

**BALLARD COUNTY  
BOARD OF EDUCATION**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
With Independent Auditor's Reports**

**YEAR ENDED JUNE 30, 2012**

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## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School  
District Audits  
Members of the Board of Education  
Ballard County Board of Education  
Paducah, Kentucky

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 Ballard County Board of Education as of and for the year ended June 30, 2012, which collectively comprise the Ballard County Board of Education's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ballard County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Ballard County Board of Education as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012, on our consideration of the Ballard County Board of Education'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 36 through 37 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ballard County Board of Education's financial statements as a whole. The combining activity fund financial information on pages 38 and 39 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining activity fund financial information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
October 29, 2012

**BALLARD COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2012**

As management of the Ballard County School District, we offer readers of the District's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning government wide net assets for the District on July 1, 2011 was \$10,788,711. The ending government wide net assets for the District on June 30, 2012 was \$11,584,699. This total incorporates all funds, including governmental and proprietary.
- Earnings on investments in governmental funds totaled \$263 which is a \$4,218 decrease from the prior year.
- The General Fund had \$8,485,660 in revenue, excluding on-behalf payments, primarily from the state program (SEEK), and taxes. Excluding interfund transfers and on-behalf payments, there were \$8,464,521 in General Fund expenditures.
- The state did not mandate a salary increase for certified and classified employees.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements and notes to those statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information.

**Government-wide financial statements:** The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, the changes in net assets, both increases and decreases, may serve as an indicator of the District's financial position. Increases in net assets indicate an improving financial position and decreases indicate a deteriorating position. However, the reader must understand that the District's goal is to provide quality services to our students, not to generate profits as commercial entities strive to do. Many non-financial factors must be considered when looking at the position of the District, such as the property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs, and other factors.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. The District uses an accrual basis of accounting, commonly used by private-sector businesses. This accounting practice takes into account all of the current year's revenues and expenses, regardless of when cash is received and paid.

(Continued)

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

The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statements:** A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to guarantee and exhibit compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Our only proprietary funds are food service operations and child care operations. Fiduciary funds are held as trust funds established by benefactors to aide in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 18 of this report.

**Notes to the financial statements:** The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 19 through 35 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11.6 million as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any related debt still outstanding necessary to acquire those assets. The District uses these capital assets to provide services to its students; as a result, 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 cannot be used to liquidate these liabilities.

The District's financial position is the result 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 Assets for the Years Ended June 30

	<u>2011</u>	<u>2012</u>
Current assets	\$ 3,218,008	\$ 3,521,620
Noncurrent assets	<u>26,505,167</u>	<u>25,725,603</u>
<b>TOTAL ASSETS</b>	<u>\$29,723,175</u>	<u>\$29,247,223</u>
Current liabilities	\$ 1,420,466	\$ 1,480,538
Noncurrent liabilities	<u>17,513,998</u>	<u>16,181,986</u>
<b>TOTAL LIABILITIES</b>	<u>\$18,934,464</u>	<u>\$17,662,524</u>
Investment in capital assets (net of debt)	\$ 8,101,370	\$ 8,541,908
Restricted	1,225,896	1,523,175
Unrestricted	<u>1,461,445</u>	<u>1,519,616</u>
<b>TOTAL NET ASSETS</b>	<u>\$10,788,711</u>	<u>\$11,584,699</u>

(Continued)

The following are significant current year transactions that have had an impact on the statement of net assets:

- Technology purchases continued by replacing outdated systems.

The following table presents a summary of revenues and expenses for the fiscal year ended June 30:

<b>Revenues:</b>	<u>2011</u>	<u>2012</u>
Charges for services	\$ 374,525	\$ 383,723
Operating grants and contributions	3,282,859	2,870,551
Capital grants and contributions	1,751,615	1,580,481
Taxes	3,207,951	3,819,644
State aid	6,923,352	7,261,945
Investment earnings	4,481	263
Gain on sale of equipment/loss compensation	4,146	4,343
Other	<u>39,468</u>	<u>73,554</u>
Total revenues	<u>15,588,397</u>	<u>15,994,504</u>
<b>Expenses:</b>		
Instruction	8,019,381	8,036,578
Student support services	500,639	456,590
Instructional support	498,478	457,968
District administration	701,837	807,755
School administration	963,817	933,707
Business support	606,541	620,952
Plant operations	1,335,407	1,309,132
Student transportation	847,477	735,826
Central office support	-	-
Community support	95,626	90,440
Facility acquisition and construction	27,179	99,536
Interest on long-term debt	901,158	629,599
Food service operations	867,807	910,414
Day care operations	<u>126,581</u>	<u>110,019</u>
Total expenses	<u>15,489,928</u>	<u>15,198,516</u>
CHANGE IN NET ASSETS	<u>\$ 98,469</u>	<u>\$ 795,988</u>

The majority of revenue was derived from state funding at 45%, taxes at 24%, and operating and capital grants and contributions at 28%. All other funding sources accounted for 3% percent of total governmental and business activity revenue.

## OVERVIEW OF FUND ACTIVITIES AND BUDGET

### Comments on Budget Comparisons

- During the fiscal year ended June 30, 2012, the District amended its General Fund budget numerous times. Most amendments were due to changes in expenditure priorities.
- The District's total General Fund revenues for the fiscal year ended June 30, 2012, net of on-behalf payments, were \$8,485,660.
- General Fund budget, compared to actual revenue, excluding on-behalf payments, varied slightly from line item to line item; with the ending actual balance \$564,948 more than budget. This is due primarily to actual tax revenues greater than expected.
- The total cost of all programs and services for the General Fund was \$8.5 million, net of interfund transfers and on-behalf payments.
- General Fund actual expenditures were \$817,666 less than budgeted expenses. Contingencies of \$655,098 were budgeted for which there were no actual expenditures.

(Continued)

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal year 2012, the District had \$25,725,603 invested in land, buildings, and equipment net of depreciation. Of that amount, \$25,674,513 is in governmental activities.

See note D for a breakdown of additions by class on page 28.

### **Debt Administration**

The District had \$17,325,910 in net long-term liabilities outstanding on June 30, 2012. A total of \$1,143,924 is due within one year.

See notes F and G on pages 29 through 31 for a detailed listing.

## **BUDGETARY IMPLICATIONS**

In Kentucky, the fiscal year for public schools runs from July 1 through June 30; other programs, e.g., federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget.

By law, the District must maintain a 2% contingency reserve. The District ended the year with a 12% contingency reserve. The District has developed a budget for the next fiscal year that contains a 10% contingency. Significant District actions may impact this budget during the year.

Questions regarding this report should be directed to Casey Allen, Superintendent (270-665-8400), or Kim Bailey, Finance Officer (270-665-8400 Ext. 2007), or by mail to Ballard County School District, 3465 Paducah Road, Barlow, KY 42024.

**BALLARD COUNTY BOARD OF EDUCATION**  
**STATEMENT OF NET ASSETS**  
**GOVERNMENT WIDE**  
**As of June 30, 2012**

<b>ASSETS</b>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 2,758,565	\$ 200,848	\$ 2,959,413
Receivables	278,585	-	278,585
Investments	252,756	-	252,756
Inventory	-	30,866	30,866
<b>Total current assets</b>	<u>3,289,906</u>	<u>231,714</u>	<u>3,521,620</u>
<b>Noncurrent Assets</b>			
Capital assets	35,860,096	259,302	36,119,398
Less: Accumulated depreciation	<u>(10,185,583)</u>	<u>(208,212)</u>	<u>(10,393,795)</u>
<b>Total noncurrent assets</b>	<u>25,674,513</u>	<u>51,090</u>	<u>25,725,603</u>
<b>Total assets</b>	<u>28,964,419</u>	<u>282,804</u>	<u>29,247,223</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	83,155	1,119	84,274
Accrued interest payable	82,108	-	82,108
Current portion of accrued sick leave	50,427	-	50,427
Current portion of bond obligations	1,055,059	-	1,055,059
Current portion of capital leases	38,438	-	38,438
Deferred revenue	170,232	-	170,232
<b>Total current liabilities</b>	<u>1,479,419</u>	<u>1,119</u>	<u>1,480,538</u>
<b>Noncurrent Liabilities</b>			
Noncurrent portion of bond obligations	15,958,663	-	15,958,663
Noncurrent portion of capital leases	131,535	-	131,535
Noncurrent portion of accrued sick leave	91,788	-	91,788
<b>Total noncurrent liabilities</b>	<u>16,181,986</u>	<u>-</u>	<u>16,181,986</u>
<b>Total liabilities</b>	<u>17,661,405</u>	<u>1,119</u>	<u>17,662,524</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,490,818	51,090	8,541,908
Restricted for:			
Capital projects	1,492,675	-	1,492,675
Other purposes	30,500	-	30,500
Unrestricted	<u>1,289,021</u>	<u>230,595</u>	<u>1,519,616</u>
<b>Total net assets</b>	<u>\$ 11,303,014</u>	<u>\$ 281,685</u>	<u>\$ 11,584,699</u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES  
GOVERNMENT WIDE  
For the Year Ended June 30, 2012**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
Instruction	\$ 8,036,578	\$ -	\$ 1,456,348	\$ -	\$ (6,580,230)	\$ -	\$ (6,580,230)
Support services:							
Student	456,590	-	-	-	(456,590)	-	(456,590)
Instruction staff	457,968	-	259,263	-	(198,705)	-	(198,705)
District administrative	807,755	-	-	-	(807,755)	-	(807,755)
School administrative	933,707	-	126,971	-	(806,736)	-	(806,736)
Business and central office	620,952	-	83,252	-	(537,700)	-	(537,700)
Plant operation and maintenance	1,309,132	-	109,050	-	(1,200,082)	-	(1,200,082)
Student transportation	735,826	1,933	99,430	-	(634,463)	-	(634,463)
Facilities acquisition and construction	99,536	-	-	483,125	383,589	-	383,589
Community service activities	90,440	-	93,397	-	2,957	-	2,957
Interest on long-term debt	629,599	-	-	1,097,356	467,757	-	467,757
<b>Total governmental activities</b>	<u>14,178,083</u>	<u>1,933</u>	<u>2,227,711</u>	<u>1,580,481</u>	<u>(10,367,958)</u>	<u>-</u>	<u>(10,367,958)</u>
<b>Business-type Activities</b>							
Food service	910,414	289,302	621,062	-	-	(50)	(50)
Day care	110,019	92,488	21,778	-	-	4,247	4,247
<b>Total business-type activities</b>	<u>1,020,433</u>	<u>381,790</u>	<u>642,840</u>	<u>-</u>	<u>-</u>	<u>4,197</u>	<u>4,197</u>
<b>Total school district</b>	<u>\$ 15,198,516</u>	<u>\$ 383,723</u>	<u>\$ 2,870,551</u>	<u>\$ 1,580,481</u>	<u>\$ (10,367,958)</u>	<u>\$ 4,197</u>	<u>\$ (10,363,761)</u>
			<b>General Revenues</b>				
			Property taxes	\$ 2,231,425	\$ -	\$ 2,231,425	
			Delinquent property tax	27,763	-	27,763	
			Motor vehicle taxes	416,994	-	416,994	
			Utility taxes	1,071,887	-	1,071,887	
			Other taxes	24,476	-	24,476	
			Revenue in lieu of taxes	47,099	-	47,099	
			Investment earnings	263	-	263	
			State aid formula and other grants	7,261,945	-	7,261,945	
			Gains (loss) on disposition of fixed assets	4,343	-	4,343	
			Miscellaneous	73,554	-	73,554	
			Transfers	-	-	-	
			<b>Total general revenues</b>	<u>11,159,749</u>	<u>-</u>	<u>11,159,749</u>	
			Change in net assets	791,791	4,197	795,988	
			Net assets - beginning	10,511,223	277,488	10,788,711	
			Net assets - ending	<u>\$ 11,303,014</u>	<u>\$ 281,685</u>	<u>\$ 11,584,699</u>	

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2012**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Outlay Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,221,908	\$ 43,982	\$ 638,812
Other receivables	152,295	126,290	-
Investments	252,756	-	-
<b>Total assets</b>	<u>\$ 1,626,959</u>	<u>\$ 170,272</u>	<u>\$ 638,812</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 83,115	\$ 40	\$ -
Deferred revenue	-	170,232	-
<b>Total liabilities</b>	<u>83,115</u>	<u>170,272</u>	<u>-</u>
<b>Fund Balances</b>			
Assigned	27,089	-	-
Committed:			
Site based carry forward	16,455	-	-
Restricted:			
Sick leave payable	30,500	-	-
Capital Projects	-	-	638,812
Unassigned	1,469,800	-	-
<b>Total fund balances</b>	<u>1,543,844</u>	<u>-</u>	<u>638,812</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,626,959</u>	<u>\$ 170,272</u>	<u>\$ 638,812</u>

The notes to the financial statements are an integral part of this statement.

Construction Fund	Building Fund	Total Governmental Funds
\$ 27,140	\$ 826,723	\$ 2,758,565
-	-	278,585
-	-	252,756
<u>27,140</u>	<u>\$ 826,723</u>	<u>\$ 3,289,906</u>
-	-	-
-	-	83,155
<u>-</u>	<u>-</u>	<u>170,232</u>
<u>-</u>	<u>-</u>	<u>253,387</u>
-	-	27,089
-	-	16,455
-	-	30,500
27,140	826,723	1,492,675
-	-	1,469,800
<u>27,140</u>	<u>826,723</u>	<u>3,036,519</u>
<u>\$ 27,140</u>	<u>\$ 826,723</u>	<u>\$ 3,289,906</u>

**BALLARD COUNTY BOARD OF EDUCATION  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
As of June 30, 2012**

Total fund balances per fund financial statements	\$ 3,036,519
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	25,674,513
Certain liabilities (such as bonds and leases payable, accrued payables, sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable with current resources, but they are presented in the statement of net assets.	<u>(17,408,018)</u>
Net assets for governmental activities	<u><u>\$ 11,303,014</u></u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**

<b>Revenues</b>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Outlay Fund</u>
From local sources			
Property taxes	\$ 1,712,441	\$ -	\$ -
Motor vehicle taxes	416,994	-	-
Utility taxes	1,071,887	-	-
Other taxes	24,476	-	-
Tuition and fees	1,933	-	-
Earnings on investments	263	-	-
State sources			
SEEK	5,098,712	-	-
On-behalf payments	2,129,275	-	-
Other	19,700	882,216	125,911
Federal - indirect	14,258	1,345,496	-
Revenue in lieu of taxes	47,099	-	-
Other revenues	77,897	-	-
<b>Total revenues</b>	<u>10,614,935</u>	<u>2,227,712</u>	<u>125,911</u>
<b>Expenditures</b>			
Instruction	5,899,568	1,418,047	-
Support services			
Student	456,590	-	-
Instruction staff	206,790	251,025	-
District administration	802,412	-	-
School administration	810,624	122,936	-
Business and central office	443,714	80,607	-
Plant operation and maintenance	1,190,631	105,585	-
Student transportation	706,900	96,271	-
Facilities acquisition and construction	30,038	-	-
Community service activities	-	90,429	-
Debt service	46,529	-	-
<b>Total expenditures</b>	<u>10,593,796</u>	<u>2,164,900</u>	<u>-</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>21,139</u>	<u>62,812</u>	<u>125,911</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from debt issues	-	-	-
Payment to bond refunding escrow	-	-	-
Operating transfers in	213,905	25,182	-
Operating transfers out	(25,182)	(87,994)	(125,911)
<b>Total other financing sources (uses)</b>	<u>188,723</u>	<u>(62,812)</u>	<u>(125,911)</u>
<b>Net change in fund balances</b>	209,862	-	-
<b>Fund balance, July 1, 2011</b>	<u>1,333,982</u>	<u>-</u>	<u>638,812</u>
<b>Fund balance, June 30, 2012</b>	<u>\$ 1,543,844</u>	<u>\$ -</u>	<u>\$ 638,812</u>

The notes to the financial statements are an integral part of this statement.

Construction Fund	Building Fund	Total Governmental Funds
\$ -	\$ 546,746	\$ 2,259,187
-	-	416,994
-	-	1,071,887
-	-	24,476
-	-	1,933
-	-	263
-	-	5,098,712
-	1,051,470	3,180,745
-	357,214	1,385,041
-	45,886	1,405,640
-	-	47,099
-	-	77,897
<u>-</u>	<u>2,001,316</u>	<u>14,969,874</u>
-	-	7,317,615
-	-	456,590
-	-	457,815
-	-	802,412
-	-	933,560
-	-	524,321
-	-	1,296,216
-	-	803,171
122,785	-	152,823
-	-	90,429
-	1,927,647	1,974,176
<u>122,785</u>	<u>1,927,647</u>	<u>14,809,128</u>
<u>(122,785)</u>	<u>73,669</u>	<u>160,746</u>
-	14,160,726	14,160,726
-	(14,066,935)	(14,066,935)
-	-	239,087
-	-	(239,087)
<u>-</u>	<u>93,791</u>	<u>93,791</u>
(122,785)	167,460	254,537
<u>149,925</u>	<u>659,263</u>	<u>2,781,982</u>
<u>\$ 27,140</u>	<u>\$ 826,723</u>	<u>\$ 3,036,519</u>

**BALLARD COUNTY BOARD OF EDUCATION**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2012**

Net change in total fund balances per fund financial statements	\$	254,537
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense of \$932,611 exceeds capital outlays of \$158,958 for the year.		(773,653)
The proceeds for the issuance of debt provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.		(14,160,726)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.		13,955,396
Generally, expenditures recognized in the fund financial statements are limited to those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		<u>1,516,237</u>
Change in net assets of governmental activities	\$	<u><u>791,791</u></u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**As of June 30, 2012**

<b>ASSETS</b>	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 174,321	\$ 26,527	\$ 200,848
Other receivables	-	-	-
Inventory	30,866	-	30,866
<b>Total current assets</b>	<u>205,187</u>	<u>26,527</u>	<u>231,714</u>
<b>Noncurrent Assets</b>			
Furniture and equipment	259,302	-	259,302
Less: Accumulated depreciation	(208,212)	-	(208,212)
<b>Total noncurrent assets</b>	<u>51,090</u>	<u>-</u>	<u>51,090</u>
<b>Total assets</b>	<u>256,277</u>	<u>26,527</u>	<u>282,804</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	1,119	-	1,119
<b>Total current liabilities</b>	<u>1,119</u>	<u>-</u>	<u>1,119</u>
<b>Total liabilities</b>	<u>1,119</u>	<u>-</u>	<u>1,119</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	51,090	-	51,090
Unrestricted	204,068	26,527	230,595
<b>Total net assets</b>	<u>\$ 255,158</u>	<u>\$ 26,527</u>	<u>\$ 281,685</u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

	Food Service Fund	Day Care Fund	Total
<b>Operating Revenues</b>			
Food service sales	\$ 270,363	\$ -	\$ 270,363
Community service activities	-	92,488	92,488
Other operating revenues	18,939	-	18,939
<b>Total operating revenues</b>	<u>289,302</u>	<u>92,488</u>	<u>381,790</u>
<b>Operating Expenses</b>			
Salaries and wages	395,350	104,233	499,583
Professional and contract services	38,417	495	38,912
Supplies and materials	464,520	3,987	468,507
Depreciation	7,508	-	7,508
Other operating expenses	4,619	1,304	5,923
<b>Total operating expenses</b>	<u>910,414</u>	<u>110,019</u>	<u>1,020,433</u>
<b>Operating income (loss)</b>	<u>(621,112)</u>	<u>(17,531)</u>	<u>(638,643)</u>
<b>Nonoperating revenues (expenses)</b>			
Federal grants	476,310	-	476,310
Donated commodities	48,813	-	48,813
State grants	8,827	-	8,827
On-behalf state contributions	87,112	21,778	108,890
Interest income	-	-	-
<b>Total nonoperating revenues (expenses)</b>	<u>621,062</u>	<u>21,778</u>	<u>642,840</u>
<b>Net income (loss)</b>	<u>(50)</u>	<u>4,247</u>	<u>4,197</u>
<b>Total net assets, July 1, 2011</b>	<u>255,208</u>	<u>22,280</u>	<u>277,488</u>
<b>Total net assets, June 30, 2012</b>	<u>\$ 255,158</u>	<u>\$ 26,527</u>	<u>\$ 281,685</u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

	Food Service Fund	Day Care Fund	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from lunchroom sales	\$ 270,363	\$ -	\$ 270,363
Cash received from user charges	-	92,488	92,488
Cash received from other activities	18,939	-	18,939
Cash payments to employees for services	(308,238)	(82,455)	(390,693)
Cash payments to suppliers for goods and services	(454,277)	(5,568)	(459,845)
Cash payments for other operating activities	(4,619)	(1,304)	(5,923)
<b>Net cash from operating activities</b>	<u>(477,832)</u>	<u>3,161</u>	<u>(474,671)</u>
<b>Cash Flows from Capital Financing Activities</b>			
Acquisition of capital assets	(1,597)	-	(1,597)
<b>Net cash from capital financing activities</b>	<u>(1,597)</u>	<u>-</u>	<u>(1,597)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Cash received from government grants	485,137	-	485,137
<b>Net cash from noncapital financing activities</b>	<u>485,137</u>	<u>-</u>	<u>485,137</u>
<b>Net increase in cash and cash equivalents</b>	5,708	3,161	8,869
<b>Cash and cash equivalents - beginning</b>	168,613	23,366	191,979
<b>Cash and cash equivalents - ending</b>	<u>\$ 174,321</u>	<u>\$ 26,527</u>	<u>\$ 200,848</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (621,112)	\$ (17,531)	\$ (638,643)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Depreciation	7,508	-	7,508
Donated commodities & on-behalf state contributions	135,925	21,778	157,703
Changes in assets and liabilities: Accounts payable	(153)	(1,086)	(1,239)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ (477,832)</u>	<u>\$ 3,161</u>	<u>\$ (474,671)</u>
<b>Schedule of non-cash transactions:</b>			
Donated commodities and on-behalf state contributions	\$ 135,925	\$ 21,778	\$ 157,703
	<u>\$ 135,925</u>	<u>\$ 21,778</u>	<u>\$ 157,703</u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
As of June 30, 2012**

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 71,107	\$ 177,853
Investments	273,843	
Accounts receivable	-	134
<b>Total current assets</b>	344,950	177,987
<b>LIABILITIES</b>		
Accounts payable	608	8,794
Due to student groups and others	-	169,193
<b>Total liabilities</b>	608	177,987
<b>NET ASSETS</b>		
<b>Net assets held in trust</b>	\$ 344,342	\$ -

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION  
STATEMENT OF CHANGES IN NET ASSETS  
FIDUCIARY FUNDS  
For the Year Ended June 30, 2012**

	Private Purpose Trust Fund
<b>Additions</b>	
Net interest and investment gains (losses)	\$          606
Private donations	8,508
Other additions	-
<b>Total additions</b>	9,114
 <b>Deductions</b>	
Benefits paid and other deductions	7,148
<b>Total deductions</b>	7,148
 <b>Change in net assets</b>	1,966
<b>Net assets - beginning</b>	342,376
 <b>Net assets - ending</b>	\$         344,342

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE A - ENTITY**

**Reporting Entity**

The Ballard 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 Ballard County, Kentucky. The Board receives funding from local, state, and federal government sources and must comply with the commitment requirement of these funding source entities.

The accompanying financial statements present the Board's primary government and the component unit discussed below for which the Board exercises significant influence or financial accountability. Significant influence or financial accountability is based primarily on financial relationships with the Board (as distinct from legal relationships). Therefore, the financial statements presented herein do not include funds of certain legally separate groups and organizations associated with the school system, such as Booster Clubs, over which the Board does not exercise significant influence or financial accountability.

Blended Component Unit:

**Ballard County School Board Finance Corporation** – In 1991, the Ballard County, Kentucky, Board of Education resolved to authorize the establishment of the Ballard County School Board 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 Ballard County Board of Education also comprise the Corporation's Board of Directors. The financial transactions of this entity are included in the accounts and records of the Ballard County Board of Education.

There are no audited financial statements issued separately for this component unit.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Ballard County Board of Education substantially comply with the rules prescribed by the Kentucky Department of Education for local school boards. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

The Board applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless FASB pronouncements conflict with or contradict GASB pronouncements.

**Basis of Presentation**

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the Board 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 government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Board and for each function or program of the Board's governmental activities. Direct expenses are those 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 restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Board, 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 Board.

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

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

**Fund Accounting**

The Board maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description for each class of funds, along with the associated restrictions, follows:

a. **Major Governmental Fund Types**

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

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes 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.

The Support Education Excellence in Kentucky (SEEK) *Capital Outlay Fund* receives those funds designated by the State as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the Board's facility plan.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Accounting (continued)**

The Facility Support Program of Kentucky (FSPK) *Building 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 Board's facility plan. In addition, the fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

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

1. The *Construction Fund* is a Capital Project Fund that accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

b. Non-major Governmental Fund Types

All of the District's governmental funds are major funds.

c. Proprietary Funds (Enterprise Funds)

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

Other enterprise funds consist of Day Care and similar operations used to account for before and after school day care services.

d. Fiduciary Fund Types

Fiduciary Funds account for assets held by the Board in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Board under terms of a formal trust agreement.

The *Private Purpose Trust Fund* is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The trust fund of the Board accounts for donations made for future scholarships where only corpus earning may be spent.

The *Agency Funds* account for activities of student groups, family resource centers, and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

**Basis of Accounting**

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

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

**Property Taxes**

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 due date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they are levied. All taxes collected are initially recorded in the General Fund and then transferred to the appropriate fund.

The property tax rates assessed to finance General Fund operations for the year ended June 30, 2012 were \$.509 per \$100 valuation for real property, \$.509 per \$100 valuation for business personal property and \$.479 per \$100 valuation for motor vehicles.

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

Board property tax revenues are recognized when levied to the extent that they result in current receivables.

**Encumbrance Accounting**

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 re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year end is provided at June 30, 2012.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and Cash Equivalents**

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

**Investments**

Investments consist of certificates of deposits with maturities less than one year and are reported at cost which approximates fair market value.

**Accounts Receivable**

Accounts receivable consist of various taxes, grants and other sources of revenues that are measurable and receipt is certain. Accounts receivable as of June 30, 2012 consist of the following:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Food Service</u>	<u>Day Care</u>	<u>Total</u>
Taxes:					
Property – current	\$ 31,450	\$ -	\$ -	\$ -	\$ 31,450
Property– delinquent	2,695	-	-	-	2,695
Utilities	97,695	-	-	-	97,695
State grants	-	-	-	-	-
Federal grants	2,285	126,290	-	-	128,575
Interfund Receivables	-	-	-	-	-
Other	<u>18,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,170</u>
Total	<u>\$ 152,295</u>	<u>\$ 126,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,585</u>

**Inventories**

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary fund which records inventory using the accrual basis of accounting. On the government wide and fund financial statements, inventory is stated at cost.

**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 assets 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 assets and in the respective proprietary funds.

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Capital assets donated are recorded at their fair market values at the date received. The Board currently follows the guidelines regarding capital assets as established by the Kentucky Department of Education. Assets with an economic life greater than one year and cost threshold of one thousand dollars are capitalized except for computers, digital cameras, and real property for which there is no threshold. The Board does not possess any infrastructure. Improvements adding value and economical life to an asset are capitalized. Normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Capital Assets (continued)**

Capital assets are depreciated using the straight-line method over the following useful lives for both governmental and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Building and improvements	25-50 years
Land improvements	20 years
Technology equipment	5-15 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other general assets	10 years

**Prepaid Assets**

Payments made that will benefit periods beyond June 30, 2012 are recorded as prepaid items. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**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 vested 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 Board's past experience of making termination payments.

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

For governmental fund financial statements, the accrued sick leave payable is the amount earned by retired employees unpaid as of year-end expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund.

**Accrued Liabilities and Long-Term Obligations**

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

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

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Balance Reserves**

The Districts' Fund Balance Reserves are reported under the requirements of GASB Statement 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", which defines how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

*Nonspendable* fund balances are amounts that cannot be spent either because they are not in spendable form (such as inventory) or because they are legally or contractually required to be maintained intact.

*Restricted* fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

*Committed* fund balances are those amounts that can only be used for specific purposes (such as future construction projects) pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of fund balance commitment.

*Assigned* fund balances are those amounts that are constrained by the government's intent to be used for specific purpose (such as encumbrances), but are neither restricted nor committed. Assigned fund balance also includes 1) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted or committed and 2) amounts in the general fund that are intended to be used for a specific purpose.

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

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Proprietary Fund Revenues and Expenses**

Operating revenues are those revenues generated directly from the primary activity of the proprietary funds. For the Board, operating revenues, within the School Food Service Fund, are primarily charges for student lunches and non-operating revenues are primarily reimbursements from federal and state agencies for meals provided by the various schools while the other enterprise fund's operating revenues are primarily charges for daycare services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Interfund Activity**

Each fund is a fiscal and accounting entity. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds.

Interfund receivables and payables for the Board arise generally when payments are made from a fund that does not have the legal liability for the expenditure. For the year ended June 30, 2012, there were no interfund receivables/payables.

**Budgetary Process**

Budgetary Basis of Accounting: The budgetary process accounts for transactions on the same basis as the fund financial statements.

The budgetary process begins in October for the next fiscal year. As of May 30, a tentative working budget is submitted to each Board member for discussion and amendment. The Board must adopt a final budget and submit to the Kentucky Department of Education by September 30 of each fiscal year. 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.

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

**NOTE C – DEPOSITS AND INVESTMENTS**

**Custodial credit risk** for deposits and investments is the risk that in the event of a failure of the counterparty, the Board's deposits and investments may not be returned or the Board will not be able to recover collateral securities in the possession of an outside party. The Board's investment policy requires all investments be made in accordance with applicable legal requirements with consideration of investment safety. Accordingly, the Board entered into a collateral agreement with its main financial institution. Deposits in excess of FDIC insurance coverage are secured with collateral valued at market or par, whichever is lower. However, some of the Board's accounts are maintained at other financial institutions, and at times, demand deposits and investments may exceed depository insurance at these locations. The Board has incurred no losses in the past as a result of bank balances in excess of FDIC insurance coverage.

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Board's investing activities are managed under the custody of the Board's Finance Director. Investing is performed in accordance with investment policies adopted by the Board of Directors.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE C – DEPOSITS AND INVESTMENTS (Continued)**

In accordance with State statutes and the Board’s investment policy, the Board may invest funds temporarily in excess of operating needs in the following:

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements.
2. Obligations of any corporation of the United States government.
3. Certificates of deposit or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.241(4).
4. Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities.
5. Uncollateralized certificates of deposits issued by any bank or savings and loan institution, bankers’ acceptances for banks, or securities issued by a state or local government or any instrumentality of agency thereof, in the United States rated in one of the three highest categories by a nationally recognized rating agency.
6. Commercial paper rated in the highest category by a nationally recognized rating agency.
7. Shares of mutual funds as permitted by KRS 66.480.

It is the Board’s policy not to purchase any investment on a margin basis or through the use of any similar leveraging technique. In addition, the amount of funds the Board may invest at any time in categories 4, 5, 6, and 7 shall not exceed twenty percent (20%) of the total funds invested.

During the year ended June 30, 2012, the Board’s cash and investments were demand deposits and certificates of deposits. At year end, the carrying amount and the bank balance of the Board’s cash and cash equivalents and investments were \$3,734,972 and \$4,263,301, respectively. As of June 30, 2012, the Board’s bank balance was as follows:

<i>Governmental &amp; Proprietary Funds</i>	
Balance covered by FDIC insurance	\$ 3,737,444
Collateral held by pledging financial institutions’ trust department not in the Board’s name	2,756
Uncollateralized	-
<i>Fiduciary Funds</i>	
Balance covered by FDIC insurance	472,309
Collateral held by pledging financial institutions’ trust department not in the Board’s name	50,792
Uncollateralized	-
Total	<u>\$ 4,263,301</u>

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE D – CAPITAL ASSETS**

A summary of the capital asset activity for the fiscal year ended at June 30, 2012, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 253,552	\$ 30,076	\$ -	\$ 283,628
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated:	<u>253,552</u>	<u>30,076</u>	<u>-</u>	<u>283,628</u>
<u>Capital assets, being depreciated:</u>				
Land improvements	1,808,187	-	-	1,808,187
Buildings and improvements	29,968,944	23,250	-	29,992,194
Technology equipment	1,687,269	26,463	(124,875)	1,588,857
Vehicles	1,841,849	79,169	(83,847)	1,837,171
General Equipment	<u>350,059</u>	<u>-</u>	<u>-</u>	<u>350,059</u>
Totals at historical cost	<u>35,656,308</u>	<u>128,882</u>	<u>(208,722)</u>	<u>35,576,468</u>
Less: Accumulated depreciation				
Land improvements	918,799	73,543	-	992,342
Buildings and improvements	5,448,780	654,734	-	6,103,514
Technology equipment	1,485,915	83,400	(124,875)	1,444,440
Vehicles	1,290,590	114,180	(83,847)	1,320,923
General Equipment	<u>317,610</u>	<u>6,754</u>	<u>-</u>	<u>324,364</u>
Total accumulated depreciation	<u>9,461,694</u>	<u>932,611</u>	<u>(208,722)</u>	<u>10,185,583</u>
Total capital assets, being depreciated, net:	<u>26,194,614</u>	<u>(803,729)</u>	<u>\$ -</u>	<u>25,390,885</u>
Governmental Activities Capital Assets – Net	<u>\$ 26,448,166</u>	<u>\$ (773,653)</u>	<u>\$ -</u>	<u>\$ 25,674,513</u>
<u>Business-Type Activities</u>				
Food Service:				
Food service and equipment	\$ 254,420	\$ 1,597	\$ -	\$ 256,017
Technology equipment	<u>3,990</u>	<u>-</u>	<u>(705)</u>	<u>3,285</u>
Totals at historical cost	<u>258,410</u>	<u>1,597</u>	<u>(705)</u>	<u>259,302</u>
Less: Accumulated depreciation				
Food Service:				
Food service and equipment	197,419	7,508	-	204,927
Technology equipment	<u>3,990</u>	<u>-</u>	<u>(705)</u>	<u>3,285</u>
Total accumulated depreciation	<u>201,409</u>	<u>7,508</u>	<u>(705)</u>	<u>208,212</u>
Business-Type Activities Capital Assets – Net	<u>\$ 57,001</u>	<u>\$ (5,911)</u>	<u>\$ -</u>	<u>\$ 51,090</u>

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE E – DEPRECIATION AND AMORTIZATION**

Depreciation expense, by function, was as follows:

Instructional	\$ 805,586
Student	-
Instructional staff	153
District administration	5,344
School administration	147
Business and central office	359
Plant operation and maintenance	12,916
Student transportation	108,106
Community service activities	-
	<u>\$ 932,611</u>
Food Service	\$ 7,508
Daycare Service	-
	<u>\$ 7,508</u>

For the year ended June 30, 2012, amortization expense of bond issue costs, discounts and call premiums reflected in facility acquisitions and construction was \$35,343.

**NOTE F – BOND OBLIGATIONS**

The amount shown in the accompanying financial statements as bond obligations represents the Board's future obligations to make payments relating to the bonds issued by the Ballard County School Board Finance Corporation.

The original amount of each issue, the issue date, outstanding balance, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Outstanding Balance</u>	<u>Rates</u>
November, 1998	\$ 3,865,000	\$ -	3.250% - 4.000%
February, 2002	660,000	-	4.450% - 4.450%
October, 2002	475,000	60,000	2.200% - 3.800%
June, 2004	18,490,000	1,820,000	2.000% - 5.000%
December, 2009	182,284	131,508	1.000% - 3.250%
March, 2010	2,850,000	2,690,000	1.000% - 5.600%
March, 2012	13,785,000	13,600,000	2.000% - 3.125%

**Bonds**

The Board, through the General Fund, the SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Ballard County School Board Finance corporation to construct school facilities.

The bond issues provide for a statutory mortgage lien on the school buildings and appurtenances in favor of the holders of the bonds and coupons.

**Call Provision**

All bonds may be called prior to maturity at dates and subject to redemption premiums specified in each bond issue.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE F – BOND OBLIGATIONS (continued)**

**Premiums, Discounts, Issuance and Advance Refunding Costs**

In the government-wide financial statements bond premiums, discounts, issuance and advanced refunding cost are deferred and amortized over the life of the bonds using the effective interest method as a component of interest expense. Bonds payable are reported net of the applicable deferred charges as a component of interest expense. Bond issuance and advance refunding costs are reported as deferred charges and amortized over the life of the related debt.

**Schedule of Maturities of Obligations**

During the fiscal years ended June 30, 1999, 2003, 2004, 2010 and 2012 the Board entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the Board and Commission for each year until maturity of all related bond issues. The liability for the total bond amount remains with the Board and, as such, the total principal outstanding has been recorded in the financial statements. For the year June 30, 2012, the Commission provided principal and interest payments of \$736,443 and \$315,027, respectively.

Assuming no issues are called prior to schedule maturity, the minimum obligation of the Board including amounts to be paid by the Commission, at June 30, 2012, for debt service (principal and interest) are as follows:

<u>Fiscal Year</u>	<u>Ballard County Board of Education</u>			<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Federal Subsidy</u>	<u>Principal</u>	<u>Interest</u>	
2012-2013	\$ 459,623	\$ 279,673	\$ (45,396)	\$ 755,310	\$ 288,166	\$ 1,737,376
2013-2014	475,500	263,716	(44,808)	775,240	261,605	1,731,253
2014-2015	493,916	246,300	(44,064)	802,495	234,350	1,732,997
2015-2016	503,429	235,603	(43,172)	818,668	218,178	1,732,706
2016-2017	511,552	224,318	(42,101)	835,224	201,620	1,730,613
2017-2022	2,762,761	904,035	(191,473)	4,437,790	688,012	8,601,125
2022-2027	1,968,261	448,453	(142,441)	1,851,739	91,447	4,217,459
2027-2032	<u>836,908</u>	<u>93,364</u>	<u>(33,222)</u>	<u>13,092</u>	<u>1,556</u>	<u>911,698</u>
<b>TOTALS</b>	<u>\$ 8,011,950</u>	<u>\$ 2,695,462</u>	<u>\$ (586,677)</u>	<u>\$10,289,558</u>	<u>\$1,984,934</u>	<u>\$ 22,395,227</u>

**Defeasance of Debt**

On March 20, 2012, the Board issued revenue refunding bonds of \$13,390,000 with interest rates varying from 2.000% to 3.125% to advance refund June 2004 series bonds with interest rates varying from 2.000% to 5.000%. The net proceeds of the new issue were deposited into an irrevocable trust with an escrow agent to redeem outstanding June 2004 series bonds maturing after June 1, 2014 in the principle amount of \$12,300,000 at the redemption price of 100%. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,548,998. This amount was netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce future total debt service payments over the next 10 years by \$994,564 with a resulting net economic loss of \$434,555. As of June 30, 2012, \$12,300,000 of these defeased bonds were still outstanding with applicable assets held in trust for actual future payoff in fiscal year ending June 30, 2014.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE F – BOND OBLIGATIONS (continued)**

**Defeasance of Debt (continued)**

On March 20, 2012, the Board issued revenue refunding bonds of \$395,000 with interest rates varying from 2.000% to 3.125% to current refund February 2002 series bonds with interest rates varying from 4.450% to 4.450%. The net proceeds of the new issue were deposited into an irrevocable trust with an escrow agent to redeem outstanding February 2002 series bonds maturing after February 1, 2012 on March 27, 2012 in the principle amount of \$395,000 at the redemption price of 101%. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$6,684. This amount was netted against the new debt and amortized over the remaining life of the refunded debt. This current refunding was undertaken to reduce future total debt service payments over the next 10 years by \$41,160.

**NOTE G – CAPITAL LEASE PAYABLE**

The Board leases transportation and technology equipment (primarily busses) with a historical cost and accumulated amortization of \$385,983 and \$201,648, respectively, under capital lease agreements. Future minimum lease payments at June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	
2012	\$ 43,168
2013	30,535
2014	19,032
2015	18,828
2016	19,016
2017-2021	<u>60,395</u>
Total minimum lease payments	190,974
Less: deferred interest	<u>(21,001)</u>
Present value minimum lease payments	<u>\$ 169,973</u>

**NOTE H – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Revenue bonds	\$ 18,431,190	\$ 13,785,000	\$ (13,914,682)	\$ 18,301,508	\$ 1,214,933
Less deferred charges:					
Premium, discounts, issue and advance refunding	<u>(238,080)</u>	<u>(1,084,819)</u>	<u>35,113</u>	<u>(1,287,786)</u>	<u>(159,874)</u>
Total bonds payable	18,193,110	12,700,181	(13,879,569)	17,013,722	1,055,059
Capital leases	210,687	-	(40,714)	169,973	38,438
Accumulated sick leave	<u>202,336</u>	<u>10,077</u>	<u>(70,198)</u>	<u>142,215</u>	<u>50,427</u>
Governmental activity					
Long-term liabilities	<u>\$ 18,606,133</u>	<u>\$ 12,710,258</u>	<u>\$ (13,990,481)</u>	<u>\$ 17,325,910</u>	<u>\$ 1,143,924</u>

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE I – RETIREMENT PLANS**

The Ballard County Board of Education participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employees' Retirement System (CERS), both cost-sharing multiple-employer defined benefit plans. KTRS and CERS administer retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS and CERS were created by the General Assembly and are governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS and CERS issues publicly available financial reports that include financial statements and required supplementary information for the defined benefit pension plans. Those reports can be obtained by writing to:

Kentucky Teachers' Retirement System  
479 Versailles Road  
Frankfort, Kentucky 40601-3800  
  
(502) 573-3266

Kentucky Retirement Systems  
Perimeter Park West  
1260 Louisville Road  
Frankfort, Kentucky 40601-6124  
  
(502) 564-4646

The Kentucky Revised Statutes provides for the establishment of both systems and benefit amendments are authorized by the State legislature. Plan members of KTRS are required to contribute 10.355% of their annual covered salary and 10.855% for all new members hired after June 30, 2008. The Commonwealth of Kentucky is required to contribute 13.605% of salaries and 14.105% for members hired after June 30, 2008. The federal programs for any salaries paid by those programs pay the KTRS matching contribution. Plan members of CERS are required to contribute 5.00% of their annual covered salary and 6.00% for all new members hired after August 31, 2008. The Ballard County Board of Education provides a matching contribution of 18.96% of CERS members' salaries. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE).

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

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

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011-2012 fiscal year.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE I – RETIREMENT PLANS (continued)**

The Ballard County School System's total payrolls for the years ending June 30, 2012, 2011 and 2010 were \$8,352,253, \$8,393,860 and \$8,457,173 respectively. For the years ending June 30, 2012, 2011 and 2010, the payrolls for employees covered under KTRS were \$6,169,996, \$6,284,004 and \$6,330,612, respectively. For the years ended June 30, 2012, 2011 and 2010, the Commonwealth contributed \$718,381, \$723,559 and \$742,180, respectively, to KTRS for the benefit of participating employees, which equaled the required contributions for each year. The matching contributions for covered salaries of federal programs are paid by that program. For the years ended June 30, 2012, 2011 and 2010, the Board paid \$99,756, \$104,010 and \$90,650, respectively, from federal grant monies to KTRS in matching contributions for federally funded employees, which equaled the required contributions for each year. For the years ending June 30, 2012, 2011 and 2010, the Board contributed \$314,831, \$335,021, and \$328,370 for employees covered under CERS, which equaled the required contributions for each year.

The Ballard County Board of Education makes available 401(k) and 403(b) defined contribution pension plans for all employees. Employees are allowed to contribute to the Plans up to the Internal Revenue Code maximum allowable amount. The Ballard County Board of Education does not contribute to the Plans.

**NOTE J – DEFERRED COMPENSATION**

The Ballard County Board of Education offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The Ballard County Board of Education therefore does not show these assets and liabilities on its financial statements.

**NOTE K – CONTINGENCIES**

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

**NOTE L – INTEREST EXPENSE**

For the year ended June 30, 2012, cash expenditures for interest was \$259,077. Expenditures consist of interest expenditures on capital leases of \$5,815 and interest expenditures on bond issues of \$253,262.

**NOTE M – RISK MANAGEMENT**

The Ballard County Board of Education is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. In addition, the Board is exposed to various risks of loss related to torts; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensations, errors and omissions, and general liability coverage, the Board participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school boards and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The Board pays an annual premium to each fund for coverage. Contributions to the Workers' compensation Fund are based on premium rates established by such fund in conjunction with excess insurance carrier, subject to claims, experience modifications and a group discount amount.

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE M – RISK MANAGEMENT (continued)**

The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reasons by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The Board purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the Board 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 - LITIGATION**

The District is not aware of any pending litigation, claims, or assessments or unasserted claims or assessments, and the District has not consulted legal counsel concerning litigation, claims, or assessments during the fiscal year ended June 30, 2012, and through the date these financial statements were made available for issuance.

**NOTE O – ON-BEHALF PAYMENTS AND SIMILAR NON-CASH FUNDING**

Payments are made by the Kentucky Department of Education for the benefits of the Board’s students and employees. On-behalf payments include employee fringe benefits for health insurance and flex spending accounts of \$1,459,417, KTRS retirement contributions of \$718,381 and technology contributions of \$60,367. Donated commodities totaled \$48,813 in fiscal year ended June 30, 2012. These non-monetary amounts are reflected within the general fund, special fund, and the business-type activities in the statements as on-behalf payment state revenues and instructional/support expenses. These revenues and expenditures are not budgeted by the District.

Debt service payments are made by the Kentucky School Facility Construction Commission for school construction related bond issues for part of the District’s bond principal and interest debt service. Non-monetary principal and interest payments of \$1,051,470 are reflected within the building fund as on-behalf payment state revenues and debt service expenses. In March 2010, the District issued \$2,850,000 in School Building Revenue Bonds, Taxable Series of 2010 known as “Build America Bonds under the American Recovery and Reinvestment Act of 2009” for construction of the facility additions. The District receives on-behalf subsidy payments from the federal government equal to 35% of the amount of each interest payment on these taxable bonds. Non-monetary on-behalf interest subsidy payments of \$45,886 are reflected in the building fund as federal revenues and debt service expenses. These revenues and expenditures are not budgeted by the District.

**NOTE P – TRANSFER OF FUNDS**

The following inter-fund transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General Fund	Special Fund	KETS Project	\$ 25,182
Operating	Special Fund	General Fund	Headstart	\$ 87,994
Operating	Capital Outlay	General Fund	Debt, Insurance & Maintenance	\$ 125,911

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE Q – RECENTLY ISSUED ACCOUNTING STANDARDS**

During the year ended June 30, 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements that will have a future impact on the District. These statements relate to the recognition of Other Post-Employments Benefits earned by employees whose governmental agency participates in multi-employer, cost-sharing pension plan. The new statements are Statement No. 67, *Financial Reporting for Pension Plans*, effective for years beginning after June 30, 2013, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for years beginning after June 30, 2014. These GASB statements require the cost-sharing governments to report a net pension liability, pension expense and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. These amounts are not being calculated for the year ended June 30, 2012, but could have a significant impact in the year of implementation.

**NOTE R – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 29, 2012 the date which the financial statements were available to be issued.

**SUPPLEMENTAL SCHEDULES AND SUPPORTING INFORMATION**

**BALLARD COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET TO ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
From local sources				
Property taxes	\$ 1,680,000	\$ 1,680,000	\$ 1,712,441	\$ 32,441
Motor vehicle taxes	400,000	400,000	416,994	16,994
Utility taxes	600,000	600,000	1,071,887	471,887
Other taxes	15,000	15,000	24,476	9,476
Tuition and fees	-	-	1,933	1,933
Earnings on investments	5,000	5,000	263	(4,737)
Other local revenues	30,000	30,000	-	(30,000)
State sources				
SEEK	5,244,970	5,098,712	5,098,712	-
On-behalf payments	-	-	2,129,275	2,129,275
Other	10,000	10,000	19,700	9,700
Federal - indirect	20,000	20,000	14,258	(5,742)
Revenue in lieu of taxes	45,000	45,000	47,099	2,099
Other revenues	4,000	17,000	77,897	60,897
<b>Total revenues</b>	<u>8,053,970</u>	<u>7,920,712</u>	<u>10,614,935</u>	<u>2,694,223</u>
<b>Expenditures</b>				
Instruction	4,686,169	4,687,811	5,899,568	(1,211,757)
Support services				
Student	350,823	350,823	456,590	(105,767)
Instruction staff	199,073	199,289	206,790	(7,501)
District administration	1,214,951	1,267,797	802,412	465,385
School administration	609,578	607,820	810,624	(202,804)
Business and central office	360,787	360,787	443,714	(82,927)
Plant operation and maintenance	1,177,957	1,177,957	1,190,631	(12,674)
Student transportation	583,374	583,374	706,900	(123,526)
Facilities acquisition and construction	-	-	30,038	(30,038)
Debt service	46,529	46,529	46,529	-
<b>Total expenditures</b>	<u>9,229,241</u>	<u>9,282,187</u>	<u>10,593,796</u>	<u>(1,311,609)</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(1,175,271)</u>	<u>(1,361,475)</u>	<u>21,139</u>	<u>1,382,614</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from debt issues	-	-	-	-
Operating transfers in	-	87,994	213,905	125,911
Operating transfers out	(30,000)	(30,000)	(25,182)	4,818
<b>Total other financing sources (uses)</b>	<u>(30,000)</u>	<u>57,994</u>	<u>188,723</u>	<u>130,729</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(1,205,271)</u>	<u>(1,303,481)</u>	<u>209,862</u>	<u>1,513,343</u>
<b>Fund balance, July 1, 2011</b>	<u>1,333,982</u>	<u>1,333,982</u>	<u>1,333,982</u>	<u>-</u>
<b>Fund balance, June 30, 2012</b>	<u>\$ 128,711</u>	<u>\$ 30,501</u>	<u>\$ 1,543,844</u>	<u>\$ 1,513,343</u>

See accompanying independent auditor's report on supplementary financial information.

**BALLARD COUNTY BOARD OF EDUCATION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET TO ACTUAL**  
**SPECIAL REVENUE FUND**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
From local sources				
Earnings on investments	\$ -	\$ -	\$ -	\$ -
Other local revenues	-	87,994	-	(87,994)
State sources				
Other	809,701	865,286	882,216	16,930
Federal - indirect	983,918	993,572	1,345,496	351,924
Other revenues	-	-	-	-
<b>Total revenues</b>	<u>1,793,619</u>	<u>1,946,852</u>	<u>2,227,712</u>	<u>280,860</u>
<b>Expenditures</b>				
Instruction	1,107,174	1,240,671	1,418,047	(177,376)
Support services				
Student	-	-	-	-
Instruction staff	221,530	236,311	251,025	(14,714)
District administration	-	-	-	-
School administration	128,179	127,795	122,936	4,859
Business and central office	80,000	80,000	80,607	(607)
Plant operation and maintenance	95,765	97,005	105,585	(8,580)
Student transportation	109,917	115,417	96,271	19,146
Community service activities	81,054	79,653	90,429	(10,776)
<b>Total expenditures</b>	<u>1,823,619</u>	<u>1,976,852</u>	<u>2,164,900</u>	<u>(188,048)</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(30,000)</u>	<u>(30,000)</u>	<u>62,812</u>	<u>92,812</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	30,000	30,000	25,182	(4,818)
Operating transfers out	-	-	(87,994)	(87,994)
<b>Total other financing sources (uses)</b>	<u>30,000</u>	<u>30,000</u>	<u>(62,812)</u>	<u>(92,812)</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, July 1, 2011</b>	-	-	-	-
<b>Fund balance, June 30, 2012</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report on supplementary financial information.

**BALLARD COUNTY BOARD OF EDUCATION**

**COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENTS AND OTHERS  
SCHOOL ACTIVITY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

	Cash	Receipts	Disburse- ments	(Interfund Transfers)		Cash	Accounts	Accounts	Due to Students
	Balances 7/1/2011			To	From	Balances 6/30/2012	Receivable 6/30/2012	Payable 6/30/2012	and Others 6/30/2012
Ballard Memorial High School	\$ 30,761	\$ 180,261	\$ 166,934	\$ 44,061	\$ (44,061)	\$ 44,088	\$ 34	\$ 3,592	\$ 40,530
BC Middle School	21,665	71,918	69,804	4,013	(4,013)	23,779	100	4,064	19,815
BC Elementary School	44,682	80,737	92,292	3,731	(3,731)	33,127	-	1,138	31,989
BC Career & Technical School	40,089	54,434	56,324	4,831	(4,831)	38,199	-	-	38,199
BC Preschool	30,530	50,085	42,668	-	-	37,947	-	-	37,947
BC Concession	1,992	725	2,717	-	-	-	-	-	-
BC Charitable Gaming	1,949	379	2,328	-	-	-	-	-	-
BMS Foundation	712	1	-	-	-	713	-	-	713
<b>Totals</b>	<u>\$172,380</u>	<u>\$ 438,540</u>	<u>\$ 433,067</u>	<u>\$ 56,636</u>	<u>\$ (56,636)</u>	<u>\$177,853</u>	<u>\$ 134</u>	<u>\$ 8,794</u>	<u>\$ 169,193</u>

See independent auditor's report on supplementary financial information.

**BALLARD COUNTY BOARD OF EDUCATION**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENTS AND OTHERS  
BALLARD MEMORIAL HIGH SCHOOL ACTIVITY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

	Cash		Disburse- ments	(Interfund Transfers)		Cash	Accounts	Accounts	Due to Students
	Balances 7/1/2011	Receipts		To	From	Balances 6/30/2012	Receivable 6/30/2012	Payable 6/30/2012	and Others 6/30/2012
Academic Team	\$ 45	\$ 10	\$ 39	\$ -	\$ -	\$ 16	\$ -		\$ 16
Accounting	105	-	-	-	(105)	-	-	-	-
AP Test	847	3,249	3,001	-	(22)	1,073	-	-	1,073
Art Club	1,112	717	1,350	-	-	479	-	-	479
Ath-Baseball	-	-	4,015	4,015	-	-	-	-	-
Ath-Basketball	-	-	14,409	14,409	-	-	-	-	-
Ath-Cheer	-	-	505	524	(19)	-	-	-	-
Ath-Dist. Tourn. Softball	-	1,945	1,556	-	-	389	-	173	216
Ath-Football	-	834	8,000	7,257	(91)	-	-	-	-
Ath-Gate	-	28,951	-	-	(28,951)	-	-	-	-
Ath-General	4,824	26,745	21,809	241	(9,087)	914	-	106	808
Ath-Golf	-	-	1,110	1,110	-	-	-	-	-
Ath-Lady Bomber Shootout	-	4,656	4,397	29	-	288	-	-	288
Ath-Softball	-	46	3,850	3,804	-	-	-	-	-
Ath-Tennis	-	-	1,145	1,145	-	-	-	-	-
Ath-Track	-	110	2,183	2,073	-	-	-	-	-
Ath-Volleyball	-	324	3,588	3,264	-	-	-	-	-
Beta Club	795	5,635	5,953	400	-	877	-	-	877
Boys Basketball	665	11,447	10,679	-	(211)	1,222	-	152	1,070
Cheerleaders	821	9,984	9,407	-	(50)	1,348	-	-	1,348
Chorus	248	25,732	24,523	-	-	1,457	-	-	1,457
Counselor	17	380	378	-	-	19	-	-	19
Cross-Country	1,249	-	-	-	(1,249)	-	-	-	-
FACS	835	2,204	3,053	14	-	-	-	-	-
FBLA	-	-	-	-	-	-	-	-	-
FCA	-	207	274	67	-	-	-	-	-
FCCLA	490	2,158	2,281	-	(14)	353	-	-	353
Football	-	2,365	1,053	30	(78)	1,264	-	1,042	222
General	662	47	498	-	(67)	144	-	-	144
Girls Basketball	-	1,331	1,710	379	-	-	-	-	-
Golf	1,172	1,750	1,895	-	-	1,027	-	-	1,027
H.S. Play	1,329	930	1,180	30	-	1,109	-	-	1,109
Instructional Materials	674	7,102	4,278	105	-	3,603	-	135	3,468
John Walker Memorial	-	925	-	-	-	925	-	-	925
Junior Class	44	3,747	3,078	-	(500)	213	-	-	213
Library	1,209	880	1,300	132	-	921	-	-	921
Math-Dept	264	725	758	-	-	231	-	-	231
Media-Purcell	5,649	4,171	3,957	50	(400)	5,513	-	-	5,513
Parking Tags	370	395	363	-	-	402	-	-	402
PSAT	-	155	177	22	-	-	-	-	-
Science Dept-Wedgewood	670	408	739	93	-	432	-	-	432
Science Dept-Prince	20	-	6	-	-	14	-	-	14
Senior Class	-	2,634	4,305	1,671	-	-	-	-	-
Soccer	-	427	-	-	-	427	-	-	427
Spanish Club	281	-	-	-	-	281	-	-	281
Sportsman Club	280	-	-	-	(280)	-	-	-	-
Student Council	55	1,918	2,065	548	(68)	388	-	-	388
Student Fund	354	3,301	937	280	(2,791)	207	-	-	207
Teacher Fund	520	473	1,692	1,120	-	421	34	-	455
Tennis	18	700	418	-	-	300	-	77	223
Testing Team Shirts	48	-	-	-	(48)	-	-	-	-
Track	1,320	5,542	3,009	1,249	-	5,102	-	1,907	3,195
Will Mallory Memorial Fund	-	2,105	-	-	-	2,105	-	-	2,105
Yearbook	3,769	12,896	6,011	-	(30)	10,624	-	-	10,624
<b>Totals</b>	<b>\$ 30,761</b>	<b>\$ 180,261</b>	<b>\$ 166,934</b>	<b>\$ 44,061</b>	<b>\$ (44,061)</b>	<b>\$ 44,088</b>	<b>\$ 34</b>	<b>\$ 3,592</b>	<b>\$ 40,530</b>

See independent auditor's report on supplementary financial information.

**BALLARD COUNTY BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Totals</u>
<b>US Department of Education</b>				
Passed through State Department of Education:				
Title I, Part A Cluster:				
Title I-Grants to Local Educational Agencies	84.010	3100002 10	\$ 53,030	
	84.010	3100002 11	<u>291,230</u>	\$ 344,260
Total Title I, Part A Cluster				<u>344,260</u>
Twenty-First Century Community Learning Centers	84.287	3400002 09	62,566	
	84.287	3400002 10	<u>136,242</u>	198,808
Rural Education	84.358	3140002 09	4,209	
	84.358	3140002 11	<u>21,940</u>	26,149
Education Jobs Fund	84.410	EJOB00 10	253,579	253,579
Improving Teacher Quality State Grants	84.367	3230002 10	1,258	
	84.367	3230002 11	<u>60,213</u>	61,471
Education Technology State Grants Cluster:				
Educational Technology State Grants	84.318	3210002 10	376	376
Education Technology State Grants - Recovery Act	84.386	4210002 09	4,952	<u>4,952</u>
Total Education Technology State Grants Cluster				<u>5,328</u>
Special Education Cluster (IDEA):				
Special Education-Grants to States	84.027	3810002 10	(60)	
	84.027	3810002 11	<u>288,852</u>	288,792
Special Education-Preschool Grants	84.173	3800002 10	22,598	
	84.173	3800002 11	<u>39,345</u>	61,943
Special Education-Preschool Grants - Recovery Act	84.392	4800002 09	(819)	<u>(819)</u>
Total Special Education Cluster				<u>349,916</u>
Passed-through Workforce Development Cabinet:				
Career and Technical Education-Basic Grants to States	84.048	4621032 09	489	
	84.048	4621132 10	651	
	84.048	4621232 11	13,825	<u>14,965</u>
Passed-through Western Kentucky Educational Co-Op:				
Gaining Early Awareness and Readiness For Undergraduate Programs	84.334	6971	2,268	2,268
<b>Total U.S Department of Education</b>				<u>1,256,744</u>

Continued

**BALLARD COUNTY BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Totals</u>
<b>US Department of Agriculture</b>				
Passed through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	7760005 11	24,551	
	10.553	7760005 12	<u>94,694</u>	119,245
National School Lunch Program	10.555	7750002 11	75,229	
	10.555	7750002 12	281,836	
Passed through State Department of Agriculture				
National School Lunch Program-				
Non-monetary Food Distribution (Note B)	10.555	2012	<u>48,813</u>	<u>405,878</u>
Total Child Nutrition Cluster				525,123
<b>Total US Department of Agriculture</b>				<u>525,123</u>
<b>US Department of Health and Human Services</b>				
Pass-through Murray, KY Board of Education:				
Head Start	93.600	6551	758	
Head Start	93.600	6552	<u>87,994</u>	<u>88,752</u>
<b>Total Federal Awards</b>				<u>\$ 1,870,619</u>

**BALLARD COUNTY BOARD OF EDUCATION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARD  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Ballard County Board of Education and is presented on the accrual method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – COMMODITIES**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and used.

**NOTE C – RECONCILIATION OF FEDERAL AWARDS TO THE FINANCIAL STATEMENTS**

Total Federal Awards	\$ <u>1,870,619</u>
Federal Awards by Fund	
Special Revenue Fund	\$ 1,345,496
Proprietary Fund	<u>525,123</u>
Total Federal Awards	\$ <u>1,870,619</u>

Federal revenues of \$14,258 reflected in the general fund include reimbursements for Medicaid claims and accordingly, are not included in the Schedule of Expenditures of Federal Awards.

Federal revenues of \$45,886 reflected in the building fund include interest subsidy payments on-behalf of the District and accordingly, are not included in the Schedule of Expenditures of Federal Awards.

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

Kentucky State Committee for School  
District Audits  
Members of the Board of Education  
Ballard County Board of Education  
Paducah, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ballard County Board of Education as of and for the year ended June 30, 2012, which collectively comprise the Ballard County Board of Education's basic financial statements and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*.

**Internal Control Over Financial Reporting**

Management of the Ballard County Board of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Ballard County Board of Education's internal control over financial reporting as a basis for designing our auditing procedures 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 Ballard County Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ballard County Board of Education's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control exists* when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency #2012-1 described in the accompanying schedule of findings and questioned costs to be a material weakness.

### Compliance and Other Matters

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

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of the Ballard County Board of Education in a separate letter dated October 29, 2012.

Ballard County Board of Education's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Ballard County Board of Education's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Kentucky Department of Education, the School Board's management, audit committee, and members of the Board of Education of Ballard County School District and is not intended to be and should not be used by anyone other than these specified parties.

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
October 29, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School  
District Audits  
Members of the Board of Education  
Ballard County Board of Education  
Paducah, Kentucky

**Compliance**

We have audited the Ballard County Board of Education 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 Ballard County Board of Education's major federal programs for the year ended June 30, 2012. The Ballard County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Ballard County Board of Education's management. Our responsibility is to express an opinion on the Ballard County Board of Education's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Ballard County Board of Education'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. Our audit does not provide a legal determination of the Ballard County Board of Education's compliance with those requirements.

In our opinion, the Ballard County Board of Education, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major program for the year ended June 30, 2012.

## Internal Control Over Compliance

The management of the Ballard County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Ballard County Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 Ballard County Board of Education'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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Kentucky Department of Education, the School Board's management, audit committee, and members of the Board of Education of Ballard County School District and is not intended to be and should not be used by anyone other than these specified parties.

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
October 29, 2012

**BALLARD COUNTY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**Section I – Summary of Auditor’s Results**

1. The auditor’s report expresses an unqualified opinion on the financial statements of the Ballard County Board of Education.
2. There was one material weaknesses relative to the audit of the financial statements reported in the Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Ballard County Board of Education was disclosed during the audit.
4. No instances of significant deficiencies were disclosed during the audit of internal control over major federal award programs.
5. The auditor’s report on compliance for the major federal award programs for the Ballard County Board of Education expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for Ballard County Board of Education.
7. The programs tested as major programs included:

<u>Name</u>	<u>CFDA</u>
Education Jobs Fund	84.410
<b>Clustered:</b>	
School Breakfast Program	10.553
National School Lunch Program	10.555
<b>Clustered:</b>	
Special Education-Grants to States	84.027
Special Education-Preschool Grants	84.173
Special Education-Preschool Grants-Recovery Act	84.392

8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. The Ballard County Board of Education did not qualify to be audited as a low-risk auditee.

**Section II – Findings – Financial Statements Audit**

Reference # 2012-1

The Board does not have controls in place which would prevent or detect a misstatement during preparation of financial statements and related note disclosures.

Criteria:

A control deficiency exists when an entity does not have controls in place which would prevent or detect misstatements of financial statements and related note disclosures.

Cause:

Board personnel do not currently possess skills and knowledge necessary over preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

**BALLARD COUNTY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**Section II – Findings – Financial Statements Audit (continued)**

Effect:

Misstatements may occur and not be detected in the financial statements, related note disclosures, or underlying records.

Recommendation:

The Board should consider providing additional training to an employee to develop suitable skill, knowledge, and/or experience in preparing and reviewing financial statements for external reporting in accordance with current standards. As an alternative recommendation, the Board could outsource the preparation of the financial statements and related notes to an individual or entity which possesses and maintains the skills, knowledge and experience necessary to prepare financial statements and related notes in accordance with current standards.

Response:

We will consider additional training for our Finance Officer to develop a better understanding in preparing and reviewing financial statements. Due to budget constraints this training may be cost prohibitive. We are a small district with limited staff and we don't feel this effects our day to day operations.

**Section III – Findings and Questioned Costs – Major Federal Awards Programs**

None

**BALLARD COUNTY BOARD OF EDUCATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2011**

**Section II – Findings – Financial Statements Audit**

Reference # 2011-1

The Board does not have controls in place which would prevent or detect a misstatement during preparation of financial statements and related note disclosures.

Current Status

This item is still present in fiscal year-end June 30, 2012.

Reference # 2011-2

The Board does not have adequate segregation of duties over the preparation and disbursement of payroll and related reporting.

Current Status

This item has been corrected in fiscal year-end June 30, 2012.

**Section III – Findings and Questioned Costs – Major Federal Awards Programs**

None

**BALLARD COUNTY BOARD OF EDUCATION  
MANAGEMENT RECOMMENDATION LETTER**

**Year Ended June 30, 2012**



Kentucky State Committee for School  
District Audits  
Members of the Board of Education  
Ballard County Board of Education  
Paducah, Kentucky

In planning and performing our audit of the basic financial statements of the Ballard County Board of Education for the year ended June 30, 2012, we considered the Board's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning these other matters. A separate report dated October 29, 2012, contains our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This letter does not affect our report dated October 29, 2012, on the financial statements of the Ballard County Board of Education as of and for the year ended June 30, 2012.

The District's responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly we express no opinion on them.

We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these items, or to assist you in implementing the recommendations.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Kentucky Department of Education, the School Board's management, and members of the Board of Education of Ballard County School District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
October 29, 2012

## Central Office

### Other Matters:

*Criteria:* The State of Kentucky record retention policies provide governance for maintaining personnel records during and after employment.

*Condition:* During our payroll testing, we noted two instances out of a sample of forty where required Internal Revenue Service forms W-4 and four instances where form I-9 could not be located. The State of Kentucky Record Retention Schedule recommends maintaining these records during employment and for five years after employment.

*Cause:* These forms could not be located for these employees.

*Effect:* Payroll records were not totally compliant with personnel regulations and record retention policies.

*Recommendation:* We recommend management perform a review of all active employees to insure personnel records are up to date in accordance with applicable State and Board policies and personnel regulations. Management might also consider requiring verification and updating of these documents in conjunction with routinely scheduled employee evaluations or training.

*Board Response:* Our personnel secretary will perform a review of all active employees to insure personnel records are up to date in accordance with applicable State and Board policies.

*Criteria:* Expenditures should be properly approved and supported in accordance with State and District policies & procedures.

*Condition:* During testing of disbursements, we noted one instance where the supporting purchase order was missing and two instances where supporting documentation for travel related charges on a credit card statement were missing.

*Cause:* Supporting documents were not properly maintained and payments were made without obtaining supporting documents.

*Effect:* While we were able to satisfy ourselves the expenditures were valid, absence of proper supporting documentation of expenditures could result in payment of unapproved expenditures.

*Recommendation:* We recommend proper supporting documentation be maintained for all expenditures in accordance with State and District policies and procedures.

*Board Response:* Our accounts payable secretary will make sure all proper documentation will be maintained supporting expenditures in accordance with State and District policies and procedures.

*Criteria:* Financial accounting records should include all trust activity in the MUNIS accounting system in accordance with generally accepted accounting principles.

*Condition:* We noted during our testing of trust funds, the fund records did not include all scholarship trust activities in the MUNIS accounting records.

*Cause:* While recommended, the Kentucky Department of Education has not mandated Districts to record scholarship trust activities in the District's trust fund. Accordingly, these activities have not been recorded in the MUNIS accounting system.

*Effect:* Trust funds did not reflect all activities in the fund's accounting records in accordance with generally accepted accounting principles.

*Recommendation:* We recommend the District account for scholarship trusts activities in the MUNIS accounting system trust fund. Accounting for these activities within the MUNIS accounting records as separate projects would reduce the need to maintain separate checking accounts for each scholarship fund. In addition, unless restricted by

the donor, pooling of scholarship funds will maximize investment earning potential thus resulting in additional funds available for scholarship awards.

*Board Response:* Our finance officer will account for scholarship trust activities in the MUNIS accounting system. As these CD's mature we will be pooling the scholarship funds to maximize investment earning potential.

**Status of prior year comments:**

*Condition:* We noted three instances out of a sample of forty where required Internal Revenue Service forms W-4 could not be located.

Status: Item is still present in the current year.

*Condition:* We noted one high school supporting organization and a bus drivers fund bank account was listed by the bank in the District's federal identification number.

Status: This item was addressed and corrected during the current year.

*Condition:* District is not billing for Medicaid reimbursements in a timely manner.

Status: This item was addressed and corrected during the current year.

*Condition:* Private purpose trust funds include activity which supplement the District's operations are more appropriately reported as special revenue funds activities. In addition, while currently not required by KDE, trust fund records in the MUNIS system accounting records did not include scholarship trusts as required under generally accepted accounting principles.

Status: Scholarship trust account activity is still not recorded in the MUNIS accounting records.

**ACTIVITY FUNDS**

Kentucky Administrative Regulations (702 KAR 3:130) requires school activity funds to adhere to its “Accounting Procedures for Kentucky School Activity Funds”, commonly referred to as the “Redbook”. We noted various instances where activity fund records and accounting procedures were not maintained in accordance with the “Redbook” requirements. These items are noted in the remainder of this report.

Audit testing of school activity funds indicated several areas with opportunities for strengthening internal controls or operating efficiency which, in some instances, were present at more than one location.

**ACTIVITY FUNDS**

The matrix below indicates conditions noted at individual schools:

School Locations	Condition #						
	1	2	3	4	5	6	7
<b>BC Preschool</b>	X	X	X				
<b>BC Elementary</b>							
<b>BC Middle</b>							
<b>BC High</b>				X		X	X
<b>BC Career &amp; Technical</b>		X			X		

**Condition #1:**

*Criteria:* Accounting Procedures for Kentucky School Activity Funds (“Redbook”) requires the use of Form F-SA-17 for concessions, bookstore, and pencil machine receipts. It also requires the use of Form F-SA-2B for fundraising activities.

*Condition:* During testing of receipts, we noted instances where Forms F-SA-17 and Form F-SA-2B were not used for sales from bookstore, concessions, or fundraising activities.

*Cause:* Misunderstanding of the purpose of Forms F-SA-17 and F-SA-2B.

*Effect:* The use of Forms F-SA-17 and F-SA-2B improves internal control by providing support for monies collected and documentation of the amount, date, and person collecting the funds.

*Recommendations:* We recommend Form F-SA-17 be used for concessions and bookstore sales and Form F-SA-2B be used for fundraising activities.

*Board Response:* We will instruct all activity fund secretaries to make sure form F-SA-17 is used for concessions and bookstore sales and form F-SA-2B is used for fundraising activities.

**Condition #2:**

*Criteria:* Procedures for Kentucky School Activity Funds (“Redbook”) requires an employee, other than the person preparing the deposit slips, verify the amount deposited agrees with receipts recorded in the ledger and the deposit ticket stamped by the bank.

*Condition:* We were unable to verify deposits were reviewed by an employee other than the person preparing the deposit slips.

*Cause:* Deposit slips were not signed or initialed as reviewed.

*Effect:* Although deposits were reviewed per inquiry of school treasurers, we were unable to verify they were reviewed since the deposit slip contained no documentation of this.

*Recommendations:* We recommend deposit slips be initialed by the person performing the review of the deposit.

*Board Response:* We will instruct all activity fund secretaries to have the person performing the review of the deposit to initial them.

## ACTIVITY FUNDS

### **Condition #3:**

*Criteria:* Procedures for Kentucky School Activity Funds (“Redbook”) requires disbursements be documented by an original vendor invoice and purchase order. If a vendor invoice is not available the disbursement should be supported by a standard invoice (Form F-SA-8) and a purchase order (Form F-SA-7), which must be signed by the payee/sponsor and authorized by the principal before payment.

*Condition:* During testing of disbursements, we noted instances of expenditures with either missing or incomplete supporting documentation. Instances of missing purchase orders prevented us from identifying whether expenditures were for student benefits.

*Cause:* Supporting documentation was not maintained in accordance with “Redbook” procedures.

*Effect:* Missing or incomplete supporting documentation increases the risk of expenditures for the wrong amount, unapproved purchases or non-student benefit.

*Recommendations:* We recommend supporting documentation be maintained in accordance with “Redbook” procedures.

*Board Response:* We have instructed all activity fund secretaries to make sure all expenditures have completed supporting documentation.

### **Condition #4:**

*Criteria:* Accounting Procedures for Kentucky School Activity Funds (“Redbook”) requires that amounts should be transferred between activity funds be documented by proper completion of a Transfer Form Form F-SA-10. The sponsor of the remitting (paying) activity account and the principal should sign the Transfer Form.

*Condition:* During examination of yearly transfers, we noted sponsors were not signing the Form F-SA-10.

*Cause:* Signatures of sponsors were missing from the Form F-SA-10.

*Effect:* Not obtaining signature of sponsor increases the risk funds will be transferred in and out of activity accounts without sponsor knowledge or approval.

*Recommendations:* We recommend sponsors sign the Form F-SA-10, when applicable.

*Board Response:* The activity fund secretaries and the principals have been informed that the sponsor of the remitting activity and the principal are required to complete a form F-SA-10 when transfers are made between activity funds.

### **Condition #5:**

*Criteria:* Accounting Policy for Kentucky School Activity Funds (“Redbook”) requires the use of treasurer’s receipts for all funds collected.

*Condition:* During our testing of receipts, we noted one instance where the treasurer’s receipt form could not be located.

*Cause:* Treasurers receipt was not attached to supporting documentation.

*Effect:* Lack of proper documentation of receipts increases the risk receipts are not properly accounted for in accordance with “Redbook” procedures.

*Recommendations:* We recommend attaching the treasurer’s receipt to supporting documentation.

*Board Response:* The vocational school secretary has been notified that all treasurers’ receipts need to be attached to the supporting documentation.

## ACTIVITY FUNDS

### ***Condition #6:***

*Criteria:* Accounting Policy for Kentucky School Activity Funds (“Redbook”) requires the use of a Multiple Receipt Form (Form F-SA-6) when collecting funds from multiple students.

*Condition:* During our testing of receipts, we noted three multiple receipt forms could not be located.

*Cause:* Teachers may not be remitting multiple receipt forms when they remit funds to the secretary.

*Effect:* Non-compliance with “Redbook” procedures. The multiple receipt form provides support that funds collected have been properly remitted for deposit.

*Recommendations:* We recommend using the multiple receipt form when collecting funds from students unless the activity is a fundraising event in which case using the Fund Raising Worksheet (F-SA-2B) would be appropriate.

*Board Response:* The high school secretary has been notified that the multiple receipt form needs to be used when collecting funds from students.

### ***Condition #7:***

*Criteria:* Accounting Policy for Kentucky School Activity Funds (“Redbook”) requires only staff generated funds, including proceeds from snack machines in staff areas, may be used for staff expenses.

*Condition:* During our testing of transfers, we noted transfers from the student fund to the teacher fund for teacher’s portion of items sold from vending machines in common areas.

*Cause:* School secretary had been instructed this was allowed.

*Effect:* Student funds may have been used for non-student expenditures.

*Recommendations:* In accordance with “Redbook” procedures, only staff generated funds from staff area vending machines may be used for staff expenditures. We recommend only using staff raised funds for non-student expenditures.

*Board Response:* All schools have been made aware that only staff generated funds from staff area vending machines may be used for staff expenditures.

## **Prior Year Comments Still Present in the Current Year**

### **Ballard County Preschool**

Prior Finding: We noted instances where Form F-SA-17 for concessions, bookstore, and pencil machine receipts was not used.

Prior Finding: We noted instances where deposit slips were not signed or initialed as reviewed.

Prior Finding: We noted instances where an original vendor invoice, purchase order, or a standard invoice was not attached to the invoice package.

### **Ballard County Career and Technical School**

Prior Finding: We noted instances where deposit slips were not signed or initialed as reviewed.

### **Ballard Memorial High School**

Prior Finding: We noted instances where transfer forms were not signed by the sponsor.