

**FORT THOMAS INDEPENDENT SCHOOL
DISTRICT**

June 30, 2014

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*



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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits and
Members of the Board of Education
Fort Thomas Independent School District
Fort Thomas, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fort Thomas 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 Fort Thomas Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 Fort Thomas 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, on pages 1 through 4, and the budgetary comparison information, on pages 30 and 31, 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 District, 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 Fort Thomas Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, on our consideration of the Fort Thomas Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fort Thomas Independent School District's internal control over financial reporting and compliance

VonLehman & Company Inc.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED**

As management of the Fort Thomas Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

Financial Highlights

- The beginning cash and investment balance, including activity funds for the District was \$8,845,831.
- The General Fund had \$24,762,112 (excluding inter-fund transfers of \$21,662) in revenue, which primarily consisted of the state program (SEEK), property, local occupational license taxes and motor vehicle taxes. The General Fund had expenditures of \$23,554,726 (excluding inter-fund transfers of \$1,459,953).
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education compliance regulations. The District issued \$2,245,000 in new bonds.

Overview of Financial Statements

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

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

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

The statement of activities presents information showing how the District's net position changed during the most recent 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 district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The district-wide financial statements can be found on pages 5 and 6 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund of the District is its food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on pages 7 through 14 of this report.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 29 of this report.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

District-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$23,618,067 as of June 30, 2014.

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

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

Net Position for the Periods Ending June 30, 2014 and 2013

	June 30,	
	2014	2013
Current Assets	\$ 7,572,831	\$ 9,442,737
Noncurrent Assets	58,631,604	54,740,496
Total Assets	66,204,435	64,183,233
Deferred Outflows	150,956	130,687
Total Assets and Deferred Outflows of Resources	66,355,391	64,313,920
Current Liabilities	3,240,808	3,762,740
Noncurrent Liabilities	39,496,516	39,276,539
Total Liabilities	42,737,324	43,039,279
Investment in Capital Assets (Net of Debt)	17,372,925	13,682,011
Restricted	272,598	3,774,967
Unrestricted	5,972,544	3,817,663
Total Net Assets	\$ 23,618,067	\$ 21,274,641

Comments on Budget Comparisons

- The District's total general revenues for the fiscal year ended June 30, 2014, net of inter-fund transfers, were \$25,243,699.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$5,428,679 in excess of budget, or approximately 28.0%. This is partially a result of the District recording "on behalf" payments made by the state.
- The total cost of all programs and services, net of inter-fund transfers, in the General Fund, was \$24,983,017.
- General fund actual expenditures were more than budgeted expenditures by \$1,863,351. This is mainly a result of the District recording "on behalf" payments made by the state.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2014 and 2013.

	June 30,	
	2014	2013
Revenues		
Program Revenues		
Charges for Services	\$ 1,910,085	\$ 1,772,692
Operating Grants and Contributions	2,216,533	2,336,897
Capital Grants and Contributions	2,296,792	1,607,658
Total Program Revenues	6,423,410	5,717,247
General Revenues		
Taxes	13,017,494	12,621,954
Grants and Entitlements	12,069,628	11,339,611
Earnings on Investments	20,345	27,923
Miscellaneous	136,232	116,787
Total General Revenues	25,243,699	24,106,275
Total Revenues	31,667,109	29,823,522
Expenses		
Instruction	16,112,521	14,858,381
Student Support Services	1,346,767	1,171,545
Staff Support Services	1,336,741	1,203,901
District Administration	1,895,733	1,115,549
School Administration	1,593,977	1,845,682
Business Support	845,142	723,375
Plant Operations	2,873,780	2,825,351
Student Transportation	166,263	153,340
Community Services	78,802	68,355
Facility Acquisition and Construction	-	-
Interest on Long-Term Debt	1,676,519	1,625,008
Food Service	1,364,180	1,440,027
Other	33,258	61,850
Total Expenses	29,323,683	27,092,364
Revenue in Excess (Deficit) of Expenses	\$ 2,343,426	\$ 2,731,158

Capital Assets

At the end of fiscal year 2014, the District had a total of approximately \$58.6 million in capital assets net of accumulated depreciation, including approximately \$58.3 million for governmental activities and approximately \$335,000 for business type activities. Current year capital asset additions totaled approximately \$10.4 million.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

Debt

At June 30, 2014, the District had approximately \$41.0 million in outstanding bonds. There was one new bond issuance during fiscal year 2014. The issuance was in April, 2014 for \$2.2 million.

Budgetary Implications

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with \$1,613,686 in contingency (7.0%). Significant District action that impacts the finances include a minimum 1% pay raise for all employees.

Contacting the District's Financial Management

Questions regarding this report should be directed to the Superintendent, Mr. Gene Kirchner, at (859) 815-2002 or by mail at Fort Thomas Independent School District, 28 N. Fort Thomas Avenue, Fort Thomas, Kentucky 41075.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Business- Type Activities	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 5,373,571	\$ 465,167	\$ 5,838,738
Investments	1,027,790	-	1,027,790
Accounts Receivable	478,859	-	478,859
Inventories	-	47,341	47,341
Prepaid Expenses	180,103	-	180,103
Total Current Assets	<u>7,060,323</u>	<u>512,508</u>	<u>7,572,831</u>
Noncurrent Assets			
Nondepreciable Capital Assets			
Land	465,820	-	465,820
Construction in Progress	582,062	-	582,062
Depreciable Capital Assets			
Land Improvements	218,119	-	218,119
Buildings and Improvements	64,052,327	-	64,052,327
Vehicles	283,026	-	283,026
Furniture and Equipment	5,301,382	635,401	5,936,783
Less Accumulated Depreciation	<u>(12,606,686)</u>	<u>(299,847)</u>	<u>(12,906,533)</u>
Total Noncurrent Assets	<u>58,296,050</u>	<u>335,554</u>	<u>58,631,604</u>
Total Assets	<u>65,356,373</u>	<u>848,062</u>	<u>66,204,435</u>
Deferred Outflows of Resources			
Discount on Bonds, Net	150,956	-	150,956
Total Assets and Deferred Outflows of Resources	<u>65,507,329</u>	<u>848,062</u>	<u>66,355,391</u>
Liabilities			
Current Liabilities			
Current Portion of Bonds Payable	2,143,681	-	2,143,681
Current Portion of Capital Lease Obligations	51,432	-	51,432
Current Portion of Accrued Sick Leave	82,400	-	82,400
Current Portion of Insurance Assessment Liability	34,998	-	34,998
Accounts Payable	427,959	2,912	430,871
Accrued Payroll and Related Expenses	-	-	-
Accrued Interest	305,014	-	305,014
Funds Received in Excess of Revenues Earned	<u>192,412</u>	<u>-</u>	<u>192,412</u>
Total Current Liabilities	<u>3,237,896</u>	<u>2,912</u>	<u>3,240,808</u>
Noncurrent Liabilities			
Noncurrent Portion of Accrued Sick Leave	500,232	-	500,232
Noncurrent Portion of Insurance Assessment Liability	86,776	-	86,776
Noncurrent Portion of Bonds Payable	<u>38,909,508</u>	<u>-</u>	<u>38,909,508</u>
Total Noncurrent Liabilities	<u>39,496,516</u>	<u>-</u>	<u>39,496,516</u>
Total Liabilities	<u>42,734,412</u>	<u>2,912</u>	<u>42,737,324</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	17,037,371	335,554	17,372,925
Restricted for			
Capital Projects	2,745,682	-	2,745,682
Unrestricted	<u>2,989,864</u>	<u>509,596</u>	<u>3,499,460</u>
Total Net Position	<u>\$ 22,772,917</u>	<u>\$ 845,150</u>	<u>\$ 23,618,067</u>

See accompanying notes.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Function/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							
Instructional	\$ 16,112,521	\$ 872,931	\$ 1,872,941	\$ 798,925	\$ (12,567,724)	\$ -	\$ (12,567,724)
Support Services							
Student	1,346,767	-	-	-	(1,346,767)	-	(1,346,767)
Instructional Staff	1,336,741	-	-	-	(1,336,741)	-	(1,336,741)
District Administration	1,895,733	-	-	-	(1,895,733)	-	(1,895,733)
School Administration	1,593,977	-	-	-	(1,593,977)	-	(1,593,977)
Business	845,142	-	-	-	(845,142)	-	(845,142)
Plant Operation and Maintenance	2,873,780	-	-	650,000	(2,223,780)	-	(2,223,780)
Student Transportation	166,263	-	-	-	(166,263)	-	(166,263)
Community Services	78,802	-	-	-	(78,802)	-	(78,802)
Amortization Expense	7,128	-	-	-	(7,128)	-	(7,128)
Bond Issuance Costs	26,130	-	-	-	(26,130)	-	(26,130)
Interest on Long-Term Debt	1,676,519	-	-	847,867	(828,652)	-	(828,652)
Total Governmental Activities	<u>27,959,503</u>	<u>872,931</u>	<u>1,872,941</u>	<u>2,296,792</u>	<u>(22,916,839)</u>	<u>-</u>	<u>(22,916,839)</u>
Business-Type Activities							
Food Service and Other Activities	<u>1,364,180</u>	<u>1,037,154</u>	<u>343,592</u>	<u>-</u>	<u>-</u>	<u>16,566</u>	<u>16,566</u>
Total School District	<u>\$ 29,323,683</u>	<u>\$ 1,910,085</u>	<u>\$ 2,216,533</u>	<u>\$ 2,296,792</u>	<u>(22,916,839)</u>	<u>16,566</u>	<u>(22,900,273)</u>
General Revenues							
Taxes					13,017,494	-	13,017,494
Federal and State Aid not Restricted to Specific Purposes					12,069,628	-	12,069,628
Operating Transfers In (Out)					21,662	(21,662)	-
Investment Earnings					19,239	1,106	20,345
Miscellaneous					136,232	-	136,232
Total General Revenues					<u>25,264,255</u>	<u>(20,556)</u>	<u>25,243,699</u>
Change in Net Position					2,347,416	(3,990)	2,343,426
Net Position July 1, 2013					<u>20,425,501</u>	<u>849,140</u>	<u>21,274,641</u>
Net Position June 30, 2014					<u>\$ 22,772,917</u>	<u>\$ 845,150</u>	<u>\$ 23,618,067</u>

See accompanying notes.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Construction Funds</u>	<u>Debt Service Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and Cash Equivalents	\$ 2,355,291	\$ 46,562	\$ 2,700,316	\$ -	\$ 271,402	\$ 5,373,571
Investments	1,027,790	-	-	-	-	1,027,790
Accounts Receivable	331,813	145,850	-	-	1,196	478,859
Prepaid Expense	180,103	-	-	-	-	180,103
Total Assets	<u>\$ 3,894,997</u>	<u>\$ 192,412</u>	<u>\$ 2,700,316</u>	<u>\$ -</u>	<u>\$ 272,598</u>	<u>\$ 7,060,323</u>
Liabilities						
Accounts Payable	\$ 200,727	\$ -	\$ 227,232	\$ -	\$ -	\$ 427,959
Accrued Payroll and Related Expense	-	-	-	-	-	-
Deferred Revenues	-	192,412	-	-	-	192,412
Total Liabilities	<u>200,727</u>	<u>192,412</u>	<u>227,232</u>	<u>-</u>	<u>-</u>	<u>620,371</u>
Fund Balances						
Nonspendable-Prepays	180,103	-	-	-	-	180,103
Restricted						
Construction Fund	-	-	2,473,084	-	272,598	2,745,682
Committed						
Accumulated Sick Leave	582,632	-	-	-	-	582,632
Unassigned	2,931,535	-	-	-	-	2,931,535
Total Fund Balances	<u>3,694,270</u>	<u>-</u>	<u>2,473,084</u>	<u>-</u>	<u>272,598</u>	<u>6,439,952</u>
Total Liabilities and Fund Balances	<u>\$ 3,894,997</u>	<u>\$ 192,412</u>	<u>\$ 2,700,316</u>	<u>\$ -</u>	<u>\$ 272,598</u>	<u>\$ 7,060,323</u>

See accompanying notes.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2014**

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

Total Governmental Funds Balance		\$ 6,439,952
Capital assets used in governmental activities are not financial resources and; therefore, are not reported as assets in governmental funds.		
Cost of Capital Assets	\$ 70,902,736	
Accumulated Depreciation	(12,606,686)	
		58,296,050
Discount on bonds, net are not financial resources and therefore are not reported as assets in governmental funds		
		150,956
Long-term liabilities, including bonds payable, are not due and payable in the current period and; therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	41,035,000	
KITSA Bond Payable	18,189	
KSBIT Assessment	121,774	
Accrued Interest on Bonds	305,014	
Accumulated Sick Leave	582,632	
Capital Lease Obligations	51,432	
	<u> </u>	<u>(42,114,041)</u>
Total Net Position - Governmental Activities		\$ <u><u>22,772,917</u></u>

See accompanying notes.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	General Fund	Special Revenue Funds	Construction Funds	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 11,658,227	\$ -	\$ -	\$ -	\$ 1,359,267	\$ 13,017,494
Earnings on Investments	15,148	-	2,957	-	1,133	19,238
State Sources	12,136,301	221,900	-	1,348,686	970,730	14,677,617
Federal Sources	-	613,638	-	206,869	-	820,507
Other Sources	952,436	117,731	650,000	-	-	1,720,167
Total Revenues	<u>24,762,112</u>	<u>953,269</u>	<u>652,957</u>	<u>1,555,555</u>	<u>2,331,130</u>	<u>30,255,023</u>
Expenditures						
Instructional	14,105,983	738,910	-	-	-	14,844,893
Support Services						
Student	1,324,464	22,303	-	-	-	1,346,767
Instructional Staff	1,275,691	114,214	-	-	-	1,389,905
District Administration	1,300,723	-	-	-	-	1,300,723
School Administration	1,703,456	-	-	-	-	1,703,456
Business	841,870	-	-	-	-	841,870
Plant Operation and Maintenance	2,880,463	-	-	-	-	2,880,463
Student Transportation	55,153	97,373	-	-	-	152,526
Community Services	56,667	22,135	-	-	-	78,802
Debt Service						
Principal	9,305	-	-	2,028,382	-	2,037,687
Interest	951	-	-	1,667,220	-	1,668,171
Capital Outlay	-	-	5,483,085	-	-	5,483,085
Total Expenditures	<u>23,554,726</u>	<u>994,935</u>	<u>5,483,085</u>	<u>3,695,602</u>	<u>-</u>	<u>33,728,348</u>
Excess (Deficit) of Revenues Over Expenditures	<u>1,207,386</u>	<u>(41,666)</u>	<u>(4,830,128)</u>	<u>(2,140,047)</u>	<u>2,331,130</u>	<u>(3,473,325)</u>
Other Financing Sources (Uses)						
Operating Transfers In	21,662	41,666	3,964,892	2,140,047	-	6,168,267
Operating Transfers Out	(1,459,953)	-	(145,132)	-	(4,541,520)	(6,146,605)
Proceeds from Issuance of Bonds	-	-	-	-	2,245,000	2,245,000
Bond Issuance Costs	-	-	-	-	(26,130)	(26,130)
Underwriters' Discount on Bond Sale	-	-	-	-	(27,397)	(27,397)
Total Other Financing Sources (Uses)	<u>(1,438,291)</u>	<u>41,666</u>	<u>3,819,760</u>	<u>2,140,047</u>	<u>(2,350,047)</u>	<u>2,213,135</u>
Net Change in Fund Balance	(230,905)	-	(1,010,368)	-	(18,917)	(1,260,190)
Fund Balance July 1, 2013	<u>3,925,175</u>	<u>-</u>	<u>3,483,452</u>	<u>-</u>	<u>291,515</u>	<u>7,700,142</u>
Fund Balance June 30, 2014	<u>\$ 3,694,270</u>	<u>\$ -</u>	<u>\$ 2,473,084</u>	<u>\$ -</u>	<u>\$ 272,598</u>	<u>\$ 6,439,952</u>

See accompanying notes.

**FORT THOMAS 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 Changes in Total Fund Balances Per Fund Financial Statements \$ (1,260,190)

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

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.

Depreciation Expense	\$ (1,898,779)	
Capital Outlays	<u>5,796,017</u>	3,897,238

The difference between the proceeds related to the sale of capital assets and the net book value of those assets disposed of during the year is shown as a loss on disposal of capital assets on the statement of activities while this is not reported in governmental funds as the costs of these capital assets were reported as an expenditure at the time of acquisition. 29,618

Discounts on bonds are reported in the governmental funds as an other financing source. However, for governmental activities those items are shown in the statement of net position and allocated over the term of the bond in the statement of activities. This is the amount by which the current year discount on bonds exceeded the current year amortization expense.

Discount on Bonds	27,397	
Amortization Expense	<u>(7,128)</u>	20,269

Repayment of bond and capital lease principal is an expenditure in the governmental funds but, it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 2,084,325

The proceeds from bonds and capital leases provide current financial resources and are reported in the fund financial statements but they are presented as liabilities in the statement of net position. (2,296,432)

In the statement of activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these amounts are measured by the amount of financial resources used (essentially, the amounts actually paid.) The difference in expenses reported in the statement of activities is as a result of the change in accumulated sick leave. 2,718

KSBIT Insurance Assessment Liability (121,774)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The difference in interest expense reported in the statement of activities is as a result of the change in accrued interest on bonds. (8,356)

Change in Net Position of Governmental Activities \$ 2,347,416

See accompanying notes.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Food Service Fund	Adult Education Fund	Summer Enrichment Fund	Total
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 420,126	\$ 631	\$ 44,410	\$ 465,167
Accounts Receivable	-	-	-	-
Inventories for Consumption	47,341	-	-	47,341
Total Current Assets	467,467	631	44,410	512,508
Noncurrent Assets				
Furniture and Equipment	635,401	-	-	635,401
Less Accumulated Depreciation	(299,847)	-	-	(299,847)
Total Noncurrent Assets	335,554	-	-	335,554
Total Assets	\$ 803,021	\$ 631	\$ 44,410	\$ 848,062
Liabilities				
Current Liabilities				
Accounts Payable	\$ 2,735	\$ -	\$ 177	\$ 2,912
Total Current Liabilities	2,735	-	177	2,912
Net Position				
Invested in Assets, Net of Debt	335,554	-	-	335,554
Unrestricted	464,732	631	44,233	509,596
Total Net Position	800,286	631	44,233	845,150
Total Liabilities and Net Position	\$ 803,021	\$ 631	\$ 44,410	\$ 848,062

See accompanying notes.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Food Service Fund</u>	<u>Adult Education Fund</u>	<u>Summer Enrichment Fund</u>	<u>Total</u>
Operating Revenues				
Lunchroom Sales	\$ 994,313	\$ -	\$ -	\$ 994,313
Other Operating Revenues	<u>12,448</u>	<u>548</u>	<u>29,845</u>	<u>42,841</u>
Total Operating Revenues	<u>1,006,761</u>	<u>548</u>	<u>29,845</u>	<u>1,037,154</u>
Operating Expenses				
Salaries and Benefits	676,397	-	14,960	691,357
Contract Services	8,082	-	4,149	12,231
Materials and Supplies	676,723	-	6,212	682,935
Depreciation	35,748	-	-	35,748
Other Operating Expenses	<u>505</u>	<u>341</u>	<u>-</u>	<u>846</u>
Total Operating Expenses	<u>1,397,455</u>	<u>341</u>	<u>25,321</u>	<u>1,423,117</u>
Operating Income (Loss)	<u>(390,694)</u>	<u>207</u>	<u>4,524</u>	<u>(385,963)</u>
Non-Operating Revenues (Expenses)				
Federal Grants	262,501	-	-	262,501
State Grants	81,091	-	-	81,091
Donated Commodities and Other Donations	58,935	-	-	58,935
Transfers	(21,662)	-	-	(21,662)
Interest Income	<u>1,108</u>	<u>-</u>	<u>-</u>	<u>1,108</u>
Total Non-Operating Revenues (Expenses)	<u>381,973</u>	<u>-</u>	<u>-</u>	<u>381,973</u>
Net Loss	(8,721)	207	4,524	(3,990)
Net Position July 1, 2013	<u>809,007</u>	<u>424</u>	<u>39,709</u>	<u>849,140</u>
Net Position June 30, 2014	<u>\$ 800,286</u>	<u>\$ 631</u>	<u>\$ 44,233</u>	<u>\$ 845,150</u>

See accompanying notes.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	<u>Food Service Fund</u>	<u>Adult Education Fund</u>	<u>Summer Enrichment Fund</u>	<u>Total</u>
Cash Flows From Operating Activities				
Cash Received from Lunchroom Sales	\$ 1,012,432	\$ -	\$ -	\$ 1,012,432
Cash Received from Other Activities	12,448	548	30,022	43,018
Cash Payments to Employees for Services	(676,397)	-	(14,960)	(691,357)
Cash Payments to Suppliers for Goods and Services	(626,375)	(341)	(10,361)	(637,077)
Cash Transfers	(21,662)	-	-	(21,662)
 Net Cash Used by Operating Activities	 <u>(299,554)</u>	 <u>207</u>	 <u>4,701</u>	 <u>(294,646)</u>
Cash Flows From Capital Financing Activities				
Acquisition of Capital Assets	-	-	-	-
Cash Flows From Non Capital Financing Activities				
Federal and State Grants	343,592	-	-	343,592
Cash Flows From Investing Activities				
Interest on Investments	1,108	-	-	1,108
 Net Decrease in Cash and Cash Equivalents	 45,146	 207	 4,701	 50,054
Cash and Cash Equivalents, Beginning of Year	<u>374,980</u>	<u>424</u>	<u>39,709</u>	<u>415,113</u>
 Cash and Cash Equivalents, End of Year	 <u>\$ 420,126</u>	 <u>\$ 631</u>	 <u>\$ 44,410</u>	 <u>\$ 465,167</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities				
Operating Loss	\$ (390,694)	\$ 207	\$ 4,524	\$ (385,963)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities				
Depreciation	35,748	-	-	35,748
Interfund Transfers	(21,662)	-	-	(21,662)
Donated Commodities Received from Federal Government	58,935	-	-	58,935
Change in Assets and Liabilities				
Decrease in Accounts Receivable	27,848	-	-	27,848
Increase in Inventories for Consumption	(12,464)	-	-	(12,464)
Increase in Accounts Payable	2,735	-	177	2,912
 Net Cash Used by Operating Activities	 <u>\$ (299,554)</u>	 <u>\$ 207</u>	 <u>\$ 4,701</u>	 <u>\$ (294,646)</u>

See accompanying notes.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

		Agency Funds
Assets		
Cash and Cash Equivalents	\$	753,106
Accounts Receivable		<u>15,682</u>
Total Assets		<u>768,788</u>
Liabilities		
Due to Student Groups		
High School Activity Funds		584,618
Elementary and Middle School Activity Funds		<u>184,170</u>
Total Liabilities		<u>768,788</u>
Net Position		
Held in Trust for Scholarships	\$	<u><u>-</u></u>

See accompanying notes.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

The financial statements of the District include those of separately administered organizations that are controlled by, or dependent on the District. 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:

Fort Thomas Independent School District Finance Corporation – On December 12, 1988, the Fort Thomas Independent School District resolved to authorize the establishment of the Fort Thomas Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The District Members of the Fort Thomas Independent Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District-Wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of 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 on page 39. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 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.
 - The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District. No budgetary comparison is presented as this fund does not have a legally adopted budget.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky law. This is a major fund of the District. No budgetary comparison is presented as this fund does not have a legally adopted budget.

II. Proprietary Fund Types (Enterprise Fund)

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

The District applies all Governmental Accounting Standards District (GASB) pronouncements to Proprietary Funds.

III. Fiduciary Fund Type (Agency and Trust Funds)

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

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental Funds use the modified accrual basis of accounting. Proprietary and Fiduciary Funds also use the accrual basis of accounting.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the 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 non-exchange transactions must also be available before they can be recognized.

Funds Received in Excess of Revenues Earned - Funds received exceeds revenues earned when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Taxes

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

Budgetary Process

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. In Kentucky, the public school fiscal year is July 1 through June 30. Some programs relating to federal and state grants operate on a different fiscal year but are nevertheless reflected in the overall budget.

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000, with the exception of computers, digital cameras and real property, for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings and Improvements	25 - 50 Years
Land Improvements	20 Years
Technology Equipment	5 Years
Vehicles	5 - 10 Years
Audio-Visual Equipment	15 Years
Food Service Equipment	12 Years
Furniture and Fixtures	7 Years
Other	10 Years

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District, an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

Interfund Balances

On the 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 statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accrued Liabilities and Long-Term Obligations

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Non-spendable fund balance* - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- *Restricted fund balance* - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance* - amounts constrained to specific purposes by the District itself, using its decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.
- *Assigned fund balance* - amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District, or by an official or body, to which the District delegates the authority.
- *Unassigned fund balance* - amounts that are available for purpose; positive amounts are reported only in the General Fund.

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

Encumbrances

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

Net Position

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Proprietary Funds. For the District, those revenues are primarily charges for meals provided by the various schools and charges for the Day Care services provided to parents. Expenses are primarily payroll, food costs, and supply purchases.

Interfund Activity

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Accounting Pronouncements

Effective for fiscal years beginning after June 15, 2014, accounting pronouncements will require governmental entities to revise recognition, measurement and disclosure requirements for employer pension plans. The District will be responsible for reporting on the balance sheet its proportionate share of the pension system's unfunded liability and will also be required to include in its financial statements an increase in disclosure and required supplementary information related to the pension plan.

NOTE 2 - CASH AND CASH EQUIVALENTS

At year end, the District had on deposit, cash and cash equivalents totaling \$7,635,854. Of the total cash balance, \$250,000 was covered by the Federal Depository Insurance Corporation (FDIC), with the remainder covered by a collateral agreement held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity date of 90 days or less.

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

	<u>June 30,</u> <u>2014</u>
Bank Balance	\$ <u>7,635,854</u>
Book Balance	\$ <u>6,591,843</u>

Allocation per financial statements:

	<u>Cash Allocation</u>
Governmental Funds	\$ 5,373,571
Proprietary Funds	465,167
Activity Funds	<u>753,105</u>
	<u>\$ 6,591,843</u>

NOTE 3 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions / Transfers</u>	<u>Deductions / Transfers</u>	<u>Ending Balance</u>
Governmental Activities				
Land	\$ 465,820	\$ -	\$ -	\$ 465,820
Construction In Progress	4,562,476	582,062	(4,562,476)	582,062
Land Improvements	229,786	-	(11,667)	218,119
Buildings & Improvements	54,444,362	9,607,965	-	64,052,327
Technology Equipment	2,415,378	141,370	(177,746)	2,379,002
Vehicles	264,935	21,591	(3,500)	283,026
General Equipment	<u>2,963,202</u>	<u>5,506</u>	<u>(46,328)</u>	<u>2,922,380</u>
Total at Historical Cost	<u>65,345,959</u>	<u>10,358,494</u>	<u>(4,801,717)</u>	<u>70,902,736</u>
Less Accumulated Depreciation				
Land Improvements	227,493	1,220	(11,667)	217,046
Buildings & Improvements	8,124,533	1,337,941	-	9,462,474
Technology Equipment	1,690,978	322,647	(203,052)	1,810,573
Vehicles	167,626	26,439	(3,500)	190,565
General Equipment	<u>766,135</u>	<u>210,532</u>	<u>(50,639)</u>	<u>926,028</u>
Total Accumulated Depreciation	<u>10,976,765</u>	<u>1,898,779</u>	<u>(268,858)</u>	<u>12,606,686</u>
Governmental Activities Capital Assets, Net				
	<u>\$ 54,369,194</u>	<u>\$ 8,459,715</u>	<u>\$ (4,532,859)</u>	<u>\$ 58,296,050</u>
Business-Type Activities				
Technology Equipment	\$ 4,244	\$ -	\$ -	\$ 4,244
General Equipment	<u>694,422</u>	<u>-</u>	<u>(63,265)</u>	<u>631,157</u>
Total at Historic Cost	<u>698,666</u>	<u>-</u>	<u>(63,265)</u>	<u>635,401</u>
Less Accumulated Depreciation				
Technology Equipment	2,951	849	-	3,800
General Equipment	<u>324,413</u>	<u>34,899</u>	<u>(63,265)</u>	<u>296,047</u>
Total Accumulated Depreciation	<u>327,364</u>	<u>35,748</u>	<u>(63,265)</u>	<u>299,847</u>
Business-Type Activities Capital Assets, Net				
	<u>\$ 371,302</u>	<u>\$ (35,748)</u>	<u>\$ -</u>	<u>\$ 335,554</u>

NOTE 3 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,208,615
District Administration	60,454
School Administration	607,618
Business Support Services	4,347
Plant Operation and Maintenance	923
Student Transportation	<u>16,822</u>
	<u>\$ 1,898,779</u>

NOTE 4 - DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Fort Thomas Independent School District Finance Corporation.

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2014.

	Amount of Debt Outstanding July 1, 2013	Additions of New Debt	Repayments	Debt Outstanding June 30, 2014	Amounts Expected to be Paid Within One Year
Governmental Activities					
General Obligation					
Bonds	\$ 40,818,382	\$ 2,245,000	\$ 2,028,382	\$ 41,035,000	\$ 2,140,000
KISTA Bond Pool	27,494	-	9,305	18,189	3,681
Capital Leases	<u>46,638</u>	<u>51,432</u>	<u>46,638</u>	<u>51,432</u>	<u>51,432</u>
	<u>\$ 40,892,514</u>	<u>\$ 2,296,432</u>	<u>\$ 2,084,325</u>	<u>\$ 41,104,621</u>	<u>\$ 2,195,113</u>

The repayment of general obligation and KISTA bonds includes the following:

Paid by the District	\$ 1,329,999
Paid by the Kentucky School Facility Construction Commission	<u>707,688</u>
	<u>\$ 2,037,687</u>

NOTE 4 - DEBT AND LEASE OBLIGATIONS (Continued)

Bonds

The District, through the General Fund, (including Facility Support Program of Kentucky Fund (FSPK) 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 sponsoring governmental entity to construct school facilities.

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

The original amount of each outstanding issue, the issue date, interest rates and outstanding balances at June 30, 2014 are summarized below:

<u>Issue Date</u>	<u>Original Amount</u>	<u>Interest</u>	<u>Outstanding Balance at June 30, 2014</u>
April, 2006	\$ 11,220,000	4.13 - 4.38	% \$ 9,370,000
July, 2006	1,160,000	3.50 - 4.20	790,000
August, 2007	1,380,000	3.75 - 4.13	1,075,000
January, 2008	1,575,000	3.25 - 4.25	1,245,000
June, 2008	1,600,000	3.35 - 4.30	1,470,000
May, 2009	10,220,000	1.00 - 3.40	5,890,000
January, 2009	36,418	2.00 - 3.90	18,189
August, 2009	11,750,000	1.72 - 6.50	9,970,000
August, 2010	2,030,000	1.00 - 5.20	1,775,000
June, 2011	1,130,000	1.85 - 4.20	1,060,000
July, 2012	2,945,000	1.50 - 3.20	2,910,000
May, 2013	3,310,000	2.00 - 3.125	3,235,000
April, 2014	2,245,000	3.00 - 4.00	<u>2,245,000</u>
			<u>\$ 41,053,189</u>

NOTE 4 - DEBT AND LEASE OBLIGATIONS (Continued)

All issues may be called prior to maturity at dates and redemption premiums 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:

Fiscal Year	Ft. Thomas Independent School District		KY School Facilities Construction Commission		Federal Rebate	Total Requirements
	Principal	Interest	Principal	Interest		
2014-15	\$ 1,419,300	\$ 1,080,095	\$ 724,381	\$ 604,348	\$ (26,280)	\$ 3,801,844
2015-16	1,458,838	1,042,864	739,950	578,892	(25,652)	3,794,892
2016-17	1,497,975	995,428	770,934	550,662	(24,856)	3,790,143
2017-18	1,535,662	945,852	797,683	520,238	(23,911)	3,775,524
2018-19	1,583,906	893,741	824,560	487,599	(22,939)	3,766,867
2019-20	1,625,551	837,081	864,449	451,467	(21,734)	3,756,814
2020-21	1,679,636	777,112	730,364	412,137	(20,321)	3,578,928
2021-22	1,741,026	705,822	763,974	375,992	(18,862)	3,567,952
2022-23	1,805,421	631,141	794,579	337,602	(17,320)	3,551,423
2023-24	1,872,589	552,802	837,411	296,643	(15,611)	3,543,834
2024-25	1,942,439	471,261	877,561	252,585	(13,730)	3,530,116
2025-26	1,799,801	386,925	1,055,199	205,653	(11,761)	3,435,817
2026-27	1,233,671	298,152	946,329	155,720	(9,749)	2,624,123
2027-28	1,270,741	241,347	964,259	112,670	(7,672)	2,581,345
2028-29	1,079,518	182,250	845,482	68,907	(5,484)	2,170,673
2029-30	1,111,392	129,392	733,608	32,555	(3,185)	2,003,762
2030-31	754,082	87,462	365,918	11,760	(1,001)	1,218,221
2031-32	625,065	56,343	259,935	5,921	-	947,264
2032-33	648,946	29,817	271,054	2,913	-	952,730
2033-34	200,000	8,000	-	-	-	208,000
	<u>\$ 26,885,559</u>	<u>\$ 10,352,887</u>	<u>\$ 14,167,630</u>	<u>\$ 5,464,264</u>	<u>\$ (270,068)</u>	<u>\$ 56,600,272</u>

Capital Leases

The District leases copiers for various schools under a capital lease. This lease expires in June, 2015. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments, or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation under capital leases is included in depreciation expense for 2014.

The following is a schedule, by year, of the future minimum lease payment under capital lease together with the present value of the net minimum lease payments as of June 30, 2014.

Year Ending June 30,	
2015	\$ 54,389
Less Amount Representing Interest	<u>2,957</u>
Present Value of Minimum Lease Payments	51,432
Less Current Portion	<u>51,432</u>
Long-Term Portion	<u>\$ -</u>

NOTE 5 - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teachers' Retirement System, certified and classified employees will receive from the District, an amount equal to 30% of the value of accumulated sick leave. At June 30, 2014, this amount totaled approximately \$582,632 for those employees with twenty-seven or more years of experience. The District has reserved \$582,632 of its General Fund for unpaid sick leave benefits.

Changes in the District's compensated absences during fiscal year 2014 were as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Expected to be Paid Within One Year
Governmental Activities Accumulated Sick Leave	\$ 585,350	\$ 123,772	\$ 126,490	\$ 582,632	\$ 82,400

The accumulated sick leave liability will be liquidated by the General Fund.

NOTE 6 – INSURANCE ASSESSMENT LIABILITY

During the year, the District was assessed \$121,774 associated with the underfunded status of The Kentucky School Boards Insurance Trust. The District had been previously notified of the potential for assessment but it wasn't until a court ruling in June, 2014, that a plan was passed and the assessment was calculated. The assessment was comprised of \$91,406 for Worker's Compensation Insurance and \$30,368 for Property & Liability Insurance. The District was given several payment options and chose to pay the assessments over the next six years. The plan included a 25% payment in August, 2014 for both assessments. The remaining Property & Liability Insurance assessment would be paid equally over the following two years while the remaining Worker's Compensation assessment would be paid equally over the following five years.

The remaining maturities on this assessment are as follows:

Years Ending June 30,	
2015	\$ 34,998
2016	22,821
2017	22,821
2018	13,711
2019	13,711
2020	13,712
	\$ 121,774

NOTE 7 - COMMITMENTS UNDER NONCAPITALIZED LEASES

The District has operating leases for three copiers for sixty months at \$1,260 per month. Expenditures for the equipment under these operating leases totaled \$15,120 for the year ended June 30, 2014.

NOTE 8 - RETIREMENT PLANS

The District's total payroll for the year was \$16,231,598. The payroll for employees covered under the following plans totaled \$16,455,638.

Kentucky Teachers' Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), which is a cost sharing, multiple-employer retirement system created by, and operating under, Kentucky law.

The Kentucky Teachers' Retirement System covers all regular certified full-time employees of each school district. The plan provides for retirement, disability and death benefits. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3800.

Participating employees contribute 11.355% of creditable compensation. Matching contributions are made by the state. These on behalf payments are reflected in the District's financial records and amounted to \$1,607,195 for 2014. The matching contributions are paid by the federal program for any salaries paid by that program. Such contribution rates are determined by the District of Trustees of Kentucky Retirement Systems. The District contributed 14.605% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2014. In addition, the District contributed 1.0% of the employee's compensation to the retiree medical insurance fund for employees who are not in federally funded positions.

The District's required contributions for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,723,792 (composed of \$235,387 from the District and \$1,488,405 from the employees), \$1,512,562 and \$1,582,745, respectively; 100% has been contributed for fiscal years 2014, 2013, and 2012.

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS) which is a cost sharing, multiple-employer public employee's retirement system created by, and operating under, Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school district, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

Participating employees hired before September 1, 2008 contribute 5.0% of the creditable compensation, while participating employees hired after that day contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1.0% of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the District of Trustees of Kentucky Retirement Systems each biennium. The District contributed 18.89% of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$737,469 (composed of \$576,133 from the District and \$161,336 from the employees), \$717,452 and \$660,850, respectively; 100% has been contributed for fiscal years 2014, 2013, and 2012

NOTE 9 - CONTINGENCIES

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

NOTE 10 - INSURANCE AND RELATED ACTIVITIES

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

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Districts Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Districts Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage, and for any reason, by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs, and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

NOTE 12 - TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Food Service	General	Indirect Costs	\$ 21,662
Capital Outlay	Debt Service	Bond Payments	266,248
Construction	Special Revenue	Matching	41,666
Construction	Debt Service	Bond Payments	103,466
Building	Construction	Site Improvement	3,964,892
Building	Debt Service	Bond Payments	2,140,047
Building	Debt Service	Bond Payments	310,380
General	Debt Service	Bond Payments	1,459,953

NOTE 13 - ON-BEHALF PAYMENTS

As amounts are paid by various state agencies on-behalf of the District, the amounts are recognized as revenues and expenditures by the District. On the statement of revenues, expenditures and changes in fund balance, the on-behalf payments are included with state revenue and are included in the functional expense classifications. On the statement of activities, the on-behalf payments are included in the functional expense classifications and are included with program operating grants and contributions for the respective functions. A summary of on-behalf payments during 2014 is as follows:

	2014
Payments Made by the State for Fringe Benefits of District Employees and Technology Expenses	\$ <u>4,015,519</u>
Payments Made by the KSFCC for its Participation in the District's Bonds - Included in Debt Service Expenditures	\$ <u>1,348,686</u>

NOTE 14 - SUBSEQUENT EVENTS

Effective August 1, 2014, the School District entered into a refinance agreement whereby new bonds, in the amount of \$9,540,000 (Series 2014B), would be issued to pay the accrued interest and refund on a current basis on all outstanding maturities of the School Districts 2009B bonds maturing August 1, 2015 and thereafter. Interest on the Bonds is payable February 1 and August 1 beginning in February 2015. The bonds will mature as to principal on February 1, 2015 and August 1, 2015 and each August 1 thereafter. It was determined by the School District that the plan of refunding the Refunded Bonds will result in considerable interest cost savings to the District.

In September 2014, the School District was notified by the School Facilities Construction Commission that they will receive an offer of assistance for the complete renovation of Ruth Moyer Elementary. Over the course of the next six to nine months, the School District will develop a plan for the Moyer project with a target to begin the project in the fall of 2015.

The date to which events occurring after June 30, 2014, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is November 7, 2014 which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 11,056,000	\$ 11,056,000	\$ 11,658,227	\$ 602,227
Other Local Sources	103,257	103,257	15,148	(88,109)
State Sources	7,363,676	7,363,676	12,136,301	4,772,625
Federal Sources	-	-	-	-
Other Sources	810,500	810,500	952,436	141,936
Total Revenues	<u>19,333,433</u>	<u>19,333,433</u>	<u>24,762,112</u>	<u>5,428,679</u>
Expenditures				
Instructional	11,941,882	11,941,882	14,105,983	(2,164,101)
Support Services				
Student	1,061,714	1,061,714	1,324,464	(262,750)
Instructional Staff	1,073,414	1,073,414	1,275,691	(202,277)
District Administration	1,447,018	1,447,018	1,300,723	146,295
School Administration	1,416,527	1,416,527	1,703,456	(286,929)
Business	770,205	770,205	841,870	(71,665)
Plant Operation and Maintenance	3,667,505	3,667,505	2,880,463	787,042
Student Transportation	76,213	76,213	55,153	21,060
Community Services	-	-	56,667	(56,667)
Debt Service	31,500	31,500	10,256	21,244
Capital Outlays	37,500	37,500	-	37,500
Contingency	1,613,686	1,613,686	-	1,613,686
Transfers, Net	-	-	1,438,291	(1,438,291)
Total Expenditures	<u>23,137,164</u>	<u>23,137,164</u>	<u>24,993,017</u>	<u>(1,855,853)</u>
Net Change in Fund Balance	(3,803,731)	(3,803,731)	(230,905)	3,572,826
Fund Balance July 1, 2013	<u>3,925,175</u>	<u>3,925,175</u>	<u>3,925,175</u>	<u>-</u>
Fund Balance June 30, 2014	<u>\$ 121,444</u>	<u>\$ 121,444</u>	<u>\$ 3,694,270</u>	<u>\$ 3,572,826</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Other Local Sources	-	-	-	-
State Sources	311,671	311,671	221,900	(89,771)
Federal Sources	651,134	651,134	613,638	(37,496)
Other Sources	-	-	117,731	117,731
	<u>962,805</u>	<u>962,805</u>	<u>953,269</u>	<u>(9,536)</u>
Total Revenues				
	<u>962,805</u>	<u>962,805</u>	<u>953,269</u>	<u>(9,536)</u>
Expenditures				
Instructional	766,170	766,170	738,910	27,260
Support Services	-	-	-	-
Student	80,650	80,650	22,303	58,347
Instructional Staff	73,595	73,595	114,214	(40,619)
District Administration	-	-	-	-
School Administration	-	-	-	-
Business	-	-	-	-
Plant Operation and Maintenance	-	-	-	-
Student Transportation	44,905	44,905	97,373	(52,468)
Community Services	-	-	22,135	(22,135)
Debt Service	-	-	-	-
Contingency	-	-	-	-
Transfers, Net	(2,515)	(2,515)	(41,666)	39,151
	<u>962,805</u>	<u>962,805</u>	<u>953,269</u>	<u>9,536</u>
Total Expenditures				
	<u>962,805</u>	<u>962,805</u>	<u>953,269</u>	<u>9,536</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance July 1, 2013	-	-	-	-
Fund Balance June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER SUPPLEMENTARY INFORMATION

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014**

	Capital Outlay Fund	Building Fund	Total Non-Major Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 256,381	\$ 15,021	\$ 271,402
Investments	-	-	-
Accounts Receivable	-	1,196	1,196
Prepaid Expense	-	-	-
	-	-	-
Total Assets	\$ 256,381	\$ 16,217	\$ 272,598
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ -	\$ -	\$ -
	-	-	-
Total Liabilities	-	-	-
 Fund Balances			
Restricted			
Construction Fund	256,381	16,217	272,598
Unassigned	-	-	-
	-	-	-
Total Fund Balance	256,381	16,217	272,598
Total Liabilities and Fund Balances	\$ 256,381	\$ 16,217	\$ 272,598

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	SEEK Capital Outlay Fund	FSPK Building Fund	Total Non-Major Governmental Funds
Revenues			
Taxes	\$ -	\$ 1,359,267	\$ 1,359,267
Earnings on Investments	412	721	1,133
State Sources	<u>266,036</u>	<u>704,694</u>	<u>970,730</u>
 Total Revenues	 <u>266,448</u>	 <u>2,064,682</u>	 <u>2,331,130</u>
 Expenditures			
Support Services			
Business	-	-	-
Plant Operation and Maintenance	-	-	-
Debt Service	<u>-</u>	<u>-</u>	<u>-</u>
 Total Expenditures	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Excess (Deficit) of Revenues Over Expenditures	 <u>266,448</u>	 <u>2,064,682</u>	 <u>2,331,130</u>
 Other Financing Sources (Uses)			
Operating Transfers In	-	-	-
Operating Transfers Out	(266,248)	(4,275,272)	(4,541,520)
Proceeds from Issuance of Bonds	-	2,245,000	2,245,000
Bond Issuance Costs	-	(26,130)	(26,130)
Underwriters' Discount on Bond Sale	<u>-</u>	<u>(27,397)</u>	<u>(27,397)</u>
 Total Other Financing Sources (Uses)	 <u>(266,248)</u>	 <u>(2,083,799)</u>	 <u>(2,350,047)</u>
 Net Change in Fund Balance	 200	 (19,117)	 (18,917)
 Fund Balance July 1, 2013	 <u>256,181</u>	 <u>35,334</u>	 <u>291,515</u>
 Fund Balance June 30, 2014	 <u>\$ 256,381</u>	 <u>\$ 16,217</u>	 <u>\$ 272,598</u>

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGHLANDS HIGH SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2014**

Fund Accounts	Cash Balances July 1, 2013	Receipts	Disbursements	Cash Balances June 30, 2014	Accounts Receivable	Accounts Payable	Fund Balances June 30, 2014
Academic Competition Grants	\$ 4,500	\$ 10,000	\$ 9,393	\$ 5,107	\$ -	\$ -	\$ 5,107
Academic Team	115	225	214	126	-	-	126
36th District B/G BB Tournament	-	-	-	-	-	-	-
9th Football Championship	-	-	-	-	-	-	-
Art Club	1,420	-	-	1,420	-	-	1,420
Art Fees	113	7,601	6,608	1,106	-	-	1,106
Baseball	1,925	38,743	34,893	5,775	-	-	5,775
BAM	5	10,025	8,473	1,557	-	-	1,557
Bookstore	64,132	57,012	65,992	55,152	-	-	55,152
Bowling	-	-	-	-	-	-	-
Boys Basketball	5,506	24,415	17,600	12,321	-	-	12,321
Boys Golf	-	208	208	-	-	-	-
Boys Regional Soccer Tournament	-	-	-	-	-	-	-
Boys Soccer	1,024	11,401	8,520	3,905	-	-	3,905
Boys Tennis	273	653	926	-	-	-	-
Boys Track	1,335	1,170	1,039	1,466	-	-	1,466
Cafeteria	-	67	-	67	-	-	67
Campbell County Conservation District Grant	48	-	48	-	-	-	-
Cash Boxes	-	66,500	66,500	-	-	-	-
Cheerleaders	-	24,902	21,902	3,000	-	-	3,000
Chess	7	-	7	-	-	-	-
Chorus	3,932	7,233	9,638	1,527	-	-	1,527
Class of 2013	-	-	-	-	-	-	-
Coke Scoreboards	-	-	-	-	-	-	-
Contemporary Issues Field Trips	-	1,296	1,296	-	-	-	-
Counselor's Office	34,185	85,218	82,655	36,748	-	-	36,748
Creative Writing	5	-	-	5	-	-	5
Credit Card Fees	-	373	373	-	-	-	-
Cross Country	-	3,586	3,586	-	-	-	-

FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGHLANDS HIGH SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2014
(Continued)

Fund Accounts	Cash Balances July 1, 2013	Receipts	Disbursements	Cash Balances June 30, 2014	Accounts Receivable	Accounts Payable	Fund Balances June 30, 2014
Dance Team	\$ -	\$ 20,992	\$ 20,611	\$ 381	\$ -	\$ -	\$ 381
Dance Team - Nationals	-	42,106	42,106	-	-	-	-
Dramatics	8,479	77,670	66,806	19,343	-	-	19,343
District Softball Tournament	-	1,428	224	1,204	-	-	1,204
English Department	667	-	40	627	-	-	627
Envirothon	498	-	183	315	-	-	315
Family and Consumer Science	1,123	2,392	2,532	983	-	-	983
Fashion and Interior Design	-	7,852	4,432	3,420	-	-	3,420
FB 1st Round	-	4,946	4,946	-	-	-	-
FB 2nd Round	-	4,665	4,665	-	-	-	-
FB 3rd Round	-	8,868	8,868	-	-	-	-
FB 4th Round	-	-	-	-	-	-	-
FBLA	431	2,692	3,061	62	-	-	62
FCCLA	16,428	16,764	17,110	16,082	-	-	16,082
Football	6,127	105,400	69,286	42,241	-	-	42,241
General Account	21,707	6	-	21,713	-	-	21,713
German Club	823	280	580	523	-	-	523
Girls Basketball	4,717	20,737	22,523	2,931	-	-	2,931
Girls Golf	132	577	195	514	-	-	514
Girls Soccer	577	11,044	11,621	-	-	-	-
Girls Soccer Dist. Tournament	-	-	-	-	-	-	-
Girls Tennis	2,467	3,244	1,243	4,468	-	-	4,468
Girls Track	1,276	810	2,086	-	-	-	-
Green Club	193	121	-	314	-	-	314
History Club	75	556	631	-	-	-	-
Hospitality Class	3,234	1,687	2,110	2,811	-	-	2,811
Industrial Arts Club	266	-	-	266	-	-	266
Industrial Arts Department	987	426	361	1,052	-	-	1,052
Instructional Fees	73,255	36,578	19,936	89,897	12,764	-	102,661

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGHLANDS HIGH SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2014
(Continued)**

Fund Accounts	Cash Balances July 1, 2013	Receipts	Disbursements	Cash Balances June 30, 2014	Accounts Receivable	Accounts Payable	Fund Balances June 30, 2014
Interest Earned for Clubs	\$ 26,246	\$ 1,230	\$ 13,500	\$ 13,976	\$ -	\$ -	\$ 13,976
Intramural Basketball	-	565	487	78	-	-	78
JV Dance Team	-	8,227	7,976	251	-	-	251
James F. Brandhorst Scholarship	-	-	-	-	-	-	-
Junior Prom	4,217	19,845	20,304	3,758	-	-	3,758
LBR Scholarship	50	-	50	-	-	-	-
Marching Band	8,987	22,099	20,921	10,165	-	-	10,165
Math Department	185	-	185	-	-	-	-
Math Honor Society	25	252	260	17	-	-	17
Miscellaneous	-	444	444	-	-	-	-
Mock Trial	623	6,095	4,877	1,841	-	-	1,841
MS Athletics Tournaments	-	3,370	3,370	-	-	-	-
MS Dance Team	1,640	8,875	9,249	1,266	-	-	1,266
National German Exam	-	240	240	-	-	-	-
National Honor Society	2,067	1,260	1,761	1,566	-	-	1,566
NEHS	513	1,310	1,570	253	-	-	253
National Spanish Exam	-	572	572	-	-	-	-
NSHS	443	355	474	324	-	-	324
NSF Checks	-	1,672	1,672	-	-	-	-
Principal	18,244	13,708	4,413	27,539	-	-	27,539
Pot Luck Luncheons	-	850	701	149	-	-	149
Resource Center	2,649	360	100	2,909	-	-	2,909
Robotics Team	15,325	552	7,186	8,691	-	-	8,691
Scholarships	11,102	12,500	15,341	8,261	-	-	8,261
Science Fees	29,386	22,589	14,046	37,929	-	-	37,929
Science River Reach	-	1,267	1,267	-	-	-	-
Senior Class	1,421	7,956	7,945	1,432	-	-	1,432
Senior Class - Sam Scott Scholarship	4,500	1,052	2,500	3,052	-	-	3,052
Service Learning Projects	-	1,005	1,005	-	-	-	-

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGHLANDS HIGH SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2014
(Continued)**

Fund Accounts	Cash Balances July 1, 2013	Receipts	Disbursements	Cash Balances June 30, 2014	Accounts Receivable	Accounts Payable	Fund Balances June 30, 2014
Sinfonia Orchestra	\$ 2,181	\$ 20,226	\$ 20,423	\$ 1,984	\$ -	\$ -	\$ 1,984
Softball	849	8,834	5,183	4,500	-	-	4,500
Spanish Club	1,389	170	300	1,259	-	-	1,259
Speech Club	4,900	2,536	4,140	3,296	-	-	3,296
Staff Courtesy Fund	-	-	-	-	-	-	-
Staff Resources Fund	1,897	1,330	458	2,769	-	-	2,769
STLP-HS	50	-	-	50	-	-	50
Student Coke Commissions	2,715	508	-	3,223	-	-	3,223
Student Council	9,908	5,363	5,534	9,737	-	-	9,737
Swimming	-	2,286	1,887	399	-	-	399
Textbook Rental	608	43,949	19,526	25,031	-	-	25,031
Video Productions	1,468	1,990	2,299	1,159	-	-	1,159
Volleyball	6,298	19,547	20,740	5,105	-	-	5,105
Volleyball District Tournament	-	-	-	-	-	-	-
We the People	-	57,482	57,482	-	-	-	-
Yearbook	11,935	17,819	14,886	14,868	-	-	14,868
Total General	433,808	1,042,759	941,301	535,266	12,764	-	548,030
Total Athletic Department	8,155	792,222	763,789	36,588	-	-	36,588
Total	\$ 441,963	\$ 1,834,981	\$ 1,705,090	\$ 571,854	\$ 12,764	\$ -	\$ 584,618

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
OTHER SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2014**

	Robert Johnson Elementary School	Ruth Moyer Elementary School	Samuel Woodfill Elementary School	Highlands Middle School	Total
Cash Balance at July 1, 2013	\$ 24,571	\$ 56,853	\$ 11,896	\$ 81,453	\$ 174,773
Add: Receipts	57,991	82,269	50,637	106,914	297,811
Less: Disbursements	<u>(48,709)</u>	<u>(81,475)</u>	<u>(52,831)</u>	<u>(108,317)</u>	<u>(291,332)</u>
Cash Balance at June 30, 2014	33,853	57,647	9,702	80,050	181,252
Accounts Receivable	-	-	690	2,228	2,918
Accounts Payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at June 30, 2014	<u>\$ 33,853</u>	<u>\$ 57,647</u>	<u>\$ 10,392</u>	<u>\$ 82,278</u>	<u>\$ 184,170</u>

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantors Number	Expenditures	Program/ Cluster Total
<u>U.S. Department of Education</u>				
<i>Passed Through State Department of Education</i>				
Title I - Vocational Education Grants to States	84.048	31002 13	\$ 18,112	\$ 18,112
Title II - Improving Teacher Quality State Grant	84.367	3230002	69,560	69,560
<u>Title I Cluster</u>				
Title I - Grants to Local Education Agencies	84.010	3100002	151,352	151,352
<u>Special Education Cluster</u>				
Special Education Grants to States	84.027	3810002	361,301	
Special Education Preschool Grants	84.173	3800002	13,411	374,712
Total U.S. Department of Education			613,736	613,736
<u>U.S. Department of Agriculture</u>				
<i>Passed Through State Department of Education</i>				
<u>Child Nutrition Cluster</u>				
National School Lunch Program	10.555	7750002-14	260,587	
School Breakfast Program	10.553	7750002-14	13,061	273,648
<i>Passed Through State Department of Agriculture</i>				
National School Lunch Program - Food Donation	10.555	019-0202	58,935	58,935
Total U.S. Department of Agriculture			332,583	332,583
Total Expenditures of Federal Awards			\$ 946,319	\$ 946,319

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fort Thomas Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unmodified
Were there any material weaknesses reported at the financial statements level (GAGAS)?	None reported
Were there any control deficiencies identified, not considered to be material weaknesses, reported at the financial statement level (GAGAS)?	None reported
Was there any reported material noncompliance at the financial statement level (GAGAS)?	None reported
FEDERAL AWARDS	
Were there any material weaknesses reported for major federal programs?	None reported
Were there any control deficiencies identified, not considered material weaknesses reported for major programs?	None reported
Type of Major Programs Compliance Opinion	Unmodified
Are there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	None reported
Major Programs (list):	Child Nutrition Cluster [CFDA 10.553 and 10.555] Grants to Local Education Agencies [CFDA 84.010]
Dollar Threshold: Type A/B Programs	\$300,000
Low Risk Auditee?	Yes

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014
(Continued)**

SECTION II - FINANCIAL STATEMENT FINDINGS

None Reported

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DEPARTMENT OF AGRICULTURE

Child Nutrition Cluster – School Breakfast Program (CFDA No. 10.553) and National School Lunch Program (CFDA No. 10.555)

2013-001

Criteria: The food service department is required annually to verify eligibility of a sample of students that received free or reduced price meals during the year. Eligibility is based on income levels in excess of a certain percentage of federal poverty guidelines.

Condition: The verification process included a sample of five families. Verification includes the following steps: a) obtaining documentation to support the income represented on the initial application b) mail a letter to each family informing them of the verification results and any changes in eligibility and c) update the system for any necessary changes in eligibility. During our testing of the verification process, we noted that the department failed to properly complete each step noted above.

Cause: The Board's standard policies and procedures were not followed.

Effect: Verification process was not completed in accordance with federal regulations. During the year, two students received free or reduced price meals even though they were determined to be ineligible during the verification process. The financial impact to the program was deemed to be immaterial.

Current Status: Issue resolved.

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

Kentucky State Committee for School District Audits and
Members of the Board of Education
Fort Thomas Independent School District
Fort Thomas, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Thomas Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Fort Thomas Independent School District's basic financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fort Thomas 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 Fort Thomas Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Fort Thomas 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

Kentucky State Committee for School District Audits and
Members of the Board of Education
Fort Thomas Independent School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fort Thomas Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which are described in the accompanying Management Letter Comments as items 01 through 03.

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.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
November 7, 2014

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

Kentucky State Committee for School District Audits and
Members of the Board of Education
Fort Thomas Independent School District
Fort Thomas, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Fort Thomas Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The Fort Thomas Independent School District's major federal programs are identified in the summary of auditors' result section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Fort Thomas Independent School District, compiled in all material respects, with the types of compliance requirements referred to above that could have direct material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

VonLehman & Company Inc.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Kentucky State Committee for School District Audits and
Members of the Board of Education
Fort Thomas Independent School District
Fort Thomas, Kentucky

In planning and performing our audit of the financial statements of the Fort Thomas Independent School District (the District) for the year ended June 30, 2014, we considered the District's internal controls in order to determine the audit procedures that are appropriate for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal controls.

During the course of our audit we select samples of activity for our auditing tests. Through these procedures we became aware of a few matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. We previously reported on the District's internal controls in our report dated November 7, 2014. This letter does not affect our report dated November 7, 2014 on the financial statements of the Fort Thomas Independent School District.

Our findings are presented on the following pages.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

CURRENT YEAR RECOMMENDATIONS

ITEM 01- ACTIVITY FUNDS

General Findings for All Schools

- None reported.

Highlands High School

- It was noted that there were instances where teachers were not remitting money timely to the school treasurer. It is recommended that all money collected by teachers be given to the school treasurer on the day collected.
- It was noted that there were instances where the school treasurer collected money directly from students or parents. It is recommended that the treasurer not collect money directly from the student or parents.

Highlands Middle School

- No specific school findings.

Johnson Elementary School

- No specific school findings.

Woodfill Elementary School

- There were instances noted where deposits were not made in a timely manner. It is recommended that deposits greater than one hundred dollars be made the day the deposit is received and deposits less than one hundred dollars be made within one business day.

Moyer Elementary School

- There was one instance where a fundraiser did not have the principal's approval. It is recommended that all fundraisers have written principal approval.

MANAGEMENT'S RESPONSE

- Teachers, staff, booster organizations and administrators have been trained on the latest Redbook forms and procedures by an expert consultant. The supporting documentation will be reviewed periodically to make sure the proper forms and procedures are being followed.

**FORT THOMAS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(CONTINUED)**

STATUS OF PRIOR RECOMMENDATIONS

General Findings for All Schools

- Instances were noted in which the multiple receipt forms were not filled out in their entirety and, in some cases, not completed.

Current Status: Issue resolved.

- Instances were noted where teachers were not transmitting funds collected to the bookkeeper in a timely manner.

Current Status: Issue not resolved. See Current Year Recommendations.

- For fundraising events, Forms F-SA-2A and F-SA-2B need to be used, and all fundraisers should be approved by the District.

Current Status: Issue resolved.

Highlands High School

- It was noted that purchase orders were not always prepared and approved prior to purchases being made.

Current Status: Issue resolved.

Highlands Middle School

- It was noted that purchase orders were not always prepared and approved prior to purchases being made.

Current Status: Issue resolved.

Food Service Department

- It was noted that there were several discrepancies between the actual number of those eligible for free and reduced meals versus the number reported on the monthly SNP Site Claim Report.

Current Status: Issue resolved.

Title I

- It was noted that the District's expenses associated with the private school exceeded the reimbursement amount designated in the Title I Ranking Report.

Current Status: Issue resolved.