

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

AUDITED FINANCIAL STATEMENTS
for the year ended June 30, 2013

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	3 - 4
BASIC FINANCIAL STATEMENTS	
DISTRICT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION	5
STATEMENT OF ACTIVITIES	6
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET - GOVERNMENTAL FUNDS	7
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	8
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS	9
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	10
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES	11
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS	12
STATEMENT OF NET POSITION - PROPRIETARY FUND	13
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND	14
STATEMENT OF CASH FLOWS - PROPRIETARY FUND	15
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	16
STATEMENT OF NET POSITION - FIDUCIARY FUND	17

NOTES TO THE FINANCIAL STATEMENTS	18 - 28
SUPPLEMENTAL INFORMATION	
STATEMENT OF RECEIPTS AND DISBURSEMENTS - SCHOOL ACTIVITY FUNDS	29 - 30
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND	31
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND	32
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	33
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL	34
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 <i>GOVERNMENT AUDITING STANDARDS</i>	35 - 36
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	37 - 38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	40
MANAGEMENT LETTER	41

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Barbourville Independent Schools
Barbourville, Kentucky 40906

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Barbourville Independent Schools as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, "Audits of States, 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 - Electronic Submission. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinions

In my 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 District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages three and four and 30 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 4, 2013 on my consideration of the District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky

October 4, 2013

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
For the year ended June 30, 2013
(Unaudited)

Management of the Barbourville Independent Schools (Board) provides to readers and users of the accompanying financial statements an analysis and overview presentation of the Board's financial activities for the year ended June 30, 2013. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

Financial Highlights

General revenues totaled \$4,398,053 representing 80.1% of all revenues. General revenues consist primarily of tax assessments and state funding allocations. Program specific revenues of \$1,062,483 accounted for the remaining revenues. Program specific revenues include charges for services, sales, grants, contributions, etc.

Of the total general fund revenue, approximately \$762,750 was received in the form of local taxation and investment income.

District-Wide Financial Statements

The accompanying district-wide financial statements are designed to provide readers and users with a generally broad descriptive overview of the Board's financial activities. The statements are similar in nature to private-sector (non-governmental) statements.

The Statement of Net Position contains information on all Board assets and liabilities. The difference between these two amounts is reported as net position. When considered historically, increases or decreases in net position may provide a general indication of overall improvement or deterioration of the Board's financial condition. In the Statement of Activities, changes in net position for the most recent fiscal year are presented.

Outlined in these financial statements are functions of the Board which are supported by local taxation and governmental activities. Governmental activities include, but are not limited to, instruction, support services, plant operation and maintenance and student transportation.

Fund Financial Statements

Fund financial statements present a related group of accounts which maintain resources for a specific activity. The MUNIS system is a mandated uniform system and chart of accounts used by all Kentucky public school districts. Use of fund accounting ensures compliance with finance-related statutory requirements. Board funds are separated into three categories; governmental, proprietary and fiduciary. Fiduciary (or trust) funds, commonly known as activity funds, aid in student education and support. Fiduciary funds are support by outside activities such as fund-raising and

ticket sales. There are no proprietary funds other than food service operations. Governmental funds report all other Board activities.

Notes to Financial Statements

Additional information necessary to better understand the district-wide financial statements is presented in the notes to financial statements on pages 17 through 29.

District-Wide Financial Analysis and Budgetary Implications

The financial statements contained herein present an overall picture of limited financial resources operating within budgetary constraints. Due to limited revenues with which to fund all required operating expenditures, the Board has minimal cash reserves.

Condensed Comparative Data

	<u>FY2012</u>	<u>FY2013</u>
General fund revenues	\$ 4,344,065	\$ 4,425,026
General fund expenses	4,329,199	4,821,795
Cash (district-wide)	743,008	543,224
Land, buildings and fixed assets (net)	5,365,269	5,190,223
Bond obligations	3,097,787	2,874,302
Fund balance	866,509	515,192

Financial Management

Interested readers and users, taxpayers, citizens and creditors are encouraged to contact Board administration with questions regarding this report or requests for additional information. The comments should be directed to Larry Warren, Superintendent or Beulah Campbell, Finance Officer at (606) 546-3120. The District mailing address is 140 School Street, Post Office Box 520, Barbourville, Kentucky 40906.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 437,945	\$ 105,279	\$ 543,224
Accounts receivable	125,134	23	125,157
Inventories for consumption	-	13,647	13,647
Capital assets:			
Land	626,486	-	626,486
Land improvements	257,535	-	257,535
Other capital assets, net of depreciation	4,296,881	9,321	4,306,202
TOTAL ASSETS	\$ 5,743,981	\$ 128,270	5,872,251
LIABILITIES			
Accounts payable	\$ 46,887	\$ 222	\$ 47,109
Deferred revenue	1,000		\$ 1,000
Long-term liabilities			
Due or payable within one year			
Bond obligations	223,766	-	223,766
Due or payable after one year			
Bond obligations	2,650,536	-	2,650,536
TOTAL LIABILITIES	2,922,189	222	2,922,411
NET POSITION			
Net investment in capital assets	2,306,600	9,321	2,315,921
Restricted			
Restricted for capital projects	48,769	-	48,769
Restricted for inventory		13,647	
Committed for SFCC escrow	6,939		6,939
Committed for accrued sick leave	21,344		21,344
Unrestricted	438,140	105,080	543,220
TOTAL NET POSITION	\$ 2,821,792	\$ 128,048	\$ 2,949,840

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF ACTIVITIES - DISTRICT WIDE
for the year ended June 30, 2013

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Governmental activities							
Instructional	\$ 3,105,651		\$ 488,277		\$ (2,617,374)		\$ (2,617,374)
Student support services	213,591		70,824		(142,767)		(142,767)
Staff support services	256,674		88,187		(168,487)		(168,487)
District administration	331,204				(331,204)		(331,204)
School administration	208,538				(208,538)		(208,538)
Business support services	471,356				(471,356)		(471,356)
Plant operation and maintenance	852,457		89		(852,457)		(852,457)
Student transportation	161,092				(161,003)		(161,003)
Community service	70,122		69,900		(222)		(222)
Facility acquisition/construction				241,329	241,329		241,329
Interest on long-term debt	67,230				(67,230)		(67,230)
Total governmental activities	5,737,915	-	717,277	241,329	(4,779,309)		(4,779,309)
Business-type activities							
Food service	416,817	122,030	297,245	-		2,458	2,458
Total business-type activities	416,817	122,030	297,245	-			
Total school district	\$ 6,154,732	\$ 122,030	\$ 1,014,522	\$ 241,329	(4,779,309)	2,458	(4,776,851)
General revenues:							
Taxes					751,556		751,556
State aid - formula grants					3,699,349		3,699,349
Investment earnings					11,194		11,194
Miscellaneous					15,779	7,788	23,567
Total general revenues					4,477,878	7,788	4,485,666
Change in net position					(301,431)	10,246	(291,185)
Net position - July 1, 2012					3,123,223	117,802	3,241,025
Net position - June 30, 2013					\$ 2,821,792	\$ 128,048	\$ 2,949,840

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	GENERAL FUND	SPECIAL REVENUE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 455,227	\$ (72,990)	\$ 55,708	\$ 437,945
Accounts receivable	36,226	88,908	-	125,134
	<u>491,453</u>	<u>15,918</u>	<u>55,708</u>	<u>563,079</u>
TOTAL ASSETS	\$ 491,453	\$ 15,918	\$ 55,708	\$ 563,079
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred revenue	\$ -	\$ 1,000		\$ 1,000
Accounts payable	31,969	14,918	-	46,887
	<u>31,969</u>	<u>15,918</u>	<u>-</u>	<u>47,887</u>
TOTAL LIABILITIES	31,969	15,918	-	47,887
FUND BALANCE				
Restricted for:				
Capital projects	-	-	48,769	48,769
SFCC escrow			6,939	6,939
Committed for:				
Accrued sick leave	21,344	-	-	21,344
Unassigned	438,140	-	-	438,140
	<u>459,484</u>	<u>-</u>	<u>55,708</u>	<u>515,192</u>
TOTAL FUND BALANCES	459,484	-	55,708	515,192
TOTAL LIABILITIES AND FUND BALANCES	\$ 491,453	\$ 15,918	\$ 55,708	\$ 563,079

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENT OF NET POSITION
June 30, 2013**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:

Total governmental fund balance		\$ 515,192
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	9,846,850	
Accumulated depreciation	(4,665,948)	5,180,902
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long term liabilities at year end consist of:		
Bonds payable		(2,874,302)
Total net position - governmental		\$ 2,821,792

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2013

	BUILDING FUND	CONSTRUCTION FUND	CAPITAL OUTLAY FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 5,724	\$ 43,045	\$ 6,939	\$ 55,708
TOTAL ASSETS	<u>\$ 5,724</u>	<u>\$ 43,045</u>	<u>\$ 6,939</u>	<u>\$ 55,708</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES	-	-	-	
TOTAL LIABILITIES	-	-	-	
FUND BALANCE				
Restricted for SFCC escrow	-	-	6,939	6,939
Restricted for capital projects	5,724	43,045	-	48,769
TOTAL FUND BALANCES	<u>5,724</u>	<u>43,045</u>	<u>6,939</u>	<u>55,708</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,724</u>	<u>\$ 43,045</u>	<u>\$ 6,939</u>	<u>\$ 55,708</u>

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	GENERAL FUND	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes	\$ 698,704	\$ -	\$ 52,852	\$ 751,556
Earnings on investments	11,194	-	-	11,194
State sources (See Note L)	3,699,349	238,365	292,354	4,230,068
Federal sources	-	475,916	-	475,916
Other sources	15,779	2,996	-	18,775
	<u>4,425,026</u>	<u>717,277</u>	<u>345,206</u>	<u>5,487,509</u>
Total revenues	4,425,026	717,277	345,206	5,487,509
Expenditures				
Instructional	2,595,200	497,893	-	3,093,093
Student support services	142,017	70,824	-	212,841
Staff support services	167,376	88,187	-	255,563
District administration	319,724	-	-	319,724
School administration	208,042	-	-	208,042
Business support services	470,943	-	-	470,943
Plant operation/maintenance	696,209	-	-	696,209
Student transportation	155,736	89	-	155,825
Community service	-	69,900	-	69,900
Architectural/engineering	66,548	-	-	66,548
Debt service	-	-	290,715	290,715
	<u>4,821,795</u>	<u>726,893</u>	<u>290,715</u>	<u>5,839,403</u>
Total expenditures	4,821,795	726,893	290,715	5,839,403
Excess (deficit) of revenues over expenditures	(396,769)	(9,616)	54,491	(351,894)
Other financing sources (uses):				
Operating transfers in	53,741	9,616	243,802	307,159
Operating transfers out	(9,616)	-	(296,966)	(306,582)
	<u>44,125</u>	<u>9,616</u>	<u>(53,164)</u>	<u>577</u>
Total other financing sources (uses)	44,125	9,616	(53,164)	577
Net change in fund balances	(352,644)	-	1,327	(351,317)
Fund balances July 1, 2012	812,128	-	54,381	866,509
	<u>812,128</u>	<u>-</u>	<u>54,381</u>	<u>866,509</u>
Fund balances June 30, 2013	\$ 459,484	\$ -	\$ 55,708	\$ 515,192
	<u>\$ 459,484</u>	<u>\$ -</u>	<u>\$ 55,708</u>	<u>\$ 515,192</u>

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

June 30, 2013

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

Net changes - governmental funds:	\$ (351,317)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>	
Capital outlays	14,000
Depreciation expense	(188,544)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>	
Principal paid	<u>224,430</u>
Changes in net position - governmental funds	<u><u>\$ (301,431)</u></u>

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>CONSTRUCTION FUND</u>	<u>DEBT SERVICE</u>	<u>TOTAL NON-MAJOR GOV'T FUNDS</u>
REVENUES					
Taxes	\$ -	\$ 52,852	\$ -	-	\$ 52,852
State sources	60,103	165,020	-	67,231	292,354
Total revenues	60,103	217,872	-	67,231	345,206
EXPENDITURES					
Debt service	-	-	-	290,715	290,715
Total expenditures	-	-	-	290,715	290,715
Excess (deficit) of revenues over expenditures	60,103	217,872	-	(223,484)	54,491
Operating transfers in	-	-	20,318	223,484	243,802
Operating transfers out	(53,164)	(243,802)	-	-	(296,966)
Net change in fund balance	6,939	(25,930)	20,318	-	1,327
Fund balance July 1, 2012	-	31,654	22,727	-	54,381
Fund balance June 30, 2013	\$ 6,939	\$ 5,724	\$ 43,045	\$ -	\$ 55,708

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2013

	ENTERPRISE FUNDS	
	FOOD SERVICE	TOTAL
ASSETS		
Current assets		
Cash and cash equivalents	\$ 105,279	\$ 105,279
Accounts receivable	23	23
Inventories for consumption	13,647	13,647
Total current assets	118,949	118,949
Noncurrent assets		
Invested in capital assets, net of depreciation	9,321	9,321
TOTAL ASSETS	\$ 128,270	\$ 128,270
LIABILITIES		
LIABILITIES		
Accounts payable	\$ 222	\$ 222
TOTAL LIABILITIES	222	222
NET POSITION		
Invested in capital assets	9,321	9,321
Reserved for inventory	13,647	13,647
Unrestricted	105,080	105,080
TOTAL NET POSITION	\$ 128,048	\$ 128,048

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
PROPRIETARY FUNDS
for the year ended June 30, 2013

	ENTERPRISE FUNDS	
	FOOD SERVICE	TOTAL
OPERATING REVENUES		
Lunchroom sales	\$ 121,740	\$ 121,740
Other operating revenues	290	290
	122,030	122,030
OPERATING EXPENSES		
Salaries and benefits	230,354	230,354
Contract services	1,414	1,414
Materials and supplies	182,922	182,922
Depreciation	1,447	1,447
Other operating expenses	680	680
	416,817	416,817
Total operating expenses	416,817	416,817
Operating income (loss)	(294,787)	(294,787)
NONOPERATING REVENUES (EXPENSES)		
Federal grants	228,969	228,969
State grants	50,015	50,015
Donated commodities	18,261	18,261
	297,245	297,245
Total nonoperating revenues	297,245	297,245
Income (loss) before capital contributions	2,458	2,458
Operating transfers in	7,788	7,788
Change in net position	10,246	10,246
Net position July 1, 2012	117,802	117,802
Net position June 30, 2013	\$ 128,048	\$ 128,048

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2013

	Food Service
Cash flows from operating activities:	
Cash received from lunchroom sales	\$ 121,740
Cash received for other services	290
Cash received from federal and state reimbursements	278,984
Cash payments to employees for services	(230,354)
Cash payments to suppliers	(163,397)
Cash payments for other operating expenses	(680)
Net cash provided by operating activities	6,583
 Net decrease in cash and cash equivalents	 6,583
Cash and cash equivalents at beginning of year	98,696
Cash and cash equivalents at end of year	\$ 105,279
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	2,458
Effect of Increases and Decreases in Current Assets and Liabilities:	
Accounts payable and receivable	(1,940)
Inventory	4,618
Depreciation	1,447
Net cash provided by operating activities	\$ 6,583

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
for the year ended June 30, 2013

	ACTIVITY FUNDS
REVENUES	
Revenues from student activities	\$ 287,885
Total revenues	287,885
EXPENSES	
Student activities	289,882
Change in net position	(1,997)
Net position July 1, 2012	160,104
Net position June 30, 2013	\$ 158,107

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2013

	Private Purpose Trust Funds
	<u> </u>
ASSETS	
Cash and cash equivalents	\$ 158,107
TOTAL ASSETS	<u>158,107</u>
LIABILITIES	<u> </u>
TOTAL NET POSITION	<u>\$ 158,107</u>

The accompanying notes are an integral part of these statements.

**BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

The accounting policies of the Barbourville Independent Schools substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

District-Wide and Fund Financial Statements

The statement of position and the statement of activities are district-wide financial statements. They report information on all of the District's nonfiduciary activities with interfund activities removed. Governmental activities include programs supported primarily by taxes, state funding and allocations and other intergovernmental revenues.

Fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary and fiduciary. Because the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

Fund Accounting

The District 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 along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balance 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 Federal Financial Assistance included in this report. Accounts receivable in the Special Revenue Fund represent amounts due to the District through various grant agreements. Conversely, deferred revenues represent funds received by the District not yet spent under grant agreements.
- C. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. 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 district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the Kentucky School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

II. Debt Service Fund

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

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts for in-kind contribution of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance.

IV. Fiduciary Fund Type

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

V. Property Taxes

The District's property taxes are levied each year on the assessed value listed as of the prior January 1 for all real and business tangible property located in the District.

Property taxes collected are recorded as revenues in the fund for which they were levied.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. During the budgetary process, revenues are projected in cash amounts to be received and expenditures are projected in cash amounts to be paid. Under GAAP, revenues and expenditures are recorded when susceptible to accrual.

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Funds which record inventory using the accrual basis of accounting.

Encumbrances

Encumbrances are reported as a reservation of the fund balance. They are not reported as disbursements until paid.

Payroll

District employees are paid once monthly throughout the calendar year. Payroll checks for the summer months were processed prior to June 30, 2013. The cash balances on June 30, 2013 have been reduced by the outstanding payroll checks.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Balances

Restricted fund balances arise from external constraints (debt covenants, regulations, constitutional provisions, etc.) Committed fund balances are imposed by formal actions of the Board. Assigned

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

fund balances are intended by the Board to be used for specific purposes, but are not formally restricted or committed. Unassigned fund balances are the residual amounts that are neither restricted, committed nor assigned for any specific purpose.

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$ 845,791. Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, \$ 250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2013, exclusive of activity and debt service funds, consisted of the following:

Forcht Bank	Operating Account	<u>\$ 543,224</u>
-------------	-------------------	-------------------

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

On November 3, 1997 the District formed the Barbourville Independent School District Finance Corporation to act as an agency of the District in the acquisition and financing of public school projects undertaken by the District's Board of Education.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the City of Barbourville, Barbourville Independent Schools Finance Corporation and the Kentucky School Facilities Construction Commission to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District entered into "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Barbourville Independent Schools Finance Corporation and the Kentucky School Facilities Construction Commission.

The debt service schedule on page 28 represents payments due for all issues after refunding.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

On July 1, 2012 indebtedness for the District, including principal and interest, totaled \$3,097,787. After timely principal and interest reductions, the outstanding principal balance at June 30, 2013 is \$ 2,874,302.

NOTE D - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. One-half of this amount is reserved each year. At June 30, 2013, this amount totaled \$21,344 for those employees with 27 or more years of experience. While no accrual is recorded in the financial statements due to the contingent nature of this amount, management will budget the appropriate amount on an annual basis. This amount is included as a committed portion of the general fund.

NOTE E - RETIREMENT PLANS

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by KY Department of Education.

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

Funding policy - Contributions rates are established by KRS. Members before July 1, 2008 are required to contribute 9.855% of their salaries to KTRS and members after July 1, 2008 contribute 10.855%. The Commonwealth of KY is required to contribute 13.105 % of salaries for members before July 1, 2008 and 14.105% for members after that date. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

In addition to the pension benefits described above, KRS 16.675 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.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE E - RETIREMENT PLANS, continued

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, 1.5% of the gross annual payroll of members before July 1, 2008 is contributed. One-half of this amount is derived from members' contributions and one-half from state appropriation. Members after July 1, 2008 contribute an additional 1.0% to the medical insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employees' retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 7.34% of the employees' total compensation subject to contribution.

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

Historical trend information showing KTRS and CERS progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011 comprehensive annual financial reports.

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

NOTE F - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant.

Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE G - INSURANCE AND RELATED ACTIVITIES

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

NOTE H - LUNCHROOM ACCOUNT/COMMODITIES

The Lunchroom Account keeps a current monthly inventory of the school in the Food Service Director's office at the Barbourville Independent Board of Education. The Food Service Director has filed timely all required reports and requests for reimbursement.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. To obtain insurance for workers compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

Contributions to the Workers Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term.

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

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE J - DEFICIT OPERATING/FUND BALANCES

At June 30, 2013, the following funds experienced a current year deficit of expenditures over revenue:

General fund	\$ (396,769)
Special revenue	\$ (9,616)

NOTE K - ON BEHALF PAYMENTS

The Commonwealth of Kentucky indirectly contributes funds of varying benefits to the District. These funds, known as "on-behalf payments" are represented as revenue from state sources in the appropriate financial statements. These funds, totaling \$ 1,063,315 for the year ended June 30, 2013, are not budgeted by the District. Corresponding amounts are entered to reflect the appropriate expense for the contributed funds, including but not limited to retirement, insurance and other benefits.

NOTE L - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 is detailed on the following page.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

CAPITAL ASSET NOTE DISCLOSURE

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Land and improvements	884,021	-	-	884,021
Buildings and improvements	7,891,588	-	-	7,891,588
Technology equipment	640,891	-	-	640,891
Vehicles	200,304	14,000	-	214,304
General equipment	226,253	-	(10,207)	216,046
Totals at historical cost	9,843,057	14,000	(10,207)	9,846,850
Less accumulated depreciation for:				
Land and improvements	150,645	10,236	-	160,881
Buildings and improvements	3,409,949	145,538	-	3,555,487
Technology equipment	597,037	15,601	(945)	611,693
Vehicles	181,004	9,217	-	190,221
General equipment	149,921	7,952	(10,207)	147,666
Total accumulated depreciation	4,488,556	188,544	(11,152)	4,665,948
GOVERNMENTAL ACTIVITIES CAPITAL NET	\$ 5,354,501	\$ (174,544)	\$ 945	\$ 5,180,902
PROPRIETARY ACTIVITIES				
Technology equipment	3,125	-	-	3,125
General equipment	78,609	-	-	78,609
Totals at historical cost	81,734	-	-	81,734
Less accumulated depreciation for:				
Technology equipment	3,125	-	-	3,125
General equipment	67,841	1,447	-	69,288
Total accumulated depreciation	70,966	1,447	-	72,413
PROPRIETARY ACTIVITIES CAPITAL NET	\$ 10,768	\$ (1,447)	\$ -	\$ 9,321

DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 12,558
Student support services	750
Staff support services	1,111
District administration	11,480
School administration	496
Business support services	413
Plant operation/maintenance	156,248
Student transportation	5,267
Community services	222
Total	\$ 188,545

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

Fiscal Year	Series	Series	Series	Total
Ending	2008R	2010	2010R	
June 30				
2014	102,097	47,016	74,653	223,766
2015	94,323	50,779	78,228	223,330
2016	101,472	44,404	76,660	222,536
2017	98,472	43,166	80,093	221,731
2018	97,002	51,704	78,383	227,089
2019		64,917	156,673	221,590
2020		67,641	157,683	225,324
2021		69,866	153,550	223,416
2022		66,907	159,418	226,325
2023		108,946		108,946
2024		104,072		104,072
2025		104,196		104,196
2026		108,996		108,996
2027		108,396		108,396
2028		107,596		107,596
2029		106,597		106,597
2030		110,396		110,396
	<u>\$ 493,366</u>	<u>\$ 1,365,595</u>	<u>\$ 1,015,341</u>	<u>\$ 2,874,302</u>

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS - BARBOURVILLE HIGH SCHOOL

June 30, 2013

	Beginning Cash July 1, 2012	Receipts and Transfers	Disbursements and Transfers	Ending Cash June 30, 2013
2010 Freshmen & 8th	1,255	10,706	6,993	4,968
Art	85	-	-	85
Baseball	1,043	7,932	7,625	1,350
Bookstore	3,094	4,425	4,607	2,912
Boys' Basketball	6,716	30,376	20,864	16,228
Dance team	1,469	6,082	5,813	1,738
Dr. Andrae Collins Scholarship	-	500	-	500
FBLA	3	-	-	3
FCCLA	394	315	505	204
First Priority	77	730	661	146
Flower fund	26	-	-	26
General Account	8,552	68	2,334	6,286
Girls basketball	2,980	24,319	16,888	10,411
Golf	1,466	3,920	5,319	67
Graduate Music Scholarship	4,100	-	500	3,600
HS Academic team	-	280	-	280
HS Beta	1,216	7,989	6,305	2,900
Juniors	5,364	4,672	7,117	2,919
KUNA	-	5,794	4,126	-
KYA	-	3,460	3,460	-
Library	4,317	6,305	8,877	1,745
LL Basketball	5,966	8,319	8,577	5,708
LL Cheerleaders	-	3,063	539	2,524
LL Girls basketball	1,533	1,588	1,097	2,024
Middle School Baseball	-	935	935	-
Middle School Softball	804	2,120	2,924	-
Misc Events	63,671	18,825	37,904	44,592
Music	2,771	8,970	7,674	4,067
Odyssey of the Mind	1,052	2,194	2,942	304
Pep Club	105	-	-	105
Seniors	116	19,639	19,704	51
Softball	1,004	7,693	7,038	1,659
Sophomores	2,742	12,645	8,109	7,278
Spanish	-	734	734	-
Swim	-	2,663	2,663	-
Teens Against Drugs	483	-	-	483
Tennis	-	64	64	-
Varsity Cheerleaders	2,953	15,602	17,402	1,153
Special fundraisers	35	2,388	435	1,988
Yearbook	5,195	2,920	7,017	1,098
	<u>\$ 130,587</u>	<u>\$ 228,235</u>	<u>\$ 227,752</u>	<u>\$ 131,070</u>

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS - BARBOURVILLE ELEMENTARY SCHOOL
June 30, 2013

	Beginning Cash July 1, 2012	Receipts and Transfers	Disbursements and Transfers	Ending Cash June 30, 2013
All accounts	<u>\$ 29,517</u>	<u>\$ 59,650</u>	<u>\$ 62,130</u>	<u>\$ 27,037</u>

BARBOURVILLE INDEPENDENT SCHOOLS
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
for the year ended June 30, 2013

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 694,000	\$ 698,704	\$ 4,704
Other local sources	7,000	11,194	4,194
State sources (see Note L)	2,749,993	3,699,349	949,356
Other sources	8,800	15,779	6,979
Total revenues	3,459,793	4,425,026	965,233
Expenditures			
Instructional	2,033,418	2,595,200	(561,782)
Student support services	116,138	142,017	(25,879)
Staff support services	144,363	167,376	(23,013)
District administration	486,224	319,724	166,500
School administration	171,450	208,042	(36,592)
Business support services	461,955	470,943	(8,988)
Plant operation/ maintenance	681,905	696,209	(14,304)
Student transportation	155,124	155,736	(612)
Architectural/engineering	-	66,548	(66,548)
Total expenditures	4,250,577	4,821,795	(571,218)
Excess of revenues over (expenditures)	(790,784)	(396,769)	394,015
Operating transfers in	-	53,741	53,741
Operating transfers out	-	(9,616)	(9,616)
Net operating transfers (out)	-	44,125	(44,125)
Net increase (decrease) in fund balance	(790,784)	(352,644)	438,140
Fund balance July 1, 2012	790,784	812,128	21,344
Fund balance June 30, 2013	\$ -	\$ 459,484	\$ 459,484

BARBOURVILLE INDEPENDENT SCHOOLS
BUDGETARY COMPARISON SCHEDULE FOR SPECIAL REVENUE FUND
for the year ended June 30, 2013

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
State sources (see Note L)	\$ 238,071	\$ 238,365	\$ 294
Federal sources	480,613	475,916	(4,697)
Other sources	5	2,996	2,991
Total revenues	718,689	717,277	(1,412)
Expenditures			
Instructional	502,781	497,893	4,888
Student support services	71,757	70,824	933
Staff support services	73,176	88,187	(15,011)
Student transportation	1,075	89	986
Community service operations	69,900	69,900	-
Total expenditures	718,689	726,893	(8,204)
Excess of revenues over expenditures		(9,616)	(9,616)
Operating transfer in	-	9,616	9,616
Net change in fund balance	-	-	-
Fund balance July 1, 2012	-	-	-
Fund balance June 30, 2013	\$ -	\$ -	\$ -

BARBOURVILLE INDEPENDENT SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

<u>CFDA Name</u>	<u>CFDA Number</u>	<u>Passthrough/ MUNIS</u>	<u>Current Year Expenses</u>
U.S. Department of Education			
Pass-through Kentucky Department of Education			
Title I, Part A Cluster			
Title I	84.010	3102 *	33,804
Title I	84.010	3103 *	250,808
			<u>284,612</u>
Special Education Cluster			
IDEA-B Basic	84.027	3373 *	104,560
IDEA-B Preschool	84.173	3433	11,746
			<u>116,306</u>
School Improvement Grants Cluster			
Title II, Teacher Quality	84.367A	4013	47,292
Title I-C	84.048	3483	5,009
Rural & Low Income School Program	84.358B	3502	2,663
Rural & Low Income School Program	84.358B	3503	12,912
Edu Jobs	84.410	4411	15,665
Race to the Top	84.413A	4521	719
			<u>485,178</u>
Total Pass-Through from KY Department of Education			
			485,178
U.S. Department of Agriculture			
Child Nutrition Cluster			
National School Breakfast Program	10.553	n/a	72,654
National School Lunch Program	10.555	n/a	156,315
Emergency Food Assistance Program (Commodities)		n/a	18,261
			<u>247,230</u>
Total U.S. Department of Agriculture			
			247,230
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 732,408</u></u>

*Audited as a major program under the requirements of Circular A-133

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

1) The schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting, which is the same basis used in the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133.

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

3) Pass-through numbers were not provided for all programs/awards.

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
June 30, 2013

BOARD MEMBERS

Shirley F. Treadway, Jr., Chairman
Kenneth Boggs, Vice Chairman
Sandy Lundy
Eddie Smith
Bonita Williams

ADMINISTRATIVE PERSONNEL

Larry E. Warren, Superintendent
Beulah Campbell, Finance Officer

BARRY D. DAULTON, CPA, PSC

Certified Public Accountant
423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

**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
Barbourville Independent Schools
Barbourville, Kentucky 40906

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditor's Contract - Electronic Submission*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Barbourville Independent Schools as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued my report thereon dated October 4, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*. There were additional matters communicated to the auditee in the management letter.

Purpose of this Report

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

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
October 4, 2013

BARRY D. DAULTON, CPA, PSC

Certified Public Accountant
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR 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
Barbourville Independent Schools
Barbourville, Kentucky 40906

Report on Compliance for Each Major Federal Program

I have audited the Barbourville Independent School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In my opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
October 4, 2013

BARBOURVILLE INDEPENDENT SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Barbourville Independent Schools.
2. There are no deficiencies disclosed in the audit of the financial statements.
3. There are no questioned costs reported in the audit of the financial statements.
4. No instances of noncompliance material to the financial statements of Barbourville Independent Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit. There are no findings required to be reported under Section 510(a) of Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Barbourville Independent Schools expresses an unmodified opinion on all major federal programs.
6. Barbourville Independent Schools does not qualify as a low-risk auditee.
7. The programs tested as major programs included: Idea B (CFDA 84.027) and Title I (CFDA 84.010).
8. The threshold for distinguishing Type A and Type B programs was \$300,000. Barbourville Independent School District had no Type A programs.

CURRENT YEAR FINDINGS RELATED TO FINANCIAL STATEMENTS

None

CURRENT FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

**BARBOURVILLE INDEPENDENT SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2013**

There are no prior audit findings.

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MANAGEMENT LETTER

October 4, 2013

Superintendent and Members of the Board of Education
Barbourville Independent School District
Barbourville, Kentucky 40906

In planning and performing my audit of the financial statements of Barbourville Independent School District for the year ended June 30, 2013, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, during my audit, I became aware of some matters that are opportunities to strengthen internal controls and operate in a more efficient manner.

Current Year Conditions

Condition 1:

Statement of Condition: The High School Activity Fund has not deposited funds timely.

Criteria for Condition: Timely deposits ensures accountability of students' funds.

Cause of the Condition: A club sponsor collected student funds but did not give them to the Treasurer to deposit in a timely manner. The funds were held by the sponsor in excess of 30 days.

Effect of the Condition: Failure to properly account for revenue results in decreased accountability over student's funds.

Recommendation: All organization sponsors should be reminded of the importance of timely remittance of student funds.

Comment: Management will implement the recommendation immediately.

The management letter comments for the audit period ended June 30, 2012 have been satisfactorily addressed.

I wish to thank the personnel for their support and assistance during the audit.

This report is intended solely for the information and use of the Board and management of Barbourville Independent School District.

Sincerely,

Barry D. Daulton, CPA, PSC