

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2014**

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October 24, 2014

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Frankfort Independent School District
506 West Second Street
Frankfort, KY 40601

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 Frankfort Independent School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Frankfort 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Frankfort 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 conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note A to the financial statements, in 2014, the Frankfort Independent School District adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 4 through 10 and 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Frankfort Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, 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 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, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2014, on our consideration of Frankfort Independent School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Frankfort Independent School District’s internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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

FINANCIAL HIGHLIGHTS

- The June 30, 2014 cash balance for the District was \$1,847,074, as compared with the beginning cash balance of \$1,013,625. The ending cash balance consists of General Fund of \$504,575, Special Revenue of (\$79,170), Capital Outlay of \$4,469, Building (FSPK) Fund of \$115,191, Construction Fund of \$1,318,864, Food Service of \$5,725 and Day Care of (\$25,611).
- District-wide net position decreased \$1,167,551 during the 2014 fiscal year. Total long-term obligations had a net increase of \$2,137,845.
- The General Fund had \$7,409,811 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$7,745,450 in General Fund expenditures.
- General Fund revenue increased \$188,542 from last fiscal year and General Fund expenses increased \$681,526.
- The financial statements reflect revenues of \$1,593,715 from the state on-behalf of District employees for retirement contributions, health insurance, administration fees, debt service and technology with a like amount of expenses recorded.

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 11-12 of this report.

Fund financial statements

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

The basic governmental fund financial statements can be found on pages 13-20 of this report.

Notes to the financial statements

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

The notes to the financial statements can be found on pages 21-37 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,256,994 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) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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

Net Position for the period ending June 30, 2014 and June 30, 2013

A comparison of June 30, 2014 and June 30, 2013 government-wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 2,144,755	\$ 1,323,925	\$ 24,237	\$ 112,660	\$ 2,168,992	\$ 1,436,585
Capital Assets	8,126,195	7,935,555	331,085	132,981	8,457,280	8,068,536
Total Assets	<u>10,270,950</u>	<u>9,259,480</u>	<u>355,322</u>	<u>245,641</u>	<u>10,626,272</u>	<u>9,505,121</u>
Deferred Outflows	21,166	-	-	-	21,166	-
Current Liabilities	758,453	415,440	804	1,028	759,257	416,468
Non-Current Liabilities	6,631,187	4,733,350	-	-	6,631,187	4,733,350
Total Liabilities	<u>7,389,640</u>	<u>5,148,790</u>	<u>804</u>	<u>1,028</u>	<u>7,390,444</u>	<u>5,149,818</u>
Net Position						
Investment in capital assets (net of related debt)	1,579,541	3,062,223	331,085	142,024	1,910,626	3,204,247
Restricted	1,314,448	65,235	23,433	-	1,337,881	65,235
Unrestricted	8,487	983,232	-	102,589	8,487	1,085,821
Total Net Position	<u>\$ 2,902,476</u>	<u>\$ 4,110,690</u>	<u>\$ 354,518</u>	<u>\$ 244,613</u>	<u>\$ 3,256,994</u>	<u>\$ 4,355,303</u>

The following table presents changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
REVENUES						
Program revenues						
Charges for services	90,877		235,123	315,163	326,000	315,163
Operating grants/Contributions	935,014	1,012,520	621,681	678,799	1,556,695	1,691,319
Capital Grants/Contributions	19,926				19,926	
Fund transfers/gain loss	(222,628)		222,628			
General revenues						
Property taxes	1,756,826	1,751,837			1,756,826	1,751,837
Motor vehicle taxes	86,179	82,113			86,179	82,113
Utility Taxes	849,991	767,473			849,991	767,473
Taxes, Other	58,437				58,437	
Investment earnings	5,892	6,693			5,892	6,693
State and formula grants	4,775,298	4,748,893			4,775,298	4,748,893
Miscellaneous	201,798	705,375			201,798	705,375
Total revenues	<u>8,557,610</u>	<u>9,074,904</u>	<u>1,079,432</u>	<u>993,962</u>	<u>9,637,042</u>	<u>10,068,866</u>
EXPENSES						
Instructional	6,048,882	5,080,350			6,048,882	5,080,350
Student support	356,035	241,924			356,035	241,924
Instructional staff Support	530,378	466,532			530,378	466,532
District administrative support	179,560	174,648			179,560	174,648
School administrative support	440,462	476,800			440,462	476,800
Business support	495,869	295,313			495,869	295,313
Plant operations and maintenance	1,055,962	866,568			1,055,962	866,568
Student transportation	309,286	253,869			309,286	253,869
Community Service Operations	76,911	79,114			76,911	79,114
Other	856	345,107			856	345,107
Interest on Long Term Debt	230,960	223,863			230,960	223,863
Business-type Activities						
Child Care			380,735	396,693	380,735	396,693
Food Service			588,792	547,504	588,792	547,504
Total expenses	<u>9,725,161</u>	<u>8,504,088</u>	<u>969,527</u>	<u>944,197</u>	<u>10,694,688</u>	<u>9,448,285</u>
Increase (decrease) in net position	<u>\$ (1,167,551)</u>	<u>\$ 570,816</u>	<u>\$ 109,905</u>	<u>\$ 49,765</u>	<u>\$ (1,057,646)</u>	<u>\$ 620,581</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2013 were \$1,398,304 and 2014 were \$1,593,715.

Governmental Activities

For the governmental program expenses instructional expenses comprise 62% of total expenses, support services equate to 35%, and interest and other expenses make up the remaining 3% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instructional	\$ 6,048,882	\$ 5,080,350	\$ 5,261,473	\$ 4,263,080
Support Services	3,367,552	2,854,768	3,203,307	2,659,518
Other	77,767	345,107	3,530	345,107
Interest Costs	<u>230,960</u>	<u>223,863</u>	<u>211,034</u>	<u>223,863</u>
Total Expenses	<u>\$ 9,725,161</u>	<u>\$ 8,504,088</u>	<u>\$ 8,679,344</u>	<u>\$ 7,491,568</u>

Business-Type Activities

The business type activities at the District are Food Service and Day Care. These programs had total revenues of \$ 1,079,432 and expenses of \$969,527 for fiscal year 2014. These revenues were made up of \$235,123 charges for services, \$222,628 transfers from governmental funds and \$621,681 federal and state operating grants. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2014 was \$11,925,238 and expenditures were \$11,139,277. The net change in fund balance was an increase of \$785,961.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significantly budgeted fund is the General Fund. The General Fund had budgeted revenues of \$7,069,441 with actual results being \$7,409,811 for a favorable difference of \$340,370. Budgeted expenditures were \$8,176,832 compared to actual expenditures of \$7,872,048 for a favorable difference of \$304,784. Both favorable differences were results of excess anticipated revenues and decreased costs within the District.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for fiscal year 2014-2015 with a contingency in excess of the state minimum requirement.

Significant Board action that impacts the finances includes the Board's salary schedules which include a state mandated 1% raise for the 2014-2015 school year for both certified and classified staff. The State increased the SEEK base from \$3,827 to \$3,911 for the FY 2015. While the District is not currently seeing significant growth in attendance and membership, it is spending additional money to make more opportunities available to segments of our population that have not seen adequate educational achievement. The District has attempted to remedy this inadequate growth by spending more on additional staff in addition to technology and materials for mathematics and literacy assessment and learning.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2014 fiscal year, the District had \$8,457,280 net of depreciation invested in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net increase of \$388,744. Depreciation expense for the year was \$439,347 and capital additions were \$828,091. During the year no assets were retired.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 798,379	\$ 798,379	\$ -	\$ -	\$ 798,379	\$ 798,379
Construction in Progress	505,313				505,313	
Land Improvements	6,586	10,602	-	-	6,586	10,602
Buildings and Improvements	6,499,434	6,836,469	-	-	6,499,434	6,836,469
Technology	32,232	61,847	1,617	2,547	33,849	64,394
Vehicles	234,941	173,901	-	-	234,941	173,901
General Equipment	49,310	54,357	329,468	130,434	378,778	184,791
Total	\$ 8,126,195	\$ 7,935,555	\$ 331,085	\$ 132,981	\$ 8,457,280	\$ 8,068,536

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Beginning Balance	\$ 7,935,555	\$ 7,921,767	\$ 132,981	\$ 150,330	\$ 8,068,536	\$ 8,072,097
Additions	611,131	425,000	216,960	-	828,091	425,000
Retirements	-	-	-	-	-	-
Depreciation	(420,491)	(411,212)	(18,856)	(17,349)	(439,347)	(428,561)
Ending Balance	\$ 8,126,195	\$ 7,935,555	\$ 331,085	\$ 132,981	\$ 8,457,280	\$ 8,068,536

Long-Term Debt

At June 30, 2014, the school district had \$6,535,000 in bonds outstanding, of which \$2,257,177 is to be paid from the SFCC funding provided by the State of Kentucky. A total of \$545,673 including interest is due within one year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (502)875-8661.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	1,866,960	(19,886)	1,847,074
Accounts Receivable:			
Taxes - Current	150,297		150,297
Taxes - Delinquent	10,239		10,239
Accounts	31,562	38,310	69,872
Intergovernmental - State	40,528		40,528
Intergovernmental - Federal	45,169		45,169
Inventories for Consumption		5,813	5,813
Total Current Assets	2,144,755	24,237	2,168,992
Noncurrent Assets - Note F			
Land	798,379		798,379
Construction In Progress	505,313		505,313
Buildings & Improvements	11,421,483		11,421,483
Furniture & Equipment	2,195,204	505,691	2,700,895
Less: Accumulated Depreciation	(6,794,184)	(174,606)	(6,968,790)
Total Noncurrent Assets	8,126,195	331,085	8,457,280
TOTAL ASSETS	10,270,950	355,322	10,626,272
Deferred Outflows from Advanced Bond Refundings	21,166	0	21,166
TOTAL ASSETS AND DEFERRED OUTFLOWS	10,292,116	355,322	10,647,438
LIABILITIES:			
Current Liabilities:			
Accounts Payable	156,933	804	157,737
Accrued Salaries & Sick Leave - Note A	122,243		122,243
Advances from Grantors	5,725		5,725
KSBIT Assessment	64,703		64,703
Bond Obligations - Note D	335,000		335,000
Capital Lease Obligation - Note E	5,713		5,713
Accrued Interest Payable	68,136		68,136
Total Current Liabilities	758,453	804	759,257
Noncurrent Liabilities:			
Bond Obligations - Note D	6,200,000		6,200,000
Capital Lease Obligation - Note E	5,941		5,941
KSBIT Assessment - Note R	153,495		153,495
Accrued Sick Leave - Note A	271,751		271,751
Total Noncurrent Liabilities	6,631,187		6,631,187
TOTAL LIABILITIES	7,389,640	804	7,390,444
NET POSITION:			
Net Investment in Capital Assets	1,579,541	331,085	1,910,626
Restricted for:			
Capital Projects	1,307,387		1,307,387
Debt Service	3,031		3,031
Other Purposes	4,030	23,433	27,463
Unrestricted	8,487		8,487
TOTAL NET POSITION	2,902,476	354,518	3,256,994
TOTAL LIABILITIES AND NET POSITION	10,292,116	355,322	10,647,438

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION			
	EXPENSES	CHARGES FOR SERVICES	OPERATING	CAPITAL	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS			
GOVERNMENTAL ACTIVITIES:							
Instructional	6,048,882	90,877	696,532		(5,261,473)		(5,261,473)
Support Services:							
Student Support Services	356,035		29,160		(326,875)		(326,875)
Staff Support Services	530,378		120,991		(409,387)		(409,387)
District Administration	179,560				(179,560)		(179,560)
School Administration	440,462				(440,462)		(440,462)
Business Support Services	495,869				(495,869)		(495,869)
Plant Operation & Maintenance	1,055,962				(1,055,962)		(1,055,962)
Student Transportation	309,286		14,094		(295,192)		(295,192)
Community Service Operations	76,911		74,237		(2,674)		(2,674)
Facility Acquisition & Construction	856				(856)		(856)
Interest on Long-Term Debt	230,960			19,926	(211,034)		(211,034)
TOTAL GOVERNMENTAL ACTIVITIES	9,725,161	90,877	935,014	19,926	(8,679,344)		(8,679,344)
BUSINESS-TYPE ACTIVITIES:							
Day Care	380,735	172,391	140,337			(68,007)	(68,007)
Food Service	588,792	62,732	481,344			(44,716)	(44,716)
TOTAL BUSINESS-TYPE ACTIVITIES	969,527	235,123	621,681	0	0	(112,723)	(112,723)
TOTAL SCHOOL DISTRICT	10,694,688	326,000	1,556,695	19,926	(8,679,344)	(112,723)	(8,792,067)
GENERAL REVENUES:							
Taxes:							
Property					1,756,826		1,756,826
Motor Vehicle					86,179		86,179
Utility					849,991		849,991
Other					58,437		58,437
State Aid - Formula Grants					4,775,298		4,775,298
Investment Earnings					5,892		5,892
Miscellaneous					201,798		201,798
SPECIAL ITEMS:							
Interfund Transfers (Expense)					(222,628)	222,628	0
TOTAL GENERAL & SPECIAL					7,511,793	222,628	7,734,421
CHANGE IN NET POSITION					(1,167,551)	109,905	(1,057,646)
NET POSITION - BEGINNING OF YEAR, AS RESTATED - NOTE T					4,070,027	244,613	4,314,640
NET POSITION - ENDING					2,902,476	354,518	3,256,994

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash & Cash Equivalents	504,575	(79,170)	3,031	1,318,864	119,660	1,866,960
Accounts Receivable:						
Taxes - Current	150,297					150,297
Taxes - Delinquent	10,239					10,239
Accounts	31,562					31,562
Intergovernmental - State		40,528				40,528
Intergovernmental - Federal		45,169				45,169
TOTAL ASSETS	<u>696,673</u>	<u>6,527</u>	<u>3,031</u>	<u>1,318,864</u>	<u>119,660</u>	<u>2,144,755</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts Payable	24,994	802		131,137		156,933
Accrued Salaries & Sick Leave	20,973					20,973
Advances from Grantors		5,725				5,725
Total Liabilities	<u>45,967</u>	<u>6,527</u>	<u>0</u>	<u>131,137</u>	<u>0</u>	<u>183,631</u>
Fund Balance:						
Restricted for:						
Capital Projects				1,187,727	119,660	1,307,387
Debt Service			3,031			3,031
Committed:						
Other	4,030					4,030
Unassigned	646,676					646,676
Total Fund Balance	<u>650,706</u>	<u>0</u>	<u>3,031</u>	<u>1,187,727</u>	<u>119,660</u>	<u>1,961,124</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>696,673</u>	<u>6,527</u>	<u>3,031</u>	<u>1,318,864</u>	<u>119,660</u>	<u>2,144,755</u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

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

TOTAL GOVERNMENTAL FUND BALANCE		1,961,124
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	14,920,379	
Accumulated Depreciation	<u>(6,794,184)</u>	8,126,195
Deferred Outflows from Advanced Bond Refundings		21,166
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	(6,535,000)	
KSBIT Assessment	(218,198)	
Capital Lease Obligation	(11,654)	
Accrued Interest on Bonds	(68,136)	
Accrued Sick Leave	<u>(373,021)</u>	<u>(7,206,009)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>2,902,476</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes:						
Property	1,634,610				122,216	1,756,826
Motor Vehicle	86,179					86,179
Utility	849,991					849,991
Other	3,525					3,525
Earnings on Investments	5,036			856		5,892
Intergovernmental - State	4,559,353	302,239	65,685		205,172	5,132,449
Intergovernmental - Federal		632,775	19,926			652,701
Other Sources	271,117	21,558				292,675
TOTAL REVENUES	7,409,811	956,572	85,611	856	327,388	8,780,238
EXPENDITURES:						
Instructional	4,796,108	721,625				5,517,733
Support Services:						
Student Support Services	316,589	30,210				346,799
Staff Support Services	393,774	125,350				519,124
District Administration	168,561					168,561
School Administration	439,573					439,573
Business Support Services	277,671					277,671
Plant Operation & Maintenance	991,323					991,323
Student Transportation	361,851	14,602				376,453
Community Service Operations		76,911				76,911
Facilities Acquisition & Construction				506,169		506,169
Debt Service:						
Principal			1,471,678			1,471,678
Interest			224,654			224,654
TOTAL EXPENDITURES	7,745,450	968,698	1,696,332	506,169	0	10,916,649
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(335,639)	(12,126)	(1,610,721)	(505,313)	327,388	(2,136,411)
OTHER FINANCING SOURCES(USES):						
Proceeds from Bond Issuance			1,235,000	1,910,000		3,145,000
Operating Transfers In - Note N		12,126	378,752			390,878
Operating Transfers Out - Note N	(126,598)			(216,960)	(269,948)	(613,506)
TOTAL OTHER FINANCING SOURCES	(126,598)	12,126	1,613,752	1,693,040	(269,948)	2,922,372
NET CHANGE IN FUND BALANCES	(462,237)	0	3,031	1,187,727	57,440	785,961
FUND BALANCES - BEGINNING	1,112,943	0	0	0	62,220	1,175,163
FUND BALANCES - ENDING	650,706	0	3,031	1,187,727	119,660	1,961,124

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

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

NET CHANGES - GOVERNMENTAL FUNDS		785,961
<p>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 exceeds depreciation expense for the year.</p>		
Depreciation Expense	(420,491)	
Capital Outlays	<u>611,131</u>	190,640
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid		1,471,678
Proceeds from Note Payable		(3,145,000)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Deferred Outflows on Advanced Refundings of Bonds	(3,256)	
Accrued Interest Payable	(3,050)	
KSBIT Assessment	(218,198)	
Accrued Sick Leave	<u>(246,326)</u>	(470,830)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>(1,167,551)</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	5,725	(25,611)	(19,886)
Accounts Receivable	12,295	26,015	38,310
Inventories for Consumption	5,813		5,813
Total Current Assets	23,833	404	24,237
Noncurrent Assets:			
Furniture & Equipment	505,691		505,691
Less: Accumulated Depreciation	(174,606)		(174,606)
Total Noncurrent Assets	331,085	0	331,085
TOTAL ASSETS	354,918	404	355,322
LIABILITIES:			
Current Liabilities:			
Account Payable	400	404	804
Total Current Liabilities	400	404	804
Net Position:			
Net Investment in Capital Assets	331,085		331,085
Restricted	23,433	0	23,433
Total Net Position	354,518	0	354,518
TOTAL LIABILITIES AND NET POSITION	354,918	404	355,322

See independent auditor's report and accompanying notes to financial statements.

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	31,165		31,165
Other Operating Revenues	31,567	172,391	203,958
TOTAL OPERATING REVENUES	<u>62,732</u>	<u>172,391</u>	<u>235,123</u>
OPERATING EXPENSES:			
Salaries & Benefits	257,028	362,357	619,385
Contract Services	11,203	3,204	14,407
Materials & Supplies	301,636	15,174	316,810
Depreciation - Note F	18,856		18,856
Other Operating Expenses	69		69
TOTAL OPERATING EXPENSES	<u>588,792</u>	<u>380,735</u>	<u>969,527</u>
OPERATING INCOME(LOSS)	(526,060)	(208,344)	(734,404)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	413,073		413,073
State Grants	42,039	140,337	182,376
Donated Commodities	26,232		26,232
Transfers In	216,960	5,668	222,628
TOTAL NONOPERATING REVENUE	<u>698,304</u>	<u>146,005</u>	<u>844,309</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	172,244	(62,339)	109,905
CAPITAL CONTRIBUTIONS	<u>0</u>	<u>0</u>	<u>0</u>
CHANGE IN NET POSTION	172,244	(62,339)	109,905
TOTAL NET POSITION - BEGINNING	<u>182,274</u>	<u>62,339</u>	<u>244,613</u>
TOTAL NET POSITION - ENDING	<u><u>354,518</u></u>	<u><u>0</u></u>	<u><u>354,518</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>FOOD SERVICE</u>	<u>DAY CARE FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Operating Revenue	62,732	173,683
Cash Paid to/for:		
Employees	(219,464)	(307,988)
Supplies	(271,774)	(15,798)
Other Activities	<u>(11,272)</u>	<u>(3,204)</u>
Net Cash Provided (Used) by Operating Activities	(439,778)	(153,307)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Transfer from Construction Fund	216,960	
Transfer from General Fund		5,668
Federal Grants	470,954	
State Grants	<u>4,475</u>	<u>85,968</u>
Net Cash Provided by Non-Capital and Related Financing Activities	692,389	91,636
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	(216,960)	0
CASH FLOWS FROM INVESTING ACTIVITIES	<u>0</u>	<u>0</u>
Net Increase in Cash and Cash Equivalents	35,651	(61,671)
Balances, Beginning of Year	<u>(29,926)</u>	<u>36,060</u>
Balances, End of Year	<u><u>5,725</u></u>	<u><u>(25,611)</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	(526,060)	(208,344)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	18,856	
State On-Behalf Payments	37,564	54,369
Donated Commodities	26,232	
Change in Assets and Liabilities:		
Inventory	3,230	
Accounts Receivable		1,292
Accounts Payable	<u>400</u>	<u>(624)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(439,778)</u></u>	<u><u>(153,307)</u></u>
Schedule of Non-Cash Transactions:		
Donated Commodities	26,232	0
State On-Behalf Payments	37,564	54,369

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	AGENCY FUNDS		
	SCHOOL ACTIVITY FUNDS	OTHER	TOTAL
ASSETS:			
Cash and Cash Equivalents	176,152	30,932	207,084
TOTAL ASSETS	176,152	30,932	207,084
LIABILITIES:			
Due to Scholarship Recipients	0	30,932	30,932
Due to Student Groups	176,152	0	176,152
TOTAL LIABILITIES	176,152	30,932	207,084
NET POSITION HELD IN TRUST	0	0	0

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Net Interest and Investment Gains(Losses)	166
Donations	2,000
DEDUCTIONS:	
Supplies	30
Benefits Paid	<u>4,530</u>
Changes in Net Position	(2,394)
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>33,326</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>30,932</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Frankfort Independent Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Frankfort 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 Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

The government-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 government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. 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 Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

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

II. Proprietary Fund Types (Enterprise Fund)

The 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 is a major fund.

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

III. Fiduciary Fund Type (Agency Funds)

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

Basis of Accounting

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

Revenues – Exchange and Nonexchange 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 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred 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 costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.763 per \$100 valuation for real property, \$0.764 per \$100 valuation for business personal property, and \$0.474 per \$100 valuation for motor vehicles.

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

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (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:

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

Major Special Revenue Fund

Special Revenue

Revenue Source

State, Local and Federal Grants

Net Position

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

Operating Revenues and Expenses

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

Contributions of Capital

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

Changes in Accounting Principle

Effective for the fiscal year ending June 30, 2014, the Board adopted GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989, FASB and AICPA Pronouncements*, which codifies all applicable GASB, Financial Accounting Standards Board (“FASB”), and Accounting Principles Board opinions dated according to the title of the statement. Additionally, for fiscal year ending June 30, 2014, the Board has implemented GASB Statement 65 *Items Previously Reported as Assets and Liabilities* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note T for the impact of the adoption of this standard on beginning net position.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$2,054,158. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, \$1,804,158 was covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

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

	Bank Balance	Book Balance
U.S. Bank	3,031	3,031
Community Trust Bank	<u>2,324,998</u>	<u>2,051,127</u>

Breakdown per financial statements:

Governmental Funds	1,866,960
Proprietary Funds	<u>(19,886)</u>
Subtotal	1,847,074
Fiduciary Funds	30,932
Agency Funds	<u>176,152</u>
Total Cash and Cash Equivalents All Funds	<u>2,054,158</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – INVESTMENTS

The District held no investments on June 30, 2014.

NOTE E – LONG TERM 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 Frankfort Independent School District Finance Corporation aggregating \$8,047,000.

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

2002	722,000	2.91%
2006	3,065,000	3.70% - 4.4%
2009	1,115,000	2.00% - 3.00%
2014	1,910,000	1.20% - 3.375%
2014 Refunding	1,235,000	1.20% - 3.375%

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

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice if its intention not to participate not less than sixty days prior to the end of its biennium.

On May 1, 2014, the District issued \$1,235,000 in Refunding Revenue Bonds with an average interest rate of 2.288 percent to call \$1,205,000 of outstanding 2010 Build America Bonds. The net proceeds of \$1,205,000 (after \$16,665 in bond issuance costs, \$10,304 in bond discount and \$3,031 in excess cash which was deposited in the bond payment fund) were deposited into an escrow account then used to fully call the 2010 Build America Bonds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2014-15	335,000	210,673	174,688	370,985
2015-16	350,000	203,463	174,688	378,775
2016-17	355,000	195,115	174,687	375,428
2017-18	365,000	186,131	174,688	376,443
2018-19	375,000	176,576	174,688	376,888
2019-20	390,000	166,631	174,688	381,943
2020-21	410,000	155,201	174,688	390,513
2021-22	420,000	140,636	174,688	385,948
2022-23	435,000	125,404	174,688	385,716
2023-24	450,000	109,184	174,689	384,495
2024-25	470,000	92,146	174,688	387,458
2025-26	495,000	73,376	174,688	393,688
2026-27	490,000	54,086	156,126	387,961
2027-28	210,000	41,691	109,003	142,688
2028-29	205,000	34,814	109,003	130,811
2029-30	220,000	27,895	109,003	138,892
2030-31	130,000	20,470	109,003	41,467
2031-32	135,000	15,855	109,003	41,852
2032-33	145,000	11,063	109,002	47,060
2033-34	<u>150,000</u>	<u>5,625</u>	<u>109,003</u>	<u>46,622</u>
	<u>6,535,000</u>	<u>2,046,036</u>	<u>3,015,402</u>	<u>5,565,633</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	4,855,000	3,145,000	1,465,000	6,535,000	335,000
Capital Lease Obligations	18,332	0	6,678	11,654	5,713
KISBIT Assessment	0	218,198	0	218,198	64,703
Accrued Sick Leave	<u>126,696</u>	<u>257,414</u>	<u>11,089</u>	<u>373,021</u>	<u>101,270</u>
Governmental Activities					
Long-Term Liabilities	<u>5,000,028</u>	<u>3,620,612</u>	<u>1,482,767</u>	<u>7,137,873</u>	<u>506,686</u>

NOTE F - CAPITAL LEASE PAYABLE

The District is the lessee of a bus under a capital lease expiring in fiscal year 2016. The asset and liability under the capital lease is recorded at the present value of the minimum lease payments or the fair value of the asset. The asset is amortized over its estimated productive life. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2014.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2014</u>
Gross amount of assets	61,318
Accumulated Amortization	(49,054)
	<u>12,264</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2015	6,168
2016	<u>6,178</u>
Net minimum lease payments	12,346
Amount representing interest	<u>(692)</u>
Present value of net minimum lease payments	<u>11,654</u>

Interest rates on capitalized leases vary from 3.80% to 4.00%. The capital lease provides for the bus to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - CAPITAL ASSETS

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

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	798,379			798,379
Construction In Progress		505,313		505,313
Depreciable Assets:				
Land Improvements	222,610			222,610
Buildings & Building Improvements	11,198,873			11,198,873
Technology Equipment	1,115,906			1,115,906
Vehicles	799,943	105,818		905,761
General Equipment	<u>173,537</u>			<u>173,537</u>
TOTAL AT HISTORICAL COST	<u>14,309,248</u>	<u>611,131</u>		<u>14,920,379</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	212,008	4,016		216,024
Buildings & Building Improvements	4,362,404	337,035		4,699,439
Technology Equipment	1,054,059	29,615		1,083,674
Vehicles	626,042	5,047		670,820
General Equipment	<u>119,180</u>	<u>44,778</u>		<u>124,227</u>
TOTAL ACCUMULATED DEPRECIATION	<u>6,373,693</u>	<u>420,491</u>		<u>6,794,184</u>
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u><u>7,935,555</u></u>	<u><u>190,640</u></u>	<u><u>-0-</u></u>	<u><u>8,126,195</u></u>
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	13,975			13,975
General Equipment	<u>274,756</u>	<u>216,960</u>		<u>491,716</u>
TOTALS AT HISTORICAL COST	<u>288,731</u>	<u>216,960</u>		<u>505,691</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	11,428	930		12,358
General Equipment	<u>144,322</u>	<u>17,926</u>		<u>162,248</u>
TOTAL ACCUMULATED DEPRECIATION	<u>155,750</u>	<u>18,856</u>		<u>174,606</u>
PROPRIETARY ACTIVITIES CAPITAL NET	<u><u>132,981</u></u>	<u><u>198,104</u></u>	<u><u>-0-</u></u>	<u><u>331,085</u></u>
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				284,823
Student Support Services				9,236
Staff Support Services				11,254
District Administration				10,999
School Administration				889
Plant Operation & Maintenance				64,639
Student Transportation				<u>38,651</u>
TOTAL				<u><u>420,491</u></u>

NOTE H – RETIREMENT PLANS

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

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

Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 18.96% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$5,553,906. The payroll for employees covered under KTRS was \$4,230,840 and for CERS was \$1,323,066.

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$526,674, \$424,914 and \$446,905 respectively to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2014, 2013 and 2012 were \$102,689, \$85,427 and \$92,209 respectively which represent those employees covered by federal programs.

The contribution requirements for CERS for the years ended June 30, 2014, 2013 and 2012, were \$249,927, \$241,628 and \$243,014 respectively, from the Board.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following tables present certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2013	CERS June 30, 2013
Assets available for benefits, at fair value	14,962,758,000	5,637,094,483
Pension benefit obligation	<u>(28,817,232,000)</u>	<u>(9,378,876,114)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(13,854,474,000)</u>	<u>(3,741,781,631)</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE I – COMMITMENTS

Extensive renovation of Frankfort Independent High School and Second Street Elementary are ongoing as of the audit date. It is anticipated that the completion of this project will cost an additional \$863,061.

NOTE J – CONTINGENCIES

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

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through the Netherlands Insurance Company.

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

During 2013, the Kentucky School Boards Insurance Trust ceased to operate. The District’s insurance coverage continued through June 30, 2013. (See also Note S.) However, as of July 1, 2013, the District was required to obtain insurance coverage from a commercial insurance company. Coverage was obtained from Catlin Indemnity Company.

NOTE M – DEFICIT OPERATING BALANCES

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

Construction Fund	505,313
Debt Service Fund	1,610,721
General Fund	335,639
Special Revenue Fund	12,126

NOTE N – COBRA

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

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	11,326
Operating	General	Special Revenue	Operations	800
Operating	General	Debt Service	Debt Service	108,804
Operating	SEEK	Debt Service	Debt Service	70,787
Operating	FSPK	Debt Service	Debt Service	<u>199,161</u>
		Subtotal Governmental Fund Transfers		390,878
Operating	General	Day Care	Operations	5,668
Capital Projects	Construction	Food Service	Capital Projects	<u>216,960</u>
		Total Transferred Funds		<u><u>613,506</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2014.

NOTE Q – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 24, 2014. There are no material subsequent events to disclose.

NOTE R – ON-BEHALF PAYMENT

For the year ended June 30, 2014, \$1,593,715 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 1,436,097
Food Service Fund	37,564
Day Care Fund	54,369
Debt Service Fund	<u>65,685</u>
Total	<u>\$ 1,593,715</u>

NOTE S – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2014, Frankfort Independent School District's assessment is valued at \$218,198. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment over a seven year period with the final payment in fiscal year 2021.

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2015	64,703
2016	39,121
2017	39,120
2018	18,814
2019	18,814
2020	18,814
2021	<u>18,812</u>
Total	<u>218,198</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE T – NET POSITION, AS RESTATED

Governmental Accounting Standards Board Statement 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was increased \$24,422 to capitalize the deferred costs from refunding bonds prior to the fiscal year beginning July 1, 2013. Further, beginning net position of the governmental activities decreased \$65,085 to record the accrued interest which was not recorded as a liability in fiscal year ended June 30, 2013.

Net Position as of June 30, 2013	\$ 4,110,690
Less: Accrued Interest at June 30, 2013	(65,085)
Add: Deferred outflows from advanced bond refundings	<u>24,422</u>
Beginning Net Position, As Restated	<u>\$ 4,070,027</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	2,406,510	2,406,510	2,574,305	167,795
Other Local Sources	6,500	6,500	5,036	(1,464)
State Sources	4,477,660	4,477,660	4,559,353	81,693
Federal Sources	0	0	0	0
Other Sources	178,771	178,771	271,117	92,346
TOTAL REVENUES	7,069,441	7,069,441	7,409,811	340,370
EXPENDITURES:				
Instructional	4,818,006	4,818,006	4,796,108	21,898
Student Support Services	274,210	274,210	316,589	(42,379)
Staff Support Services	327,125	327,125	393,774	(66,649)
District Administration	182,930	182,930	168,561	14,369
School Administration	444,470	444,470	439,573	4,897
Business Support Services	302,480	302,480	277,671	24,809
Plant Operation & Maintenance	1,070,000	1,070,000	991,323	78,677
Student Transportation	362,820	362,820	361,851	969
Central Office				0
Food Service Operations				0
Community Service Operations				0
Facility Acquisition & Construction				0
Other	394,791	394,791	126,598	268,193
TOTAL EXPENDITURES	8,176,832	8,176,832	7,872,048	304,784
NET CHANGE IN FUND BALANCE	(1,107,391)	(1,107,391)	(462,237)	645,154
FUND BALANCES - BEGINNING	1,107,391	1,107,391	1,112,943	0
FUND BALANCES - ENDING	0	0	650,706	645,154

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	11,326	11,326	12,126	800
State Sources	295,263	295,263	302,239	6,976
Federal Sources	618,012	618,012	632,775	14,763
Other Sources	20,195	20,195	21,558	1,363
TOTAL REVENUES	944,796	944,796	968,698	23,902
EXPENDITURES:				
Instructional	725,697	725,697	721,625	4,072
Student Support Services	30,537	30,537	30,210	327
Staff Support Services	97,071	97,071	125,350	(28,279)
District Administration				0
School Administration				0
Business Support Services				0
Plant Operation & Maintenance				0
Student Transportation	14,370	14,370	14,602	(232)
Central Office				0
Community Service Operations	77,121	77,121	76,911	210
Facility Acquisition & Construction				0
Other				0
TOTAL EXPENDITURES	944,796	944,796	968,698	(23,902)
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

OTHER SUPPLEMENTARY
INFORMATION

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	<u>SEEK CAPITAL OUTLAY FUND</u>	<u>FSPK BUILDING FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENT FUNDS</u>
ASSETS:			
Cash & Cash Equivalents	4,469	115,191	119,660
Accounts Receivable:			
Taxes			
Accounts			
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>4,469</u></u>	<u><u>115,191</u></u>	<u><u>119,660</u></u>
LIABILITIES AND FUND BALANCES:			
Total Liabilities	0	0	0
Fund Balance:			
Restricted for:			
Capital Projects	4,469	115,191	119,660
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u><u>4,469</u></u>	<u><u>115,191</u></u>	<u><u>119,660</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>4,469</u></u>	<u><u>115,191</u></u>	<u><u>119,660</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>SEEK CAPITAL OUTLAY FUND</u>	<u>FSPK BUILDING FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENT FUNDS</u>
REVENUES:			
Taxes		122,216	122,216
Intergovernmental - State	70,787	134,385	205,172
TOTAL REVENUES	<u>70,787</u>	<u>256,601</u>	<u>327,388</u>
EXPENDITURES:			
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	70,787	256,601	327,388
OTHER FINANCING SOURCES(USES):			
Operating Transfers Out	(70,787)	(199,161)	(269,948)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(70,787)</u>	<u>(199,161)</u>	<u>(269,948)</u>
NET CHANGE IN FUND BALANCES	<u>0</u>	<u>57,440</u>	<u>57,440</u>
FUND BALANCES - BEGINNING	<u>4,469</u>	<u>57,751</u>	<u>62,220</u>
FUND BALANCES - ENDING	<u><u>4,469</u></u>	<u><u>115,191</u></u>	<u><u>119,660</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	FUND BALANCE JULY 1, 2013	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2014
Frankfort Independent High School	138,429	213,853	214,009	138,273
Capital City Preparatory	4,763	2,814	3,936	3,641
Second Street Elementary School	14,434	144,783	124,979	34,238
Total Due to Student Groups	<u>157,626</u>	<u>361,450</u>	<u>342,924</u>	<u>176,152</u>

See independent accountant's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	CASH BALANCE JULY 1, 2013	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2014	ACCOUNTS RECEIVABLE JUNE 30, 2014	ACCOUNTS PAYABLE JUNE 30, 2014	FUND BALANCE JUNE 30, 2014
Academic Team	368	500	700	168			168
Capitolian	3,100	3,033	6,013	120			120
Faculty Concessions	1,490	643	1,457	676			676
Interest	6,163	1,151	5,261	2,053			2,053
FMS Chicago Trip	0	0	0	0			0
Graduation	5,342	1,484	3,645	3,181			3,181
Guidance	427	1,850	1,707	570			570
Miscellaneous	908	0	0	908			908
AP Fees	0	13,468	13,468	0			0
SBDM	2,340	1,120	220	3,240			3,240
Senior Play	339	0	0	339			339
Textbooks	8,224	118	500	7,842			7,842
Field Trips	8,781	0	0	8,781			8,781
Costa Rica Trip	88	0	0	88			88
Credit Recovery	225	0	0	225			225
France/Spain Trip	773	0	0	773			773
Student Locks	5	0	0	5			5
C.S. Boyd Scholarship	4,687	0	500	4,187			4,187
Student Notebooks	0	8,670	6,455	2,215			2,215
Fees	11,877	5,251	10,635	6,493			6,493
Football Trip	0	16,836	0	16,836			16,836
General Athletics	3,775	8,395	7,982	4,188			4,188
Baseball	3,475	7,269	5,693	5,051			5,051
Boys Basketball	2,031	14,945	12,089	4,887			4,887
Girls Basketball	3,626	12,299	11,243	4,682			4,682
Cheerleaders	731	1,529	1,862	398			398
Cross Country	1,563	0	180	1,383			1,383
Football	3,560	28,770	30,222	2,108			2,108
Boys Golf	320	0	0	320			320
Girls Golf	62	0	0	62			62
Boys Soccer	4,361	15,298	14,026	5,633			5,633
Girls Soccer	1,339	5,976	6,029	1,286			1,286
Girls Softball	2,694	2,374	4,164	904			904
Boys Tennis	665	514	399	780			780
Girls Tennis	803	304	979	128			128
Track	376	1,684	860	1,200			1,200
District Ball Tournament	200	83	223	60			60
Swim Team	51	315	184	182			182
Boys Soccer Scotland	1,005	779	0	1,784			1,784
Athletic Tourney	1,642	5,379	4,391	2,630			2,630
Athletic Fee	4,285	1,290	830	4,745			4,745
FB Jerseys	0	1,000	0	1,000			1,000

Sign Program	4,145	1,800	1,000	4,945			4,945
Preseason Tournament	1,000	0	0	1,000			1,000
High School Soccer All A	13,032	0	13,032	0			0
Art Honor Society	393	0	0	393			393
Beta Club	420	500	30	890			890
Clubs	1,007	0	0	1,007			1,007
Student YMCA	293	9,938	10,090	141			141
Drama Club	5,415	4,145	4,335	5,225			5,225
Consumer Science	1,843	0	0	1,843			1,843
Spanish Honor Society	44	6,978	6,842	180			180
Interact	371	0	130	241			241
National Honor Society	69	349	418	0			0
Pep Club	764	477	1,241	0			0
Journalism	219	0	0	219			219
Student Council	2,640	459	95	3,004			3,004
Miss FHS Pag	0	1,255	770	485			485
French Honor Society	135	0	0	135			135
Archery Club	47	0	40	7			7
Dance Club	202	750	721	231			231
Class of 2013	61	18	79	0			0
Class of 2014	1,060	4,733	5,198	595			595
Class of 2015	1,355	3,991	3,697	1,649			1,649
Class of 2016	0	1,895	138	1,757			1,757
Class of 2017	0	459	197	262			262
Library	747	0	0	747			747
School Concessions	1,352	85	0	1,437			1,437
Athletic Concessions	3,811	9,286	11,085	2,012			2,012
Art	19	862	837	44			44
Band	995	4,623	4,964	654			654
Chorus	171	0	0	171			171
English	426	0	0	426			426
Life Skills/Food	0	620	519	101			101
Humanities	415	0	0	415			415
Math	49	454	0	503			503
PE/Health	62	0	0	62			62
Chemistry	(104)	865	256	505			505
Social Studies	115	0	0	115			115
Special ED	644	43	157	530			530
Technology	3,250	0	0	3,250			3,250
Aviation	118	0	0	118			118
Science Academy	141	0	45	96			96
Biology	0	573	90	483			483
Ceramics	0	352	332	20			20
Photography	0	263	0	263			263
Total All Funds	<u>138,429</u>	<u>218,099</u>	<u>218,255</u>	<u>138,273</u>	<u>0</u>	<u>0</u>	<u>138,273</u>
Interfund Transfers		<u>(4,246)</u>	<u>(4,246)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u><u>138,429</u></u>	<u><u>213,853</u></u>	<u><u>214,009</u></u>	<u><u>138,273</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>138,273</u></u>

FRANKFORT INDEMENTENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3103	3,219
Title I - Parent Involvement	84.010	3104	248,628
Title I Cluster			<u>251,847</u>
Career & Technical Education	84.048	3484F	8,944
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4013	666
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4014	64,457
Title II			<u>65,123</u>
IDEA - Special Education - Grants to State	84.027	3372	40,577
IDEA - Special Education - Grants to State	84.027	3373	50,809
IDEA - Special Education - Grants to State	84.027	3374	188,365
IDEA - Special Education - Preschool Grants	84.173	3433	4,334
IDEA - Special Education - Preschool Grants	84.173	3434	22,774
Special Education Cluster			<u>306,859</u>
Total U.S. Department of Education			<u>632,773</u>
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-13	66,794
National School Lunchroom	10.555	7750002-14	203,493
School Breakfast Program	10.553	7760005-13	28,116
School Breakfast Program	10.553	7760005-14	79,848
Summer Meal Program	10.559	7690024-13	1,239
Summer Meal Program	10.559	7740023-13	11,943
Child Nutrition Cluster			<u>391,433</u> *
Child and Adult Food Care Program	10.558	7790021-13	2,378
Child and Adult Food Care Program	10.558	7790021-14	14,193
Child and Adult Food Care Program	10.558	7800016-13	183
Child and Adult Food Care Program	10.558	7800016-14	1,059
Child and Adult Food Care Program			<u>17,813</u>
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	26,232
Total U.S. Department of Agriculture			<u>435,478</u>
Total Federal Financial Assistance			<u><u>1,068,251</u></u>

* Tested as major program

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

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Frankfort 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 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 B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

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

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.555/10.553/10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2014

There were no prior year audit findings.

WHITE AND COMPANY, P.S.C.
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October 24, 2014

**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**

Members of the Board of Education
Frankfort Independent School District
506 West Second Street
Frankfort, KY 40601

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 *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of 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 Frankfort Independent School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Frankfort Independent School District's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Frankfort 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 the Frankfort Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Frankfort 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Frankfort Independent School District in a separate letter dated October 24, 2014.

Purpose of this Report

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
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October 24, 2014

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

Members of the Board of Education
Frankfort Independent School District
506 West Second Street
Frankfort, KY 40601

Report on Compliance for Each Major Federal Program

We have audited the Frankfort 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 Frankfort Independent School District's major federal programs for the year ended June 30, 2014. Frankfort Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Frankfort 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 Frankfort 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 Frankfort 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 a 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 24, 2014

MANAGEMENT LETTER

Members of the Board of Education
Frankfort Independent School District
506 West Second Street
Frankfort, KY 40601

In planning and performing our audit of the financial statements of Frankfort Independent School District for the year ended June 30, 2014, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2013, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

Several personnel folders were reviewed during the audit of the District's financial statements. The District developed a checklist of relevant documents to be included in each employee's personnel folder. While most documents were found, either by the auditor or subsequently by District personnel, the task could have been simplified by better organization within the personnel file documentation. It was recommended that an indexed format be established that easily corresponds to the most current document for each category on the checklist.

Current Year Finding:

No matters were noted regarding employee personnel files.

Prior Year Recommendation:

Payroll personnel were allowed to make changes in their own computer payroll records without supervisory authorizations. It was recommended that the supervisor sign off on each change and the finance officer make the change to the computer records and personnel file. This would provide adequate segregation of duties. Monitoring of this documentation is necessary as an internal control to keep honest employees honest.

Current Year Finding:

No such matters were noted.

Current Year Recommendation:

During the audit of the school activity fund receipts, a few instances were noted where the Multiple Receipt Form was not properly completed. The form should be signed by the students and the sponsor collecting the money according to Redbook policies and procedures. We recommend that Multiple Receipt Forms be completed for applicable deposits according to guidelines outlined in the Redbook.

Management Response:

We will take measures to ensure that Multiple Receipt Forms are properly completed.

Current Year Finding:

During the audit of the school activity funds, it was noted that expenditures were made for amounts greater than the amount approved on the purchase order. We recommend that new or revised purchase orders be completed when disbursements would exceed the expenditure originally approved.

Management Response:

We will require that approved purchase orders be completed for disbursements equal to or exceeding the disbursement amount prior to payment being issued.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 24, 2014

Members of the Board of Education
Frankfort Independent School District
506 West Second Street
Frankfort, KY 40601

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankfort Independent School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 22, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Frankfort Independent School District are described in Note A to the financial statements. As described in Notes A and T to the financial statements, the Frankfort Independent School District changed accounting policies related to deferred outflows and deferred inflows of resources by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Frankfort Independent School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Frankfort Independent School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 38 and 39, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Frankfort Independent School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants