

PENDLETON COUNTY BOARD OF EDUCATION

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
And
INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2014

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pendleton County Board of Education as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 and budgetary comparison information on pages 42 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The combining statements for nonmajor governmental funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Pendleton County High School, and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
September 15, 2014

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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

FINANCIAL HIGHLIGHTS

The beginning cash balance, including activity funds, for the District was \$4,653,201. The ending cash balance, including activity funds, for the District was \$3,574,385.

The General Fund had \$18,269,654 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfer, there were \$19,007,650 in General Fund expenditures. This includes on-behalf payments.

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

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

On June 4, 2014, the Franklin Circuit Court issued an order instructing the Rehabilitator to assess the former members of the Kentucky School Boards Insurance Trust Workers Compensation Fund. The District was assessed \$67,933. The district has elected to pay 25% by August 31, 2014, and the balance in equal installments for 6 years.

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

The Board issued \$14,690,000 in refunding bonds on July 1, 2013 to refund the 2009 bond series. By refinancing, the Board will save \$1,806,520, which includes \$500,000 commitment from the Building Fund. The District is working to eliminate using general fund money for bond payments.

During fiscal year 2014, the Board spent funds on resources such as textbooks for both elementary schools (\$45,340), reading textbooks/resources (\$46,308) and math resources (\$54,926). In addition to the instructional resources, each school had an additional teacher over the SBDM allocation.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 23-40 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$16 million as of June 30, 2014.

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

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

	Net Position (in thousands)					
	Governmental		Business-type		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets	\$48,440	\$51,806	\$896	\$954	\$49,336	\$52,760
Liabilities	\$31,828	\$34,150	\$0	\$1	\$31,828	\$34,151
Deferred Inflows of Resources	\$222	\$210	\$0	\$0	\$222	\$210
Investment in capital assets (net of debt)	\$13,774	\$13,993	\$534	\$555	\$14,308	\$14,548
Restricted	2,013	2,986	362	398	2,375	3,384
Unrestricted	<u>603</u>	<u>467</u>			<u>603</u>	<u>467</u>
Total Net Position	\$16,390	\$17,446	\$896	\$953	\$17,286	\$18,399

Budgetary Implications

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

Comments on Budget Comparisons

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

	Changes in Net Position (in thousands)					
	Governmental		Business-type		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues						
Local Revenue Sources	\$5,433	\$5,396	\$419	\$443	\$5,852	\$5,839
State Revenue Sources	16,219	16,259	223	248	16,442	16,507
Federal Revenue Sources	1,673	1,857	909	906	2,582	2,763
Investments	<u>18</u>	<u>27</u>	<u>3</u>	<u>2</u>	<u>21</u>	<u>29</u>
Total Revenues	23,343	23,539	1,554	1,599	24,897	25,138
Expenses	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instruction	10,023	11,261	0	0	10,023	11,261
Student Support Services	1,018	859	0	0	1,018	859
Instructional Support	2,701	1,224	0	0	2,701	1,224
District Administration	1,352	1,197	0	0	1,352	1,197
School Administration	1,171	1,276	0	0	1,171	1,276
Business Support	792	620	0	0	792	620
Plant Operations	2,166	2,136	0	0	2,166	2,136
Student Transportation	1,897	1,964	0	0	1,897	1,964
Other Instruction	16	16	0	0	16	16
Facilities Acquisition & Construction	60	306	0	0	60	306
Community Support	211	219	49	79	260	298
Food Service	2	6	1,505	1,571	1,507	1,577
Debt Service	<u>18,395</u>	<u>4,304</u>	<u>0</u>	<u>0</u>	<u>18,395</u>	<u>4,304</u>
Total Expenses	39,804	25,388	1,554	1,650	41,358	27,038
Transfers	58	64	(58)	(64)	0	0
Sale of assets	9	19	0	0	9	19
Bond Proceeds	<u>14,941</u>	<u>1,236</u>	<u>0</u>	<u>0</u>	<u>14,941</u>	<u>1,236</u>
Change in Net Position	(1,453)	(530)	(58)	(115)	(1,511)	(645)
Beginning Net Position	<u>4,493</u>	<u>5,023</u>	<u>954</u>	<u>1,069</u>	<u>5,447</u>	<u>6,092</u>
Ending Net Position	\$3,040	\$4,493	\$896	\$954	\$3,936	\$5,447

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

INFRASTRUCTURE

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

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

Fund	Beginning	Revenues	Expenses	Transfer	Ending
General Fund	\$2,002	\$18,509	\$19,008	(\$239)	\$1,264
Special Revenue	\$0	\$2,586	\$2,622	\$36	\$0
Capital Outlay	\$179	\$224	\$0	(\$224)	\$179
Building	\$1,559	\$1,981	\$0	(\$1,981)	\$1,559
Construction	\$107	\$0	\$60	(\$10)	\$37
Debt Service	\$645	\$14,993	\$18,115	\$2,477	\$0

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

	Beginning	Additions	Deductions	Ending
Governmental				
Capital Assets	\$67,379	\$629	\$172	\$67,836
Accumulated Depreciation	\$20,317	\$2,581	\$172	\$22,726
Business-Type				
Capital Assets	\$1,751	\$21	\$0	\$1,772
Accumulated Depreciation	\$1,196	\$42	\$0	\$1,238
Bonds Payable	\$31,707	\$14,690	\$16,763	\$29,634
Capital Lease Payable	\$1,509	\$251	\$312	\$1,448
Sick Leave Payable	\$444	\$49	\$121	\$372
Judgments Payable	\$0	\$51	\$0	\$51

CURRENT ISSUES

One of the greatest concerns looking ahead at the future fiscal years is the impact of the federal sequestration - or loss of federal funds for the next eight years, averaging a decline of 7.8% to 9.1%. The loss of these funds would constitute a reduction of \$679,069 to \$750,833. A reduction of this nature - over the next 8 years - would reduce the amount of resources to be allocated to the schools.

For the third straight year, despite the recommendation of the Superintendent, the Board has not taken a tax rate higher than the compensating rate. It will be impossible to maintain current programs past 2017 without increasing revenue or reducing expenses.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information should be directed to the Superintendent, Anthony Strong, or to the Treasurer, Jan Johnston, 859-654-6911, or by mail at 2525 Hwy 27 N. Falmouth, Kentucky 41040.

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
DISTRICT WIDE
As of June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents - Note C	\$2,832,401	\$330,004	\$3,162,405
Accounts receivable	446,470		446,470
Inventory		32,032	32,032
Prepaid expenses	51,515		51,515
Capital assets			
Land and construction in progress	674,221		674,221
Other capital assets, net of depreciation	<u>44,435,275</u>	<u>533,475</u>	<u>44,968,750</u>
Total capital assets	<u>45,109,496</u>	<u>533,475</u>	<u>45,642,971</u>
TOTAL ASSETS	\$48,439,882	\$895,511	\$49,335,393
LIABILITIES			
Accounts payable	\$1,055	\$0	\$1,055
Judgments payable	16,983		16,983
Accrued salaries and benefits payable	50,883		50,883
Interest payable	253,659		253,659
Long-term Liabilities			
Due within 1 year	2,226,442		2,226,442
Due in more than 1 year	<u>29,278,534</u>		<u>29,278,534</u>
TOTAL LIABILITIES	\$31,827,556	\$0	\$31,827,556
DEFERRED INFLOWS OF RESOURCES			
Deferred revenues	221,501		221,501
NET POSITION			
Net investment in capital assets	\$13,774,244	\$533,475	\$14,307,719
Restricted			
Prepays	51,515		51,515
Accrued sick leave	186,216		186,216
Food Service		351,541	351,541
Other		10,495	10,495
SFCC	1,738,883		1,738,883
Future Construction	36,814		36,814
Debt Service	2		2
Unrestricted	<u>603,151</u>		<u>603,151</u>
TOTAL NET POSITION	\$16,390,825	\$895,511	\$17,286,336

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2014

	General Fund	Special Revenue	Building Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$952,670	\$104,032	\$1,559,386	\$2	\$216,311	\$2,832,401
Other receivables	327,946	118,524				446,470
Prepaid expenses	51,515					51,515
TOTAL ASSETS	\$1,332,131	\$222,556	\$1,559,386	\$2	\$216,311	\$3,330,386
LIABILITIES						
Accounts payable	\$0	\$1,055	\$0	\$0	\$0	\$1,055
Judgments payable	16,983					16,983
Accrued salaries and benefits payable	50,883					50,883
TOTAL LIABILITIES	67,866	1,055				68,921
DEFERRED INFLOWS OF RESOURCES						
Deferred Revenues		221,501				221,501
Fund Balances						
Nonspendable						
Prepaids	51,515					51,515
Restricted						
Sick Leave Payable	186,216					186,216
SFCC			1,559,386		179,497	1,738,883
Future Construction					36,814	36,814
Debt Service				2		2
Unassigned	1,026,534					1,026,534
Total fund balances	1,264,265		1,559,386	2	216,311	3,039,964
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	\$1,332,131	\$222,556	\$1,559,386	\$2	\$216,311	\$3,330,386

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF NET POSITION
 As of June 30, 2014

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

Total Fund Balance - Governmental Funds		\$3,039,964
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position		45,109,496
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position		
	Bonds Payable	(29,634,000)
	Capital Lease Payable	(1,447,593)
	Judgments Payable	(50,950)
	Accrued Interest on Bonds	(253,659)
	Accumulated Sick Leave	<u>(372,433)</u>
Total Net Position - Governmental Activities		\$16,390,825

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2014

	General Fund	Special Revenue	Building Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
From local sources						
Property taxes	\$2,659,557	\$	\$1,065,843	\$	\$	\$3,725,400
Motor vehicle taxes	522,468					522,468
Utility taxes	786,762					786,762
Earnings on investments	17,950			24		17,974
Other local revenues	332,189	66,160				398,349
Intergovernmental - State	13,896,364	922,444	915,382	261,042	224,268	16,219,500
Intergovernmental - Federal	<u>33,806</u>	<u>1,597,438</u>		<u>41,497</u>		<u>1,672,741</u>
Total revenues	18,249,096	2,586,042	1,981,225	302,563	224,268	23,343,194
Expenditures						
Instruction	8,328,820	1,694,054				10,022,874
Support services						
Student	856,038	161,536				1,017,574
Instruction staff	2,189,559	511,798				2,701,357
District administration	1,352,070					1,352,070
School administration	1,170,690					1,170,690
Business	788,270	4,267				792,537
Plant operation and maintenance	2,166,122					2,166,122
Student transportation	1,863,432	33,980				1,897,412
Other instructional		15,537				15,537
Food Service		1,809				1,809
Community service activities	12,460	198,944				211,404
Facilities					60,404	60,404
Debt service	<u>280,189</u>			<u>18,114,727</u>		<u>18,394,916</u>
Total expenditures	19,007,650	2,621,925		18,114,727	60,404	39,804,706
Excess(deficit)of revenues over expenditures	(758,554)	(35,883)	1,981,225	(17,812,164)	163,864	(16,461,512)
Other Financing Sources (Uses)						
Sale of equipment	8,603					8,603
Bond/Capital Lease Proceeds	251,221			14,690,000		14,941,221
Operating transfers in	58,171	35,883		2,477,152		2,571,206
Operating transfers out	<u>(297,497)</u>		<u>(1,981,225)</u>		<u>(234,313)</u>	<u>(2,513,035)</u>
Total other financing sources (uses)	20,498	35,883	(1,981,225)	17,167,152	(234,313)	15,007,995
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(738,056)	0	0	(645,012)	(70,449)	(1,453,517)
Fund balance, July 1, 2013	<u>2,002,321</u>	<u>0</u>	<u>1,559,386</u>	<u>645,014</u>	<u>286,760</u>	<u>4,493,481</u>
Fund balance, June 30, 2014	\$1,264,265	\$0	\$1,559,386	\$2	\$216,311	\$3,039,964

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
 For The Year Ended June 30, 2014

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

Total net change in fund balances - governmental funds (\$1,453,517)

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

Depreciation Expense	(2,581,346)	
Capital Outlays	<u>629,205</u>	(1,952,141)

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

Bond Principal Payments	16,763,150
Capital Lease Payments	312,245
Bond Proceeds	(14,690,000)
Capital Lease Proceeds	(251,221)

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

Change in Accrued Interest	44,592
KSBIT liability	100,519
Change in Sick Leave	<u>71,200</u>

Total Change in Net Position - Governmental Activities (\$1,055,173)

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2014

		Business-Type Activities Enterprise Funds		
	Food Service Fund	Other Enterprise Funds		Total
ASSETS				
Cash and Equivalents	\$319,509	\$10,495		\$330,004
Inventory	32,032			32,032
Capital Assets, net of depreciation	<u>533,475</u>	_____		<u>533,475</u>
TOTAL ASSETS	\$885,016	\$10,495		\$895,511
NET POSITION				
Net Investment in Capital Assets	533,475			533,475
Restricted Net Position	<u>351,541</u>	<u>10,495</u>		<u>362,036</u>
TOTAL NET POSITION	\$885,016	10,495		895,511

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For The Year Ended June 30, 2014

	Business-Type Activities Enterprise Funds		
	Food Service Fund	Other Enterprise Funds	Total
OPERATING REVENUES			
Lunchroom sales	\$365,872		\$365,872
Other revenues	<u>3,254</u>	<u>49,567</u>	<u>52,821</u>
Total Operating Revenues	369,126	49,567	418,693
OPERATING EXPENSES			
Salaries and wages	735,937	43,202	779,139
Contract services	26,807	1,212	28,019
Materials and supplies	700,486	4,467	704,953
Depreciation	<u>42,336</u>		<u>42,336</u>
Total Operating Expenses	1,505,566	48,881	1,554,447
Operating income (loss)	(1,136,440)	686	(1,135,754)
NON-OPERATING REVENUES (EXPENSES)			
Federal grants	828,609		828,609
Commodities received	80,872		80,872
State grants	13,213		13,213
State on-behalf payments	209,571		209,571
Interest income	3,484		3,484
Indirect cost transfer to general fund	<u>(58,171)</u>		<u>(58,171)</u>
Non-operating revenues (expenses)	1,077,578		1,077,578
Net income (loss) before Capital Contributions	(58,862)	686	(58,176)
Increase (decrease) in Net Position	(58,862)	686	(58,176)
Net Position, July 1, 2013	<u>943,878</u>	<u>9,809</u>	<u>953,687</u>
Net Position, June 30, 2014	\$885,016	\$10,495	\$895,511

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2014

	Business-Type Activities Enterprise Funds		
	Food Service Fund	Other Enterprise Funds	Total
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from customers	\$369,126	\$49,567	\$418,693
Cash paid to employees, including benefits	(526,367)	(43,202)	(569,569)
Cash paid to suppliers	<u>(650,405)</u>	<u>(5,785)</u>	<u>(656,190)</u>
Net cash provided by operating activities	(807,646)	580	(807,066)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Assets Purchased	(20,539)		(20,539)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from government funding	919,497		919,497
Indirect cost transfer to general fund	<u>(58,171)</u>		<u>(58,171)</u>
Net cash provided from capital and related financing activities	861,326		861,326
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest Income	<u>3,484</u>		<u>3,484</u>
Net cash provided from capital and related financing activities	3,484		3,484
Net increase (decrease) in cash	36,625	580	37,205
Cash and equivalents, July 1, 2013	<u>282,884</u>	<u>9,915</u>	<u>292,799</u>
Cash and equivalents, June 30, 2014	\$319,509	\$10,495	\$330,004
Reconciliation of Operating income (loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	(\$1,136,440)	\$686	(\$1,135,754)
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	42,336		42,336
On-behalf payments	209,571		209,571
Commodities used	80,872		80,872
Increase in inventory	(3,985)		(3,985)
Increase (decrease) in accounts payable	<u>0</u>	<u>(106)</u>	<u>(106)</u>
Net cash provided by operating activities and increase in cash and equivalents	(\$807,646)	\$580	(\$807,066)
Schedule of Non-Cash Financing Activities			
Donated commodities	\$80,872		
On Behalf payments	\$209,571		

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
As of June 30, 2014

	Agency Fund
ASSETS	
Cash and equivalents	\$411,980
Accounts receivable	<u>4,848</u>
TOTAL ASSETS	\$416,828
LIABILITIES	
Accounts payable	\$3,539
Due to student groups	<u>413,289</u>
TOTAL LIABILITIES	\$416,828

See accompanying notes

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

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

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

Basis of Presentation

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

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

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

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

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

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

The District has the following funds:

I. Governmental Fund Types

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

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

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

II. Debt Service Fund

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

III. Proprietary Funds (Enterprise Fund)

1. The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). This is a major fund for the District.
2. The Child Care Fund is used to account for after school child care activities.
3. The Adult/Community Education Fund is used to account for adult and community education activities.

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

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

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

V. Permanent Funds

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

Basis of Accounting

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

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

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

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

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

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

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

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance operations were \$.612 per \$100 valuation for real property, \$.612 per \$100 valuation for business personal property and \$.55 per \$100 valuation for motor vehicles.

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

Fund Balance Classification Policies and Procedures

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

Nonspendable Fund Balance

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

Restricted Fund Balance

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

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

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Interfund Balances

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

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

Capital Assets

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

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

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

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

Budgetary Process

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

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

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

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

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

Cash and Cash Equivalents

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

Inventories

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

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method. Prepaid assets are only recorded if material to the financial statements.

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

Accrued Liabilities and Long-Term Obligations

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

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

Net Position

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools and collections for services such as child care.

Contributions of Capital

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

Subsequent Events

Subsequent events were considered through September 15, 2014, which represents the date of my report.

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

Interfund Activity

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

Uses of Estimates

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

Encumbrances

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

NOTE B – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2014 were levied on the assessed valuation of property located in the School District as of January 1, 2013 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	per KRS 134.015
Due date for payment of taxes	Upon receipt
Face value amount payment date	December 31
Delinquent date, 5% penalty	January 1 – January 31
Delinquent date, 10% penalty	February 1

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

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$3,574,385. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

	Bank Balance	Book Balance
General Checking Account		
Fund 1 (General Fund)	\$	\$ 952,670
Fund 2 (Special Revenue Fund)		104,032
Fund 310 (Capital Outlay Fund)		179,497
Fund 320 (Building Fund)		1,559,386
Fund 360 (Construction Fund)		(35,035)
Fund 51 (Food Service)		319,509
Fund 52 (Day Care)		9,172
Fund 54 (Adult/Community Education)		<u>1,323</u>
Total General Checking Account	3,490,915	3,090,554
Activity and Trust Funds	415,308	411,980
Construction Fund	71,849	71,849
Debt Service Funds	<u>2</u>	<u>2</u>
TOTALS	\$ 3,978,074	\$3,574,385

Breakdown per financial statements:

Governmental Funds	\$ 2,832,401
Proprietary Funds	330,004
Agency Funds	<u>411,980</u>
TOTALS	\$ 3,574,385

NOTE D – CAPITAL ASSETS

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

Instruction	\$ 2,158,168
Support Services	
Student	95,354
Instructional staff	3,391
District administration	2,563
Business	133
Plant operations & maintenance	67,637
Student transportation	253,566
Community services	<u>534</u>
Total Depreciation expense, governmental activities	\$ 2,581,346

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

NOTE D - CAPITAL ASSETS

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

Governmental Activities	Beginning	Additions	Deletions	Ending
Land	\$674,221			\$674,221
Land Improvements	2,553,479			2,553,479
Buildings/Bldg Improvements	55,383,077	22,000		55,405,077
Technology Equipment	3,611,136	150,463		3,761,599
Vehicles	3,546,085	287,822	172,019	3,661,888
General Equipment	1,610,398	108,516		1,718,914
Construction Work In Process	<u>0</u>	<u>60,404</u>	<u>0</u>	<u>60,404</u>
Totals at historical cost	67,378,396	629,205	172,019	67,835,582
Less Accumulated Depreciation				
Land Improvements	1,233,421	124,950		1,358,372
Buildings/Bldg Improvements	12,677,967	1,835,522		14,513,489
Technology Equipment	2,824,066	291,432	172,019	3,115,497
Vehicles	2,481,423	234,330		2,543,734
General Equipment	<u>1,099,882</u>	<u>95,112</u>		<u>1,194,994</u>
Total accumulated depreciation	20,316,759	2,581,346	172,019	22,726,086
Governmental Activities Capital Assets - Net	\$47,061,637	(\$1,952,141)	\$0	\$45,109,496
Business-Type Activities				
Food Service				
Buildings/Bldg Improvements	\$875,390			\$875,390
Technology Equipment	18,813			18,813
Vehicles	27,554			27,554
General Equipment	<u>829,478</u>	<u>20,539</u>		<u>850,017</u>
Totals at historical cost	1,751,235	20,539		1,771,774
Less Accumulated Depreciation				
Buildings/Bldg Improvements	434,620	17,508		452,128
Technology Equipment	18,262	551		18,813
Vehicles	27,555			27,555
General Equipment	<u>715,526</u>	<u>24,277</u>		<u>739,803</u>
Total accumulated depreciation	1,195,963	42,336		1,238,299
Business-Type Activities Capital Assets - Net	\$555,272	(\$21,797)	\$0	\$533,475

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

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

Issue Date	Proceeds	Rates
2005	\$ 5,050,000	3.45%
2007	13,600,000	4.00% - 4.125%
2008	2,150,000	2.00% - 3.25%
2012	657,050	2.00% - 6.50%
2013	14,690,000	2.00% - 3.75%

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

There are a number of limitations and restrictions contained in the various bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of June 30, 2014.

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

The District issued \$14,690,000 in KISTA Bonds to refund the 2009 Build America Bonds.

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

	Beginning			Ending
	Balance	Additions	Payments	Balance
Bonds	\$31,707,150	\$14,690,000	\$16,763,150	\$29,634,000
Sick Leave	\$443,633	\$49,366	\$120,566	\$372,433
Capital Leases	\$1,508,617	\$251,221	\$312,245	\$1,447,593
Judgments	\$0	\$50,950	\$0	\$50,950

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

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

Year	Pendleton County School		SFCC		Total
	Principal	Interest	Principal	Interest	
2014-15	1,706,260	954,875	202,640	58,401	2,922,176
2015-16	1,750,681	907,365	199,519	51,739	2,909,304
2016-17	1,780,158	871,543	171,042	45,525	2,868,268
2017-18	1,826,677	820,262	177,023	39,544	2,863,506
2018-19	1,766,730	767,388	183,270	33,295	2,750,683
2019-20	1,818,503	706,971	71,497	26,823	2,623,794
2020-21	1,875,643	642,381	74,357	23,963	2,616,344
2021-22	1,927,669	575,705	77,331	20,989	2,601,694
2022-23	1,989,576	507,048	80,424	17,895	2,594,943
2023-24	2,056,359	436,065	83,641	14,678	2,590,743
2024-25	2,127,908	361,196	87,092	11,228	2,587,424
2025-26	2,199,316	281,340	90,684	7,636	2,578,976
2026-27	2,275,575	197,555	94,425	3,895	2,571,450
2027-28	1,450,000	108,438	0	0	1,558,438
2028-29	1,490,000	55,875	0	0	1,545,875
	28,041,055	8,194,007	1,592,945	355,611	38,183,618

NOTE F – CAPITAL LEASE PAYABLE

The District leases buses under capital leases with KISTA. The leases expire on various dates from June 2015 through June 2024.

<u>Classes of Property</u>	<u>Book value as of</u>
Buses	<u>June 30, 2014</u>
	\$ 1,118,154

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

<u>Year Ending</u>	<u>Capital Lease</u>
<u>June 30,</u>	<u>Payable</u>
2015	\$ 363,704
2016	328,355
2017	264,715
2018	188,378
2019	148,265
Thereafter	<u>305,790</u>
Total minimum lease payments	\$ 1,599,207
Less Amount representing interest	(<u>151,614</u>)
Present Value of Net Minimum Lease Payments	\$ 1,447,593

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2014 as follows:

Year ending June 30,

2015	\$ 38,389
2016	36,683
2017	1,063
2018	441
2019	0
Later years	<u>0</u>
Total	\$ 76,576

NOTE H – RETIREMENT PLANS

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

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

Funding Policy – 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 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

NOTE H – RETIREMENT PLANS (continued)

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan and description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of member's salary for the 2013-2014 fiscal year.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 18.89% of the employee's total compensation subject to contribution.

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

The following are payroll and retirement amounts for the years ended June 30, 2014, 2013, and 2012.

	2014	2013	2012
Total payroll	\$13,332,745	\$12,803,656	\$13,696,882
KTRS total payroll	\$9,940,433	\$9,559,119	\$9,835,542
CERS total payroll	\$3,073,959	\$3,037,637	\$3,152,113
Contribution requirement for CERS	\$746,569	\$752,493	\$757,333
District portion - CERS contribution	\$582,366	\$598,506	\$597,603
Employee portion - CERS contribution	\$164,203	\$153,987	\$159,730
KTRS contribution - Commonwealth of KY	\$1,196,399	\$1,159,194	\$1,297,408
KTRS contribution - district federal employees	\$130,579	\$178,375	\$163,230

NOTE I - CONTINGENCIES

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

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

NOTE J - INSURANCE AND RELATED ACTIVITIES

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

NOTE K – ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the district an amount equal to 30% of the value of accumulated sick leave. At June 30, 2014, this amount totaled \$372,433 of which \$186,216 is restricted in the current year fund balance of the General Fund.

NOTE L – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2014, consisted of the following:

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

NOTE M – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District purchases various commercial insurance policies.

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

NOTE N – DEFICIT OPERATING/FUND BALANCES

Funds with a current year deficit of revenues over expenditures

Fund 1	(738,056)
Fund 360	(70,449)
Fund 400	(645,012)
Fund 51	(58,862)

NOTE O – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss. The District notifies the Department of Employee Insurance (DEI) when an employee is no longer employed. DEI sends the employee the COBRA requirements

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

NOTE P – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	KETS Matching	\$ 35,883
Debt Service	1	400	Bond Payment	261,614
Operating	51	1	Indirect Cost	58,171
Debt Service	310	400	Bond Payment	224,268
Debt Service	320	400	Bond Payment	1,981,225
Close Account	360	400	Close 2009 Bond	10,045

NOTE Q – ON-BEHALF PAYMENTS

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

Health Insurance	\$ 2,258,049
Life Insurance	5,419
Administrative Fees	25,694
Health Reimbursement Account	144,462
Federal Reimbursement	(148,383)
KTRS	1,196,399
Technology On Behalf Payments	78,737
Debt Service On Behalf Payments	<u>261,042</u>
Total On-Behalf Payments	\$ 3,821,419

General Fund	\$ 3,350,806
Debt Service	261,042
Food Service	<u>209,571</u>
Total On-Behalf Payments	\$ 3,821,419

NOTE R – DEPOSITS AND INVESTMENTS

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

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

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

PENDLETON COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2014

NOTE R – DEPOSITS AND INVESTMENTS (continued)

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2014, the District's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance.

NOTE S – KSBIT JUDGMENT

On June 4, 2014, the Franklin Circuit Court issued an order instructing the Rehabilitator to assess the former members of the Kentucky School Boards Insurance Trust Workers' Compensation Fund. The District was assessed \$67,933. The District has elected to pay 25% by August 31, 2014, and the balance in equal installments for 6 years.

The following is a schedule by years of the future payments under the agreement.

Year Ending <u>June 30.</u>	<u>Amount</u>
2015	\$ 16,983
2016	8,492
2017	8,492
2018	8,492
2019	8,492
2020	8,492
2021	<u>8,490</u>
Total	\$ 67,933

NOTE T – GASB 68

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

NOTE U – RESTATEMENT OF NET POSITION – DISTRICT WIDE

GASB Statement 65, *Reporting Items Previously Recognized as Assets and Liabilities*, which reclassifies certain items reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or, in other cases to expenses/expenditure. Previously Debt Issuance Costs were included on the District Wide Financial Statements. Now, Debt Issuance Costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. As a result of this change, the following restatement of beginning balance for Net Position – District Wide is made:

June 30, 2013, Original	\$ 17,739,669
Removal of Bond Issuance Costs	(<u>293,671</u>)
June 30, 2013, Restated	\$ 17,445,998

SUPPLEMENTARY INFORMATION

PENDLETON COUNTY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
 For The Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes	4,949,074	4,263,270	3,968,787	(294,483)
Other Local Sources	324,000	476,000	350,139	(125,861)
State Sources	10,065,000	13,414,109	13,896,364	482,255
Federal Sources	<u>120,000</u>	<u>120,000</u>	<u>33,806</u>	<u>(86,194)</u>
TOTAL REVENUES	15,458,074	18,273,379	18,249,096	(24,283)
EXPENDITURES				
Instruction	8,086,343	9,866,513	8,328,820	1,537,693
Support Services				
Student	732,698	832,952	856,038	(23,086)
Instructional Staff	420,690	477,732	2,189,559	(1,711,827)
District Administration	1,401,174	1,478,042	1,352,070	125,972
School Administration	954,609	1,234,273	1,170,690	63,583
Business	694,167	809,625	788,270	21,355
Plant Operation and Maintenance	1,901,356	2,129,002	2,166,122	(37,120)
Student Transportation	1,346,468	1,577,355	1,863,432	(286,077)
Community Services	32,788	32,788	12,460	20,328
Debt Service	394,350	394,350	280,189	114,161
Contingency	<u>652,746</u>	<u>652,746</u>		<u>652,746</u>
TOTAL EXPENDITURES	16,617,389	19,485,378	19,007,650	477,728
Excess (Deficit) of Revenues Over Expenditures	(1,159,315)	(1,211,999)	(758,554)	453,445
OTHER FINANCING SOURCES (USES)				
Sale of Equipment	0	0	8,603	8,603
Capital Lease Proceeds	10,000	10,000	251,221	241,221
Operating Transfers In	60,000	430,692	58,171	(372,521)
Operating Transfers Out	<u>(36,627)</u>	<u>(481,425)</u>	<u>(297,497)</u>	<u>183,928</u>
TOTAL OTHER FINANCING SOURCES (USES)	33,373	(40,733)	20,498	61,231
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(1,125,942)	(1,252,732)	(738,056)	514,676
Fund Balance, July 1, 2013	<u>1,125,942</u>	<u>1,507,892</u>	<u>2,002,321</u>	<u>494,429</u>
Fund Balance, June 30, 2014	\$0	\$255,160	\$1,264,265	\$1,009,105

PENDLETON COUNTY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR SPECIAL REVENUE
 For The Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
REVENUES				
State Sources	\$795,918	\$849,627	\$922,444	72,817
Federal Sources	1,473,404	1,544,591	1,597,438	52,847
Local Sources	<u>0</u>	<u>46,591</u>	<u>66,160</u>	<u>19,569</u>
TOTAL REVENUES	2,269,322	2,440,809	2,586,042	145,233
EXPENDITURES				
Instruction	1,496,866	1,547,080	1,694,054	(146,974)
Support Services				
Student		58,902	161,536	(102,634)
Instructional Staff	532,853	573,634	511,798	61,836
Business	3,248	3,450	4,267	(817)
Student Transportation	100,170	100,169	33,980	66,189
Other Instructional	15,537	15,537	15,537	0
Food Service		0	1,809	(1,809)
Community Service Operations	<u>157,275</u>	<u>178,664</u>	<u>198,944</u>	<u>(20,280)</u>
TOTAL EXPENDITURES	2,305,949	2,477,436	2,621,925	(144,489)
Excess (Deficit) of Revenues Over Expenditures	(36,627)	(36,627)	(35,883)	744
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	<u>36,627</u>	<u>36,627</u>	<u>35,883</u>	<u>(744)</u>
TOTAL OTHER FINANCING SOURCES (USES)	36,627	36,627	35,883	(744)
Excesss (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	0	0	0	0
Restricted Fund Balance, July 1, 2013	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Restricted Fund Balance, June 30, 2014	\$0	\$0	\$0	\$0

PENDLETON COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 As of June 30, 2014

	SEEK Capital Outlay Fund	Construction Fund	Total
ASSETS AND RESOURCES			
Cash and equivalents	\$179,497	\$36,814	\$216,311
TOTAL ASSETS AND RESOURCES	\$179,497	\$36,814	\$216,311
FUND BALANCES			
Restricted - SFCC	\$179,497	\$	\$179,497
Restricted - Future Constr BG-1		<u>36,814</u>	<u>36,814</u>
TOTAL FUND BALANCES	<u>179,497</u>	36,814	216,311
TOTAL LIABILITIES AND FUND BALANCES	\$179,497	\$36,814	\$216,311

PENDLETON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For The Year Ended June 30, 2014

	SEEK Capital Outlay Fund	Construction Fund	Total
REVENUES			
Intergovernmental-State	<u>\$224,268</u>		<u>\$224,268</u>
TOTAL REVENUES	224,268		224,268
EXPENDITURES			
Building Improvements		<u>60,404</u>	<u>60,404</u>
TOTAL EXPENDITURES		60,404	60,404
Excess (deficit) revenues over expenditures	224,268	(60,404)	163,864
OTHER FINANCING SOURCES (USES)			
Operating transfers out	<u>(224,268)</u>	(10,045)	<u>(234,313)</u>
TOTAL OTHER FINANCING SOURCES (USES)	(224,268)	(10,045)	(234,313)
Excess (deficit) revenues and other financing sources over expenditures and other financing uses	0	(70,449)	(70,449)
Restricted Fund Balance, July 1, 2013	<u>179,497</u>	<u>107,263</u>	<u>286,760</u>
Restricted Fund Balance, June 30, 2014	\$179,497	\$36,814	\$216,311

PENDELTON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 SCHOOL ACTIVITY FUNDS
 As of June 30, 2014

	Pendleton County High School	Phillip A. Sharp Middle School	Northern Elementary School	Southern Elementary School	Total
ASSETS					
Cash and equivalents	\$195,237	\$127,985	\$43,294	\$45,464	\$411,980
Accounts receivable	<u>4,466</u>	<u>0</u>	<u>228</u>	<u>154</u>	<u>4,848</u>
TOTAL ASSETS	\$199,703	\$127,985	\$43,522	\$45,618	\$416,828
LIABILITIES					
Accounts payable	\$2,163	\$1,376	\$0	\$0	\$3,539
Due to student groups	<u>197,540</u>	<u>126,609</u>	<u>43,522</u>	<u>45,618</u>	<u>413,289</u>
TOTAL LIABILITIES	\$199,703	\$127,985	\$43,522	\$45,618	\$416,828

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

For The Year Ended June 30, 2014

	Cash Balances		Receipts	Disbursement	Cash Balances June 30, 2014	Accounts		Due To Student Groups June 30, 2014
	July 1, 2013	June 30, 2014				Receivable June 30, 2014	Payable June 30, 2014	
Pendleton County High School	\$228,710	\$535,033	\$568,506	\$195,237	\$4,466	\$2,163	\$197,540	
Phillip A. Sharp Middle School	\$102,691	\$186,148	\$160,854	\$127,985	0	1,376	\$126,609	
Northern Elementary School	\$41,840	\$59,133	\$57,679	\$43,294	228	0	\$43,522	
Southern Elementary School	<u>\$54,180</u>	<u>\$67,236</u>	<u>\$75,952</u>	<u>\$45,464</u>	<u>154</u>	<u>0</u>	<u>\$45,618</u>	
TOTAL ACTIVITY FUNDS	\$427,421	\$847,550	\$862,991	\$411,980	\$4,848	\$3,539	\$413,289	

PENDLETON COUNTY BOARD OF EDUCATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 PENDLETON COUNTY HIGH SCHOOL
 For The Year Ended June 30, 2014

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Ending	Accounts Receivable Ending	Accounts Payable Ending	Due To Student Groups Ending
General Fund	\$2,220	\$1,067	\$2,286	5,201	\$6,202	\$0	\$157	\$6,045
Mileage	1,348			1,574	2,922			2,922
Summer School Program	5,404	950	762		5,592			5,592
Parking Permits	3,078	1,370			4,448			4,448
Alternative School	0		737	737	0			0
Environmental 109	1,336	1,934	3,423	153	0			0
FEA	460				460			460
Concession A/Student	2,985	2,244	5,110	(119)	0			0
Concession A/Staff	636	2,158	1,869	(91)	834			834
Donations	0	800		(300)	500			500
Apple VPP	1			1	2			2
Fresh. Academy/Red/Blac	166			(166)	0			0
Faculty/Gift	26	440	397		69			69
PBIS/Student	689	541	513		717			717
PBIS/Staff	660	210	813		57			57
Y Club	370	7,570	7,600		340			340
Student Fees	32,894	37,252	19,387	(23,863)	26,895			26,895
Athletic Department	1,223	8,196	40	(6,455)	2,924			2,924
Boys Basketball	3,150	6,829	11,734	2,068	313			313
Cheerleaders	1,046	11,575	3,360	2,313	0			0
Girls Basketball	2,168	18,734	18,734	5,191	200			200
Football	2,407	8,031	13,439	3,001	0			0
Girls Volleyball	0	1,873	3,377	1,504	0			0
Athletic Trainer	0		814	813	0			0
Athletic Director	1,000	1,218	19,025	16,907	100			100
Baseball	2,599	3,958	9,497	3,140	200			200
Cross Country	248	2,929	2,155	313	1,335			1,335
Boys Golf	477		660	290	107			107
Girls Soccer	0	1,948	7,175	5,227	0			0
Softball	666	239	6,448	5,543	0			0
Tennis	60	318	1,754	2,080	704			704
Track	567		1,213	646	0			0
Bowling Team	0	200	2,737	2,537	0			0
Girl's Golf	0		1,247	1,247	0			0
Athletic Programs	1,541	16,336	215	(16,947)	715	145		860
Athletic Banquets	950		6,090	5,245	105			105
Boys Soccer	50	3,446	7,244	3,748	0			0
Athletic Uniforms	9,184	17,400		(15,565)	11,019			11,019

PENDLETON COUNTY BOARD OF EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
PENDLETON COUNTY HIGH SCHOOL
For The Year Ended June 30, 2014

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Ending	Accounts Receivable Ending	Accounts Payable Ending	Due To Student Groups Ending
Academic Team	0	1,220	294	122	1,048			1,048
Dance Team	459	3,731	3,626		564			564
Chess Club	3				3			3
CATS Club	628	515	451		691			691
DECA	671	512	771		412			412
FBLA	241	12,253	11,423	(908)	163			163
FFA	7,596	26,473	31,403	(222)	2,444			2,444
Doug Dawson	0	1,000			1,000			1,000
Ag Mechanics	344				344			344
FCCLA Club	1,766	7,291	8,986	(18)	53			53
Spanish Club	411	313	260		464			464
Literary Magazine Club	2,070	113			2,183			2,183
National Honor Society	1,856	3,838	3,834	66	1,926			1,926
French Club	36	132	194	26	0			0
Project Graduation	4,713	12,710	18,793	2,060	690			690
Jr. Council (Prom)	1	9,993	8,030	196	2,160		1,982	178
SADD	268	20			288			288
Senior Trip	1	47,703	47,921	1,198	981			981
Senior Council	7,001	22,067	16,537	(1,089)	11,442			11,442
Drama Club	921	1,019	1,248		692			692
Student Council	3,442	13,046	14,498		1,990	968		2,958
TSA	112	260	386	14	0			0
STLP	206	45			251			251
A.P. Exams	1,093	5,529	5,715		907			907
Business (Reg)	1				1			1
Concession B	1,678	21,917	11,661	(8,115)	3,819			3,819
Computer Lab (Reg)	468			(468)	0			0
FMD	328	200	47	(481)	0			0
Home Ec (Reg)	3,358	4,993	4,254		4,097			4,097
Horticulture	3,360	2,176	1,542		3,994			3,994
Library	3,394	904	4,064		234			234
Math (Reg)	788	774	826	(31)	705			705
School Store	2,950	951	1,240	80	2,741			2,741
Broadcasting	820	385	28		1,177			1,177
Technology Ed	1,747				1,747			1,747
Yearbook 10/11	24,244	14,899	23,392	175	15,926			15,926
Art I (Reg)	298	795	821		272			272

PENDLETON COUNTY BOARD OF EDUCATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 PENDLETON COUNTY HIGH SCHOOL
 For The Year Ended June 30, 2014

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Ending	Accounts Receivable Ending	Accounts Payable Ending	Due To Student Groups Ending
Band	3,492	7,294	8,413	(340)	2,033			2,033
Chorus	0	1,675	2,204	529	0			0
Baseball Boosters	2,746	13,350	9,906	(1,078)	5,112			5,112
Boys Basketball Boosters	10,517	6,412	11,401	(988)	4,540			4,540
Girls Basketball Boosters	4,742	15,043	16,063	(1,905)	1,817	1,258		3,075
Cheerleaders Boosters	5,588	18,182	15,832	(2,358)	5,580	1,087		6,667
Football Boosters	4,363	16,457	15,926	(283)	4,611			4,611
CC/Track Boosters	2,343	2,403	3,010	(658)	1,078			1,078
Boys Golf Boosters	2,319		653	(250)	1,416			1,416
Girls Golf Boosters	381	1,371	870	(166)	716			716
Boys Soccer Boosters	4,774	10,231	9,295	(1,617)	4,093			4,093
Girls Soccer Boosters	5,977	13,761	13,401	(1,872)	4,465	644		5,109
Softball Boosters	4,887	7,377	8,248	(2,247)	1,769	364		2,133
Tennis Boosters	7				7			7
Volleyball Boosters	4,639	8,007	8,732	(383)	3,531			3,531
NJROTC Activity	8,639	43,053	37,399	251	14,544			14,544
NJROTC Unit Support	400	2,303	777	(251)	1,675			1,675
Guidance (Reg)	215	1,114	1,434	281	176			176
Health, P.E. (Reg)	2,679				2,679			2,679
Language Arts (Reg)	5				5			5
Marketing (Reg)	524		156		368			368
Science (Reg)	1,660	540	1,159	15	1,056			1,032
Griffin Fitness Center	405	40	445		0		24	0
Charitable Gaming	83	3,421		(3,454)	50			50
Agriculture(Supplies)	0		447	447	0			0
Art (Supplies)	0		1,500	1,500	0			0
Band (Music/Supplies)	0		700	700	0			0
Business (Supplies)	0		1,379	1,379	0			0
Chorus (Music/Supplies)	0		179	179	0			0
Family Consumer (Supplies)	0		1,493	1,493	0			0
Health, P.E. (Supplies)	0		557	557	0			0
Language Arts (Supplies)	0		1,392	1,392	0			0
Marketing (Supplies)	0		1,091	1,091	0			0
Math (Supplies)	0		1,500	1,500	0			0
Miscellaneous (Supplies)	0		274	274	0			0
NJROTC (Supplies)	0		300	300	0			0
Science (Supplies)	0		3,981	3,981	0			0

PENDLETON COUNTY BOARD OF EDUCATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 PENDLETON COUNTY HIGH SCHOOL
 For The Year Ended June 30, 2014

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Ending	Accounts Receivable Ending	Accounts Payable Ending	Due To Student Groups Ending
Social Studies (Supplies)	0		395	999	604			604
Special ED (Supplies)	0	2,000	3,082	1,082	0			0
Technology (Supplies)	0	2,000	2,766	1,000	234			234
Special Ed (Reg)	<u>443</u>	<u>190</u>	<u>46</u>	<u>322</u>	<u>909</u>			<u>909</u>
Totals	\$228,710	\$535,033	\$568,506	\$0	\$195,237	\$4,466	\$2,163	\$197,540

PENDLETON COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended June 30, 2014

Federal Grantor/Passed-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through Kentucky Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 14	\$498,419
National School Lunch Program	10.555	7750002 13	126,282
School Breakfast Program	10.553	7760005 14	165,020
School Breakfast Program	10.553	7760005 13	38,889
Summer Food Service Program for Children	10.559	7690024 13	324
Summer Food Service Program for Children	10.559	7740023 13	1,485
Commodities	10.555	510 4950	<u>80,872</u>
Total Child Nutrition Cluster			911,291
TOTAL U.S. DEPARTMENT OF AGRICULTURE			911,291
<u>U.S. Department of Labor</u>			
Passed through NKADD			
WIA -Adult Program	17.258	3814	33,685
WIA-Dislocated Workers	17.278	3814A	<u>135,948</u>
Total WIA Cluster			169,633
TOTAL U.S. DEPARTMENT OF LABOR			169,633
<u>U.S. Department of Education</u>			
Passed through Kentucky Department of Education			
Improving America's School Act of 1994			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	3100002 13	507,393
Title I Grants to Local Educational Agencies	84.010	3100002 12	83,440
Title I Grants to Local Educational Agencies	84.010	3100202 11	<u>31,737</u>
		subtotal	622,570
Special Education Cluster (IDEA)			
Special Education-Grants to States (IDEA, Part B)	84.027	3810002 13	239,719
Special Education-Grants to States (IDEA, Part B)	84.027	3810002 12	151,578
Special Education-Preschool Grants (IDEA, Preschool)	84.173	3800002 13	30,285
Special Education-Preschool Grants (IDEA, Preschool)	84.173	3800002 12	<u>2,770</u>
		subtotal	424,352

The accompanying notes are an integral part of this schedule

PENDLETON COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended June 30, 2014

Federal Grantor/Passed-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed through Kentucky Department of Education			
Rural Education	84.358	3140002 13	6,170
Race to the Top	84.413A	3960002 11	1
Career and Technical Education - Basic Grants To States	84.048	3710002 13	22,178
Career and Technical Education - Basic Grants To States	84.048	4621332 13	<u>1,156</u>
		subtotal	23,334
Improving Teacher Quality State Grants	84.367	3230002 13	<u>128,324</u>
		subtotal	128,324
Pass through NKCES			
Fund for the Improvement of Education	84.215E	S215E120422	117,219
Passed through Workforce Cabinet			
Adult Education - Recruitment, Retention and Results	84.002	3654	5,184
Adult Education - Basic	84.002	3734	<u>35,952</u>
		subtotal	41,136
TOTAL U.S. DEPARTMENT OF EDUCATION			1,363,106
<u>Department of Defense</u>			
Federal Direct			
NJROTC-NAVY	12.000	5043	62,889
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$2,506,919

The accompanying notes are an integral part of this schedule

PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2014

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Pendleton County School District (the "District") under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2 – Summary of Significant Accounting Policies

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

Note 3 – Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities disbursed, totaling \$80,872.

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

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

(for a Governmental Entity)

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the provisions of Office of Management and Budget Circular A-133, Audits of States and Local Governments, and Non-profit Organizations, and the audit requirement prescribed by the Kentucky Committee for School District Audits, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pendleton County Board of Education as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 15, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

I noted certain matters that I reported to management of the District in a separate letter dated September 15, 2014.

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
September 15, 2014

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133
(Unmodified Opinion on Compliance for each Major Program; No Material Weaknesses or
Significant Deficiencies in Internal Control Over Compliance Identified)

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

We have audited the financial statements of Pendleton County School District as of and for the year ended June 30, 2014, and have issued our report thereon dated September 15, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
September 15, 2014

PENDLETON COUNTY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting

Material weakness(es) identified? yes no

Significant deficiency(s) identified that are not
 considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(s) identified that are not
 Considered to be material weakness(es)? yes none reported

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

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

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster
84.027, 84.173	Special Education Cluster (IDEA)
10.553, 10.555, 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 no

Section II – Financial Statement Findings

None

PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2014

Section III – Federal Award Findings and Questioned Costs

None

PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For The Year Ended June 30, 2014

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

None were reported last year

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2013-01
Corrective action was taken

MANAGEMENT LETTER

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

Pendleton County Board of Education
Falmouth, Kentucky

We have audited the financial statements of the Pendleton County School District for the year ended June 30, 2014 and have issued our report thereon dated September 15, 2014. As part of our audit, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary for expressing an opinion on the system of internal accounting control taken as a whole.

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

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

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

The following items from last year's management letter points were corrected during the current fiscal year as outlined in the District's response: 2013-01, 2013-02, 2013-03, 2013-04, 2013-05

The following items from last year's management letter points were not corrected: none.

Denise M. Keene
September 15, 2014

CURRENT YEAR MANAGEMENT POINTS

2014-001

During the year, the District paid one board member for services rendered to a student. This was paid from the Family Resource Center. I recommend in the future the Family Resource Center pay the student's parent and request a receipt that it was paid to the person providing the service.

Management's response:

Any time the Family Resource Center pays for services on behalf of a student and the payment is being made to a current Board member, the check will be made to the parent and the parent will need to bring proof of payment being made for the services in the form of a receipt back to the Family Resource Center.

Auditor's Comment on New Red Book governing School Activity Funds. The New Red Book went into effect July 1, 2013. It has taken a significant amount of time for the actual requirements to be absorbed and implemented correctly throughout each school district. The Kentucky Department of Education (KDE) has addressed Red Book questions throughout the year and some questions relate to challenging and unique circumstances, which are not specifically addressed in the Red Book. Some of the following management letter points are directly related to the New Red Book guidelines. The District continues to learn and adjust to the new information.

SOUTHERN ELEMENTARY SCHOOL

2014-002

According to the Red Book, "Pre-numbered tickets shall be used with ALL events for which admission is charged." The school charged admission for a dance but did not use tickets or complete the Ticket Sale Form. The Principal and Bookkeeper should require the use of tickets for all events for which admission is charged.

Management's Response:

We will begin the procedure of distributing tickets and complete the ticket sales form.

2014-003

The revised Red Book effective July 1, 2013 does not allow expenditures for operational costs. There were 11 out of 21 expenditures not allowed because they were for operational costs. The school treasurer and principal should not approve purchases that are not allowed by the Red Book.

Management's Response:

We will be moving accounts to the District Activity Accounts.

2014-004

According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 2 out of 21 expenditures tested that had Purchase Order dates after the invoice date. Staff should be reminded that all expenditures must be approved prior to obligating the school; all expenditures that are for a specific class/person should have sponsor approval.

Management's Response:

All purchase orders will be completed prior to ordering or purchasing items.

NORTHERN ELEMENTARY SCHOOL

2014-005

According to the Red Book, "Students third grade and above must sign the Multiple Receipt Form." Testing disclosed that some teachers were not having their students sign the Multiple Receipt Form. The Principal should remind teachers/sponsors who are receiving money to have the students sign the Multiple Receipt Form.

Management's Response:

Teachers will be reminded that students in third, fourth, and fifth grades need to sign or initial the Multiple Receipt Form.

2014-006

The revised Red Book effective July 1, 2013 does not allow expenditures for operational costs. There were 15 out of 24 expenditures not allowed because they were for operational costs. The school treasurer and principal should not approve purchases that are not allowed by the Red Book.

Management's Response:

A District Activity Account will be created and these items will be paid for from this account rather than from the school's activity account.

2014-007

According to the Red Book, "Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice. If a vendor invoice is not available, the disbursement shall be supported by a Standard Invoice, which must be signed by the payee." Testing disclosed one check that did not have a Standard Invoice when they should have.

Management's Response:

Each disbursement will be accompanied by an invoice, either original vendor or Standard Invoice.

2014-008

There was one (1) check with only one signature. According to Board policy, "Two (2) signatures shall be required on each check drawn against internal accounts." I recommend a procedure be put into place to assure all checks have two signatures before they are distributed.

Management's Response:

All checks will have two signatures, this was an oversight on our part. We'll do our best to make sure it doesn't occur again.

2014-009

The Ticket Sales Form has a place at the bottom to tally the Total Sales, Change Returned, Cash Over/Short and Total Cash. Of the three forms used by the school, two of the forms did not complete this section. The Bookkeeper should remind the person in charge to complete this section before the form and money is turned into the Bookkeeper.

Management's Response:

This was a mistake, and we'll take proper measures to make sure the Ticket Sales Form is filled out completely.

NORTHERN ELEMENTARY SCHOOL (continued)

2014-010

According to the Red Book, "Each external support/booster organization must submit the FEIM and the names of the organization's officers to the principal at the beginning of the school year..." "Each external support/booster organization must submit an annual Budget worksheet to the principal within the first thirty days of the school year..." "Each external support/booster organization must submit an annual financial report for the fiscal year ending to the principal by July 15." The PTO did not submit the documents as required. The PTO did send their monthly folders with paid invoices and bank statements. The Principal and Bookkeeper should remind the PTO of the Red Book requirements and monitor their compliance.

Management's Response:

The PTO will be reminded to submit all pertinent information to the principal at the beginning of the year. At this time we do not have a PTO organization for the 2014-2015 school year.

PHILLIP A. SHARP MIDDLE SCHOOL

2014-011

According to the Red Book, "Students third grade and above must sign the Multiple Receipt Form." Testing disclosed that some teachers were not having their students sign the Multiple Receipt Form. The Principal should remind teachers/sponsors who are receiving money to have the students sign the Multiple Receipt Form.

Management's Response:

Teachers were reminded at this year's Opening day financial training that students should sign the sheet themselves. However, we have a few district employees who are club sponsors who are not located permanently at our building and come in after hours to check mail, etc. and have checks/money for different activities in their mailboxes. Since they are trying to turn the money in a timely manner, there are times they have written names on the multiple receipt forms themselves. We also receive checks in the mail which are not put on the multiple receipt form by the students themselves but by the office staff who opens the mail.

2014-012

According to the Red Book, "All money collected by a teacher or sponsor shall be given to the school treasurer on the day collected or, if the money is collected after school business hours for evening or weekend events, on the next business day." There is a major delay between the time parents write a check and the teacher turns the money into the Bookkeeper. Testing disclosed checks from parents were not turned in for 3 weeks or longer. Teachers and sponsors should be reminded to turn in their money daily.

Management's Response:

This point was also brought up last year. For both the examples, there was a fundraiser in progress with the following dates: 1/6/14 – 2/3/14. A note was made on the multiple receipt form stating the dates. Money collected from students was not turned in to school on 1/8/14 but held by students/parents until the deadline occurred and they turned in their money in its entirety. Please advise if there is a better way to handle this.

PHILLIP A. SHARP MIDDLE SCHOOL (continued)

2014-013

The revised Red Book effective July 1, 2013 does not allow expenditures for operational costs. There were 8 out of 28 expenditures not allowed because they were for operational costs. The school treasurer and principal should not approve purchases that are not allowed by the Red Book.

Management's Response:

This is a mistake on the part of Sharp Middle School. Measures have already been identified to correct this problem for the 14-15 school year by establishing a District Activity Fund.

2014-014

According to the Red Book, "...always use a Purchase Order to initiate a purchase..." Purchase order forms are not being used or generated for all purchases. The standard invoice form is being used instead as a stand alone document. I recommend a Purchase Order form be used for all purchases, including when a standard invoice is generated.

Management's Response:

For staff, there was a PO in place for all travel reimbursements. For sports officials, there was a PO in place for sports officials. The bookkeeper opened a blanket PO for travel reimbursements and a different one for sports officials at the beginning of the season. This account payable was reduced throughout the year by the amounts of the standard invoices. This was advised to us in Redbook training as a way to use fewer PO's. For this year, the bookkeeper has started writing the PO number on the standard invoice for reference.

2014-015

According to the Red Book, "Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice. If a vendor invoice is not available, the disbursement shall be supported by a Standard Invoice, which must be signed by the payee." Testing disclosed three check that did not have a Standard Invoice when they should have.

Management's Response:

These checks were for student homeroom rewards from the annual candy sale. They should have been accompanied by a standard invoice. This practice will be enforced in the 14-15 school year.

2014-016

There were two (2) check with only one signature. According to Board policy, "Two (2) signatures shall be required on each check drawn against internal accounts." I recommend a procedure be put into place to assure all checks have two signatures before they are distributed.

Management's Response:

There is a current procedure in place but apparently it was overlooked 2 times last year. The bookkeeper will make sure to examine each check before mailing.

PHILLIP A. SHARP MIDDLE SCHOOL (continued)

2014-017

According to the Red Book, "Two people (ticket seller, ticket taker) are required to work the gate." Twenty nine (29) ticket sales form did not have a second person as the ticket taker. The person in charge should be reminded when they pick up the start up cash and tickets, that a second person must be the ticket taker.

Management's Response:

This has already been addressed for the 14-15 school year. Football and volleyball games have already occurred this year and there has been a separate ticket seller and ticket taker present at all games. The site manager will continue to follow this practice.

2014-018

According to the Red Book, "Amounts may be transferred between activity funds only by proper completion of a Transfer Form. The sponsor of the remitting (paying) activity account and the principal shall sign the Transfer Form." The following transfer forms, number 52390, 52391, 52392, 52396, 52394, 52395, and 52396 were all on the same form. These should have been individual forms so that the remitting sponsor could sign the form. One form was recorded for an amount different than the amount on the form. Transfer Forms should be completed and properly signed before they are executed.

Management's Response:

Due to restructuring, there was an account being split evenly among the redistribution. The sponsor whose name was on the account being zeroed out was the one who gave authorization. In the future, this will be broken down into several transfers to better account for.

PENDLETON COUNTY HIGH SCHOOL

2014-019

According to the Red Book, "Students third grade and above must sign the Multiple Receipt Form." Testing disclosed that some teachers were not having their students sign the Multiple Receipt Form. The Principal should remind teachers/sponsors who are receiving money to have the students sign the Multiple Receipt Form.

Management's Response:

Staff and Athletic Booster Presidents/Treasurers attended training at the beginning of July 2013 where this issue was addressed and instructional paper on handling of receipts was given to each staff member/booster member. Throughout the year there were several staff members/booster members who did turn in Multiple Receipt Forms which were signed by staff member/booster member. These incidents were addressed at that time and reminders given again. This issue will be addressed again with staff members, and was recently addressed with Athletic Booster presidents/treasurers. Bookkeeper suggested using a receipt book when staff/booster members cannot directly get signature from person handing them money.

PENDLETON COUNTY HIGH SCHOOL (continued)

2014-020

The revised Red Book effective July 1, 2013 does not allow expenditures for operational costs. There were 7 out of 29 expenditures not allowed because they were for operational costs. The school treasurer and principal should not approve purchases that are not allowed by the Red Book.

Management's Response:

PHS was advised by the Superintendent to use our in-house student fees activity account to spend on department instructional supplies (in-house activity account) for the past year. Prior to July 1, 2014, bookkeeper consulted with BOE Finance Officer regarding the expenditures of student fees. Bookkeeper will now be depositing all student fees into a BOE account to be used for instructional supplies.

After attending the Redbook training on 8/5/14 the Bookkeeper was made aware of some instances of allowable and disallowable expenditures and what are considered "operational costs." There is still some confusion regarding the Library activity account monies (monies collected from students for lost books) being spent on replacement books. This also brought up the question of the Horticulture activity account (account's purpose is to sell plants and the money collected is to purchase plant materials for the next growing season). The bookkeeper has set up a meeting with the Finance Officer regarding other accounts that are questionable regarding purchases that may be "operational costs." The orders cited in the management points are apparently "operational costs."

The Quill order (#6229) was earbuds, pencils, etc. for our alternative students to use. Barnes & Noble (#6406) was for library books which money is generated from students for lost book/late book fines. Can we not spend this on student Library books? What should we spend this money on? Or should we deposit student lost book/late book fines into BOE account? Same with the Demco order – supplies used to cover/label these same books. Schoolmart (#6827) – these were calculators for student usage. Nasco (#7013) – these were books/cd's that students were writing in/watching listening to

2014-021

According to the Red Book, "...always use a Purchase Order to initiate a purchase..." Purchase order forms are not being used or generated for all purchases. The standard invoice form is being used instead as a stand alone document. I recommend a Purchase Order form be used for all purchases, including when a standard invoice is generated.

Management's Response:

PHS has been using the Standard Invoice to pay officials who officiate each athletic event throughout the year. At the beginning of each sport season a Purchase Order was initiated for the accounts for which officials would be paid. An estimated amount was encumbered in each of the sports involved during that season. At the end of the season the Purchase Order was then voided. It would be quite costly to use a Purchase Order for each of the officials. PHS also uses the Standard Invoice to reimburse BOE for bus driver pay on all bus trips. Bookkeeper would like to come up with a better method of paying for bus driver trips, but for the time being Bookkeeper will use the following procedure.

The above issue was also discussed at the Redbook training on 8/5/14 Bookkeeper was advised to continue this process using a Purchase Order prior to the athletic season. The same process will be used for bus driver reimbursements to BOE. Also, staff members are being advised to notify the Bookkeeper when they will be using a bus for a trip so that Bookkeeper will have a PO prepared to reimburse BOE, encumbering monies in the applicable account. Bookkeeper will write on each Standard Invoice the Po# referring to the applicable Purchase Order.

PENDLETON COUNTY HIGH SCHOOL (continued)

2014-022

There were two (2) check with only one signature. According to Board policy, "Two (2) signatures shall be required on each check drawn against internal accounts." I recommend a procedure be put into place to assure all checks have two signatures before they are distributed.

Management's Response:

Not sure if the principal or bookkeeper missed signing these 2 checks. The present procedure is the bookkeeper prints the check(s), signs the check and gives to principal for signature. Principal makes sure the bookkeeper has signed the check and the check(s) are returned to the bookkeeper and the bookkeeper makes sure the principal has signed the check. These 2 checks apparently were an oversight. PHS does not have another staff member readily available to preuse checks before being mailed. If another staff member is assigned to preuse checks before mailing, there is a chance checks may be "sitting" somewhere and not be mailed out directly after being signed.