 2013, the following changes occurred in capital assets:

Governmental Activities:	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets that are not depreciated:				
Land	$ 323,153	$ -	$ -	$ 323,153
Construction in progress	51,904	12,745	(51,904)	12,745
Total Non-depreciable Historical Cost	375,057	12,745	(51,904)	335,898
Capital assets that are depreciated:				
Land improvements	1,005,774	157,334		1,163,108
Buildings and improvements	40,112,679			40,112,679
Technology equipment	2,394,155	27,036		2,421,191
Vehicles	3,171,868	270,032		3,441,900
General	1,231,822	38,802		1,270,624
Total Depreciable Historical Cost	47,916,298	493,204	-	48,409,502
Less accumulated depreciation for:				
Land improvements	797,141	32,997		830,138
Buildings and improvements	26,449,878	974,013		27,423,891
Technology equipment	1,555,247	279,601		1,834,848
Vehicles	2,089,362	206,453		2,295,815
General	524,228	70,745		594,973
Total Accumulated Depreciation	31,415,856	1,563,809	-	32,979,665
Total Depreciable Historical Cost, Net	16,500,442	(1,070,605)	-	15,429,837
Governmental Activities: Capital Assets, Net	$ 16,875,499	$ (1,057,860)	$ (51,904)	$ 15,765,735

Note 3. Capital Assets, continued

Business-Type Activities:	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets that are depreciated:				
Technology equipment	$ 56,127	$ -	$ -	$ 56,127
General	399,113	-	-	399,113
Total Depreciable Historical Cost	455,240	-		455,240
Less accumulated depreciation for:				
Technology equipment	42,869	4,128	-	46,997
General	340,249	8,968	-	349,217
Total Accumulated Depreciation	383,118	13,096	-	396,214
Total Depreciable Historical Cost, Net	$ 72,122	$ (13,096)	$ -	$ 59,026

Depreciation expense was charged to governmental functions as follows:

Instruction	$ 993,003
Support services:	
Student support services	10,454
Instruction staff	1,842
District administration	19,588
School administration	27,167
Business support	56,415
Plant operations and maintenance	240,278
Student transportation	215,062
Total Depreciation Expense	$ 1,563,809

Note 4. Due to/from other funds

The composition of interfund balances as of June 30, 2013, is as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General	Special Revenue	Cash deficit in pooled account	$ 128,898
General	School Food Service	Cash deficit in pooled account	124,985
			$ 253,883

Note 5. Long-Term Debt

Bonded Debt Obligations

On certain bond issues, the District has entered into "participation agreements" with the Kentucky School Facility Construction Commission (KSFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

Note 5. Bonded Debt Obligations, continued

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

Issue	Original Amount	Interest Rates
Issue of 2006	$ 3,040,000	3.50% - 4.30%
Issue of 2009, Refunding	1,960,000	2.00% - 3.50%
Issue of 2011, Refunding	3,480,000	1.50% - 3.00%
Issue of 2013, Refunding	2,440,000	1.00% - 2.15%

The bonds may be called prior to maturity dates and redemption premiums are specified in each issue. Assuming no bonds are called to 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:

	District		School Facility Construction Commission		Total		
	Interest	Principal	Interest	Principal	Interest	Principal	Total
2013-14	$ 212,107	$ 560,145	$ 50,478	$ 124,855	$ 262,585	$ 685,000	$ 947,585
2014-15	199,213	562,047	46,653	127,953	245,866	690,000	935,866
2015-16	185,250	572,947	42,673	132,053	227,923	705,000	932,923
2016-17	99,356	588,691	18,991	136,309	118,347	725,000	843,347
2017-18	87,537	600,416	15,873	139,584	103,410	740,000	843,410
2018-19	72,855	621,321	11,949	143,679	84,804	765,000	849,804
2019-20	56,502	508,989	7,671	51,011	64,173	560,000	624,173
2020-21	43,847	522,970	6,650	52,030	50,497	575,000	625,497
2021-22	29,988	531,929	5,610	53,071	35,598	585,000	620,598
2022-23	15,849	185,868	4,548	54,132	20,397	240,000	260,397
2023-24	12,132	189,786	3,466	55,214	15,598	245,000	260,598
2024-25	8,336	193,680	2,361	56,320	10,697	250,000	260,697
2025-26	4,462	207,554	1,235	57,446	5,697	265,000	270,697
	$ 1,027,433	$5,846,343	$ 218,157	$ 1,183,657	$ 1,245,592	$ 7,030,000	$ 8,275,592

During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Balance July 1, 2012	Additions		Reductions	Balance June 30, 2013	Due within one year
Governmental Activities:						
Bonds	$ 7,420,000	$ 2,440,000		$ 2,830,000	$ 7,030,000	$ 685,000
Net deferred amounts for issuance premiums discounts and call premiums	(80,098)	25,927		(43,739)	(10,432)	(1,855)
Total bonds payable	7,339,902	2,465,927	-	2,786,261	7,019,568	683,145
KSBIT assessment		418,000			418,000	
Accrued sick leave	280,000	42,673	(A)	86,173	236,500	85,000
	$ 7,619,902	$ 2,926,600		$ 2,872,434	$ 7,674,068	$ 768,145
Business-Type Activities:						
Accrued sick leave	$ 7,100			$ 3,100	$ 4,000	$ 500

(A) This amount represents the net addition in compensated absences, ie, days earned less days taken.

Note 5. Bonded Debt Obligations, continued

During 2006, Union County School District Finance Corporation School Building Revenue Bond, Series 2006, dated April 1, 2006 in the amount of $3,040,000, was issued to finance construction of improvements at Union County High School.

Union County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2009, dated February 1, 2009 in the amount of $1,960.000, were issued for the purpose of refunding and defeasing the Union County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 1999 which have been paid in full. The KSFCC is participating in approximately 43% of the debt service of the bonds. This current refunding was undertaken to reduce total debt service payments over the next ten years by $168,825 and resulted in an economic gain of $144,128.

Union County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2011, dated March 1, 2011, in the amount of $3,480,000, were issued for the purpose of refunding the outstanding Union County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2002, dated June 1, 2002, scheduled to mature on and after June 1, 2012. This refunding was undertaken to reduce total debt service payments over the next ten years by $200,692 and resulted in an economic gain of $167,947. In February 2013, the in-substance defeased debt was paid in full.

Union County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2013, dated April 1, 2013, in the amount of $2,440,000, were issued for the purpose of refunding the outstanding Union County School District Finance Corporation School Building Refunding Revenue Bonds, Series 2006, dated April 1, 2006, maturing April 1, 2017 and thereafter. The 2006 Bonds maturing April 1, 2014 through April 1, 2016 will not be defeased and remain payable under the original terms. This refunding was undertaken to reduce total debt service payments over the next twelve years by $147,948 and resulted in an economic gain of $129,437. At June 30, 2013, $2,180,000 of the in-substance defeased debt is outstanding.

Other Long-Term Debt

The Kentucky School Boards Insurance Trust (KSBIT) has notified all past and present members that they will be assessed to make up for a growing deficit in the Workers' Compensation Self-Insurance and/or Property and Liability pools. The District has recorded a long-term liability of $418,000 ($313,000 for Workers' Compensation liability and $105,000 for Property and Liability coverage) using assessments based on estimates provided by KSBIT. No payment terms have been established as of June 30, 2013.

Note 6. Retirement Plans

KTRS

The Union 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). 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 Statues (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 or from the KTRS website at http://www.ktrs.ky.gov/.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% for employees hired before July 1, 2008 and 14.105% for employees who started their account after July 1, 2008 and not paid with federal

Note 6. Retirement Plans-continued

funds. If employees are paid salaries by federal programs, those programs pay the respective matching percentages.

The Union County School District's total payroll for the year was $14,323,899. The payroll for employees covered under KTRS was $10,583,377. For the year ended June 30, 2013, the Commonwealth contributed $1,257,139 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2013, 2012 and 2011 were $129,813, $177,384, and $208,317, respectively, which represent 100% of the required contributions for those employees covered by federal programs.

CERS, continued

Substantially, all other employees (classified personnel) are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-696-8000.

Plan members are required to contribute 5% (6% if hired after September, 2008) of their annual creditable compensation. The District is required to contribute at an actuarially determined rate. The current rate is 19.55% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were $718,072, $705,410, and $638,409, respectively, equal to the required contributions for each year.

Defined Contribution Plans

The District makes available various 401(k) and 403(b) defined contribution pension plans for all regular full-time and part-time employees. These Plans are administered by independent third party administrators. Employees are allowed to contribute any amount to the Plans up to the Internal Revenue Code maximum allowable amount. The District can but is not required to contribute to the Plans. In addition, the District retains authority to amend or terminate these plans. During the year ended June 30, 2013, employees of the District contributed $255,469 to 401(k) plans and $38,004 to 403(b) plans. For the fiscal year ended, the District matched up to 1% of the participant base wages to the 410(k) plan in the amount of $112,871.

Note 7.Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrating involvement and who do not perform the investing functions for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its financial statements. The District does not contribute to these plans, and employees of the District contributed $5,175 to these plans during the year ended June 30, 2013.

Note 8. Post Employment Health Care Benefits

Plan description – In addition to the pension benefits described in Note 6, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Funding policy – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. The premiums collected from retirees as described in the plan 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 members' salary for the 2012-2013 fiscal year. The District contributions to the Retiree Medical Insurance Fund for the years ending June 30, 2013, 2012, and 2011 were $105,834, $44,867, and $22,404 respectively.

Note 9. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays annual premiums for coverage to Ohio Casualty/Liberty Mutual Insurance for their general liability and property insurance coverage. The District purchases unemployment insurance through the Kentucky Employers Mutual Insurance. 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. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 10. COBRA

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

Note 11. Transfer of funds

The following interfund transfers were made during the year:

From Fund	To Fund	Purpose	Amount
Nonmajor Governmental Funds:			
FSPK	Debt Service	Debt Payments	$ 709,142
SEEK	Construction	Projects	63,140
Total Nonmajor governmental funds			772,282
General	Special Revenue	Projects	1,857
General	Special Revenue	Matching	32,521
General	Daycare Services	Operations	36,000
Total Transfers			$ 842,660

Note 12. Litigation

The District is involved in litigation arising out of the normal course of business. The results of litigation proceedings cannot be predicted with certainty; however, in the opinion of the District's general counsel, the District does not have a potential liability in connection with these proceedings, which would have an adverse material effect on the financial condition of the District.

Note 13. Contingencies

Funding for the District's Grant Funds is provided by federal, state and local government agencies. 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 grantor 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 grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue its programs.

As shown in Note 5 above, the Kentucky School Facilities Construction Commission (KSFCC) is assisting the District with the repayment of the Bond Series 2004, 2006, 2009 and 2013. In the unlikely event the Commonwealth of Kentucky defaults on their portion of the bond series, the District is responsible to repay the amount in full. The KSFCC's portion as of June 30, 2013 was $1,401,814.

Note 14. Deficit Operating/Fund Balances

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues under expenditures and other financing uses resulting in a corresponding reduction of fund balance. These deficits were funded by available resources at the beginning of the year.

General Fund	$ 865,966
After School Program	$ 3,205
Food Service	$ 63,479

Note 15. On-behalf Payments

The Commonwealth of Kentucky made payments on behalf of the District as follows for the year ended June 30, 2013. The amounts are included in the General Fund, Debt Service, Food Service Fund and Day Care Fund as Intergovernmental-State revenues. In the General Fund, the retirement payments are recorded as additional instruction expense and the health insurance, flexible spending plan, and life insurance payments (net of administrative fees) are allocated to the various expense functions based on a ratio of employees and technology payments are recorded as District Administration expense. In the Debt Service Fund, the payments are recorded as principal and interest payments. In the Food Service and Day Care Funds, all of the payments are recorded as additional employee benefits.

Note 15. On-behalf Payments, continued

Kentucky Teachers Retirement System	$ 1,257,139
Health insurance, flexible spending plan, life insurance, net of administrative fees	2,603,026
Technology	55,449
Debt Service	173,501
	$ 4,089,115
Amounts Reported in:	
General Fund	$ 3,750,702
Food Service Fund	123,035
Day Care Fund	41,877
Debt Service Fund	173,501
	$ 4,089,115

Note 16. Commitments

The District had the following outstanding construction projects as of June 30, 2013, evidenced by contractual commitments, purchase orders and BG-1 forms, as applicable.

Project	Incurred-to-date	Commitment Remaining	Total
Uniontown Elementary Paving Repairs	$ 4,778	$ 98,791	$ 103,569
Uniontown Elementary Roof	7,967	697,417	705,384
Total	$ 12,745	$ 796,208	$ 808,953

Note 17. Subsequent Events

Management has evaluated subsequent events through December 3, 2013 the date on which the financial statements were available to be issued.

UNION COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	BUDGETED AMOUNTS			VARIANCES WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
Revenues:				
From local sources:				
Taxes:				
Property	$ 3,992,000	$ 3,992,000	$ 4,063,896	$ 71,896
Motor vehicle	575,000	575,000	632,204	57,204
Utilities	1,420,000	1,420,000	1,283,275	(136,725)
Unmined minerals	525,000	525,000	427,910	(97,090)
Earnings on investments	7,000	7,000	5,049	(1,951)
Other local revenues	26,609	26,609	285,184	258,575
Intergovernmental - Local	473,000	473,000	445,170	(27,830)
Intergovernmental - State	8,512,615	8,441,044	8,420,897	(20,147)
Intergovernmental - Federal	45,000	45,000	43,798	(1,202)
Total Revenues	15,576,224	15,504,653	15,607,383	102,730
Expenditures:				
Current:				
Instruction	8,109,451	8,328,584	8,098,231	230,353
Support services:				
Student	916,005	914,205	969,779	(55,574)
Instructional staff	505,882	504,392	437,656	66,736
District administration	1,122,050	1,177,050	1,181,580	(4,530)
School administration	1,477,818	1,483,559	1,372,182	111,377
Business	685,397	685,397	613,560	71,837
Plant operations and maintenance	2,001,238	2,181,521	2,057,857	123,664
Student transportation	1,842,847	1,841,924	1,691,548	150,376
Community service activities			-	-
Adult education			-	
Capital Outlay:				
Facilities acquisition and construction				
Debt Service:				
Principal			-	-
Interest			-	-
Total Expenditures	16,660,688	17,116,632	16,422,393	694,239
Excess(deficiency) of revenues over expenditures	(1,084,464)	(1,611,979)	(815,010)	796,969
Other Financing Sources (Uses):				
Proceeds from sale of fixed assets	8,000	8,000	19,422	11,422
Proceeds from bonds				
Operating transfers in			-	-
Operating transfers out	(46,661)	(46,661)	(70,378)	(23,717)
Contingency	(1,858,103)	(1,448,821)		1,448,821
Total Other Financing Sources (Uses)	(1,896,764)	(1,487,482)	(50,956)	1,436,526
Net Change in Fund Balance	(2,981,228)	(3,099,461)	(865,966)	2,233,495
Fund balance July 1, 2012	2,981,228	3,099,461	5,739,914	2,640,453
Fund balance June 30, 2013	$ -	$ -	$ 4,873,948	4,873,948

UNION COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	BUDGETED AMOUNTS			VARIANCES WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
Revenues:				
From local sources:				
Taxes:				
Property				
Motor vehicle				
Utilities				
Unmined minerals				
Earnings on investments			$ 2,605	$ 2,605
Intergovernmental - State	$ 922,789	$ 1,071,234	898,574	(172,660)
Intergovernmental - Federal	1,506,092	1,718,611	1,702,271	(16,340)
Revenue in lieu of taxes				
Other state revenue				
Other local revenues				
Total Revenues	2,428,881	2,789,845	2,603,450	(186,395)
Expenditures:				
Current:				
Instruction	1,826,050	2,013,160	2,027,869	(14,709)
Support services:				
Student	21,819	22,569	18,416	4,153
Instructional staff	238,828	354,896	266,639	88,257
District administration			-	
School administration	51,000	27,550	31,675	(4,125)
Business	49,622	114,722	22,231	92,491
Plant operations and maintenance			-	
Student transportation	65,293	94,252	83,090	11,162
Community services	201,080	187,507	187,723	(216)
Adult education			185	(185)
Capital Outlay:				
Facilities acquisition and construction				
Debt Service:				
Principal				
Interest				
Total Expenditures	2,453,692	2,814,656	2,637,828	176,828
Excess(deficiency) of revenues over expenditures	(24,811)	(24,811)	(34,378)	(9,567)
Other Financing Sources (Uses):				
Proceeds from sale of fixed assets				
Proceeds from bonds				
Operating transfers in	24,811	24,811	34,378	9,567
Operating transfers out				
Total Other Financing Sources (Uses)	24,811	24,811	34,378	9,567
Net Change in Fund Balance	-	-	-	-
Fund balance July 1, 2012	-		-	-
Fund balance June 30, 2013	$ -	$ -	$ -	$ -

UNION COUNTY SCHOOL DISTRICT
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR BUDGETARY PROCESS
FOR THE YEAR ENDED JUNE 30, 2013

Budgetary Process

Budgetary Basis of Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for on-behalf payments. The Kentucky Department of Education does not permit Kentucky school districts to budget on-behalf payments. All annual appropriations lapse at fiscal year-end.

As required by KRS 160.470, on or before January 31 of each year, the District commences budget preparation for the following fiscal year. Before May 30, a tentative working budget is presented to the Kentucky Department of Education. A final working budget must be prepared and adopted no later than September 30. The budget is periodically amended and adopted by the Board of Education during the fiscal year with a final budget adopted by the Board prior to June 30.

The appropriated budget is prepared by fund unit, function, program, level, object and project. The legal level of budgetary control is the fund level.

Reconciliation between the Budgetary Basis of Accounting and GAAP

A basis difference exists between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments. The Kentucky Department of Education prohibits Kentucky school districts from including on-behalf payments in the budget process. Line item differences are as follows:

General Fund:	BUDGET BASIS	GAAP BASIS	DIFFERENCE
Revenues:			
Intergovernmental-state	$ 8,420,897	$ 12,171,599	$ 3,750,702
Expenditures:			
Instruction	8,098,231	10,695,637	2,597,406
Support services:			
Student	969,779	1,148,464	178,685
Instructional staff	437,656	568,858	131,202
School administration	1,372,182	1,690,837	318,655
Business	613,560	669,009	55,449
Plant operations maintenance	2,057,857	2,217,799	159,942
Student transportation	1,691,548	1,953,602	262,054
Community service activities	-	47,309	47,309

Special Revenue Fund:

There were no material variances between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District.

UNION COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET- NONMAJOR GOVERNMENT FUNDS
JUNE 30, 2013

	FSPK Fund	SEEK Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents					
Accounts receivable:					
Local					
Restricted cash	$ 158,306	$ 188,907	$ 57,626	$ 9,821	$ 414,660
Total assets	$ 158,306	$ 188,907	$ 57,626	$ 9,821	$ 414,660
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	$ 500				$ 500
Due to other funds					
Total liabilities	500	-	-	-	500
Fund Balances					
Restricted for:					
Capital Projects	157,806	$ 188,907	$ 57,626		404,339
Debt Service				$ 9,821	9,821
Unassigned					-
Total fund balances	157,806	188,907	57,626	9,821	414,160
Total liabilities and fund balances	$ 158,306	$ 188,907	$ 57,626	$ 9,821	$ 414,660

UNION COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES- NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	FSPK Fund	SEEK Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	$ 497,074				$ 497,074
Earnings on investments	191				191
Donations					-
Intergovernmental - State	263,914	$ 209,923		$ 173,501	647,338
Total revenues	761,179	209,923	-	173,501	1,144,603
Expenditures:					
Capital outlay:					
Facilities acquisition and construction	1,600		$ 12,744		14,344
Debt Service:					
Principal				650,000	650,000
Interest				232,643	232,643
Bond issuance costs				35,668	35,668
Total expenditures	1,600	-	12,744	918,311	932,655
Excess (deficit) of revenues over expenditures	759,579	209,923	(12,744)	(744,810)	211,948
Other Financing Sources (Uses)					
Proceeds from bond issues				2,440,000	2,440,000
Bond premium				25,927	25,927
Payment to refunding agent				(2,430,259)	(2,430,259)
Payment of call premium					-
Transfers in			63,140	709,142	772,282
Transfers out	(709,142)	(63,140)			(772,282)
Total other financing sources (uses)	(709,142)	(63,140)	63,140	744,810	35,668
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	50,437	146,783	50,396	-	247,616
Fund balance, July 1, 2012	107,369	42,124	7,230	9,821	166,544
Fund balance, June 30, 2013	$ 157,806	$ 188,907	$ 57,626	$ 9,821	$ 414,160

UNION COUNTY SCHOOL DISTRICT
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND FUND BALANCES ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

Activity Funds	Cash Balances July 1, 2012	Receipts	Disbursements	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Union County High School	$ 110,966	$ 292,935	$ 280,909	$ 122,992	$ 1	$ 4,209	$ 118,784
Union County Middle School	37,510	95,602	97,613	35,499			35,499
Sturgis Elementary School	20,562	29,753	31,339	18,976			18,976
Uniontown Elementary School	14,590	45,731	39,541	20,780		474	20,306
Morganfield Elementary School	10,903	38,259	41,615	7,547			7,547
	$ 194,531	$ 502,280	$ 491,017	$ 205,794	$ 1	$ 4,683	$ 201,112

The Activity Funds cash balances at June 30, 2013 consisted of the following:

Cash and cash equivalents	$ 119,096
Certificates of deposit	86,698
	$ 205,794

UNION COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balances July 1, 2012	Receipts	Disbursements	Transfers In	Transfers Out	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Academic Team	$ 185	$ 539	$ 456	$	$	$ 268	$	$	$ 268
ACT Workshop	900		640			260			260
AG Science	171	1,862	1,384	25		674			674
Alumni Scholarship	356	1				357			357
Alumni Scholarship CD	2,512					2,512			2,512
Art Department	1,984	5,087	3,968			3,103			3,103
Art Studio	2,023	308	256			2,075			2,075
Athletic Dept.	7,963	82,869	88,582	2,117	2,354	2,013		1,000	1,013
Athletic Participation/ Travel	984	10,123	10,004	150		1,253			1,253
Band	326	3,478	3,744			60			60
Baseball	414					414			414
Beta	1,098					1,098			1,098
Book Club	238	3,256	3,363			131			131
Book Rental	47	16,843	16,805	48		133			133
Carol Davis Scholarship	363	4,500	4,000			863	1		864
Carol Davis Passbook	7,781	11				7,792			7,792
Cedar	-	2,400	2,327			73			73
Cheerleaders	164		164			-			-
Chorus	975	732	1,158			549			549
Coed - Y	21	220	220			21			21
Coleman & Hazel Brinkley	250	250	500			-			-
Culinary Skills	57					57			57
Donan Jenkins Scholarship	1,000	3,000	1,000			3,000			3,000
Drill Team	718		500			218			218
Dr. Douglas Hines Scholarship	110		100			10			10
Douglas Hines Scholarship	2,232					2,232			2,232
Drink Machine	2,352	4,263	5,606			1,009			1,009
E A C	796	100	419			477			477
Ep English	10					10			10
F.B.L.A.	36	2,227	2,275	54		42			42
F.E.A.	472	56				528			528
F.F.A.	6,252	18,082	19,482	600	280	5,172			5,172
FCCLA	-	275	183			92			92
Faculty/Staff Flower	1,130	609	1,314		12	413			413
FMD	1,251	2,610	2,649			1,212			1,212
Foreign Language	1,914		454			1,460			1,460
Football Camp	5,755	1,868	4,722		13	2,888			2,888
Gamers Guild	140					140			140
General Fund	1,600	6,487	6,689			1,398		75	1,323
Girls Basketball	66					66			66
Girls Soccer Camp	171					171			171
Golf- Boys	66					66			66
Greenwell Scholarship	162	126				288			288
Sam Greenwell CD	9,650					9,650			9,650
Guidance	2,338	8,473	5,807	136	44	5,096			5,096
Health Service	573	7,752	7,563			762			762
HOSA	18	1,499	1,321	12		208			208
Senior Class 2015	12	1,879	1,165		12	714			714
Kyle Brantley Scholarship	273	1				274			274
Kyle Brantley CD (2 CDs)	4,013					4,013			4,013
Library	511	621	115			1,017			1,017
Links YSC	452	2,500	2,857			95			95
Math Department	585		60			525			525
Media	51	880				931			931
National Honor Society	353	1,821	1,678			496			496
NTHS	425	845	990			280			280
Operatiion HOPE	424	1,593	1,811			206		139	67
Parking Permits	3,342	5,210	2,840			5,712			5,712
PEP	-	2,775	597			2,178			2,178
Performing Arts	2,790	7,711	8,438			2,063			2,063

UNION COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balances July 1, 2012	Receipts	Disbursements	Transfers In	Transfers Out	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Region 3 FFA	5,045	2,764	7,205	280	500	384			384
Science Club	476					476			476
Science	758	1,768	2,289			237			237
Senior Class 2014	-	17,186	13,254			3,932			3,932
Soccer- Boys Camp	176					176			176
SOAP	-	25			25	-			-
Senior Class 2013	3,485	3,169	6,574	56	136	-			-
Student Safety Ambassador	390		252			138			138
Student Reward Money	264	1,836	1,218	543		1,425			1,425
21st Century Manufacuring	691	6,475	5,712	25	93	1,386			1,386
Tech Classes	1,588	6,927	4,487	20		4,048		2,995	1,053
Tennis Team	143					143			143
Teenpower	64					64			64
Track	40					40			40
Tri-M	225					225			225
Terry Goodwin Scholarship	4,058					4,058			4,058
VICA(Skills USA)	410	110	136			384			384
Vocational Electricity	1,263	2,344	3,157			450			450
Volleyball Camp Fund	408		402			6			6
Wrestling	128					128			128
Yearbook	9,755	30,437	13,868		54	26,270			26,270
Young Democrat	10				10	-			-
Young Republicans	533				533	-			-
Gaming	201	4,152	4,149			204			204
Totals	$ 110,966	$ 292,935	$ 280,909	$ 4,066	$ 4,066	$ 122,992	$ 1	$ 4,209	$ 118,784

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

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Department of Education			
Passed through Commonwealth of Kentucky Department of Education:			
Title I Grants to Local Education Agencies	84.010	3100002-11	175,826
Title I Grants to Local Education Agencies	84.010	3100002-12	429,620
Title I Grants to Local Education Agencies	84.010	3100202-10	8,579
Title I Grants to Local Education Agencies	84.010	3100202-11	46,123
Total Title I			660,148
Special Education Cluster:			
Special Education-Grants to States	84.027	3810002-12	570,115
			570,115
Special Education-Preschool Grants	84.173	3800002-11	48,717
Special Education-Preschool Grants	84.173	3800002-12	35,472
			84,189
Total Special Education Cluster			654,304
Improving Teacher Quality State Grants	84.367	3230002-11	811
Improving Teacher Quality State Grants	84.367	3230002-12	131,073
			131,884
Vocational Education Basic Grants to State	84.048	4621332-12	7,889
Vocational Education Basic Grants to State	84.048	4621332-13	9,663
			17,552
Race to the Top	84.143A	3960002-11	12,713
ARRA School Improvement Grants, Recovery Act	84.388A	4100302-09	108,804
Education Jobs Fund	84.410	EJOB00-10	116,867
Total Kentucky Department of Education			1,702,272

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

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through Kentucky Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	7760005 12	38,404
School Breakfast Program	10.553	7760005 13	152,335
			190,739
National School Lunch Program			
Cash Assistance	10.555	7750002 12	115,206
Cash Assistance	10.555	7750002 13	441,887
			557,093
Noncash Assistance - Commodities (Note C)	10.555	Fund 51	81,200
			638,293
Summer Food Service Program for Children	10.559	7690024 12	651
Summer Food Service Program for Children	10.559	7740023 12	6,266
Summer Food Service Program for Children	10.559	7740023 12	16,814
			23,731
Total Child Nutrition Cluster			852,763
Total U.S. Department of Agriculture			852,763
Total Federal Expenditures			$ 2,555,035

Note A: Basis of Presentation:

This Schedule of expenditures of federal awards includes the federal grant activity of the Union County School 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 Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because this Schedule presents only a selected portion of the operations of the Union County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Union County School District.

Note B: Summary of Significant Accounting Policies:

(1) Expenditures reported on this 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.
(2) Pass-through entity identifying numbers are presented where available.

Note C: Commodities:

Nonmonetary assistance is reported in the Schedule at the fair market value of the USDA food commodities received and disbursed.

Note D: Medicaid Reimbursements:

Although reported in the financial statements as direct federal revenue, medicaid reimbursements($43,798) are not considered expenditures of federal awards for the purposes of the schedule.

ALFORD, NANCE & JONES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

J. Wesley Alford, Jr., CPA
Jacqueline L. Nance, CPA
Theresa A. Jones, CPA
Lori A. Oakley, CPA

108 South Main Street, Suite 101 • Madisonville, Kentucky 42431 • 270-825-4578 • Fax: 270-821-3521

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

State Committee for School District Audits
Members of the Board of Education
Union County School District
Morganfiled, Kentucky

We have audited, in accordance with the 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 the audit requirements prescribed by the State Committee for School District Audits' Fiscal year 2012-2013 Financial Audit Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Union County Board of Education's basic financial statements and have issued our report thereon dated December 3, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs (B2013-01) that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Union County School 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*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract.

Union County School District's Response to Findings

Union County School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Union County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Alford, Nance & Jones, LLP

Alford, Nance & Jones, LLP
Madisonville, KY
December 3, 2013

ALFORD, NANCE & JONES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

J. Wesley Alford, Jr., CPA
Jacqueline L. Nance, CPA
Theresa A. Jones, CPA
Lori A. Oakley, CPA

108 South Main Street, Suite 101 • Madisonville, Kentucky 42431 • 270-825-4578 • Fax: 270-821-3521

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

State Committee for School District Audits
Members of the Board of Education
Union County School District
Morganfield, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Union County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract. Those standards, requirements, 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 Union County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Alford, Nance & Jones, LLP

Alford, Nance & Jones, LLP
Madisonville, KY
December 3, 2013

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

A. Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Union County School District.

2. One significant deficiency in internal control was disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*. This significant deficiency is not reported as a material weakness.

3. No instances of noncompliance material to the financial statements of Union County School District were disclosed during the audit.

4. There were no deficiencies in internal control disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.

5. The auditor's report on compliance for the major federal award programs for the Union County School District expresses an unmodified opinion on all major federal programs.

6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs included:

Child Nutrition Cluster:	
- National School Lunch	10.555
- National School Breakfast	10.553
- Summer Food Service	10.559
School Improvement-Recovery Act	84.388A
Title I Grants – Part A	84.010

8. The threshold for distinguishing Types A and B programs was $300,000.

9. Union County Board of Education was determined to be a low risk auditee.

B. Findings-Financial Statements Audit

Control Deficiency

B2013-01 Significant Deficiency

Condition: Effective internal controls over financial reporting have not been established to apply generally accepted accounting principles in preparing the District's financial statements, including required disclosures.

Criteria: Effective internal controls over financial reporting are necessary to allow management or employees to prevent or detect misstatements on a timely basis.

Cause: The District does not employ personnel who possess the required knowledge, nor has the District outsourced responsibility for these controls.

Effect: The District was not able to prepare its financial statements, including disclosures, in accordance with generally accepted accounting principles. Further, the District was limited in its abilities to, prevent, detect, and correct misstatements in the financial statements.

Recommendation: We recommend the District either 1) Consider outsourcing the review of the financial statements and disclosures to a qualified individual or accounting firm (auditor is precluded from serving in this capacity due to professional independence standards), or 2) Have an employee obtain the proper training and qualification to perform a technical review of the financial statements and disclosures.

Management's Response: The District had decided it was not economically feasible to train or hire an individual with the required knowledge or outsource this control function. However, beginning July 1, 2013, the District has attained a qualified staff member capable of preparing the financial statements and disclosures.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None reported

D. Schedule of Prior Audit Findings (Relative to Federal Awards)

2012-02 Child Nutrition Cluster-CFDA 10.553, 10.555, 10.559; Grant period for the year ended June 30, 2012

Criteria: The Child Nutrition Cluster is subject to various compliance requirements regarding General Eligibility, Eligibility for Free or Reduced Price Meals, Financial Reporting, and Special Tests regarding Verification of Free and Reduced Price Applications. These compliance requirements can be found in the June 2012 OMB's Circular A-133 Compliance Supplement.

Significant Deficiency: Our audit procedures and the procedures performed by the Kentucky Department of School and Community Nutrition during their CRE (Coordinated Review Effort) Review dated June 1, 2012, indicate the following immaterial noncompliance with requirements:

1. Two children did not meet the eligibility requirements.

2012-02 Child Nutrition Cluster-CFDA 10.553, 10.555, 10.559; Grant period for the year ended June 30, 2012, continued

2. The error rate at the High School on Free and Reduced Applications was 10.34%.

3. Financial information per the MUNIS accounting system did not reconcile with a summary of the monthly D-2s.

4. Errors were found in the verification testing of Free and Reduced Price Applications.

Cause: Procedures were not in place to ensure Management's knowledge and compliance of new and continuing program requirements. In addition, some applications are still being completed manually, which increases the opportunity for errors to occur.

Recommendation: Management should review current program requirements and promptly seek controls to ensure understanding and compliance. An increased effort should be maintained throughout the program year to adhere to controls and monitor requirements. In addition, management should consider ways in which automated controls can be implemented to assist with program requirements.

Management's Response: The Finance Officer will, on a monthly basis, review the summary D-2 reports and assist the food service manager to reconcile the reports. We will utilize our lunchbox computer system to approve all free and reduced applications and verification testing. The children that did not meet eligibility requirements, was an inadvertent error and we will strive to not make that error in the future. We will review program requirements and increase efforts to properly adhere to controls and monitor procedures.

FYE 6/30/13 – There are no findings reported.

ALFORD, NANCE & JONES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

J. Wesley Alford, Jr., CPA
Jacqueline L. Nance, CPA
Theresa A. Jones, CPA
Lori A. Oakley, CPA

108 South Main Street, Suite 101 • Madisonville, Kentucky 42431 • 270-825-4578 • Fax: 270-821-3521

Kentucky State Committee for School District Audits
Members of the Board of Education
Union county School District
Morganfield, Kentucky

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

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated December 3, 2013 contains our report on significant deficiencies and material weaknesses, if any, in the District's internal controls. This letter does not affect our report dated December 3, 2013 on the financial statements of the Union County School District.

We appreciate the opportunity to bring these comments to your attention. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Alford, Nance & Jones, LLP

Alford, Nance & Jones, LLP
Madisonville, KY
December 3, 2013

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

CURRENT YEAR MANAGEMENT LETTER POINTS

School Activity Funds

The KDOE "Red Book" requires the use of specific forms (or reasonable facsimiles) and various procedures for certain activities. Below summarizes required forms or procedures not being used correctly:

	UCHS	UCMS	MES	SES	UES
Interest earned on all acounts posted to General fund	X				
Not using Redbook form FSA-17	X				
Did not use Ticket Requistion form properly	X		X		
Some deposit slips not properly initialed	X				
No supporting documentation for sale of Greenhouse plants(2nd yr)	X				
Principles combining budget filed late	X			X	
Some booster organization reports not submitted/timely	X				X
Purchase over $1,500 not approved by Central office	X				
Missing invoice for online purchase	X				
Some PO's dated after invoice date			X		X
Money held for a week before being deposited			X		
Did not use inventory control worksheet				X	X
Missing deposit tickets/other documentation				X	
Purchased office supplies, etc with student money				X	
Multiple receipt form not dated					X

Recommendation: We recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these procedures.

Response: We concur with the comment and will stress compliance with the "Red Book". Management intends to also conduct a "Red Book" training session to educate the school financial secretaries and administration on compliance guidelines related to School Activity Funds.

School Food Service

1) Food service operations reported a decrease in net position for 2013 in the amount of $80,494. In addition, the general fund had to loan the food service operation $113,858 to pay current operating expenses. Management acknowledges the decrease in net position and cash for the year, but appears to have passively investigated or implemented policies or procedures to mitigate the decline during the past three years.

Recommendation: We recommend management take a proactive approach to food service operations and monitor and compare operations by locations, particularly cost of food per meal, participation, and total costs to identify trends and problem areas and actively investigate and make changes throughout the year.

Response: The food service coordinator and other members of the administrative team will proactively develop and continuously monitor an action plan geared towards increasing revenues and reducing costs in food service operations.

School Food Service, continued

2) Accounts receivable from student charged meals has increased from the previous year. At June 30, 2013, the balance is $25,121, an increase of $9,354 from 2012.

Recommendation: We recommend increased efforts be maintained to collect previous student charges and to implement and adhere to one current student charge policy.

Response: We will adhere to the existing policy set forth by food service which allows a $6.25 charge balance per student. The District will increase efforts to collect previous student charges and will continue monitor student charge accounts on a regular basis.

3) During our site review of operations at Morganfield Elementary, we noticed the students going up to the register, and announcing their name to the cashier. A keypad was connected to the register but placed behind other items.

Recommendation: We recommend management consider using keypads at all of the cash registers and inputting student photographs in the system. Students can easily hold their trays and key in a number. In addition, the State report indicates the preference of using student keypads. This will enable the cash register operator to more adequately monitor the meal tray and any negative balances on the student accounts. In addition, students will not be concerned or able to observe the cash register screen until it is cleared and their turn.

Response: We concur with the recommendation for utilizing keypads at all cash registers and will evaluate current procedures and options for improving.

4) Currently the food service director is traveling to Uniontown Elementary to pick up and deposit the food service deposit on a regular basis.

Recommendation: We recommend the food service director coordinate the depositing of food service receipts with the Uniontown activity fund bookkeeper. The activity fund bookkeeper should be making deposits on a regular basis for the school and able to make a separate deposit for the lunchroom operation.

Response: We concur with the recommendation and will implement an alternative method to make the daily food service deposits.

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

PRIOR YEAR MANAGEMENT LETTER POINTS

School Activity Funds

The KDOE "Red Book" requires the use of specific forms (or reasonable facsimiles) and various procedures for certain activities. Below summarizes required forms or procedures not being used correctly:

	UCHS	UCMS	MES	SES	UES
Some deposit slips not properly initialed	X		X		
Some PO's dated after invoice date	X				
Some booster organization reports not submitted	X	X	X		X
Missing fundraiser worksheet	X				
No supporting documentation for sale of Greenhouse plants	X				
No supporting documentation for Café' proceeds	X				
Some transfer forms not signed by outgoing sponsor		X			
Multiple receipt form needs signature of remitter		X			
No fundraiser approval form			X		
Multiple receipt form not used			X		

Recommendation: We recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these procedures.

Response: We concur with the comment and will stress compliance with the "Red Book". All schools received a management point regarding donations not turned into the Board. We now have a Board policy that allows schools to accept donations and then notify the Board of Education of those donations. This policy follows the guidelines recommended in the Red Book.

FYE 6/30/13: See current year comments.

Food Service

1) Currently, documentation to support the receipt and deposit of vending machine receipts is the bank deposit form.

Recommendation: We recommend the High School Food Service manager consider using a current Redbook Form F-SA-17 to document the counting of vending machine receipts.

Response: We concur and will utilize Redbook Form F-SA-17 to document the vending machine receipts.

FYE 6/30/13: Using Form F-SA-17

2) Accounts receivable from student charged meals has increased from the previous year. At June 30, 2013, the balance is $15,767. The State Department review indicates two conflicting student charge policies.

Recommendation: We recommend increased efforts be maintained to collect previous student charges and to implement and adhere to one current student charge policy.

Response: We will adhere to one student charge policy and will begin working to identify other available resources to assist in the collection of lunchroom fees not paid.

FYE 06/30/13: See current year comments.

Food Service, continued

3) Food service operations reported a decrease in net assets for 2012 and 2013 in the amount of $59,624 and $86,804, respectively. In addition, cash decreased from $75,000 reported on July 1, 2010 to a negative $10,530 on June 30, 2013. Management acknowledges the decrease in net assets and cash, but appears to have passively investigated or implement policies or procedures to mitigate the decline during the two years.

Recommendation: We recommend management take a proactive approach to food service operations and monitor and compare operations by locations, particularly cost of food per meal, participation, and total costs to identify trends and problem areas and actively investigate.

Response: The food service manager, along with other members of the administrative team, will develop plans to increase revenues and reduce costs in the food service operation. In addition, the Board of Education has approved a 25% increase in local food service prices for the upcoming fiscal year.

FYE 6/30/13: See current year comments.

4) During our site review of operations at the High school, we noticed the students going up to the register, viewing the cash register screen and announcing their student number to the cashier. In this manner, some students would have been able to see the previous student's information before the cashier cleared the entry. Also, it appeared the cashier had some difficulty keying in the student number and observing the food on the tray for allowable meal components.

Recommendation: We recommend Management consider using keypads at all of the cash registers. Students can easily hold their trays and key in a number. In addition, the State report indicates the preference of using student keypads. This will enable the cash register operator to more adequately monitor the meal tray and any negative balances on the student accounts. In addition, students will not be concerned or able to observe the cash register screen until it is cleared and their turn.

Response: We concur with the recommendation that alternative methods will be investigated to improve the identification of students with excessive debt balances.

FYE 6/30/13: See current year comments.

5) Currently the Food Service Director is traveling to Uniontown Elementary to pick up and deposit the Food Service Deposit.

Recommendation: We recommend the Food Service Director coordinate the deposit Food Service receipts with the Uniontown activity fund bookkeeper. The Activity Fund bookkeeper should be making deposits on a regular basis for the School and able to make a separate deposit for the Lunchroom operation.

Response: We concur with the recommendation and will implement an alternative method to make the daily food service deposits.

FYE 6/30/13: See current year comments.