

BELL COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Bell County Board of Education and
State Committee for School District Audits
Pineville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County School District 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

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 the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bell County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund and Special Revenue Fund 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 information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bell County School District's basic financial statements. The additional supplementary information, as listed in the table of contents, 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 additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Bell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bell County School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
October 21, 2013

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the Bell County School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the district was \$759,074 of which \$757,885 was General Fund, \$1,189 was in the restricted funds of Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$1,348,274 of which \$1,126,463 was General Fund, \$206,252 was in the restricted funds of Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$719,563 for General Fund.
- General Fund Revenue totaled \$22,724,934 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$22,505,761 exclusive of inter-fund transfers. These totals include \$4,566,920 of on-behalf payments from the Commonwealth of Kentucky for health insurance, life insurance and Kentucky Teachers’ Retirement contributions.
- The District has also attained funding through Gear-up Programs . This Program is a Federal grant administered through Berea College. Students will be provided resources to help students overcome barriers, so they can achieve overall success in High School and College and life.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.
- Our District remains committed to educational excellence by keeping teacher salaries comparable to those of surrounding areas and the student-teacher ratio low.

OVERVIEW OF FINANCIAL STATEMENTS

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

District-Wide Financial Statements - The district-wide financial statements are designed to provide readers with a broad overview of the Bell County School District’s finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Bell County School District’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

decreases in net position may serve as a useful indicator of whether the financial position of the Bell County School District is improving or deteriorating.

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

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

The district-wide financial statements can be found on pages 11 and 12 of this report.

Fund Financial Statements- A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on pages 13-21 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 23-39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets plus deferred outflows exceeded liabilities by approximately \$16,341,092 million as of June 30, 2013. The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

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

2013 District-Wide Governmental Net position compared to 2012 as follows:

**Table 1
Net Position (in Millions)**

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Percentage
	2012	2013	2012	2013	2012	2013	2012-2013
Assets:							
Current and Other Assets	1.77	1.74	0.25	0.26	2.02	2.00	-1%
Capital Assets	32.72	32.27	0.00	0.00	32.72	32.27	-1%
Total Assets	34.49	34.01	0.25	0.26	34.74	34.27	-1%
Loss for the difference							
in reacquisition and carrying							
value of refunding debt	0.00	0.63	0.00	0.00	0.00	0.63	
	0.00	0.63	0.00	0.00	0.00	0.63	
Liabilities:							
Current Liabilities	2.33	1.88	0.04	0.03	2.37	1.91	-20%
Noncurrent Liabilities	16.83	16.42	0.00	0.00	16.83	16.42	-2%
Total Liabilities	19.16	18.30	0.04	0.03	19.21	18.33	-5%
Net Position:							
Invested in Capital Assets							
Net of Debt	14.77	15.32	0.05	0.00	14.81	15.32	3%
Restricted	0.00	0.23	0.00	0.23	0.00	0.46	38683%
Unrestricted Net Position	0.56	0.79	0.16	0.00	0.72	0.79	9%
Total Net Position	15.33	16.34	0.21	0.23	15.54	16.57	7%

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENTAL ACTIVITIES

Ending net position were \$16.58 million for the District. This was an increase of \$1million including a prior period adjustment from 2012.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2012-2013
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	
Revenues:							
Charges for services	\$ -	\$ 0.57	\$ 0.25	\$ 0.08	\$ 0.25	\$ 0.65	159%
Operating grants and contributions	24.32	4.87	1.72	1.88	26.04	6.74	-74%
Capital grants and contributions	0.70	1.47	0.23	-	0.93	1.47	58%
General revenues	4.09	22.80	0.00	0.00	4.10	22.80	457%
Total revenue	29.11	29.71	2.20	1.96	31.31	31.66	1%
Expenses:							
Instruction	17.06	15.22	-	-	17.06	15.22	-11%
Student	1.54	1.55	-	-	1.54	1.55	1%
Instructional staff	2.02	2.21	-	-	2.02	2.21	10%
District administration	1.06	1.00	-	-	1.06	1.00	-6%
School administration	1.49	1.50	-	-	1.49	1.50	0%
Business	0.37	0.34	-	-	0.37	0.34	-8%
Plant operation & maintenance	2.91	2.97	-	-	2.91	2.97	2%
Student transportation	2.12	1.91	-	-	2.12	1.91	-10%
Land Improvements	-	0.02	-	-	-	0.02	0%
Facilities acquisition and construction	0.25	-	-	-	0.25	-	100%
Community services operations	0.39	0.41	-	-	0.39	0.41	4%
Amortization	-	0.08	-	-	-	0.08	#DIV/0!
Depreciation	-	0.61	-	-	-	0.61	#DIV/0!
Interest on long-term debt	0.64	0.55	-	-	0.64	0.55	-14%
Food Service Operations	-	-	2.34	1.94	-	1.94	#DIV/0!
Extraordinary Item	-	0.65	-	-	-	0.65	#DIV/0!
Total Expenses	\$ 29.85	\$ 29.02	\$ 2.34	\$ 1.94	\$ 32.19	\$ 30.96	-4%
Change in net position	\$ (0.74)	\$ 0.68	\$ (0.14)	\$ 0.02	\$ (0.88)	\$ 0.70	180%

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS

At the end of fiscal 2013, the District had \$32.27 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$.6 million over last year.

Capital Assets at Year-End FY2013
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Land	169,422	169,422	-	-	169,422	169,422
Land Improvements	109,530	96,932	-	-	109,530	96,932
Buildings & Improvements	32,315,324	31,794,799	-	-	32,315,324	31,794,799
Technology Equipment	108,118	88,046	-	-	108,118	88,046
Vehicles	18,946	(25,505)	-	-	18,946	(25,505)
General Equipment	-	147,305	-	-	-	147,305
Construction In Progress	-	-	-	-	-	-

DEBT

No new bonds were issued during the year. Capital lease and general obligation debt decreased \$.84 million from FY 2012.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2012	2013
Capital Lease Obligations	\$ 0.34	\$ 0.71
General Obligation Bonds	<u>17.45</u>	<u>16.24</u>
Total Obligations	\$ <u>17.79</u>	\$ <u>16.95</u>

THE DISTRICT’S FUNDS

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As the District completed the year, the General Fund reflected a fund balance of \$1,141,622, which is less than last year’s fund balance of \$815,262. The unassigned portion of the fund balance at the end of fiscal year 2013 is \$1,126,463, compared to \$757,885 from the preceding year.

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2013:

* Note This chart does not include beginning balances.

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	4,344,365			643,766			77,829
State Revenue Sources	18,320,780	1,245,905	259,448	618,618		592,437	240,113
Federal Revenue Sources	59,790	3,619,798					1,983,778
Other	1,447						4,613
Transfers	157,073	51,335					
TOTALS	22,883,455	4,917,038	259,448	1,262,384	-	592,437	2,306,333
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	12,283,081	3,113,875					
Student Support Services	1,401,900	150,308					
Instructional Staff Support Services	1,061,475	1,153,457					
District Admin Support	998,117						
School Admin Support	1,483,085	12,976					
Business Support Services	293,204	44,498					
Plant Operation & Management	2,971,150						
Student Transportation	1,835,976	77,570					
Food Service Operations							1,938,190
Community Services	42,817	364,354					
Debt Service	115,778					592,347	
Site Improvement	19,178						
Building Renovations							
Other Items							348,125
Transfers	51,334		157,073	1,159,295			
TOTALS	22,557,095	4,917,038	157,073	1,159,295	-	-	2,286,315
Excess / (Deficit)	326,360	-	102,375	103,089	-	-	20,018

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Comments on Budget Comparisons

- The District’s total general fund revenues for the fiscal year ended June 30, 2013, net of Interfund transfers, “On-Behalf” payments and bond proceeds, were \$18.1 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual revenue being \$19,569 less than budget or approximately 5 percent.
- General fund budget expenditures to actual varied by approximately \$936,566 in total.

BUDGETARY IMPLICATIONS

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2013-2014 with a 5.4% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates.
- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the “shared” KTRS (which requires a .50% district match of gross pay for all KTRS eligible employees in FY2013 and will continue to increase to a 3.0% contribution rate), initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, and additional anticipated reductions in funding continues to press the district’s ability to continue programs. The district contribution rate for CERS increased by 2.8% for 2012/2013.
- Continued insufficient funding of the state transportation formula

Questions regarding this report should be directed to the Finance Officer, Steve Silcox or Superintendent, Yvonne Gilliam at (606) 337-7051 or by mail at Bell County Board of Education, 211 Virginia Avenue, Pineville, Kentucky 40977.

Bell County School District
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ (150,523)	\$ 57,495	\$ (93,028)
Investments	403,789		403,789
Receivables (net)	1,463,493	148,232	1,611,725
Inventories		54,327	54,327
Prepaid assets	18,517		18,517
Capital assets:			
Land, improvements, and construction in progress	169,422		169,422
Other capital assets, net of depreciation	32,101,576		32,101,576
Total capital assets	32,270,998	-	32,270,998
Total assets	34,006,274	260,054	34,266,328
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	633,838		633,838
LIABILITIES			
Accounts payable and accrued expenses	144,640	29,785	174,424
Accrued interest payable	158,148		158,148
Unearned revenue	137,655		137,655
Accrued salaries and benefit payable	104,708		104,708
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,240,000		1,240,000
Capital lease obligations	91,061		91,061
Total due within 1 year	1,331,061	-	1,331,061
Due in more than 1 year:			
Bond obligations	14,995,000		14,995,000
Capital lease obligations	622,517		622,517
KSBIT payable	654,745		654,745
Sick leave	150,546		150,546
Total due in more than 1 year	16,422,808	-	16,422,808
Total liabilities	18,299,020	29,785	18,328,804
NET POSITION			
Net Investment in capital assets	15,322,420	-	15,322,420
Restricted for:			
Expendable restricted for encumbrances	24,212		24,212
Expendable restricted for capital projects	206,652		206,652
Expendable restricted for food services		230,269	230,269
Unrestricted	787,808		787,808
Total net position	\$ 16,341,092	\$ 230,269	\$ 16,571,361

See the accompanying notes to the financial statements.

Bell County School District
Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 15,219,909	\$ 510,762	\$ 2,870,765	\$ -	\$ (11,838,382)		\$ (11,838,382)
Support Services							
Student	1,552,208	59,790	243,285		(1,249,133)		(1,249,133)
Instructional Staff	2,214,932		389,256		(1,825,676)		(1,825,676)
District Administration	998,117		194,628		(803,489)		(803,489)
School Administration	1,496,060		243,285		(1,252,775)		(1,252,775)
Business	337,702		48,657		(289,045)		(289,045)
Plant Operation & Maintenance	2,971,150		486,570	878,066	(1,606,514)		(1,606,514)
Student Transportation	1,913,547		340,599		(1,572,947)		(1,572,947)
Land Improvements	19,178				(19,178)		(19,178)
Community Services Operations	407,170		48,657		(358,513)		(358,513)
Amortization	78,536				(78,536)		(78,536)
Depreciation	608,343				(608,343)		(608,343)
Interest on general long-term debt	551,426			592,437	41,011		41,011
Total governmental activities	<u>28,368,279</u>	<u>570,552</u>	<u>4,865,703</u>	<u>1,470,503</u>	<u>(21,461,521)</u>		<u>(21,461,521)</u>
Business-type activities:							
Food service operations	1,938,190	77,829	1,875,767			\$ 15,405	15,405
Total business-type activities	<u>1,938,190</u>	<u>77,829</u>	<u>1,875,767</u>	<u>-</u>	<u>-</u>	<u>15,405</u>	<u>15,405</u>
Total primary government	<u>\$ 30,306,469</u>	<u>\$ 648,381</u>	<u>\$ 6,741,470</u>	<u>\$ 1,470,503</u>	<u>(21,461,521)</u>	<u>15,405</u>	<u>(21,446,116)</u>
General revenues:							
Taxes:							
Property taxes					2,613,634		2,613,634
Motor vehicle taxes					445,608		445,608
Utility taxes					919,719		919,719
Unmined minerals tax					462,963		462,963
State and formula grants					18,320,780		18,320,780
Unrestricted investment earnings					35,444	4,613	40,057
Sale of equipment					1,447		1,447
Total general revenues					<u>22,799,595</u>	<u>4,613</u>	<u>22,804,208</u>
Extraordinary item					(654,745)		(654,745)
Total general revenues and extraordinary item					<u>22,144,850</u>	<u>4,613</u>	<u>22,149,463</u>
Change in net position					683,330	20,018	703,348
Net position - beginning					15,327,204	210,251	15,537,455
Prior period adjustment					330,559		330,559
Net position - ending					<u>\$ 16,341,092</u>	<u>\$ 230,269</u>	<u>\$ 16,571,361</u>

See the accompanying notes to the financial statements.

Bell County School District
Balance Sheet
Governmental Funds
June 30, 2013

	Governmental Funds				
	General	Special Revenue	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 719,563	\$ -	\$ -	\$ 206,652	\$ 926,215
Investments	403,789				403,789
Receivables, net					
Taxes-current	106,718				106,718
Taxes-delinquent	6,677				6,677
Accounts	135,706				135,706
Intergovernmental-state		62,226			62,226
Intergovernmental-federal		1,152,167			1,152,167
Prepaid assets	18,517				18,517
Total assets	1,390,969	1,214,393	-	206,652	2,812,014
LIABILITIES					
Accounts payable	144,640				144,640
Cash shortage		1,076,738			1,076,738
Accrued salaries and benefits payable	104,708				104,708
Unearned revenue		137,655			137,655
Total liabilities	249,347	1,214,393	-	-	1,463,741
FUND BALANCE					
Assigned	15,159	9,053			24,212
Restricted				206,652	206,652
Unassigned	1,126,463	(9,053)			1,117,410
Total fund balance	\$ 1,141,622	\$ -	\$ -	\$ 206,652	\$ 1,348,274

See the accompanying notes to the financial statements.

Bell County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
 June 30, 2013

Total fund balance per fund financial statements	\$	1,348,274
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		32,270,998
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the refunded bond.</p>		633,838
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(158,148)
Bonds payable		(16,235,000)
Capital lease payable		(713,578)
KSBIT payable		(654,745)
Noncurrent sick leave payable		(150,546)
		(16,812,017)
Net position of governmental activities	\$	16,341,092

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
From Local Sources					
Taxes					
Property	\$ 1,969,868	\$ -	\$ -	\$ 643,766	\$ 2,613,634
Motor vehicle	445,608				445,608
Unmined minerals	462,963				462,963
Utilities	919,719				919,719
Earnings on investments	35,444				35,444
Other local revenue	510,762				510,762
Intergovernmental - state	18,320,780	1,245,905	592,437	878,066	21,037,187
Intergovernmental - federal	59,790	3,619,798			3,679,588
Total revenues	<u>22,724,934</u>	<u>4,865,703</u>	<u>592,437</u>	<u>1,521,832</u>	<u>29,704,906</u>
EXPENDITURES					
Instruction	12,283,081	3,113,875			15,396,956
Support Services					
Student	1,401,900	150,308			1,552,208
Instructional Staff	1,061,475	1,153,457			2,214,932
District Administration	998,117				998,117
School Administration	1,483,085	12,976			1,496,060
Business	293,204	44,498			337,702
Plant Operation & Maintenance	2,971,150				2,971,150
Student Transportation	1,835,976	77,570			1,913,547
Community Services Operations	42,817	364,354			407,170
Debt Service	115,778		1,751,732		1,867,510
Land/Site Acquisitions	19,178			-	19,178
Total expenditures	<u>22,505,761</u>	<u>4,917,037</u>	<u>1,751,732</u>	<u>-</u>	<u>29,174,531</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	219,173	(51,334)	(1,159,295)	1,521,832	530,376
OTHER FINANCING SOURCES (USES)					
Sale of equipment	1,447				1,447
Operating transfers in	157,073	51,334	1,159,295		1,367,703
Operating transfers out	(51,334)			(1,316,368)	(1,367,703)
Total other financing sources and (uses)	<u>107,186</u>	<u>51,334</u>	<u>1,159,295</u>	<u>(1,316,368)</u>	<u>1,447</u>
NET CHANGE IN FUND BALANCE	326,359	(0)	-	205,464	531,823
FUND BALANCE-BEGINNING	757,885	-	-	1,189	759,074
PRIOR PERIOD ADJUSTMENT	<u>57,377</u>				<u>57,377</u>
FUND BALANCE-ENDING	<u>\$ 1,141,622</u>	<u>\$ (0)</u>	<u>\$ -</u>	<u>\$ 206,652</u>	<u>\$ 1,348,274</u>

See the accompanying notes to the financial statements.

Bell County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2013

Net change in total fund balances per fund financial statements	\$	531,823
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(608,343)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue, and the bond issuance costs associated with the sale of bonds amortized over the life of the bonds.</p>		(78,536)
<p>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 position.</p>		1,311,862
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		4,222
Deferred revenue QZAB		
KSBIT payable		(654,745)
Noncurrent sick leave payable		177,047
		177,047
Change in net position of governmental activities	\$	683,330

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 2,078,894	\$ 2,068,746	\$ 1,969,868	\$ (98,878)
Motor vehicle	440,000	440,000	445,608	5,608
Unmined minerals	394,758	460,017	462,963	2,947
Utilities	810,000	810,000	919,719	109,719
Earnings on investments	27,486	27,486	35,444	7,958
Other local revenue	389,314	550,984	510,762	(40,222)
Intergovernmental - state	13,676,164	13,713,213	*	13,753,860
Intergovernmental - federal	68,000	68,000	59,790	(8,210)
Total revenues	<u>17,884,617</u>	<u>18,138,446</u>	<u>18,158,015</u>	<u>19,569</u>
EXPENDITURES				
Instruction	9,941,762	9,939,937	*	9,355,002
Support Services				
Student	1,002,801	972,760	*	1,054,815
Instructional Staff	682,644	713,241	*	806,762
District Administration	1,261,865	1,357,077	*	956,257
School Administration	1,211,562	1,211,562	*	1,123,930
Business	287,717	248,909	*	200,247
Plant Operation & Maintenance	2,407,041	2,642,630	*	2,714,226
Student Transportation	1,651,282	1,633,513	*	1,560,868
Community Services	40,000	40,000	*	31,778
Debt Service	157,276	115,779		115,778
Land/Site Acquisitions	-	-		19,178
Total expenditures	<u>18,643,949</u>	<u>18,875,408</u>	<u>17,938,842</u>	<u>936,566</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(759,332)	(736,962)	219,173	956,135
OTHER FINANCING SOURCES (USES)				
Sale of equipment	1,447	1,447	1,447	-
Operating transfers out		(50,777)	105,739	156,516
Total other financing sources and (uses)	<u>1,447</u>	<u>(49,329)</u>	<u>107,186</u>	<u>156,516</u>
NET CHANGE IN FUND BALANCE	(757,885)	(786,291)	326,359	1,112,651
FUND BALANCE-BEGINNING	<u>757,885</u>	<u>757,885</u>	<u>815,262</u>	<u>57,377</u>
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ (28,406)</u>	<u>\$ 1,141,622</u>	<u>\$ 1,170,028</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$4,566,920.

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Other local revenue	\$ 174.24	\$ 174	\$ -	\$ (174)
Intergovernmental - state	2,094,597.38	3,466,318	1,245,905	(2,220,413)
Intergovernmental - federal	3,181,098.39	5,128,812	3,619,798	(1,509,014)
Total revenues	<u>5,275,870.01</u>	<u>8,595,304</u>	<u>4,865,703</u>	<u>(3,729,601)</u>
EXPENDITURES				
Instruction	3,198,586.00	5,588,768	3,113,875	2,474,894
Support Services				
Student	145,851.55	301,784	150,308	151,476
Instructional Staff	1,418,697.90	2,033,322	1,153,457	879,865
School Administration	23,599.08	24,113	12,976	11,138
Business			44,498	(44,498)
Student Transportation	159,535.28	195,813	77,570	118,243
Community Services Operations	329,600.20	873,040	364,354	508,687
Total expenditures	<u>5,275,870.01</u>	<u>9,016,841</u>	<u>4,917,037</u>	<u>4,099,804</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	-	(421,537)	(51,334)	370,203
OTHER FINANCING SOURCES (USES)				
Operating transfers in		21,109	51,334	30,226
Total other financing sources and (uses)	<u>-</u>	<u>21,109</u>	<u>51,334</u>	<u>30,226</u>
NET CHANGE IN FUND BALANCE	-	(400,429)	-	400,429
FUND BALANCE-BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ (400,429)</u>	<u>\$ -</u>	<u>\$ 400,429</u>

See the accompanying notes to the financial statements.

Bell County School District
Statement of Net Position
Proprietary Funds
June 30, 2013

		School Food Services
ASSETS		
Cash and cash equivalents	\$	57,495
Receivables (net)		148,232
Inventories		54,327
Capital assets:		
Other capital assets, net of depreciation		-
Total assets		<u>260,054</u>
LIABILITIES		
Accounts payable and accrued expenses		<u>29,785</u>
Total liabilities		<u>29,785</u>
NET POSITION		
Net Investment in capital assets		-
Restricted for:		
Expendable Restricted for Food Service		<u>260,054</u>
Total net position	\$	<u><u>230,269</u></u>

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2013

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	77,829
Total operating revenues		<u>77,829</u>
OPERATING EXPENSES		
Depreciation		-
Food service operations		
Employee services		1,105,910
Operational expenses		832,280
Total operating expenses		<u>1,938,190</u>
Operating income (loss)		<u>(1,860,362)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		1,875,767
State grants		
State on-behalf payments received		240,113
State on-behalf payments (used)		(240,113)
Commodities received		108,011
Commodities (used)		(108,011)
Earnings from investments		4,613
Total nonoperating revenues		<u>1,880,380</u>
CHANGE IN NET POSITION		20,018
NET POSITION - BEGINNING		<u>210,251</u>
NET POSITION - ENDING	\$	<u><u>230,269</u></u>

See the accompanying notes to the financial statements.

Bell County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

Enterprise Funds

**School
Food
Services**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$	77,829
Payments to suppliers		(997,322)
Payments to employees		(1,105,910)
Net cash provided (used) by operating activities		<u>(2,025,403)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating grants and contributions		1,875,767
Net cash provided (used) by noncapital financing activities		<u>1,875,767</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest		4,613
Net cash provided (used) by investing activities		<u>4,613</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (145,023)

CASH AND CASH EQUIVALENTS-BEGINNING 202,518

CASH AND CASH EQUIVALENTS-ENDING \$ 57,495

**Reconciliation of operating income (loss) to net cash used
by operating activities:**

Operating income (loss)	\$	(1,860,362)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation		-
Changes in assets and liabilities:		
Receivables		(148,232)
Inventories		(5,066)
Payables		(11,743)
Net cash used by operating activities	\$	<u>(2,025,403)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$108,011 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

Bell County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

		<u>School Activity Funds</u>
ASSETS		
Cash and cash equivalents	\$	293,545
Accounts receivable		<u>1,300</u>
Total Assets		<u><u>294,845</u></u>
LIABILITIES		
Accounts payable		2,263
Due to student groups		<u>292,582</u>
Total Liabilities		<u>294,845</u>
NET POSITION HELD IN TRUST	\$	<u><u>-</u></u>

See the accompanying notes to the financial statements.

BELL COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Bell County Board Of Education Finance Corporation

The Board authorized establishment of the Bell County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Bell County Board of Education.

Basis of Presentation

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

The General Fund is the main 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. This is always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

(D) 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 cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Funds (Enterprise Funds)

(A) Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

Grants and entitlements received before the eligibility requirements are met are recorded as unearned 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 the revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.524 (including exonerations) per \$100 valuation of real property, \$.524 per \$100 valuation for business personal property and \$.566 per \$100 valuation for motor vehicles.

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

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 government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

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

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

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Activities

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave.

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

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

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

Cash and Cash Equivalents

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

Inventories

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

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

Prepaid Assets

Payments made that will benefit periods beyond the fiscal period end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgment, 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.

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable: Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as Net Position. Net Position are reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

Contributions of Capital

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District’s cash and cash equivalents of amounts deposited in checking accounts include interest bearing accounts deposited in various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value.

Investments are CD’s deposited with various local banks that have a maturity date longer than ninety (90) days.

	Bank Balance		
<u>First State Financial</u>	<u>Demand</u>	<u>Time</u>	<u>Total</u>
FDIC	\$ 125,000	\$ 125,000	\$ 250,000
Securities pledged to district	1,894,348	278,789	2,173,137
Bank balance	<u>\$ 2,019,348</u>	<u>\$ 403,789</u>	<u>\$ 2,423,137</u>

	Book Balance	
	<u>Cash equivalents</u>	<u>Time</u>
Governmental Activities	\$ (150,523)	\$ 403,789
Business-type Activities	57,495	
School activity funds	293,545	
Total carrying amount	<u>\$ 200,517</u>	<u>\$ 403,789</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance			Balance
<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 169,422	\$ -	\$ -	\$ 169,422
Land improvements	917,593	-	-	917,593
Buildings	44,873,959	-	-	44,873,959
Technology equipment	2,355,495	-	-	2,355,494
Vehicles	2,981,055	-	-	2,981,055
General equipment	831,392	158,000	-	989,392
Construction in progress	-	-	-	-
Total at historical cost	<u>\$ 52,128,916</u>	<u>\$ 158,000</u>	<u>\$ -</u>	<u>\$ 52,286,916</u>
Less: Accumulated depreciation				
Land improvements	\$ 808,063	\$ 12,598	\$ -	\$ 820,661
Buildings	12,558,635	520,526	-	13,079,161
Technology equipment	2,247,377	20,072	-	2,267,449
Vehicles	2,962,109	44,451	-	3,006,560
General equipment	831,392	10,695	-	842,087
Total accumulated depreciation	<u>\$ 19,407,576</u>	<u>\$ 608,343</u>	<u>\$ -</u>	<u>\$ 20,015,918</u>
Governmental Activities				
Capital Assets-net	<u>\$ 32,721,341</u>	<u>\$ (450,343)</u>	<u>\$ -</u>	<u>\$ 32,270,998</u>
<u>Business-Type Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Technology equipment	\$ 14,259	\$ -	\$ -	\$ 14,259
General equipment	619,608	-	-	619,608
Total at historical cost	<u>\$ 633,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 633,867</u>
Less: Accumulated depreciation				
Technology equipment	\$ 14,259	\$ -	\$ -	\$ 14,259
General equipment	619,608	-	-	619,608
Total accumulated depreciation	<u>\$ 633,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 633,867</u>
Business-Type Activities				
Capital Assets-net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Bell

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

County School District Finance Corporation aggregating \$16,235,000 and \$1,240,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, 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 Bell County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2013 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
2007	\$ 975,000	11/1/2022	4.0%	\$ 825,000		\$ 50,000	\$ 775,000
2008A	7,810,000	2/1/2028	3.55%	7,035,000		330,000	6,705,000
2008B	945,000	4/1/2029	3.75 - 4.8%	925,000		30,000	895,000
2009	6,780,000	11/1/2020	1.0 - 3.4%	6,235,000		635,000	5,600,000
2010	\$ 670,000	11/1/2030	2.875-3.875%	650,000		25,000	625,000
2012	1,800,000	11/1/2030	1.0 - 2.125%	1,780,000		145,000	1,635,000
Totals				\$ 17,450,000	\$ -	\$ 1,215,000	\$ 16,235,000

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service, (principal and interest) are as follows:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended June 30th	Principal		Interest		Principal Total	Interest Total
	Local	SFCC	Local	SFCC		
2014	\$ 840,691	\$ 399,309	\$ 315,108	\$ 193,129	\$ 1,240,000	\$ 508,237
2015	869,353	410,647	294,551	181,791	1,280,000	476,341
2016	887,156	422,844	271,935	169,594	1,310,000	441,529
2017	924,006	435,994	246,550	156,443	1,360,000	402,994
2018	950,028	449,972	218,976	142,466	1,400,000	361,441
2019-2023	4,124,406	2,020,594	657,905	495,841	6,145,000	1,153,746
2024-2028	1,634,737	1,655,263	208,906	198,138	3,290,000	407,044
2029-2031	111,702	98,298	3,463	5,456	210,000	8,918
	<u>\$ 10,342,079</u>	<u>\$ 5,892,921</u>	<u>\$ 2,217,392</u>	<u>\$ 1,542,858</u>	<u>\$ 16,235,000</u>	<u>\$ 3,760,250</u>

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$654,745. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

NOTE G – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease:

KISTA Issue	Original Amount	Maturity Date	Interest Rates	2012		2013	
				Outstanding Balance	Additions	Retirements	Outstanding Balance
2005	\$ 435,000	3/1/2015	3.0 - 3.625%	\$ 126,033		\$ 45,963	\$ 80,070
2011	243,875	3/1/2021	1.0 - 4.0%	217,500		26,875	190,625
2011 EFLC	133,990	10/1/2031	1.5 - 4.3%	133,990		5,000	128,990
2012	174,917	3/1/2022	2.0 - 2.625%	174,917		19,024	155,893
2012 EFLC	\$ 158,000	8/1/2022	2.0 - 3.0%	-	158,000	-	158,000
Totals				<u>\$ 652,440</u>	<u>\$ 158,000</u>	<u>\$ 96,862</u>	<u>\$ 713,578</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2013:

Fiscal Year Ended June 30th	<u>Principal</u> <u>Local</u>	<u>Interest</u> <u>Local</u>	<u>Total</u>
2014	\$ 91,061	\$ 20,709	\$ 111,770
2015	91,743	18,360	110,103
2016	50,748	15,875	66,623
2017	50,709	14,757	65,466
2018	51,671	13,546	65,217
2019-2023	298,656	42,994	341,650
2024-2028	40,000	13,112	53,112
2029-2032	38,990	3,511	42,501
	<u>\$ 713,578</u>	<u>\$ 142,863</u>	<u>\$ 856,441</u>
Total minimum lease payments		\$	856,441
Less: Amount representing interest			(142,863)
Present Value of Net Minimum Lease Payments		\$	713,578

NOTE H – RETIREMENT PLANS

Kentucky Teachers’ Retirement System

Plan Description – The Bell County School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members hired before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution 14.105%.

Medical Insurance Plan

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

Funding policy –In order to fund the post-retirement healthcare benefit, three and a half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and .75% from state appropriation and .50% from the employer. Members after July 1, 2008 contribute an additional 1.00% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Bell County School System's total payroll for the year was \$17,208,971. The payroll for employees covered under KTRS was \$13,151,524. For the year ended June 30, 2013, the Commonwealth contributed \$1,566,868 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$181,991, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,930,850, \$2,005,138, and \$2,045,830 respectively.

County Employees Retirement System

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

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 19.55%. The District contributed \$759,621 of the employee’s compensation during the fiscal year ended June 30, 2013.

The District’s required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$959,688, \$926,887, and \$851,920 respectively.

NOTE I – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Outlay	\$ 103,563	School Facilities Construction Commission Requirement
FSPK	\$ 103,089	School Facilities Construction Commission Requirement

NOTE J - CONTINGENCIES

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not 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 un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction the funds provided are being spent as intended and the grantors’ intent to continue their program.

NOTE K - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time.

NOTE L – INSURANCE AND RELATED ACTIVITIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE M – RISK MANAGEMENT

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

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

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer.

NOTE N - COBRA

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

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Special Revenue Fund	\$51,334	KETS Matching
Capital Outlay Fund	General Fund	157,073	Operating Expenditures
FSPK Fund	Debt Service Fund	\$1,159,295	Debt Service

NOTE P – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Bell County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and School Food Services. The amounts recorded for both revenues and expenditures (expenses) are \$4,566,920 for the General Fund and \$240,113 for the School Food Service Fund, and \$592,437 for the Debt Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – CHANGE IN ACCOUNTING POLICY

During the fiscal year ended June 30, 2013, management adopted the Governmental Accounting Standards Board Statement No. 63. This statement created the statement of net position which replaced the previous statement of net assets. The term net assets is no longer used and has been replaced with net position. The District also implemented GASB 65 early, resulting in asset and liability classifications of deferred inflows and deferred outflows. This change is preferable so the District can be better prepared for the mandatory adoption in the upcoming fiscal year. The District recorded a deferred outflow of resources for the difference in reacquisition and carrying value of refunding debt. Refer to Note R-Prior Period Adjustment to see how the change in accounting policy affects net position.

NOTE R– PRIOR PERIOD ADJUSTMENT

Governmental Activities:

Due to the implementation of GASB 65 and GASB 63, bond issue costs, premiums, and discounts are no longer capitalized. The 2011EFLC KISTA and 2012 KISTA were not recorded in the prior year. The cumulative effect of these on beginning net assets is shown below:

Net Position July 1, 2012	\$	15,327,204
Prior Period Adjustment		330,559
Restated Net Position July 1, 2012	\$	<u>15,657,763</u>

School Activity Funds

Beginning balances were understated by \$19,029 for Bell County High School and by \$2,312 for Bell County High School Charitable Gaming causing school activity fund balance to be understated as follows:

Fund Balance July 1, 2012	\$	231,383
Prior Period Adjustment		<u>21,585</u>
Restated Fund Balance July 1, 2012	\$	<u>252,968</u>

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 21, 2013, the date of the financial statements were available to be issued.

Bell County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2013

	Other Governmental Funds			
	Capital Outlay	FSPK	Construction	Total
Assets				
Cash and Cash Equivalents	\$ 103,563	\$ 103,089	\$ -	\$ 206,652
Total Assets	103,563	103,089	-	206,652
Fund Balances				
Restricted	103,563	103,089	-	206,652
Total Fund Balances	\$ 103,563	\$ 103,089	\$ -	\$ 206,652

See the accompanying notes to the financial statements.

Bell County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2013

	Other Governmental Funds			
	Capital Outlay	FSPK	Construction	Total
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ 643,766	\$ -	\$ 643,766
Intergovernmental - State	259,448	618,618		878,066
Total Revenues	259,448	1,262,384	-	1,521,832
Expenditures				
Land/Site Acquisitions				-
Total Expenditures	-	-	-	-
Excess (Deficit) of Revenues Over Expenditures	259,448	1,262,384	-	1,521,832
Other Financing Sources (Uses)				
Transfers Out	(157,073)	(1,159,295)		(1,316,368)
Total Other Financing Sources (Uses)	(157,073)	(1,159,295)	-	(1,316,368)
Net change in fund balances	102,375	103,089	-	205,464
Fund Balance beginning	1,189	-	-	1,189
Fund Balance ending	\$ 103,563	\$ 103,089	\$ -	\$ 206,652

See the accompanying notes to the financial statements.

Bell County School District
Combining Balance Sheet - School Activity Funds
As of June 30, 2013

	SCHOOL ACTIVITY FUNDS								FIDUCIARY FUND TOTAL
	<u>BELL COUNTY HIGH SCHOOL</u>	<u>BELL CO HIGH SCHOOL CHARITABLE GAMING</u>	<u>BELL CENTRAL SCHOOL CENTER</u>	<u>FRAKES SCHOOL CENTER</u>	<u>LONE JACK SCHOOL CENTER</u>	<u>PAGE SCHOOL CENTER</u>	<u>RIGHT FORK SCHOOL CENTER</u>	<u>YELLOW CREEK SCHOOL CENTER</u>	
ASSETS									
Cash and cash equivalents	\$ 103,066	\$ 472	\$ 42,470	\$ 45,233	\$ 17,569	\$ 18,992	\$ 20,327	\$ 45,416	293,545
Accounts receivable	1,300	-	-	-	-	-	-	-	1,300
Total Assets	<u>104,366</u>	<u>472</u>	<u>42,470</u>	<u>45,233</u>	<u>17,569</u>	<u>18,992</u>	<u>20,327</u>	<u>45,416</u>	<u>294,845</u>
LIABILITIES									
Accounts payable	-	-	-	-	-	1,125	-	1,138	2,263
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,125</u>	<u>-</u>	<u>1,138</u>	<u>2,263</u>
FUND BALANCE	<u>\$ 104,366</u>	<u>\$ 472</u>	<u>\$ 42,470</u>	<u>\$ 45,233</u>	<u>\$ 17,569</u>	<u>\$ 17,867</u>	<u>\$ 20,327</u>	<u>\$ 44,278</u>	<u>\$ 292,582</u>

See the accompanying notes to the financial statements.

Bell County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds
For the period ended June 30, 2013

	SCHOOL ACTIVITY FUNDS									FIDUCIARY FUND TOTAL
	BELL COUNTY HIGH SCHOOL	BELL CO HIGH SCHOOL CHARITABLE GAMING	BELL CENTRAL SCHOOL CENTER	FRAKES SCHOOL CENTER	LONE JACK SCHOOL CENTER	PAGE SCHOOL CENTER	RIGHT FORK SCHOOL CENTER	YELLOW CREEK SCHOOL CENTER		
REVENUES										
Student/Trust revenues	\$ 445,262	\$ 6,129	\$ 117,035	\$ 53,943	\$ 33,617	\$ 144,372	\$ 51,599	\$ 77,364	\$	929,322
EXPENSES										
Student/Trust activities	430,339	7,969	113,786	41,721	31,994	139,395	44,574	79,928		889,707
Excess (Deficit) of Revenues Over Expenses	14,923	(1,840)	3,249	12,222	1,622	4,977	7,025	(2,563)		39,614
Fund balance July 1, 2012	70,414	-	39,221	33,011	15,947	12,890	13,058	46,842		231,383
Prior period adjustment	19,029	2,312					244			21,585
Restated fund balance July 1, 2012	89,443	2,312	39,221	33,011	15,947	12,890	13,302	46,842		252,968
Fund balance June 30, 2013	\$ 104,366	\$ 472	\$ 42,470	\$ 45,233	\$ 17,569	\$ 17,867	\$ 20,327	\$ 44,278	\$	\$ 292,582

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Bell County High School
For the period ended June 30, 2013

	FUND BALANCE		REVENUES		EXPENSES		TRANSFERS		FUND BALANCE
	July 1, 2012								June 30, 2013
GENERAL CONCESSIONS	\$ 4,665	\$	17,408	\$	14,609	\$	(1,824)	\$	5,640
UCEA LIBRARIANS	-		-		-		-		-
ART CLUB	53		-		-		(53)		-
COPIER LEASE	1,300		3,990		5,290		1,300		1,300
INSTRUCTIONAL	384		1,035		689		53		782
TEACHERS LOUNGE	1,413		3,343		3,298		-		1,457
JAGS	294		-		-		-		294
FBLA CLUB	393		-		-		-		393
FCCLA	2,618		8,578		7,856		-		3,341
DISCOVER GRANT	-		21,550		-		-		21,550
STUDENT COUNCIL	6,164		10,700		9,150		(2,660)		5,053
DRAMA CLUB	18		1,100		1,089		(18)		11
FOOTBALL	7,082		38,620		43,180		12,074		14,596
FOOTBALL BOOSTERS	825		30,062		31,246		365		5
BOYS BASKETBALL	-		11,362		12,850		1,489		-
HOOPS BOOSTERS	2,591		15,783		15,852		100		2,622
SPORTS GENERAL	380		12,518		6,483		(6,396)		19
GIRLS BOOSTERS	4,381		10,821		14,576		-		626
GIRLS BASKETBALL	38		9,965		8,741		-		1,262
CHEERLEADERS	4,477		43,765		47,499		(421)		321
KHSAA CHEER COMP	-		5,039		4,852		(187)		-
DANCE TEAM	-		5,881		9,218		3,337		-
ATHLETICS	18,126		1,492		10,025		(4,950)		4,643
MS FOOTBALL BOOSTERS	1,732		-		1,732		-		-
AGRIBUS-FFA	362		12,269		12,144		-		487
BETA CLUB	372		13,317		14,046		358		-
STLP	296		86		200		-		183
NATIONAL HONOR SOCIETY	85		245		530		200		-
ACADEMIC TEAM	-		-		593		593		-
PEP CLUB	130		-		-		(130)		-
BAND	343		2,222		2,033		-		532
BAND BOOSTERS	573		3,278		2,514		-		1,337
CHOIR	-		14,747		13,923		143		967
TRI-M MUSIC HONORS	65		-		-		-		65
ANNUAL	1,685		4,320		2,476		-		3,529
BASEBALL	-		766		3,015		2,249		-
MS BASEBALL	-		295		450		155		-
BASEBALL BOOSTERS	254		3,606		2,890		(680)		290
FASTPITCH SOFTBALL	-		1,074		1,575		501		-
SOFTBALL BOOSTERS	2,814		2,594		2,333		(40)		3,035
DISTRICT BASEBALL	66		-		-		(66)		-
TENNIS	-		-		557		557		-
TRACK	-		1,227		3,123		1,896		-
TRACK BOOSTERS	902		477		1,620		241		-
CROSS COUNTRY	-		782		953		196		25
CROSS CTRY BOOSTERS	2,493		10,378		8,960		(686)		3,226
REGION XCTRY ACCT	-		213		659		446		-
GOLF	-		-		610		610		-
VOLLEYBALL	2,425		1,813		2,519		-		1,718
VBALL BOOSTERS	380		5,409		3,173		-		2,616
GUIDANCE OFFICE	797		11,981		10,266		-		2,512
BASS FISHING	-		100		-		-		100
SOCCER	-		497		1,630		1,133		-
SOCCER BOOSTERS	1,988		364		1,257		-		1,094
SENIORS	191		41,657		38,070		(51)		3,727
RESERVE FUNDS	4,058		10,970		10,336		-		4,692
UK SPORTS CLUB	300		-		-		-		300
PROJECT GRADUATION	4,703		17,704		20,803		2,608		4,212
CITY/COUNTY BOWL	2,384		21,289		9,893		(12,439)		1,341
YOUTH SERVICE CENTER	4,242		4,208		4,895		-		3,556
KEY CLUB	601		4,366		4,061		-		906
TOTALS	\$ 89,443	\$	445,262	\$	430,339	\$	(0)	\$	104,366

See the accompanying notes to the financial statements.

BELL COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had food commodities totaling \$108,011.

BELL COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education:				
* School Breakfast Program	10.553			
Fiscal Year 12		7760005 12	N/A	\$ 127,782
Fiscal Year 13		7760005 13	N/A	449,280
* National School Lunch Program	10.555			
Fiscal Year 12		7750002 12	N/A	233,592
Fiscal Year 13		7750002 13	N/A	808,555
* Summer Food Program	10.559			
Fiscal Year 12		7690024 12	N/A	8,345
Fiscal Year 12		7740023 12	N/A	80,342
Child Nutrition Cluster Subtotal				<u>1,707,898</u>
Fresh Fruits & Vegetables	10.582			
Fiscal Year 12		7720012 12	N/A	24,394
Fiscal Year 13		7720012 13	N/A	79,981
				<u>104,375</u>
Child & Adult Care	10.558			
Fiscal Year 12		7790021 12	N/A	2,768
Fiscal Year 13		7790021 13	N/A	18,052
				<u>20,820</u>
Passed Through State Department of Agriculture:				
Food Donation-Commodities	10.565			
Fiscal Year 13		510.4950	N/A	108,011
Total US Department of Agriculture				<u>1,941,104</u>
US Department of Education				
Passed Through State Department of Education				
Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 11		3100002 11	5,148,098	143
Fiscal Year 12		3100002 12	1,540,514	414,773
Fiscal Year 12D		3100002 12	161,390	2,948
Fiscal Year 13		3100002 13	1,451,330	1,432,044
Fiscal Year 13D		3100002 13	227,398	32,395
Fiscal Year 13M		3100002 13	103,933	168,490
School Improvement Part A				
Fiscal Year 12		3100202 12	25,548	11,165
Fiscal Year 13		3100202 13	87,622	87,559
Title I Cluster Subtotal				<u>2,149,518</u>
* Special Education Grants to States	84.027A			
Fiscal Year 12		3810002 12	658,494	64,998
Fiscal Year 13		3810002 13	649,628	645,641
* Special Education - Preschool Grants	84.173A			
Fiscal Year 12		3800002 12	29,702	2,253
Fiscal Year 13		3800002 13	29,536	17,561
Special Education Cluster Subtotal				<u>730,453</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 13		4621132 13	19,901	14,907
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	72,827	38,812
Education Jobs Fund	84.410			
Fiscal Year 11		EJOB00 11	793,451	14,730
Rural Education	84.358B			
Fiscal Year 13		3140002 13	55,100	55,001
Homeless Children & Youth	84.196			
Fiscal Year 12		3162	40,866	4,993
Neglected & Delinquent Children	84.013			
Fiscal Year 10		3130	12,944	10,317
Fiscal Year 11		3131	10,760	8,423
Fiscal Year 11T		3131T	1,441	1,441
Fiscal Year 12		3132	13,961	5,363
Fiscal Year 12T		3132T	1,396	1,396
Fiscal Year 13		3133	13,327	9,877
Fiscal Year 13T		3133T	1,333	169
				<u>36,985</u>
Passed through Berea College				
* Gaining Early Awareness and Readiness for Undergraduate Programs II	84.334S			
Fiscal Year 12		6972	300,410	9,826
Fiscal Year 13		6973	342,502	342,502
Fiscal Year 13B		6973B	240,796	126,487
Fiscal Year 13C		6973C	24,699	6,361

BELL COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
Fiscal Year 13F		6973F	312	312
Fiscal Year 13L		6973L	15,905	7,397
Fiscal Year 13R		6973R	28,532	58,171
				<u>551,056</u>
Total US Department of Education				<u><u>3,596,454</u></u>
U.S. Department of Defense				
Passed directly from the U.S. Department of the Army				
ROTC				
Fiscal Year 13	12.000	5043	38,991	38,991
Total U.S. Department of the Army				<u><u>38,991</u></u>
US Department of Health and Human Services				
Passed Through Kentucky School Board Association				
Medical Assistance Program				
Fiscal Year 13	93.778	110.4810	N/A	59,790
Total US Department of Health and Human Services				<u><u>59,790</u></u>
Total Expenditure of Federal Awards				\$ <u><u>5,636,338</u></u>

* Major program

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*

To the Bell County Board of Education and
State Committee for School District Audits
Pineville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Bell County School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School Districts' Audit Contract and Requirements or Appendices.

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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses [13-1, 13-2].

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. We did not locate any significant deficiencies that were not considered to be material weaknesses.

Compliance and Other Matters

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

Bell County School District's Responses to Findings

Bell County School District's responses to the findings identified in our audit are described in the accompanying corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on them.

Purpose of this Report

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

White & Associates, PSC

Richmond, Kentucky
October 21, 2013

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

To the Bell County Board of Education and
State Committee for School District Audits
Pineville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Bell County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Bell County School District's major federal programs for the year ended June 30, 2013. Bell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

White & Associates, PSC

Richmond, Kentucky
October 21, 2013

BELL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	Yes
If so, was any significant deficiencies material (GAGAS)?	Yes
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	No
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559] Special Education Cluster [CFDA 84.027A, 84.173A] Gaining Early Awareness & Readiness for Undergraduate Program II [CFDA 84.334S]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weaknesses

13-1

Statement of Condition: Numerous projects have no budget or incomplete budgets, numerous project expenditures are in excess of budgets, and numerous projects that are complete but have not been inactivated.

Criteria for Condition: Special Revenue Fund project budgets shall maintain the award amount and the expenditures to date until the grant is complete and in turn inactivated upon completion.

Cause of the Condition: Procedures are not in place that ensures the project shall be reviewed monthly by responsible grant supervisors and discrepancies corrected immediately.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Effect of the Condition: District could overspend award amounts due to supervisors not having current up to date information to make grant expenditure decisions.

13-2

Statement of Condition: The District carried a large cash shortage in the Special Revenue Fund, the financial statements in MUNIS were not balanced, and there were no additions to the fixed asset module.

Criteria for Condition: Internal controls are in place to ensure the financial statements are free from material misstatement.

Cause of the Condition: Timing, or lack of knowledge of requirements for filing for reimbursements, details of financial statements were overlooked, and neglecting to follow policies and procedures for the maintenance of capital assets (MUNIS Fixed Asset Module).

Effect of the Condition: Other funds cash carried the cash shortage of the Special Revenue Fund, the financial statements for the General Fund and Special Revenue Fund is not balanced by an immaterial amount, and lack of maintenance for the capitalization of assets.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No major federal award findings.

**BELL COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no prior year findings.

CORRECTIVE ACTION PLAN (CONTINUED)

Date: October 21, 2013

Oversight Agency: Kentucky Department of Education

The *Bell County School District* respectfully submits the following corrective action plan for the year ended June 30, 2013.

Name and Address of Independent Public Accounting Firm: White & Associates, PSC, 1407 Lexington Road, Richmond, Kentucky 40475.

Audit Period: For the year ended June 30, 2013.

The findings from the year ended June 30, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

13-1

Recommendation for Correction: Controls shall be in place to ensure grantor requirements for compliance with laws and regulations. We believe that significant training of responsible personnel is critical toward understanding the policies and procedures necessary to fulfill grantor requirements.

Management Response to the Recommendation: Management of the Bell County School District will follow the Auditor's recommendation.

Implementation: Immediate.

13-2

Recommendation for Correction: We believe that significant training of responsible personnel is critical toward understanding the policies and procedures necessary to fulfill reporting requirements.

Management Response to the Recommendation: Management of the Bell County School District will follow the Auditor's recommendation.

Implementation: Immediate.

CORRECTIVE ACTION PLAN (CONTINUED)

If the Kentucky Department of Education has questions regarding this plan, please call me at 606.337-7051.

Sincerely yours,

Yvonne Gilliam

Mrs. Yvonne Gilliam, Superintendent

MANAGEMENT LETTER

Bell County School District
Pineville, Kentucky

In planning and performing our audit of the financial statements of the Bell County School District for the year ended June 30, 2013, we considered the District's internal controls 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 District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated October 21, 2013. This letter does not affect our report dated October 21, 2013, on the financial statements of the Bell County School District. The conditions observed are as follows:

RIGHT FORK SCHOOL CENTER

1-13

Statement of Condition: Instances of lack of segregation of duties in the process of ticket sales.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. The ticket seller gives the entire ticket to the customer and collects the fee. The ticket taker tears the ticket in half, gives half to the customer, and retains half. The ticket seller and the ticket taker must be two separate people. Both must sign the Requisition and Report of Ticket Sales (F-SA-1) form.

Management Response to the Recommendation: Two staff members will be present at all times to collect tickets

2-13

Statement of Condition: Activity Fund accounts (B-Team Cheerleaders, A-Team Cheerleaders, and XINERGY) ended the fiscal year (June 30) with a deficit balance.

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to the Recommendation: No accounts will be allowed to have a deficit balance. Accounts will be checked to ensure this does not happen.

3-13

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being used when a teacher or sponsor is collecting money from students.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: All staff members will be given training on redbook to ensure proper procedures are followed

4-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Deposits will be made on a daily basis.

5-13

Statement of Condition: The Principal is not initialing and dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal will review bank statement upon receipt.

6-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one (Fall Festival).

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: The school will follow the procedure listed above.

7-13

Statement of Condition: Monthly Financial Reports were not being completed timely at the close of each month.

Recommendation for Correction: Monthly financial reports shall be prepared and submitted to the superintendent or finance officer no later than the 15th of the following month. The original shall be signed and reviewed for accuracy and reasonableness by the principal and submitted to the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

Management Response to the Recommendation: Reports will be reviewed by both the principal and District finance officer.

8-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer.

Management Response to the Recommendation: School treasurer will not handle the mail.

9-13

Statement of Condition: Instances of lack of segregation of duties in the current process of collecting money from students.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: School money will not be collected by school treasurer. Principal will appoint someone to collect funds

LONE JACK SCHOOL CENTER

No conditions.

BELL CENTRAL SCHOOL CENTER

10-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The

total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Deposits will be made on a daily basis.

11-13

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal will date bank statement.

FRAKES SCHOOL CENTER

12-13

Statement of Condition: Instances of lack of segregation of duties in the process of ticket sales.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. The ticket seller gives the entire ticket to the customer and collects the fee. The ticket taker tears the ticket in half, gives half to the customer, and retains half. The ticket seller and the ticket taker must be two separate people. Both must sign the Requisition and Report of Ticket Sales (F-SA-1) form.

Management Response to the Recommendation: Two staff members will be present at all times to collect tickets

13-13

Statement of Condition: Instances of checks written not having two signatures (3301, 3302, 3303, 3304, 3317, 3318).

Recommendation for Correction: The principal (or appointed designee) and school treasurer should insure all checks written have two signatures; one of which shall be that of the principal (or appointed designee) and the other being the school treasurer.

Management Response to the Recommendation: All checks will be signed treasurer and principal.

14-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Deposits will be made on a daily basis.

15-13

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Purchase orders will be issued before obligation is made.

16-13

Statement of Condition: The Principal is not initialing and dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal will initial bank statement

17-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer.

Management Response to the Recommendation: School treasurer will not handle the mail.

PAGE SCHOOL CENTER

18-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Deposits will be made on a daily basis.

19-13

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Purchase orders will be issued before item is purchased.

YELLOW CREEK SCHOOL CENTER

20-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Deposits will be made on a daily basis

21-13

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Purchase orders will be issued before a purchase is made

BELL COUNTY HIGH SCHOOL CHARITABLE GAMING

22-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: Deposits will be made on a daily basis.

BELL COUNTY HIGH SCHOOL

23-13

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: Fund Raiser worksheet will be used in conjunction with all fundraisers.

24-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: deposits will be made on a daily basis

25-13

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: All funds will be turned into the treasurer on a daily basis

Mrs. Yvonne Gilliam, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

White & Associates, PSC

White & Associates, PSC

Richmond, Kentucky

October 21, 2013