

**EAST BERNSTADT INDEPENDENT
SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014
with
REPORT OF INDEPENDENT AUDITORS**

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
East Bernstadt Independent School District
East Bernstadt, 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 East Bernstadt Independent School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Bernstadt Independent School District, as of June 30, 2014, 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 per the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Bernstadt Independent School District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The management's discussion and analysis and budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 11, 2014, on our consideration of East Bernstadt Independent 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Bernstadt Independent School District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2014

The management of East Bernstadt Independent School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2014. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$1,208,399 in 2014 and \$3,503,399 in 2013. In 2014 and 2013, cash of \$717,853 and \$2,831,209 respectively, was reserved for capital projects.
- The General Fund had \$3,470,647 in revenue, excluding interfund transfers, which primarily consisted of the state program (SEEK) and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$3,447,155 in General Fund expenditures.
- Governmental Capital Assets had a net increase of \$2,092,320 during the current fiscal year. Business-Type Activities Capital Assets had a net decrease of \$59,782 during the current fiscal year.
- The East Bernstadt Elementary School project (phase 2) was approximately 99% complete as of June 30, 2014.
- New debt for the year included the District's participation in the Kentucky Interlocal School Transportation Association's (KISTA) bus purchasing program. New debt totaled \$103,060.

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 to the basic financial statements themselves.

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

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

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

The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on the table of contents of this report.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED
Year ended June 30, 2014

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements can be found on pages 8 to 18 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending.

Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2014

Fiscal year 2014 government-wide net position compared to 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 1,281,253	\$ 3,581,071
Capital assets	11,501,250	9,621,408
Total Assets	<u>\$ 12,782,503</u>	<u>\$ 13,202,479</u>
Deferred outflow of resources	<u>\$ 910</u>	<u>\$ -</u>
Current liabilities	\$ 655,172	\$ 976,754
Noncurrent liabilities	9,914,661	10,079,284
Total Liabilities	<u>\$ 10,569,833</u>	<u>\$ 11,056,038</u>
Net investment in capital assets, net	\$ 1,341,460	\$ 1,941,758
Restricted net position	782,702	26,303
Unrestricted net position	89,418	178,380
Total Net Position	<u>\$ 2,213,580</u>	<u>\$ 2,146,441</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$1,860,875; proprietary assets exceeded liabilities by \$352,705 and total assets exceeded liabilities by \$2,213,580 at June 30, 2014.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED
Year ended June 30, 2014

The District had an overall decrease in unrestricted net position of \$88,962, comprised of an increase in business type activities unrestricted net position of \$32,502 and a decrease in governmental activities unrestricted net position of \$121,014.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Revenues and other financing sources		
Local revenue sources	\$ 484,403	\$ 471,739
State revenue sources	3,917,292	4,060,875
Federal revenue	<u>611,036</u>	<u>627,046</u>
Total revenue	<u>5,012,731</u>	<u>5,159,660</u>
Expenditures and other financing uses		
Instruction	2,367,307	2,380,121
Student support services	92,807	146,825
Instructional support	267,683	302,903
District administration	344,460	452,208
School administration	125,359	125,957
Business operations	162,413	183,706
Plant operation and maintenance	331,094	308,838
Student transportation	246,263	146,873
Building acquisition and construction	2,128,573	3,713,046
Community services	59,644	61,662
Debt service	<u>916,015</u>	<u>904,611</u>
Total expenditures	<u>7,041,618</u>	<u>8,726,750</u>
Excess revenues (expenditures)	<u>\$ (2,028,887)</u>	<u>\$ (3,567,090)</u>
Other financing sources (uses)		
Bond proceeds	\$ -	\$ 2,135,000
Capital lease proceeds	103,060	-
Transfers in	307,325	716,208
Transfers out	<u>(295,855)</u>	<u>(717,442)</u>
Total other financing sources (uses)	<u>\$ 114,530</u>	<u>\$ 2,133,766</u>
Net change in fund balance	<u>\$ (1,914,357)</u>	<u>\$ (1,433,324)</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

BUDGETARY IMPLICATION

In Kentucky, the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with a zero amount in contingency.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2014 were \$3,470,647 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$35,098 more than budget or 1.02% more than budget.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2014 was \$3,447,155.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$249,642 or 6.75% less than budget.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent or the Director of Financial Services at 606-843-7373, or by mail at 296 E. Hwy. 3094, East Bernstadt, KY 40729.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,175,762	\$ 32,637	\$ 1,208,399
Accounts receivable:		-	
Taxes	12,141	-	12,141
Other	5,106	-	5,106
Intergovernmental - Federal	55,607	-	55,607
Capital Assets, net			-
Nondepreciable	9,665,944	-	9,665,944
Depreciable	1,514,653	320,653	1,835,306
Total assets	<u>12,429,213</u>	<u>353,290</u>	<u>12,782,503</u>
Deferred outflows of resources			
Deferred amounts from refunding bonds	910	-	910
LIABILITIES			
Accounts payable	12,317	585	12,902
Accrued expenses	47,432	-	47,432
Unearned revenue	12,266	-	12,266
Current portion of KSBIT assessment payable	61,016	-	61,016
Current portion of capital leases	18,695	-	18,695
Current maturities of bond obligations	446,979	-	446,979
Interest payable	55,882	-	55,882
Noncurrent portion of KSBIT assessment payable	169,078	-	169,078
Noncurrent portion of capital leases	113,482	-	113,482
Noncurrent maturities of bond obligations	9,581,544	-	9,581,544
Noncurrent portion of accumulated sick leave	50,557	-	50,557
Total liabilities	<u>10,569,248</u>	<u>585</u>	<u>10,569,833</u>
NET POSITION			
Net investment in capital assets	1,020,807	320,653	1,341,460
Restricted for:			
Capital expenditures	717,853	-	717,853
Other	64,849	-	64,849
Unrestricted	57,366	32,052	89,418
Total net position	<u>\$ 1,860,875</u>	<u>\$ 352,705</u>	<u>\$ 2,213,580</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
Instruction	\$ 2,387,200	\$ -	\$ 554,265	\$ -	\$ (1,832,935)	\$ -	\$ (1,832,935)
Student	96,702	11,544	23,788	-	(61,370)	-	(61,370)
Instructional support	268,003	-	125,468	-	(142,535)	-	(142,535)
District administration	354,856	-	41,715	-	(313,141)	-	(313,141)
School administration	125,804	-	29,005	-	(96,799)	-	(96,799)
Business operations	162,545	-	30,366	-	(132,179)	-	(132,179)
Plant operations and maintenance	392,385	-	30,200	-	(362,185)	-	(362,185)
Student transportation	154,925	-	40,864	-	(114,061)	-	(114,061)
Community services	59,724	-	59,644	-	(80)	-	(80)
KSBIT assessment payable	230,094	-	-	-	(230,094)	-	(230,094)
Interest on long-term debt	464,535	-	-	623,438	158,903	-	158,903
Total governmental activities	4,696,773	11,544	935,315	623,438	(3,126,476)	-	(3,126,476)
Business-type activities							
Food service	325,192	60,203	255,601	-	-	(9,388)	(9,388)
Community service operations	8,938	8,972	-	-	-	34	34
Total business-type activities	334,130	69,175	255,601	-	-	(9,354)	(9,354)
Total primary government	\$ 5,030,903	\$ 80,719	\$ 1,190,916	\$ 623,438	(3,126,476)	(9,354)	(3,135,830)
			General revenues				
			Taxes:				
			Property		167,341	-	167,341
			Motor vehicle		72,864	-	72,864
			Utility		117,271	-	117,271
			Earnings on investments		3,534	20	3,554
			State grants		2,958,031	-	2,958,031
			Other local amounts		123,393	-	123,393
			Transfers		11,471	(11,471)	-
			Gain/(loss) on disposal of assets		(59,052)	(28,848)	(87,900)
			Total general revenues		3,394,853	(40,299)	3,354,554
			Change in net position		268,378	(49,653)	218,724
			Restated net position beginning of year		1,592,497	402,358	1,994,855
			Net position as of June 30, 2014		\$ 1,860,875	\$ 352,705	\$ 2,213,580

The accompanying notes are an integral part of these financial statements

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET -

GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 439,733	\$ -	\$ 715,070	\$ 64,849	\$ 1,219,652
Accounts receivable:					
Taxes	12,141	-	-	-	12,141
Other	-	2,275	2,831	-	5,106
Intergovernmental - Federal	-	55,607	-	-	55,607
Total assets	<u>\$ 451,874</u>	<u>\$ 57,882</u>	<u>\$ 717,901</u>	<u>\$ 64,849</u>	<u>\$ 1,292,506</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Checks written in excess of account balance	\$ -	\$ 43,890	\$ -	\$ -	\$ 43,890
Accounts payable	10,543	1,726	48	-	12,317
Accrued liabilities	47,432	-	-	-	47,432
Unearned revenue	-	12,266	-	-	12,266
Total liabilities	<u>57,975</u>	<u>57,882</u>	<u>48</u>	<u>-</u>	<u>115,905</u>
Fund balances					
Restricted	-	-	717,853	64,849	782,702
Assigned	1,624	-	-	-	1,624
Unassigned	392,275	-	-	-	392,275
Total fund balances	<u>393,899</u>	<u>-</u>	<u>717,853</u>	<u>64,849</u>	<u>1,176,601</u>
Total liabilities and fund balances	<u>\$ 451,874</u>	<u>\$ 57,882</u>	<u>\$ 717,901</u>	<u>\$ 64,849</u>	<u>\$ 1,292,506</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
Year ended June 30, 2014

Total fund balances - governmental funds	\$ 1,176,601
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	11,180,597
Deferred outflows of resources are not reported in the governmental fund balance sheet because they are not current economic resources but they are presented in the statement of net position.	910
Bonds and capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(10,160,700)
KSBIT assessment payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(230,094)
Accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(50,557)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(55,882)</u>
Total net position - governmental activities	<u>\$ 1,860,875</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2014

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 167,341	\$ -	\$ -	\$ -	\$ 167,341
Motor vehicle	19,198	-	-	53,666	72,864
Utility	117,271	-	-	-	117,271
Earnings on investments	1,814	-	1,720	-	3,534
Other local	60,647	49,250	13,496	-	123,393
Intergovernmental - State	3,092,832	258,938	-	565,522	3,917,292
Intergovernmental - Federal	11,544	234,409	-	365,083	611,036
Total revenues	3,470,647	542,597	15,216	984,271	5,012,731
Expenditures					
Current:					
Instruction	2,001,039	366,268	-	-	2,367,307
Student	82,791	10,016	-	-	92,807
Instructional support	183,578	84,105	-	-	267,683
District administration	344,460	-	-	-	344,460
School administration	125,359	-	-	-	125,359
Business operations	162,413	-	-	-	162,413
Plant operations and maintenance	318,769	325	-	12,000	331,094
Student transportation	220,153	26,110	-	-	246,263
Community services	-	59,644	-	-	59,644
Building acquisition and construction	-	-	2,128,573	-	2,128,573
Debt service	8,593	-	-	907,422	916,015
Total expenditures	3,447,155	546,468	2,128,573	919,422	7,041,618
Excess (deficit) of revenues over (under) expenditures	23,492	(3,871)	(2,113,357)	64,849	(2,028,887)
Other financing sources (uses)					
Capital lease proceeds	103,060	-	-	-	103,060
Transfers in	15,470	7,871	-	283,984	307,325
Transfers out	(7,871)	(4,000)	-	(283,984)	(295,855)
Total other financing sources (uses)	110,659	3,871	-	-	114,530
Net change in fund balance	134,151	-	(2,113,357)	64,849	(1,914,357)
Fund balance as of June 30, 2013	259,748	-	2,831,210	-	3,090,958
Fund balance as of June 30, 2014	\$ 393,899	\$ -	\$ 717,853	\$ 64,849	\$ 1,176,601

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2014

Net change in total fund balances - governmental funds \$ (1,914,357)

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

Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year. 2,151,370

Amortization of deferred outflows are not considered a use of current resources and are not presented on the fund financial statement but are presented in the statement of activities (200)

KSBIT assessment payable is not considered to use current economic resources and is not presented in the fund financial statement but is presented in the statement of activities. (230,094)

Losses on the disposal of assets are not reported on the fund financial statements but are reported in the statement of activities. (59,051)

Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position. 453,219

Debt issues are recognized as other sources of funds in the governmental fund financial statements, but are increases in liabilities in the statement of net position. (103,060)

Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities. (1,538)

Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources. (27,911)

Change in net position - governmental activities \$ 268,378

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 32,603	\$ 34	\$ 32,637
Total current assets	<u>32,603</u>	<u>34</u>	<u>32,637</u>
Noncurrent assets			
Capital assets	383,435	-	383,435
Less accumulated depreciation	<u>(62,782)</u>	<u>-</u>	<u>(62,782)</u>
Total noncurrent assets	<u>320,653</u>	<u>-</u>	<u>320,653</u>
Total assets	<u>353,256</u>	<u>34</u>	<u>353,290</u>
LIABILITIES			
Accounts payable	<u>585</u>	<u>-</u>	<u>585</u>
Total liabilities	<u>585</u>	<u>-</u>	<u>585</u>
NET POSITION			
Net investment in capital assets	320,653	-	320,653
Restricted for:			
Other	<u>32,018</u>	<u>34</u>	<u>32,052</u>
Total net position	<u>\$ 352,671</u>	<u>\$ 34</u>	<u>\$ 352,705</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
Year ended June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
Operating revenues			
Lunchroom sales	\$ 60,048	\$ -	\$ 60,048
Tuition and fees	155	8,972	9,127
Total operating revenues	<u>60,203</u>	<u>8,972</u>	<u>69,175</u>
Operating expenses			
Salaries and wages	109,512	6,988	116,500
Employee benefits	48,405	1,891	50,296
Materials and supplies	136,341	59	136,400
Depreciation	30,934	-	30,934
Total operating expenses	<u>325,192</u>	<u>8,938</u>	<u>334,130</u>
Operating income	<u>(264,989)</u>	<u>34</u>	<u>(264,955)</u>
Nonoperating revenues			
Federal grants	213,131	-	213,131
State grants	24,268	-	24,268
Donated commodities	18,202	-	18,202
Interest income	20	-	20
Loss on disposal of assets	(28,848)	-	(28,848)
Total nonoperating revenues/(expenses)	<u>226,773</u>	<u>-</u>	<u>226,773</u>
Income before contributions			
Transfers and special items	(38,216)	34	(38,182)
Transfers out	(11,471)	-	(11,471)
Change in net position	<u>(49,687)</u>	<u>34</u>	<u>(49,653)</u>
Net position as of June 30, 2013	<u>402,358</u>	<u>-</u>	<u>402,358</u>
Net position as of June 30, 2014	<u>\$ 352,671</u>	<u>\$ 34</u>	<u>\$ 352,705</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
Year ended June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
Cash flows from operating activities			
Cash received from:			
Lunchroom sales	\$ 60,048	\$ -	\$ 60,048
Other activities	155	8,972	9,127
Cash paid to/for:			
Employees	(157,917)	(8,879)	(166,796)
Supplies	(117,795)	(59)	(117,854)
Net cash used in operating activities	<u>(215,509)</u>	<u>34</u>	<u>(215,475)</u>
Cash flows from non-capital financing activities			
Grants received	257,703	-	257,703
Transfer in From General Fund	(11,471)	-	(11,471)
Net cash used in non-capital financing activities	<u>246,232</u>	<u>-</u>	<u>246,232</u>
Cash flows from investing activities			
Interest received on investments	<u>20</u>	<u>-</u>	<u>20</u>
Net cash used in capital and related activities	<u>20</u>	<u>-</u>	<u>20</u>
Net increase in cash and cash equivalents	30,743	34	30,777
Cash and cash equivalents as of June 30, 2013	<u>1,860</u>	<u>-</u>	<u>1,860</u>
Cash and cash equivalents as of June 30, 2014	<u>\$ 32,603</u>	<u>\$ 34</u>	<u>\$ 32,637</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income/ (loss)	\$ (264,989)	\$ 34	\$ (264,955)
Adjustments to reconcile change in net position to net cash used in operating activities:			
Increase (Decrease) in Accounts payable	344	-	344
Donated commodities	18,202	-	18,202
Depreciation	<u>30,934</u>	<u>-</u>	<u>30,934</u>
Net cash used in operating activities	<u>\$ (215,509)</u>	<u>\$ 34</u>	<u>\$ (215,475)</u>
Schedule of non-cash transactions:			
Depreciation	\$ 30,934	\$ -	\$ 30,934
Donated commodities	<u>18,202</u>	<u>-</u>	<u>18,202</u>
Total non-cash transactions	<u>\$ 49,136</u>	<u>\$ -</u>	<u>\$ 49,136</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
 June 30, 2014

	<u>Agency Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Total Fiduciary Funds</u>
ASSETS			
Cash	\$ 26,194	\$ -	\$ 26,194
Total assets	<u>\$ 26,194</u>	<u>\$ -</u>	<u>\$ 26,194</u>
LIABILITIES			
Due to student groups	\$ 26,194	\$ -	\$ 26,194
Total liabilities	<u>26,194</u>	<u>-</u>	<u>26,194</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the year ended June 30, 2014

	<u>Private Purpose Trust Funds</u>
Additions	
Employer	\$ -
Plan members	-
	<hr/>
Total Contributions	-
	<hr/>
Investment income	
Interest	-
	<hr/>
Total investment income	-
	<hr/>
Total Additions	-
	<hr/>
Deductions	
Benefits paid	626
Other	3,070
	<hr/>
Total Deductions	3,696
	<hr/>
Net increase in plan assets	(3,696)
Net position held in trust, June 30, 2013	3,696
	<hr/>
Net Position Held In Trust, June 30, 2014	<u>\$ -</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year ended June 30, 2014

1. REPORTING ENTITY

The East Bernstadt Independent 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 East Bernstadt Independent 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. 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 activities relevant to the operation of the East Bernstadt Independent Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

East Bernstadt Independent School District Finance Corporation – In a prior year, the East Bernstadt Independent Board of Education resolved to authorize the establishment of the East Bernstadt Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the "Corporation") to act as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the basis of presentation:

Government-wide Financial Statements - The statement of net position and the statement of revenues, expenses, and changes in net position 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, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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

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

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

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

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

I. Government Fund Types - continued

Capital Projects 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). The Capital Projects Funds account for revenue and expenditures from three sources:

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

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

II. Proprietary Fund Types (Enterprise Funds)

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

The After School Child Care Fund accounts for the funds raised at schools providing after school care for children.

The Dental Plan Fund accounts for funds contributed for dental insurance (see disclosure note below).

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

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

Basis of Accounting

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. The District reports unearned revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as unearned revenue. In subsequent periods, the liability for unearned revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.410 per \$100 valuation for real property, \$.410 per \$100 valuation for business personal property and \$.350 per \$100 valuation for motor vehicles.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Prepaid Assets

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

Interfund Receivables and Payables

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

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

Budgetary Process

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

- Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

Cash and Cash Equivalents

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

Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method; the general fund inventory is stated at cost and uses the first-in, first-out method.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

Fund balances are separated into five categories, as required by GASB 54, as follows:

Nonspendable fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

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.

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.

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 result 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.

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.

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

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2014, in the governmental funds balance sheet.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Net Position

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

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

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

Estimates

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

Deferred Inflows and Deferred Outflows of Resources

The East Bernstadt Independent Board of Education adopted GASB 63 in the prior year and GASB 65 in the current year which combined requires the recording of deferred inflows and deferred outflows of resources in the government wide statements. The deferred outflows of resources presented were primarily created by the prior refunding of revenue bonds.

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2014, none of the District's bank balances were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

3. CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED

Cash and cash equivalents at June 30, 2014 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Cumberland Valley National Bank	\$ 1,360,208	\$ 1,234,593
	<u>-</u>	<u>-</u>
	<u>\$ 1,360,208</u>	<u>\$ 1,234,593</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 1,175,762
Proprietary funds	32,637
Agency funds	<u>26,194</u>
	<u>\$ 1,234,593</u>

Cash is commingled in various bank accounts and short-term certificates of deposit. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash account within the following funds is considered to be restricted:

- Special Revenue Funds
- SEEK Capital Outlay Fund
- Facility Support Program (FSPK) Fund
- School Construction Fund
- School Food Service Fund
- Agency Funds

4. INVESTMENTS

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2014, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	June 30, 2013			June 30, 2014	
	Balance	Additions	Retirements	Balance	
Governmental Activities					
Land & land improvements	\$ 175,738	\$ -	\$ 50,366	\$ 125,372	
Buildings	2,387,429	12,000	225,026	2,174,403	
Technology equipment	336,388	-	17,622	318,766	
Vehicles	336,630	100,815	36,076	401,369	
General equipment	198,589	-	2,968	195,621	
Construction work in progress	7,361,632	2,128,574	-	9,490,206	
Total historical cost	10,796,406	2,241,389	332,058	12,705,737	
Less accumulated depreciation	1,708,129	90,018	273,007	1,525,140	
Governmental capital assets, net	<u>\$ 9,088,277</u>	<u>\$ 2,151,371</u>	<u>\$ 59,051</u>	<u>\$ 11,180,597</u>	
Business-type Activities					
Buildings	\$ 50,176	\$ -	\$ 50,176	\$ -	
Technology equipment	-	-	-	-	
General equipment	394,590	-	11,155	383,435	
Total historical cost	444,766	-	61,331	383,435	
Less accumulated depreciation	64,330	30,935	32,483	62,782	
Business-type capital assets, net	<u>\$ 380,436</u>	<u>\$ (30,935)</u>	<u>\$ 28,848</u>	<u>\$ 320,653</u>	

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 3,982
Student	3,895
Instruction staff	320
District administrative	10,396
School administrative	445
Business	132
Plant operation and maintenance	61,291
Student transportation	9,477
Community Services	80
	<u>\$ 90,018</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

6. LONG-TERM DEBT

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the East Bernstadt Independent School District Finance Corporation.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2008	72,145	3.00% - 3.75%
2009	200,000	3.50% - 4.50%
2009R	421,920	1.00% - 3.50%
2011	8,196,000	4.84%
2012	2,135,000	1.1% - 2.650%
2014	103,060	2.00% - 3.00%

A. CAPITAL LEASES PAYABLE

The District has entered into a capital lease agreement for buses and facilities which will become the property of the District when all terms of the lease agreement are met. The following presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-15	\$ 18,695	\$ 3,321	\$ 22,016
2015-16	19,203	2,865	22,068
2016-17	16,516	2,356	18,872
2017-18	16,956	1,911	18,867
2018-19	10,141	1,449	11,590
2020-24	50,666	3,934	54,600
	<u>\$ 132,177</u>	<u>\$ 15,836</u>	\$ 148,013
			<u>(15,836)</u>
			<u>\$ 132,177</u>

6. LONG-TERM DEBT - CONTINUED

B. LONG-TERM OBLIGATIONS

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

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008, the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2014 for debt service (principal and interest) are as follows:

See table on next page

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

6. LONG-TERM DEBT - CONTINUED

Year	East Bernstadt Independent School District		Kentucky School Facility Construction Commission		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2014-15	\$ 210,180	\$ 59,119	\$ 236,799	\$ 7,100	\$ 446,979	\$ 66,219
2015-16	211,908	57,399	237,149	6,750	449,057	64,149
2016-17	212,599	55,464	237,499	6,400	450,098	61,864
2017-18	214,224	53,410	237,849	6,050	452,073	59,460
2018-19	214,838	50,895	238,199	5,700	453,037	56,595
2019-20	220,554	48,031	238,549	5,350	459,103	53,381
2020-21	220,154	45,249	238,949	4,950	459,103	50,199
2021-22	224,704	42,400	239,399	4,500	464,103	46,900
2022-23	229,254	39,419	239,849	4,050	469,103	43,469
2023-24	228,804	36,371	240,299	3,600	469,103	39,971
2024-25	233,354	33,258	240,749	3,150	474,103	36,408
2025-26	237,904	30,011	241,199	2,700	479,103	32,711
2026-27	242,454	26,633	241,649	2,250	484,103	28,883
2027-28	246,891	23,188	242,212	1,688	489,103	24,876
2028-29	251,216	19,676	242,887	1,012	494,103	20,688
2029-30	253,847	16,099	240,256	338	494,103	16,437
2030-31	1,916,309	12,389	230,837	-	2,147,146	12,389
2031-32	195,000	7,884	-	-	195,000	7,884
2032-33	200,000	2,650	-	-	200,000	2,650
	<u>\$ 5,964,194</u>	<u>\$ 659,545</u>	<u>\$ 4,064,329</u>	<u>\$ 65,588</u>	<u>\$ 10,028,523</u>	<u>\$ 725,133</u>

7. CHANGES IN LONG-TERM DEBT

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2014 is as follows:

School Building Revenue Bonds	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
2008 KISTA	36,404	-	7,287	29,117
2009R KISTA	302,558	-	46,829	255,729
2009 Revenue	185,000	-	10,000	175,000
2011 Building	7,851,897	-	344,103	7,507,794
2012	2,135,000	-	45,000	2,090,000
2014	-	103,060	-	103,060
	<u>\$ 10,510,859</u>	<u>\$ 103,060</u>	<u>\$ 453,219</u>	<u>\$ 10,160,700</u>

8. OTHER LONG-TERM DEBT – KSBIT

The District was assessed a total of \$230,094 payable due to the Kentucky School Board Insurance Trust shortfall in the prior year. The District has several options of repayment but has chosen the zero interest option that will require them to pay 25% of the overall assessment of Worker's Compensation and 40% of the overall assessment of Property and Liability by August 31, 2014, and the remainder over the next six and two year, respectively. There were no reductions in the assessment during the year ended June 30, 2014.

9. RETIREMENT PLANS

Kentucky Teachers' Retirement System

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. Certified employees are covered under KTRS. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four year college degree or certification by Kentucky 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 Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS website at <http://www.ktrs.ky.gov/>.

Funding policy – Contribution rates are established by KTRS. Members contribute 11.355% of their salaries to KTRS. Employer's contributions for federally funded employees were 14.105% and employer contributions for non-federally funded employees were 1.0%. The Commonwealth of Kentucky, on behalf of the District's certified employees, is required to contribute a portion of the state retirement (see *On-Behalf Payments*). The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide 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 or 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 member's gross salaries. Those who became members before July 1, 2008 contribute 1.25% of their salary to the plan. Member contributions are 2.25% of salary for those who became members after July 1, 2008. Also, 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 1.50% of members' salary for the 2013-2014 fiscal year.

County Employees Retirement System

Substantially all other employees (full time classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple employers, and public employer's retirement system. The plan provides for retirement, disability, and death benefits. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The CERS issues a publicly available financial report which may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

9. RETIREMENT PLANS-CONTINUED

Funding Policy - Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5% and a District contribution of 18.63% of the employee's total compensation subject to contribution.

The District's contribution (both withholding and match) KTRS for the years ended June 30, 2014, 2013 and 2012 was \$49,132, \$283,288, and \$309,161, respectively. The District's contributions (both withholding and match) CERS for the years ended June 30, 2014, 2013, and 2012 were \$66,267, \$102,769, and \$108,133, respectively. The District met their contribution requirements.

10. LEASES

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2014, aggregate cost for equipment and copier rentals was \$7,700.

11. CONTINGENCIES

Grants - The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2014 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Kentucky School Boards Insurance Trust (KSBIT)-The Kentucky School Boards Insurance Trust was created in 1978 to provide insurance through nonprofit self-insured pools authorized under Kentucky law. These pools allow school districts, colleges and universities to combine their resources while sharing risks. Due to various economic factors, the Pools have incurred significant deficits. KSBIT has taken a number of steps to address the Pools' deficits: however, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the Pools due to competitive pressures.

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to confirm the Pools' deficits. As a result of these reviews and after consultation with the Kentucky Department of Insurance, KSBIT provided an assessment that the District must pay. The amounts for property/liability insurance and workers compensation insurance have been recorded in the financial statements as liabilities.

12. LITIGATION

The District is subject to legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

13. IMPLEMENTATION OF GASB STATEMENT NO. 63 AND GASB STATEMENT NO. 65

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013 and GASB Statement No. 65 for the year ended June 30, 2014. These standards established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The District presented \$910 as deferred outflow of resources composed of amounts from refunding bond issues.

14. RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

15. DEFICIT FUND BALANCES

The District did not have any funds with deficit balances at June 30, 2014. However, there may be funds with deficit operating balances.

16. 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. There were no instances of noncompliance noted.

17. TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 7,871
Operating	Special Revenue	General	Indirect Costs	\$ 4,000
Operating	Building Fund	Debt Service	Debt Service	\$ 283,984
Operating	Food Service	General	Indirect Costs	\$ 11,471

18. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2014, there were no interfund balances outstanding that are reflected in the financial statements.

19. ON-BEHALF PAYMENTS

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of revenues, expenses, and changes in net position:

See table next page

19. ON-BEHALF PAYMENTS-CONTINUED

Retirement contributions to the Teachers' Retirement System of Kentucky	\$	246,404
Health and Life insurance		433,303
Other		-
Technology		28,095
Debt Service		258,356
		<u>966,158</u>
	\$	<u>966,158</u>

20. PRIVATE PURPOSE TRUST FUND – DENTAL FUND

The District maintained a dental fund in order to provide dental benefits for its employees. The District terminated the contributions to the plan as of June 30, 2013 and paid all remaining eligible benefits amounting to \$3,696 by the end of year ending June 30, 2014. The District now offers a Delta Dental plan and the Board contributes 50% of individual plan costs which is approximately \$10 per month. The Board is not obligated to maintain the plan, and can terminate it at will.

21. FUND BALANCE DESIGNATIONS

The following funds had restricted fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 717,853	Future Construction
SEEK Capital Outlay	31,737	SFCC Requirement
Building	33,112	Future Construction

22. RESTATEMENT OF NET POSITION

Governmental Accounting Standards Board statements 63 and 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was decreased by \$152,696 to eliminate bond issuance costs which had been capitalized and amortized on previous statements. Additionally, beginning net position of the governmental activities increased \$1,110 to capitalize the deferred savings from refunding bonds issued prior to the 2013-14 fiscal year.

23. SUBSEQUENT EVENTS

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

No events have occurred subsequent to the date of the financial statements that would require adjustment to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes:				
Property	\$ 191,100	\$ 191,100	\$ 167,341	\$ (23,759)
Motor vehicle	10,000	10,000	19,198	9,198
Utility	95,000	95,000	117,271	22,271
Earnings on investments	500	500	1,814	1,314
Other local	-	-	60,647	60,647
Intergovernmental - State	3,131,949	3,131,949	3,092,832	(39,117)
Intergovernmental - Federal	7,000	7,000	11,544	4,544
Total revenues	3,435,549	3,435,549	3,470,647	35,098
Expenditures				
Current:				
Instruction	2,041,338	2,041,338	2,001,039	40,299
Student	95,005	95,005	82,791	12,214
Instructional staff	189,356	189,356	183,578	5,778
District administration	611,450	611,450	344,460	266,990
School administration	132,060	132,060	125,359	6,701
Business operations	178,868	178,868	162,413	16,455
Plant operations and maintenance	322,106	322,106	318,769	3,337
Student transportation	118,021	118,021	220,153	(102,132)
Debt service	8,593	8,593	8,593	-
Total expenditures	3,696,797	3,696,797	3,447,155	249,642
Excess (deficit) of revenues over (under) expenditures	(261,248)	(261,248)	23,492	284,740
Other financing sources (uses)				
Capital lease proceeds	-	-	103,060	103,060
Transfers in	9,000	9,000	15,470	6,470
Transfers out	(7,500)	(7,500)	(7,871)	(371)
Total other financing sources (uses)	1,500	1,500	110,659	109,159
Net change in fund balance	(259,748)	(259,748)	134,151	393,899
Fund balance as of June 30, 2013	259,748	259,748	259,748	-
Fund balance as of June 30, 2014	\$ -	\$ -	\$ 393,899	\$ 393,899

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Other local	\$ -	\$ -	\$ 49,250	\$ 49,250
Intergovernmental - State	266,851	266,851	258,938	(7,913)
Intergovernmental - Federal	236,551	236,551	234,409	(2,142)
Total revenues	503,402	503,402	542,597	39,195
Expenditures				
Current:				
Instruction	307,930	307,930	366,268	(58,338)
Student	13,733	13,733	10,016	3,717
Instructional support	103,712	103,712	84,105	19,607
Plant operations and maintenance	1,317	1,317	325	992
Student transportation	21,826	21,826	26,110	(4,284)
Community service	58,384	58,384	59,644	(1,260)
Total expenditures	506,902	506,902	546,468	(39,566)
Deficit of revenues under expenditures	(3,500)	(3,500)	(3,871)	(371)
Other financing sources				
Operating transfers in	7,500	7,500	7,871	371
Operating transfers out	(4,000)	(4,000)	(4,000)	-
Total other financing sources	3,500	3,500	3,871	371
Net change in fund balance	-	-	-	-
Fund balance as of June 30, 2013	-	-	-	-
Fund balance as of June 30, 2014	\$ -	\$ -	\$ -	\$ -

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2014

The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-major Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 31,737	\$ 33,112	\$ -	\$ 64,849
Total assets	<u>\$ 31,737</u>	<u>\$ 33,112</u>	<u>\$ -</u>	<u>\$ 64,849</u>
FUND BALANCES				
Fund Balances: Restricted	\$ 31,737	\$ 33,112	\$ -	\$ 64,849
Total fund balances	<u>\$ 31,737</u>	<u>\$ 33,112</u>	<u>\$ -</u>	<u>\$ 64,849</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2014

	SEEK Capital Outlay Fund	Building Fund	Debt Service Fund	Total Non-major Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 53,666	\$ -	\$ 53,666
Earnings on investments	-	-	-	-
Intergovernmental - State	43,737	263,430	258,355	565,522
Intergovernmental - Federal	-	-	365,083	365,083
Total revenues	<u>43,737</u>	<u>317,096</u>	<u>623,438</u>	<u>984,271</u>
Expenditures				
Plant operations & maintenance	12,000	-	-	12,000
Debt service	-	-	907,422	907,422
Total expenditures	<u>12,000</u>	<u>-</u>	<u>907,422</u>	<u>919,422</u>
Excess (deficit) of revenues over (under) expenditures	<u>31,737</u>	<u>317,096</u>	<u>(283,984)</u>	<u>64,849</u>
Other financing sources (uses)				
Transfers in	-	-	283,984	283,984
Transfers out	-	(283,984)	-	(283,984)
Total other financing sources (uses)	<u>-</u>	<u>(283,984)</u>	<u>283,984</u>	<u>-</u>
Net change in fund balance	<u>31,737</u>	<u>33,112</u>	<u>-</u>	<u>64,849</u>
Fund balance as of June 30, 2013	-	-	-	-
Fund balance as of June 30, 2014	<u>\$ 31,737</u>	<u>\$ 33,112</u>	<u>\$ -</u>	<u>\$ 64,849</u>

EAST BERNSTADT INDEPENDENT BOARD OF EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
Year ended June 30, 2014

<u>School/ Activity Fund</u>	<u>Cash and Equivalents June 30, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Fund Balances June 30, 2014</u>
East Bernstadt Elementary	\$ 54,286	\$ 81,233	\$ 109,325	\$ 26,194	\$ -	\$ -	\$ 26,194
Totals	\$ 54,286	\$ 81,233	\$ 109,325	\$ 26,194	\$ -	\$ -	\$ 26,194

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

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
East Bernstadt Independent School District
East Bernstadt, 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 Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of East Bernstadt Independent School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise East Bernstadt Independent School District's basic financial statements, and have issued our report thereon dated November 11, 2014.

Internal Control over Financial Reporting

Management of East Bernstadt Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered East Bernstadt Independent 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 East Bernstadt Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Bernstadt Independent School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Bernstadt Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our test disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements*.

We noted other matters involving the internal control over financial reporting that we have reported to the management of East Bernstadt Independent School District in a separate letter dated November 11, 2014.

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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2014

MANAGEMENT LETTER COMMENTS

Members of the Board of Education
East Bernstadt Independent School District
East Bernstadt, Kentucky

In planning and performing our audit of the basic financial statements of East Bernstadt Independent School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note 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, if any. This letter does not affect our report thereon dated November 11, 2014, on the basic financial statements of East Bernstadt Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed 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.

Respectfully,
Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2014

Prior Year Comments – School Activity Funds

1. Noted instances of purchase orders being improperly executed. The Redbook states that “to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated.” Instances of purchase orders being approved after the obligation of funds or purchase being made.

This deficiency was corrected in the current year.

Current Year Comments –School Activity Funds

There were no comments during the current year.