

**Edmonson County
School District**

Financial Statements

June 30, 2013



Edmonson County School District
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Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditor's Report

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, Kentucky

• Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Edmonson County School District (the "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 *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

- **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

- **Emphasis of Matter**

As described in Note 1 to the financial statements, the District adopted new accounting guidance, *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and *GASB No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

- **Other Matters**

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 through 22 and 63 through 66 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 District's basic financial statements. The combining and individual non-major fund financial statements and other information 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 purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and other 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 combining and individual non-major fund financial statements, other 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 November 4, 2013 on our consideration of Edmonson County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 4, 2013

**Required Supplementary
Information**

**Management's Discussion
and Analysis**

**EDMONSON COUNTY BOARD OF EDUCATION
BROWNSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

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

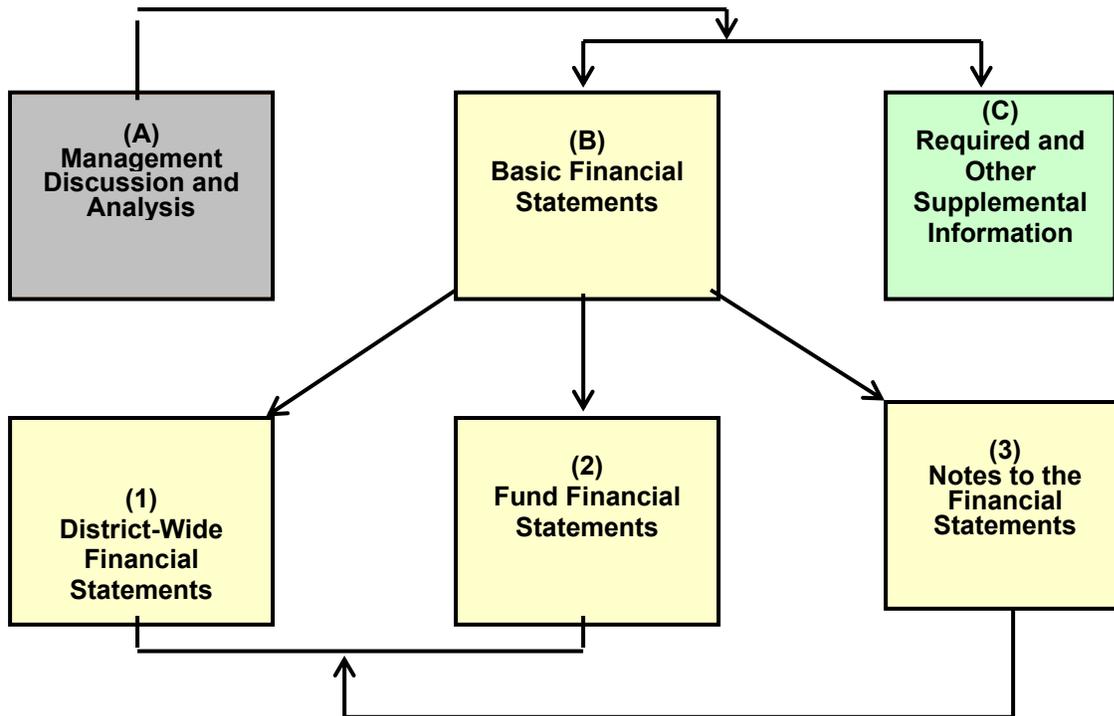
FINANCIAL HIGHLIGHTS

- The beginning General Fund balance for the district was \$1,446,550. The ending General Fund balance was \$1,749,203 for an increase in fund balance of \$302,653. The ending general fund balance is 9.9% of total governmental expenditures, which well exceeds the state minimum contingency of 2%.
- General Fund revenues accounted for \$14,487,546 in revenue or 81% of all governmental revenues. Program specific revenues in the form of grants and contributions accounted for \$2,349,424 or 13% of total revenues of \$17,937,741.
- The school district had \$17,816,410 in expenses related to governmental activities; only \$3,166,444 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily local taxes and state SEEK allocations) contributed \$14,631,901, which produced a decrease in net position of \$18,065. The adoption of GASB 65 resulted in a further reduction in net position of \$102,999.
- The state SEEK formula provided \$8,451,205 in General Fund revenue.
- The Food Service Fund, a proprietary fund, ended fiscal year 2013 with unrestricted fund net position of \$70,737 for a decrease of \$78,579 versus fiscal year 2012. This decrease in fund balance is primarily attributed to declines in paid participation equivalent to \$24,233 and federal free and reduced meal participation equivalent to \$40,860 in revenue. Operating expenses increased only slightly.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Edmonson County School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management’s discussion and analysis (this section), (B) the basic financial statements and notes, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District’s basic financial statements comprise three components: (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The District-Wide Financial Statements have two sections (1) the *Statement of Net Position* and (2) the *Statement of Activities*. The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District’s finances and a longer-term view of those finances. The District-Wide Financial Statements can be found on pages 24 through 27 of this report. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District’s major funds with all other non-major funds presented in total in one column. The fund financial statements can be found on pages 28 through 38 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 government-wide and fund financial statements. The notes to the financial statements can be found on pages 39 through 61 of this report.

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during the current fiscal year?” The *Statement of Net Position* and the *Statements of Activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net position and changes in those assets. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s SEEK funding formula and its adjustments, the School District’s property tax base, required educational programs and other factors.

In the *Statement of Net Position* and the *Statements of Activities*, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt are also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District’s food service is reported as business activities. These activities are funded thru fees, federal grants, and federal commodities.

Net position may serve over time as a useful indicator of a government’s financial position. Deferred outflows of resources due to debt refundings were \$356,371 and deferred inflows of resources due to debt refundings were \$57,470. In addition, the District recognized a contingency loss from the Kentucky School Board Insurance Trust (KSBIT) settlement of \$139,396. The net position of the District was \$12,805,024 as of June 30, 2013 which was a decrease of \$218,598 versus the previous year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 amount of capital assets, net of related debt was \$11,432,724 (a decrease of \$213,092 versus the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. 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. Fund accounting 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 assets that belong to others. The school's activity funds are reported as fiduciary funds. The only major proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Edmonson County School District are the general fund, and special revenue (grants).

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the *Statement of Net Position* and the *Statements of Activities*) and governmental *funds* is reconciled in the financial statements.

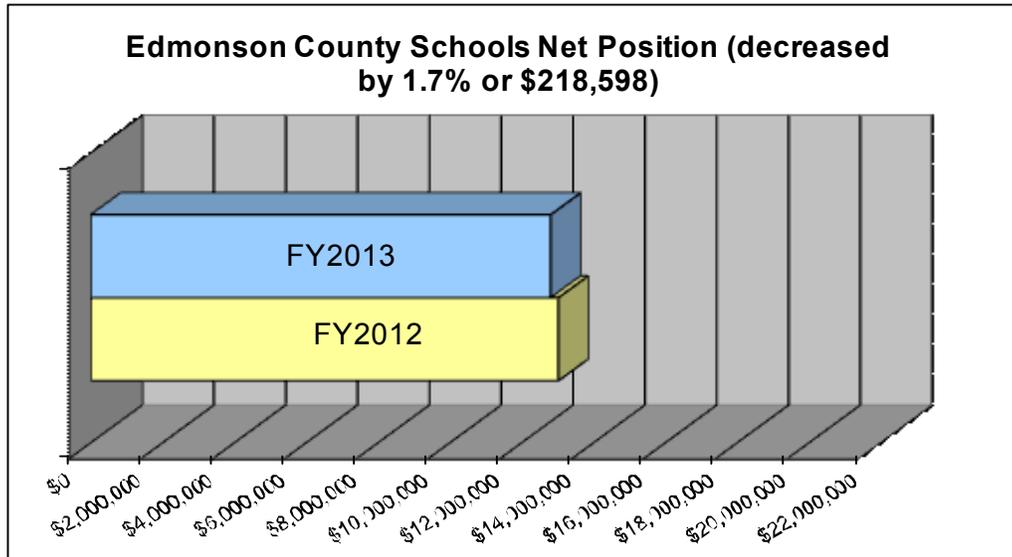
Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The School District's proprietary funds consist of food service operations and day care services.

Fiduciary Funds – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity balances at year-end totaled \$124,398 (a decrease of \$4,552 from the previous year).

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

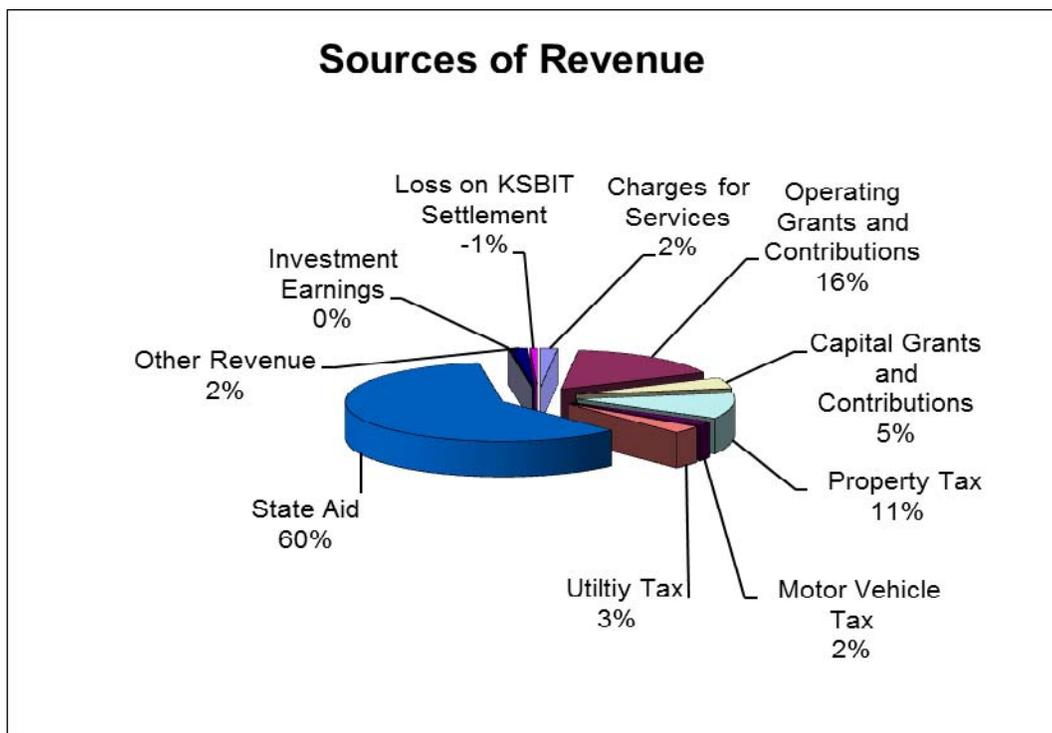
Net Position for June 30, 2012 and June 30, 2013

	Government Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	2012-2013
Current and Other Assets	\$2,051,760	\$2,222,306	\$151,657	\$81,874	\$2,203,417	\$2,304,180	4.6%
Capital Assets	21,031,972	20,148,202	\$123,998	\$102,014	\$21,155,970	\$20,250,216	-4.3%
Total Assets	\$23,083,732	\$22,370,508	\$275,655	\$183,888	\$23,359,387	\$22,554,396	-3.4%
Deferred Outflows	\$0	\$356,371	\$0	\$0	\$0	\$356,371	100.0%
Long Term Liabilities	\$9,227,863	\$8,883,298	\$0	\$0	\$9,227,863	\$8,883,298	-3.7%
Other Liabilities	1,107,667	1,019,577	\$235	\$6,002	\$1,107,902	\$1,025,579	-7.4%
Total Liabilities	\$10,335,530	\$9,902,875	\$235	\$6,002	\$10,335,765	\$9,908,877	-4.1%
Deferred Inflows	\$0	\$57,470	\$0	\$0	\$0	\$57,470	100.0%
Contingency	\$0	\$139,396	\$0	\$0	\$0	\$139,396	100.0%
Investment in Capital Assets (net of debt)	\$11,521,818	\$11,330,710	\$123,998	\$102,014	\$11,645,816	\$11,432,724	-1.8%
Restricted	305,667	308,582	\$0	\$0	\$305,667	\$308,582	1.0%
Unrestricted Fund	920,717	987,846	\$151,422	\$75,872	\$1,072,139	\$1,063,718	-0.8%
Total Net Assets	\$12,748,202	\$12,627,138	\$275,420	\$177,886	\$13,023,622	\$12,805,024	-1.7%

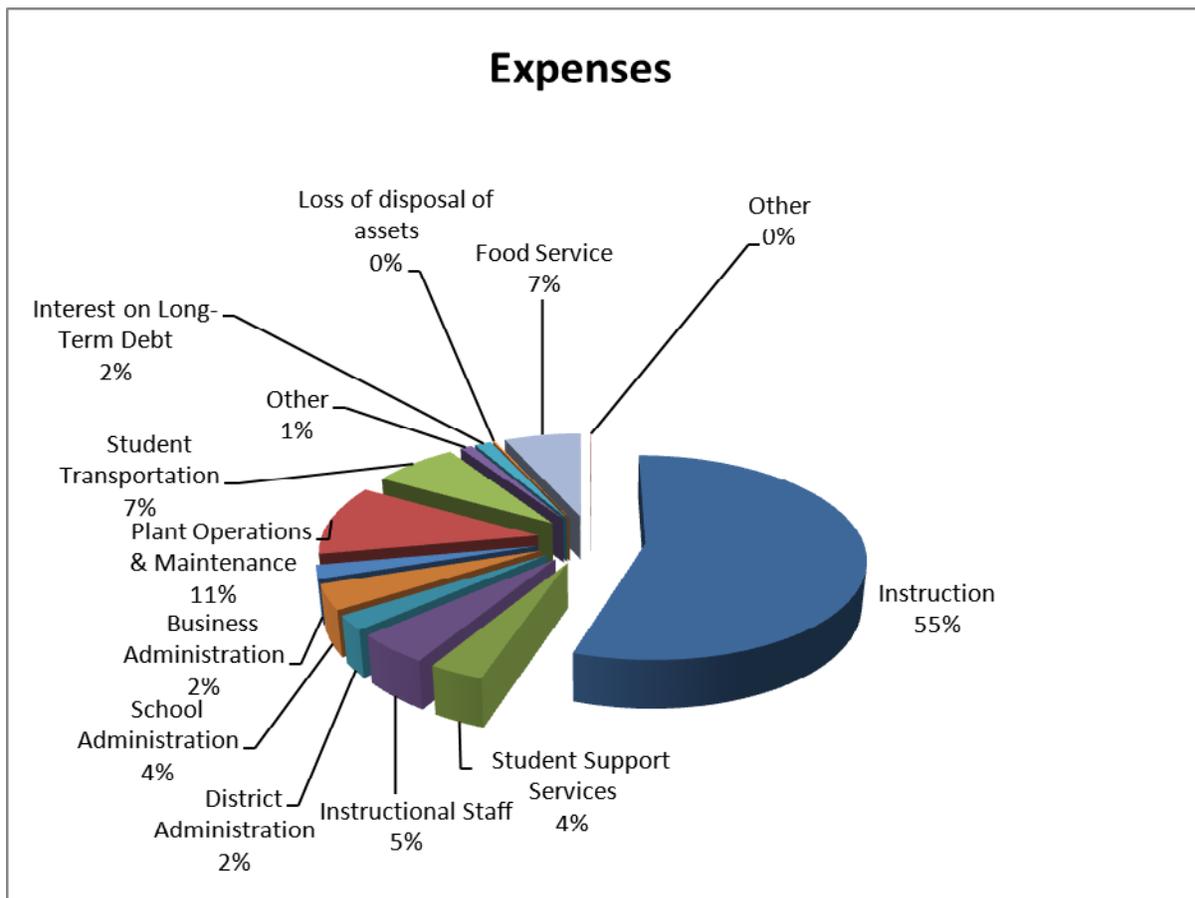


Changes in Net Position for June 30, 2012 and June 30, 2013

Revenues	Governmental Activities		Proprietary Business-Type Activities		District Total		District Total Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	2012-2013
Program Revenues							
Charges for Services	\$24,590	\$21,898	\$345,291	\$318,122	\$369,881	\$340,020	-8.1%
Operating Grants and Contributions	\$2,890,283	\$2,263,510	\$895,626	\$856,844	\$3,785,909	\$3,120,354	-17.6%
Capital Grants and Contributions	\$915,040	\$881,036	\$0	\$0	\$915,040	\$881,036	-3.7%
General Revenues							
Taxes							
Property Tax	\$1,933,611	\$2,026,734	0	0	\$1,933,611	\$2,026,734	4.8%
Motor Vehicle Tax	\$323,746	\$346,920	0	0	\$323,746	\$346,920	7.2%
Utility Tax	\$571,948	\$588,031	0	0	\$571,948	\$588,031	2.8%
State Aid	\$11,622,583	\$11,474,929	0	0	\$11,622,583	\$11,474,929	-1.3%
Investment Earnings	\$21,252	\$19,823	\$1,296	\$732	\$22,548	\$20,555	-8.8%
Other Revenues	\$116,485	\$314,860	\$0	\$1,480	\$116,485	\$316,340	171.6%
Loss on KSBIT settlement	\$0	-\$139,396	\$0	\$0	\$0	-\$139,396	-100.0%
Total Revenues	\$18,419,538	\$17,798,345	\$1,242,213	\$1,177,178	\$19,661,751	\$18,975,523	-3.5%



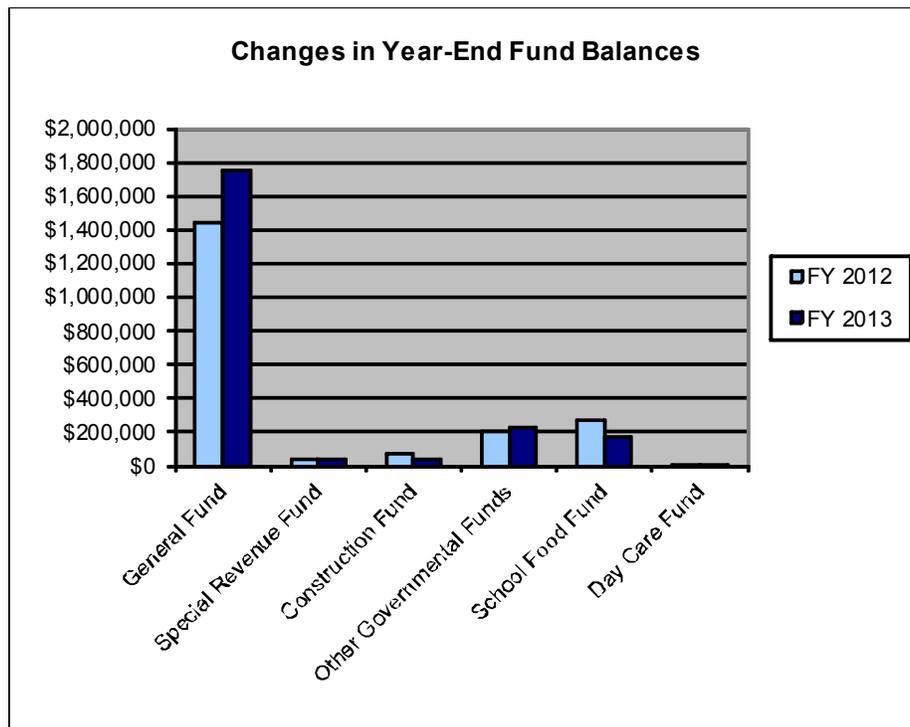
Expenses	Governmental Activities		Proprietary Business-Type Activities		District Total		District Total Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Instruction	\$ 11,154,459	\$ 10,538,092			\$ 11,154,459	\$ 10,538,092	-5.5%
Support Services							
Student Support Services	\$ 661,583	\$ 669,081			\$ 661,583	\$ 669,081	1.1%
Instructional Staff	\$ 939,197	\$ 921,881			\$ 939,197	\$ 921,881	-1.8%
District Administration	\$ 480,449	\$ 453,450			\$ 480,449	\$ 453,450	-5.6%
School Administration	\$ 775,893	\$ 768,154			\$ 775,893	\$ 768,154	-1.0%
Business Administration	\$ 427,128	\$ 410,183			\$ 427,128	\$ 410,183	-4.0%
Plant Operations & Maintenance	\$ 2,150,191	\$ 2,141,167			\$ 2,150,191	\$ 2,141,167	-0.4%
Student Transportation	\$ 1,388,115	\$ 1,405,396			\$ 1,388,115	\$ 1,405,396	1.2%
Other	\$ 204,497	\$ 197,666			\$ 204,497	\$ 197,666	-3.3%
Interest on Long-Term Debt	\$ 334,763	\$ 276,219			\$ 334,763	\$ 276,219	-17.5%
Loss of disposal of assets	\$ 1,417	\$ 35,121			\$ 1,417	\$ 35,121	2378.5%
Food Service			\$ 1,257,826	\$ 1,261,652	\$ 1,257,826	\$ 1,261,652	0.3%
Other			\$ 16,132	\$ 13,060	\$ 16,132	\$ 13,060	-19.0%
Total Expenses	\$ 18,517,692	\$ 17,816,410	\$ 1,273,958	\$ 1,274,712	\$ 19,791,650	\$ 19,091,122	-3.5%



- The District's total revenues were \$18,975,523 and the total expenses were \$19,091,122. Expenses exceeded revenues by \$115,599. The effect of adoption of GASB 65 resulted in a further reduction to net position of \$102,999.
- State revenues accounted for 60% and local taxes accounted for 15% of the revenue.
- Instruction was the major expense category and accounted for 55% of the total.
- Proprietary expenditures exceeded revenues by \$97,534 and Governmental revenues exceeded expenditures by \$305,568.

Financial Analysis of the District Fund Balances

	FY 2012	FY 2013	Amount of Change	% Change
General Fund	\$1,446,550	\$1,749,203	\$302,653	21%
Special Revenue Fund	\$38,227	\$42,757	\$4,530	12%
Construction Fund	\$67,975	\$41,156	(\$26,819)	-39%
Other Governmental Funds	\$199,465	\$224,669	\$25,204	13%
School Food Fund	\$273,314	\$172,751	(\$100,563)	-37%
Day Care Fund	\$2,106	\$5,135	\$3,029	144%
Total	\$2,027,637	\$2,235,671	\$208,034	10%



- The General Fund's fund balance increased by \$302,653.
- The Special Revenue fund increased by \$4,530.
- The Construction Fund's fund balance was \$41,156 representing the balance remaining in the Kyrock Elementary Sewer Replacement Project.
- Other Governmental funds increased by \$25,204 based on scheduled fluctuation of debt service payments.
- The School Food Service fund balance decreased \$100,563 with total revenue decreasing by \$63,651 or 5.2% and total expenses increasing by \$7,464 or 0.6%.
- The Day Care Service fund ended FY 2013 with fund balance of \$5,135 for an increase of \$3,029 versus prior year.

Comments on General Fund and Special Revenue Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2013 were \$14,487,546. This is \$378,827 more than was budgeted in the final working budget. This variance is attributable to greater than anticipated tax revenues (actual exceeded budget by \$110,568) and unbudgeted federal impact aid revenue of \$240,390. Impact aid revenue is not budgeted by the district due to the unpredictability of payments.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$302,653 more than the prior year.
- Instructional expenditures were \$358,899 less than budget due primarily to reduction in staffing driven by dropping student enrollment.
- The Special Revenue Fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2013 the district had invested \$20,250,216 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total initial cost of assets was \$35,621,213 with accumulated depreciation of \$15,370,997.

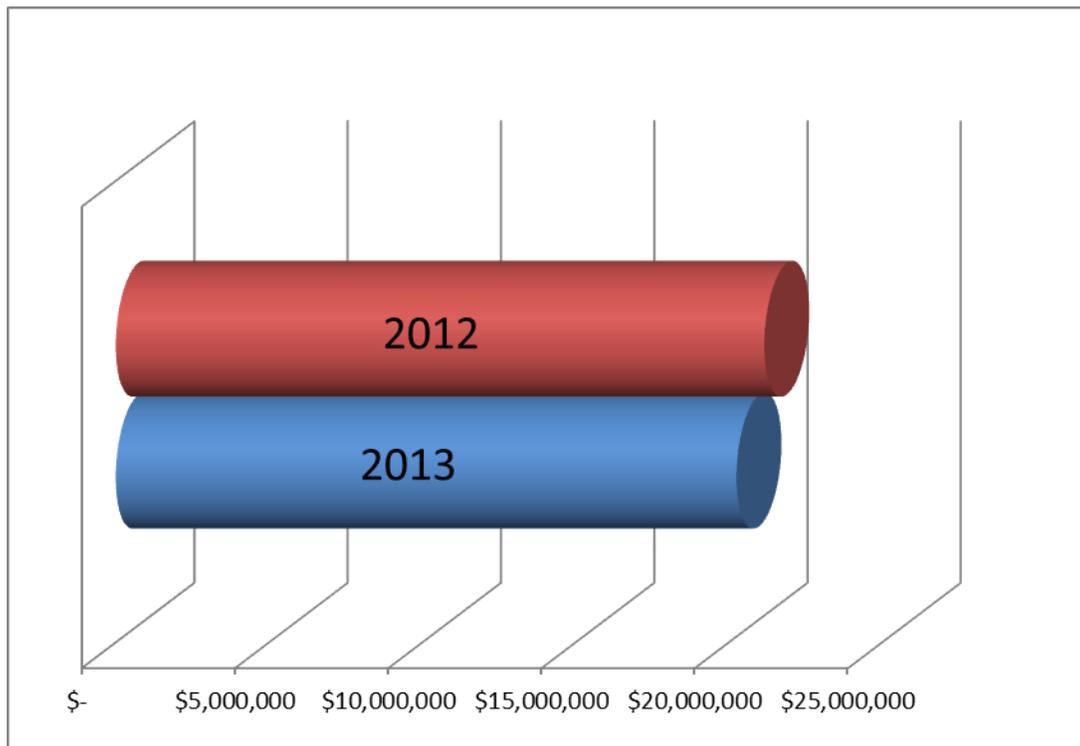
SUMMARY OF CAPITAL ASSETS

CAPITAL ASSETS

(net of depreciation)

	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	2012-2013
Land	\$ 592,269	\$ 565,399	\$ -	\$ -	\$ 592,269	\$ 565,399	-4.5%
Construction in Progress	\$ -	\$ 45,905	\$ -	\$ -	\$ -	\$ 45,905	100.0%
Buildings	\$ 18,800,111	\$ 18,213,525	\$ -	\$ -	\$ 18,800,111	\$ 18,213,525	-3.1%
Equipment & Furniture	\$ 1,639,592	\$ 1,323,373	\$ 123,998	\$ 102,014	\$ 1,763,590	\$ 1,425,387	-19.2%
Total Assets	\$ 21,031,972	\$ 20,148,202	\$ 123,998	\$ 102,014	\$ 21,155,970	\$ 20,250,216	-4.3%

Edmonson County Schools Capital Assets (Decrease of 4.3% or \$905,754)

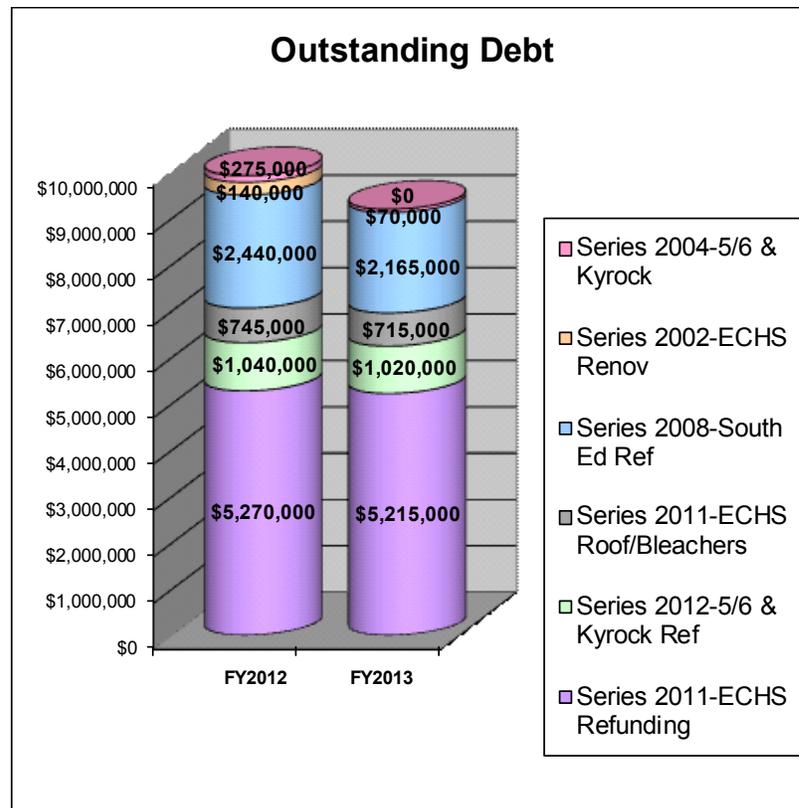


Long-Term Debt

At year-end the district had \$9,185,000 in general obligation bonds outstanding. General obligation debt was decreased by principal payments totaling \$725,000 for scheduled debt service payments.

General Obligation Bonds:

		Par Amount	Bonds Payable at June 30, 2012	Bonds Payable at June 30, 2013
Series 2011	Edmonson County High School Refunding Renovation/Addition	\$5,280,000	\$5,270,000	\$5,215,000
Series 2012	Edmonson County 5/6 Center & Kyrock Elem. Renov. Refunding	\$1,055,000	\$1,040,000	\$1,020,000
Series 2011	Edmonson County High School Roof Replacement & Bleachers	\$775,000	\$745,000	\$715,000
Series 2008	South Edmonson Elementary Refunding Revenue Bonds	\$2,825,000	\$2,440,000	\$2,165,000
Series 2002	Edmonson County High School Renovation/Addition	\$6,685,000	\$275,000	\$0
Series 2004	Edmonson County 5/6 Center & Kyrock Elementary Renovation	\$1,540,000	\$140,000	\$70,000
TOTAL		\$18,160,000	\$9,910,000	\$9,185,000



BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The district receives approximately 75% of its new general fund revenue each year through the state funding formula (SEEK). On occasions, there have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 19% of the general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth through seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$1,749,203 of the total general fund budget as a beginning balance for next year.

By law, the budget must have a minimum 2% contingency. The district adopted a budget with \$933,966 in total contingency (5.43%) for fiscal year 2013. The beginning fund balance for the 2013 fiscal year was \$1,446,550. Significant Board action that impacts finances include additional spending on students with special needs, increased building operations and maintenance costs associated with maintenance of facilities, and general fund matching dollars for the state KETS grant. For the year ended June 30, 2013, \$28,931 was required from the general fund to participate in special revenue funds (grants). The district currently participates in 22 federal and state grants. The total budget for these grants is \$2,459,658. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for the Edmonson County School District are to continue the implementation of the new Kentucky Educational Standards as well as implementing all components of Unbridled Learning focusing on getting all students college and career ready.

The focus of the Edmonson County School District is to educate our students at high levels which should ensure that all students are college/career ready upon graduation. As our district continues to focus on meeting state standards while implementing and following all components of Unbridled Learning; we need to increase our focus with making improvements in our content presentation by utilizing research based curriculum, technology, and professional development focusing on improving the art of teaching. The primary concern for addressing these three areas is the expense of staying updated and current with this ever-changing environment.

The district has made great strides in buildings and updating facilities throughout the county. The main concern in this area is keeping our current facilities in top shape while continuing to make plans for updating our facilities as funding becomes available.

Major issues involving the Edmonson County School District all revolve around funding sources and expenses. We continue to see the negative effects of the economy through reductions in state and federal grants as well as unfunded mandates which place demands on the district's general fund or require cuts in various programs.

We all understand that we are expected to meet the needs of our students as well as our community, but we also realize that it takes funding to meet a majority of these demands. We are going to have to continue evaluating all areas in our budget including revenue and expenditure areas for future savings and cuts.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or requests for additional information should be directed to Kathy Meredith, Finance Officer, (270) 597-2101, 100 Wildcat Way, P O Box 129, Brownsville, KY 42210 or e-mail to kathy.meredith@edmonson.kyschools.us.

Basic Financial Statements

Edmonson County School District
Statement of Net Position

June 30, 2013	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 2,012,087	\$ 8,824	\$ 2,020,911
Accounts receivable:			
Taxes	122,337	-	122,337
Accounts	2,660	-	2,660
Intergovernmental	80,222	40,249	120,471
Internal balances	5,000	-	5,000
Inventory	-	32,801	32,801
Non-depreciable capital assets	378,694	-	378,694
Depreciable capital assets	34,657,027	585,492	35,242,519
Less: accumulated depreciation	(14,887,519)	(483,478)	(15,370,997)
Total assets	22,370,508	183,888	22,554,396
Deferred Outflows of Resources			
Deferred amount on debt refundings	356,371	-	356,371
Total deferred outflows of resources	356,371	-	356,371
Liabilities			
Accounts payable	35,921	1,002	36,923
Accrued liabilities	93,321	-	93,321
Internal balances	-	5,000	5,000
Unearned revenue	35,279	-	35,279
Accrued interest	66,396	-	66,396
Long-term obligations:			
Due within one year:			
Outstanding bonds	745,000	-	745,000
Compensated absences	43,660	-	43,660
Due beyond one year:			
Outstanding bonds	8,371,393	-	8,371,393
Compensated absences	511,905	-	511,905
Total liabilities	9,902,875	6,002	9,908,877

June 30, 2013	Governmental Activities	Business-type Activities	Total
Deferred Inflows of Resources			
Deferred gain on debt refundings	57,470	-	57,470
Total deferred inflows of resources	57,470	-	57,470
Contingency			
Contingency - loss from KSBIT settlement	139,396	-	139,396
Total contingency	139,396	-	139,396
Net Position			
Invested in capital assets, net of related debt	11,330,710	102,014	11,432,724
Restricted for:			
Capital projects	265,825	-	265,825
Grant programs	42,757	-	42,757
Unrestricted	987,846	75,872	1,063,718
Total Net Position	\$ 12,627,138	\$ 177,886	\$ 12,805,024

See accompanying notes to the financial statements.

Edmonson County School District
Statement of Activities

Year Ended June 30, 2013	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities							
Instruction	\$ 10,538,092	\$ 17,323	\$ 1,611,248	\$ 68,591	\$ (8,840,930)	\$ -	\$ (8,840,930)
Support Services:							
Student	669,081	-	6,201	-	(662,880)	-	(662,880)
Instructional staff	921,881	-	313,533	-	(608,348)	-	(608,348)
District administration	453,450	-	-	-	(453,450)	-	(453,450)
School administration	768,154	-	-	-	(768,154)	-	(768,154)
Business	410,183	-	21,624	-	(388,559)	-	(388,559)
Plant operations and maintenance	2,141,167	4,575	38,370	-	(2,098,222)	-	(2,098,222)
Student transportation	1,405,396	-	80,701	-	(1,324,695)	-	(1,324,695)
Other	197,666	-	191,833	-	(5,833)	-	(5,833)
Building acquisition and construction	-	-	-	548,000	548,000	-	548,000
Interest on long-term debt	276,219	-	-	264,445	(11,774)	-	(11,774)
Loss on disposal of assets	35,121	-	-	-	(35,121)	-	(35,121)
Total governmental activities	17,816,410	21,898	2,263,510	881,036	(14,649,966)	-	(14,649,966)

Business-type activities								
Food services	1,261,652	308,404	856,844	-	-	(96,404)	(96,404)	
Loss on disposal of assets	6,371	-	-	-	-	(6,371)	(6,371)	
Day care services	6,689	9,718	-	-	-	3,029	3,029	
Total business-type activities	1,274,712	318,122	856,844	-	-	(99,746)	(99,746)	
Total School District	\$ 19,091,122	\$ 340,020	\$ 3,120,354	\$ 881,036	(14,649,966)	(99,746)	(14,749,712)	

General Revenues			
Taxes:			
Property	2,026,734	-	2,026,734
Motor vehicle	346,920	-	346,920
Utilities	588,031	-	588,031
State aid	11,474,929	-	11,474,929
Investment earnings	19,823	732	20,555
Other	314,860	1,480	316,340
Extraordinary item - loss on KSBIT settlement	(139,396)	-	(139,396)
Total general revenues	14,631,901	2,212	14,634,113
Change in Net Position	(18,065)	(97,534)	(115,599)
Net Position - Beginning of Year	12,748,202	275,420	13,023,622
Effect of Adoption of GASB 65	(102,999)	-	(102,999)
Net Position - Beginning of Year, as restated	12,645,203	275,420	12,920,623
Net Position - End of Year	\$ 12,627,138	\$ 177,886	\$ 12,805,024

Edmonson County School District
Balance Sheet
Governmental Funds

June 30, 2013	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 1,694,702	\$ 51,560	\$ 265,825	\$ 2,012,087
Accounts receivable				
Taxes	122,337	-	-	122,337
Accounts	2,660	-	-	2,660
Intergovernmental	-	80,222	-	80,222
Due from other funds	49,943	-	-	49,943
Total Assets	\$ 1,869,642	\$ 131,782	\$ 265,825	\$ 2,267,249

Liabilities and Fund Balances

Liabilities								
Accounts payable	\$	27,118	\$	8,803	\$	-	\$	35,921
Accrued liabilities		93,321		-		-		93,321
Due to other funds		-		44,943		-		44,943
Unearned revenue		-		35,279		-		35,279
Total liabilities		120,439		89,025		-		209,464
Fund Balances								
Restricted		-		42,757		265,825		308,582
Committed		141,221		-		-		141,221
Assigned		8,033		-		-		8,033
Unassigned		1,599,949		-		-		1,599,949
Total fund balances		1,749,203		42,757		265,825		2,057,785
Total Liabilities and Fund Balances								
	\$	1,869,642	\$	131,782	\$	265,825	\$	2,267,249

**Edmonson County School District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position**

June 30,	2013
Total Fund Balances - Governmental Funds	\$ 2,057,785
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$35,035,721 and the accumulated depreciation is \$14,887,519.	20,148,202
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow.	356,371
Governmental funds record gains on debt refundings as other financing sources when the issues are refunded. Unamortized gains on refundings are included on the government-wide financial statements as a deferred inflow.	(57,470)
Contingent liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(139,396)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	(9,116,393)
Accrued interest on the bonds	(66,396)
Compensated absences	(555,565)
Total Net Position - Governmental Activities	\$ 12,627,138

See accompanying notes to the financial statements.

Edmonson County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2013	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ 1,739,373	\$ -	\$ 287,361	\$ 2,026,734
Motor vehicle	346,920	-	-	346,920
Utilities	588,031	-	-	588,031
Tuition and fees	-	17,323	-	17,323
Earnings on investments	18,461	397	965	19,823
Other local revenue	29,351	13,731	-	43,082
Intergovernmental - state	11,474,929	1,042,138	812,445	13,329,512
Intergovernmental - federal	290,481	1,275,835	-	1,566,316
Total revenues	14,487,546	2,349,424	1,100,771	17,937,741
Expenditures				
Current:				
Instruction	8,390,504	1,721,563	-	10,112,067
Support services:				
Student	662,880	6,201	-	669,081
Instructional staff	608,029	313,533	-	921,562
District administration	448,372	-	-	448,372
School administration	767,942	-	-	767,942
Business	388,559	21,624	-	410,183
Plant operations and maintenance	1,803,570	38,370	-	1,841,940
Student transportation	1,161,828	80,701	-	1,242,529
Other	5,833	191,833	-	197,666
Debt service:				
Principal	-	-	725,000	725,000
Interest	-	-	249,926	249,926

Facilities acquisition and construction	-	-	45,905	45,905
Total expenditures	14,237,517	2,373,825	1,020,831	17,632,173
Excess (Deficiency) of Revenues over Expenditures	250,029	(24,401)	79,940	305,568
Other Financing Sources (Uses)				
Operating transfers in	84,516	28,931	793,508	906,955
Operating transfers out	(31,892)	-	(875,063)	(906,955)
Total other financing sources (uses)	52,624	28,931	(81,555)	-
Net Change in Fund Balances	302,653	4,530	(1,615)	305,568
Fund Balances - Beginning of Year	1,446,550	38,227	267,440	1,752,217
Fund Balances - End of Year	\$ 1,749,203	\$ 42,757	\$ 265,825	\$ 2,057,785

Edmonson County School District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and Changes in
 Fund Balances to the Statement of Activities

Year Ended June 30,	2013
Total Net Change in Fund Balances - Governmental Funds	\$ 305,568
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$87,430) exceeds depreciation expense (\$936,079) in the period.	(848,649)
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual gain (loss) from the sale net to this amount for the year.	(35,121)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	725,000
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	(164,863)
Change in Net Position - Governmental Activities	\$ (18,065)

See accompanying notes to the financial statements.

Edmonson County School District
Statement of Net Position
Proprietary Funds

June 30, 2013	Enterprise Fund Food Service	Enterprise Fund Day Care	Total Proprietary Funds
Assets			
Current Assets			
Cash	\$ 3,719	\$ 5,105	\$ 8,824
Accounts receivable - Intergovernmental	40,219	30	40,249
Inventory	32,801	-	32,801
Total current assets	76,739	5,135	81,874
Non-Current Assets			
Fixed assets - net	102,014	-	102,014
Total assets	178,753	-	183,888
Liabilities			
Current Liabilities			
Accounts payable	1,002	-	1,002
Due to other funds	5,000	-	5,000
Total current liabilities	6,002	-	6,002
Net Position			
Invested in capital assets	102,014	-	102,014
Unrestricted	70,737	5,135	75,872
Total Net Position	\$ 172,751	\$ 5,135	\$ 177,886

See accompanying notes to the financial statements.

Edmonson County School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds

Year Ended June 30, 2013	Enterprise Fund Food Service	Enterprise Fund Day Care	Total Proprietary Funds
Operating Revenues			
Lunchroom sales	\$ 308,404	\$ -	\$ 308,404
Tuition and fees	-	9,718	9,718
Total operating revenues	308,404	9,718	318,122
Operating Expenses			
Salaries and wages	624,500	6,382	630,882
Contract services	14,883	-	14,883
Materials and supplies	590,633	307	590,940
Other operating expenses	1,053	-	1,053
Depreciation expense	30,583	-	30,583
Total operating expenses	1,261,652	6,689	1,268,341
Operating income (loss)	(953,248)	3,029	(950,219)
Non-Operating Revenues (Expenses)			
State operating grants	109,291	-	109,291
Federal operating grants	690,279	-	690,279
Donated commodities	57,274	-	57,274
Interest revenue	732	-	732
Other	(4,891)	-	(4,891)
Total non-operating revenues (expenses)	852,685	-	852,685
Change in Net Position	(100,563)	3,029	(97,534)
Net Position - Beginning of Year	273,314	2,106	275,420
Net Position - End of Year	\$ 172,751	\$ 5,135	\$ 177,886

See accompanying notes to the financial statements.

Edmonson County School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2013	Enterprise Fund Food Service	Enterprise Fund Day Care	Total Proprietary Funds
Cash Flows from Operating Activities			
Cash received from user charges	\$ 268,185	\$ 9,688	\$ 277,873
Cash payments to employees for services	(526,972)	(6,382)	(533,354)
Cash payments for contract services	(14,883)	-	(14,883)
Cash payments to suppliers for goods and services	(527,409)	(319)	(527,728)
Cash payments for other operating expenses	(1,053)	-	(1,053)
Net cash provided by (used in) operating activities	(802,132)	2,987	(799,145)
Cash Flows from Non-Capital Financing Activities			
Non-operating grants received	703,522	-	703,522
Net cash provided by non-capital financing activities	703,522	-	703,522
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(14,970)	-	(14,970)
Net cash used in capital and related financing activities	(14,970)	-	(14,970)
Cash Flows from Investing Activities			
Interest on investments	732	-	732
Net cash provided by investing activities	732	-	732
Net Increase (Decrease) in Cash	(112,848)	2,987	(109,861)
Cash - Beginning of Year	116,567	2,118	118,685
Cash - End of Year	\$ 3,719	\$ 5,105	\$ 8,824

Year Ended June 30, 2013	Enterprise Fund Food Service	Enterprise Fund Day Care	Total Proprietary Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In)			
Operating Activities			
Operating income (loss)	\$ (953,248)	\$ 3,029	\$ (950,219)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	30,583	-	30,583
Commodities received	57,274	-	57,274
On-behalf payments received	97,528	-	97,528
Changes in assets and liabilities:			
Receivables	(40,219)	(30)	(40,249)
Inventories	171	-	171
Accounts payable	779	(12)	767
Due to other funds	5,000	-	5,000
Net Cash Provided By (Used In) Operating Activities	\$ (802,132)	\$ 2,987	\$ (799,145)

Non-Cash Activities

- The food service fund received \$57,274 of donated commodities from the federal government.
- The District received on-behalf payments of \$97,528 relating to insurance benefits.

See accompanying notes to the financial statements.

Edmonson County School District
Statement of Assets and Liabilities
Fiduciary Funds

June 30, 2013	Agency Fund
<hr/>	
Assets	
Cash	\$ 129,096
<hr/>	
Total assets	\$ 129,096
<hr/>	
Liabilities	
Accounts payable	4,698
Due to student groups	124,398
<hr/>	
Total liabilities	\$ 129,096
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See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

• ***Reporting Entity***

The Edmonson County Board of Education (the "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 Edmonson County School District (the "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* as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units," the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization and there is potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements as a blended component unit:

Note 1: Summary of Significant Accounting Policies
(Continued)

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

• ***Basis of Presentation***

Government-Wide Financial Statements — The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the District, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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.

Note 1: Summary of Significant Accounting Policies
(Continued)

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. 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:

▶ **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unassigned fund balance is considered as resources available for use. The general fund is a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards. The special revenue fund is a major fund.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows

Note 1: Summary of Significant Accounting Policies
(Continued)

financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments.

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

The *Facility Support Program of Kentucky (FSPK) Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and other debt related costs.

▶ **Proprietary Fund Types**

Enterprise Funds

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

The *Day Care Fund* is used to account for day care services offered to the general public.

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

Note 1: Summary of Significant Accounting Policies
(Continued)

▶ **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others.

Agency Funds

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

● **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.

The records of the District and the budgetary process are based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the general fund, special revenue fund and capital projects funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The financial statements of the governmental fund types are prepared on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally

Note 1: Summary of Significant Accounting Policies
(Continued)

recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● ***Estimates***

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

● ***Inventory***

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the proprietary funds, which record inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● ***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 with the exception of 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 asset's life are not capitalized.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● ***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.

● ***Compensated Absences***

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave when earned for all employees with more than five years of service.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account in the funds from which the employees will be paid.

• ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

• ***Net Position***

The District classifies its net position into the following three categories:

Invested in capital assets - This represents the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Note 1: Summary of Significant Accounting Policies
(Continued)

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

• ***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

• ***Revenues — Exchange and Non-Exchange Transactions***

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis of accounting, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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. Revenues from non-exchange transactions must also be available before they can be recognized.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Interfund Activity***

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

• ***Interfund Balances***

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

• ***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.

• ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

• ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through November 4, 2013, which was the date the financial statements were made available.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***New Accounting Pronouncements***

Recently Issued and Adopted Accounting Pronouncements

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the District's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The District has early implemented the new requirements of this statement for the fiscal year ended June 30, 2013. The implementation of GASB 65 resulted in the write-off of bond issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$102,999.

Note 1: Summary of Significant Accounting Policies
(Continued)

Recently Issued Accounting Pronouncements

GASB Statement No. 66, *Technical Corrections—2012: an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District plans to implement the new requirements for the fiscal year 2013–2014 financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*, improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

Note 2: Cash

• **Deposits**

At June 30, 2013, the carrying amounts of the District's deposits were \$2,150,007 and the bank balances were \$3,133,348, which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

The carrying amounts are reflected in the financial statements as follows:

June 30,	2013
Governmental funds	\$ 2,012,087
Proprietary funds	8,824
Fiduciary funds	129,096
	\$ 2,150,007

Note 2: Cash (Continued)

▶ *Custodial Credit Risk Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. As of June 30, 2013, the District's bank balance of \$3,133,348 was not exposed to custodial credit risk.

Note 3: Interfund Receivables and Payables

Interfund balances at June 30, 2013 consist of the following:

June 30, 2013		
Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue	\$ 44,943
General Fund	Food Service	5,000
Total Interfund Receivables and Payables		\$ 49,943

These amounts represent interfund loans from the general fund to the special revenue fund and food service fund that are necessary to fulfill the current cash requirements of the special revenue fund and the food service fund.

Note 4: Capital Assets

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

June 30, 2013	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 332,789	\$ -	-	\$ 332,789
Construction in progress	-	45,905	-	45,905
Total non-depreciable historical cost	332,789	45,905	-	378,694

Edmonson County School District
Notes to the Financial Statements (Continued)

Note 4: Capital Assets (Continued)

June 30, 2013	Capital Cost			Ending Balance
	Beginning Balance	Additions	Retirements/ Reclassifications	
Capital assets that are depreciated:				
Land improvements	1,065,363	-	-	1,065,363
Buildings and improvements	27,772,523	19,500	-	27,792,023
Technology Equipment	1,721,089	15,030	269,291	1,466,828
Vehicles	3,163,976	-	-	3,163,976
General	1,164,673	6,995	2,831	1,168,837
Total depreciable historical cost	34,887,624	41,525	272,122	34,657,027
Less accumulated depreciation for:				
Land improvements	805,883	26,870	-	832,753
Buildings and improvements	8,972,412	606,086	-	9,578,498
Technology Equipment	1,404,256	100,127	235,115	1,269,268
Vehicles	2,290,503	150,852	-	2,441,355
General	715,387	52,144	1,886	765,645
Total accumulated depreciation	14,188,441	936,079	237,001	14,887,519
Total depreciable historical cost, net	20,699,183	(894,554)	35,121	19,769,508
Governmental activities, capital assets, net				
	\$ 21,031,972	\$ (848,649)	\$ 35,121	\$ 20,148,202
Business-type activities:				
General	\$ 595,742	\$ 14,970	\$ 25,220	\$ 585,492
Less accumulated depreciation	471,744	30,583	18,849	483,478
Business-type activities, capital assets, net	\$ 123,998	\$ (15,613)	\$ 6,371	\$ 102,014

Depreciation expense was charged to governmental functions as follows:

Year ended June 30,	2013
Instruction	\$ 468,376
Support services:	
Instructional staff	319
District administration	5,078
School administration	212
Facilities operations	299,227
Student transportation	162,867
Total Depreciation Expense	\$ 936,079

Note 5: Long-Term Obligations

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

Issue Date	Proceeds	Rates
2002	\$ 6,685,000	1.55%—4.50%
2004	1,540,000	3.00%—4.80%
2008	2,825,000	2.20%—3.40%
2011	775,000	1.00%—4.625%
2011	5,280,000	1.00%—3.30%
2012	1,055,000	1.00%—4.30%

In prior years, the District issued \$500,000 of Qualified Zone Academy Bonds (QZAB). The bonds were approved for the high school renovation project. As stated in the agreement, \$297,000 of the proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the \$500,000 bond issue. As a result, the \$500,000 QZAB are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position. The refunding of the bonds resulted in a gain of \$203,000 and is shown in the financial statements as a deferred inflow of resources. The gain will be amortized to operations over the bonds' life of 15 years using the effective interest method. The unamortized balance at June 30, 2013 was \$57,470.

In 2012, the District defeased \$5,905,000 of the 2002 and 2004 bonds by placing new bond proceeds in an irrevocable trust to provide for future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2013, \$5,905,000 of the defeased bonds are still outstanding.

The District, through the general fund, including utility taxes and the SEEK capital outlay fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Edmonson 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 District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The following table sets forth the amount to be paid by the District

Edmonson County School District
Notes to the Financial Statements (Continued)

Note 5: Long-Term Obligations *(Continued)*

and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

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

Year	Edmonson County School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2013—2014	\$ 166,436	\$ 544,801	\$ 64,047	\$ 200,199	\$ 975,483
2014—2015	153,593	549,037	57,794	210,963	971,387
2015—2016	140,431	560,758	53,437	214,242	968,868
2016—2017	126,858	577,293	48,924	217,707	970,782
2017—2018	112,581	588,358	43,971	221,642	966,552
2018—2019	97,736	604,226	38,190	230,774	970,926
2019—2020	81,645	621,652	32,563	208,348	944,208
2020—2021	66,697	517,650	28,163	137,350	749,860
2021—2022	53,391	536,356	24,611	133,644	748,002
2022—2023	39,699	550,010	20,965	139,990	750,664
2023—2024	24,918	568,610	17,150	146,390	757,068
2024—2025	9,029	582,155	13,164	37,845	642,193
2025—2026	968	5,641	11,650	39,359	57,618
2026—2027	742	4,067	10,076	40,933	55,818
2027—2028	580	2,429	8,440	42,571	54,020
2028—2029	467	5,460	6,470	44,540	56,937
2029—2030	215	3,401	4,410	46,599	54,625
2030—2031	58	1,244	2,254	48,756	52,312
	\$ 1,076,044	\$ 6,823,148	\$ 486,279	\$ 2,361,852	\$ 10,747,323

Edmonson County School District
Notes to the Financial Statements (Continued)

Note 5: Long-Term Obligations *(Continued)*

Long-term liability activity for the year ended June 30, 2013 was as follows:

June 30, 2013	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation debt	\$ 9,910,000	\$ -	\$ (725,000)	\$ 9,185,000	\$ 745,000
Less: discounts	(75,461)	-	6,854	(68,607)	-
Total bonds and notes payable	9,834,539	-	(718,146)	9,116,393	745,000
Other liabilities:					
Compensated absences	556,391	103,764	(104,590)	555,565	43,660
Total Long-Term Liabilities	\$ 10,390,930	\$ 103,764	\$ (822,736)	\$ 9,671,958	\$ 788,660

Note 6: Fund Balances

The Board follows GASB Statement Number 54. Under this statement, fund balance is separated into five categories, as follows:

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

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had \$42,757 restricted in the special revenue fund for grant programs and \$265,825 restricted in the non-major funds for capital projects (which includes \$121,504 restricted from prior SFCC offers).

Note 6: Fund Balances *(Continued)*

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments in the general fund at June 30, 2013: \$94,974 for compensated absences balances and \$46,247 for school site based decision making balances.

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2013 was \$8,033. Assigned fund balances also include (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013 in the governmental funds balance sheet.

Note 7: Pension Plans

• ***Plan Descriptions***

The Edmonson County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS)

Note 7: Pension Plans (Continued)

and the County Employees' Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

• **Funding Policy**

Funding Policy — KTRS plan members are required to contribute 10.855% of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and KTRS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 14.105% for the Commonwealth and 1.000% for the District of annual covered payroll. The rate for CERS is 19.55%, 18.96% and 16.93% for the years ended June 30, 2013, 2012 and 2011, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$524,333, \$538,191 and \$483,901, respectively, equal to the required contributions for each year.

For the year ended June 30, 2013 the Commonwealth contributed \$879,966 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2013 were \$118,923.

• **Medical Insurance Plan**

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

Note 7: Pension Plans *(Continued)*

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

Funding Policy — In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2012–2013 fiscal year.

• ***Deferred Compensation Plans***

The District offers its employees to defer compensation in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permit them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities in the financial statement.

Note 8: Contingencies

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if 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 unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Note 9: Risk Management

The District is exposed to various forms of loss of assets associated with the risks related to torts; theft of, damage to and destruction of assets; fire, personal liability, vehicular accidents; errors and omissions; injuries to employees; fiduciary responsibility; and natural disaster. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

In prior years, to obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participated in the Kentucky School Boards Insurance Trust Liability Fund (KSBIT). These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District paid an annual premium to each fund for coverage.

Contributions to the Workers' Compensation Fund were based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

KSBIT is now working under a corrective action plan with the Kentucky Department of Insurance (DOI) due to a large deficit fund balance. KSBIT has submitted a proposal to the DOI for a novation rather than a runoff. A novation will transfer all existing KSBIT claims to a highly rated reinsurer which will continue to make claim payments. The novation will shift the future risk to the reinsurer instead of leaving it on the members as would occur in a runoff. This plan is not yet approved by the DOI and will not go into effect nor will it result in any assessment to members until approved. The proposal will affect both current members and prior members.

The novation proposal sent to the DOI would result in a general liability assessment of \$17,148 and a workers' compensation liability of \$122,248 to the district. This amount may be paid as a onetime lump sum or spread over several periods. Even though the district does not currently participate in these KSBIT funds, the District will be liable for the assessment based on claims and losses previously filed on the District's behalf. The District believes it is probable an assessment will occur and that the estimate provided is reasonable. The District has recorded these assessments on the government-wide financial statements in accordance with the economic measurement focus. The amount of the assessment recorded as of June 30, 2013 was \$139,396. A liability is not shown on the governmental fund financial statement in accordance with GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as governmental funds follow the current financial resources measurement focus (modified accrual basis of accounting).

Note 9: Risk Management *(Continued)*

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

Note 10: 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. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

Note 11: Excess Expenditures over Appropriations

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Year ended June 30, 2013	
Fund	Amount
Construction	\$ 26,819
Debt Service	4,034
Food Service	100,563

Edmonson County School District
Notes to the Financial Statements (Continued)

Note 12: Fund Transfers

Fund transfers for the year ended June 30, 2013 consist of the following:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Matching	\$ 28,931
General	Construction	Cover expenditures	2,961
Capital Outlay	Debt Service	Debt service	60,000
FSPK	Debt Service	Debt service	646,447
Capital Outlay	General	Cover expenditures	84,516
Capital Outlay	Construction	Cover expenditures	16,125
Construction	Construction	Reassign project funds	67,975

Note 13: On-behalf Payments

The District receives on-behalf payments from the State of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amount received for the fiscal year ended June 30, 2013, was \$3,328,502. These payments were recorded as follows:

Year ended June 30, 2013	
Fund	Amount
General Fund	\$ 2,966,529
Food Service Fund	97,528
Debt Service Fund	264,445
Total	\$ 3,328,502

Required Supplementary Information

Edmonson County School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2013	Budgeted Amounts		Actual (Budgetary Basis)	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Local and intermediate sources	\$ 2,611,568	\$ 2,611,568	\$ 2,722,136	\$ 110,568
State programs	8,530,800	11,460,151	11,474,929	14,778
Federal programs	37,000	37,000	290,481	253,481
Total revenues	11,179,368	14,108,719	14,487,546	378,827
Expenditures				
Current:				
Instruction	6,754,508	8,749,403	8,390,504	358,899
Support services:				
Student	473,541	649,530	662,880	(13,350)
Instructional staff	376,860	522,684	608,029	(85,345)
District administration	501,586	556,295	448,372	107,923
School administration	579,371	769,191	767,942	1,249
Business	163,875	304,439	388,559	(84,120)
Plant operations and maintenance	1,646,924	1,773,384	1,803,570	(30,186)
Student transportation	1,104,566	1,229,910	1,161,828	68,082
Other	877,505	939,375	5,833	933,542
Total expenditures	12,478,736	15,494,211	14,237,517	1,256,694
Excess (deficiency) of revenues over expenditures	(1,299,368)	(1,385,492)	250,029	1,635,521

Other Financing Sources (Uses)				
Operating transfers - net	(33,500)	52,624	52,624	-
Total other financing sources (uses)	(33,500)	52,624	52,624	0
Net Change in Fund Balance	(1,332,868)	(1,332,868)	302,653	1,635,521
Fund Balance-Beginning of Year	1,332,868	1,332,868	1,446,550	113,682
Fund Balance-End of Year	\$ -	\$ -	\$ 1,749,203	\$ 1,749,203

Edmonson County School District
Budgetary Comparison Schedule for the Special Revenue Fund

Year Ended June 30, 2013	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ 16,633	\$ 34,055	\$ 31,451	\$ (2,604)
State programs	1,040,555	1,021,690	1,042,138	20,448
Federal programs	1,291,422	1,295,091	1,275,835	(19,256)
Total revenues	2,348,610	2,350,836	2,349,424	(1,412)
Expenditures				
Current:				
Instruction	1,728,248	1,758,053	1,721,563	36,490
Support services:				
Student	6,200	6,200	6,201	(1)
Instructional staff	302,414	276,402	313,533	(37,131)
Business	22,000	21,751	21,624	127
Plant operations and maintenance	39,635	38,130	38,370	(240)
Student transportation	92,103	87,203	80,701	6,502
Other	191,510	192,028	191,833	195
Total expenditures	2,382,110	2,379,767	2,373,825	5,942
Excess (deficiency) of revenues over expenditures	(33,500)	(28,931)	(24,401)	4,530

Other Financing Sources (Uses)				
Operating transfers - net	33,500	28,931	28,931	-
Total other financing sources (uses)	33,500	28,931	28,931	-
Net change in fund balance	-	-	4,530	4,530
Fund Balance-Beginning of Year	-	-	38,227	38,227
Fund Balance-End of Year	\$ -	\$ -	\$ 42,757	\$ 42,757

Supplementary Information

Edmonson County School District
Combining Balance Sheet
Non-Major Governmental Funds

June 30, 2013	Construction Fund	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Assets					
Cash	\$ 41,156	\$ 53,300	\$ 171,369	\$ -	\$ 265,825
Total Assets	\$ 41,156	\$ 53,300	\$ 171,369	\$ -	\$ 265,825
Fund Balances					
Restricted					
SFCC prior offers	\$ -	\$ 17,448	\$ 104,056	\$ -	\$ 121,504
SFCC current offers	-	35,852	67,313	-	103,165
Construction	41,156	-	-	-	41,156
Total Fund Balances	\$ 41,156	\$ 53,300	\$ 171,369	\$ -	\$ 265,825

Edmonson County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds

Year Ended June 30, 2013	Construction Fund	SEEK Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ -	\$ 287,361	\$ -	\$ 287,361
Earnings on investments	-	139	826	-	965
Intergovernmental - state	-	180,819	367,181	264,445	812,445
Total revenues	-	180,958	655,368	264,445	1,100,771
Expenditures					
Current:					
Debt service:					
Principal	-	-	-	725,000	725,000
Interest	-	-	-	249,926	249,926
Facilities acquisition and construction	45,905	-	-	-	45,905
Total expenditures	45,905	-	-	974,926	1,020,831
Excess (Deficiency) of Revenues over Expenditures	(45,905)	180,958	655,368	(710,481)	79,940

Other Financing Sources (Uses)					
Operating transfers in	87,061	-	-	706,447	793,508
Operating transfers out	(67,975)	(160,641)	(646,447)	-	(875,063)
<hr/>					
Total other financing sources (uses)	19,086	(160,641)	(646,447)	706,447	(81,555)
<hr/>					
Net Change in Fund Balances	(26,819)	20,317	8,921	(4,034)	(1,615)
<hr/>					
Fund Balance - Beginning of Year	67,975	32,983	162,448	4,034	267,440
<hr/>					
Fund Balance - End of Year	\$ 41,156	\$ 53,300	\$ 171,369	\$ -	\$ 265,825
<hr/> <hr/>					

Edmonson County School District
Combining Statement of Assets and Liabilities
All School Activity Funds
All Agency Funds

Year Ended June 30, 2013	Cash			Cash		Accounts	Due to Student
	July 1, 2012	Receipts	Disbursements	June 30, 2013	Payable	Groups	June 30, 2013
Edmonson County High School	\$ 93,501	\$ 262,811	\$ 262,185	\$ 94,127	\$ 3,150	\$ 90,977	
Edmonson County Middle School	17,808	16,056	15,112	18,752	1,548	17,204	
Fifth - Sixth Center	5,690	5,973	6,961	4,702	-	4,702	
Kyrock Elementary School	5,204	8,262	9,844	3,622	-	3,622	
South Edmonson Elementary School	6,747	13,516	12,370	7,893	-	7,893	
Total	\$ 128,950	\$ 306,618	\$ 306,472	\$ 129,096	\$ 4,698	\$ 124,398	

Edmonson County School District
Statement of Assets and Liabilities
School Activity Funds
Edmonson County High School

Year Ended June 30, 2013	Cash			Cash			Accounts	Due to Student
	July 1, 2012	Receipts	Disbursements	Transfers	June 30, 2013	Payable	Groups	June 30, 2013
Office	\$ 199	\$ 1,439	\$ 1,009	\$ -	\$ 629	\$ -	\$ 629	
Student Generated	846	7,606	7,040	(961)	451	-	451	
Teacher Generated	351	929	997	-	283	-	283	
Classroom Fees	16,012	12,485	9,997	(226)	18,274	-	18,274	
Flower fund	466	250	122	-	594	-	594	
Instructional Ed.	3,082	-	-	(2,055)	1,027	-	1,027	
Emp/Skills/T-Shirt	-	19,944	28,986	9,042	-	-	-	
Newspaper	67	-	-	-	67	-	67	
Athletics	7,711	80,826	74,245	2,084	16,376	3,150	13,226	
Radio	-	1,000	-	-	1,000	-	1,000	
Advanced Placement	-	4,643	5,497	1,995	1,141	-	1,141	
Cheer	-	462	-	(367)	95	-	95	
FFA	4,432	16,866	19,656	(82)	1,560	-	1,560	
Farm and Greenhouse	5,099	7,507	7,685	-	4,921	-	4,921	
DECA	107	2,073	2,458	278	-	-	-	
Yearbook	20,095	15,781	19,252	(4,158)	12,466	-	12,466	
Art Club	69	76	-	-	145	-	145	
Drama	377	6,363	6,335	(6)	399	-	399	
Wildcat Decals	519	-	-	-	519	-	519	
Prom	12,920	8,515	6,194	(3,617)	11,624	-	11,624	
Fresh/Soph	641	-	-	-	641	-	641	
Skills U	912	600	815	-	697	-	697	
Welding	25	56	369	369	81	-	81	
Autoshop	235	110	101	-	244	-	244	
Woodworking	8,341	2,463	3,068	-	7,736	-	7,736	

FMD	1,819	3,129	3,264	-	1,684	-	1,684
Senior Trip	893	-	-	(892)	1	-	1
Junior Beta	360	280	100	-	540	-	540
Beta Club	342	48,946	47,905	(966)	417	-	417
FBLA	985	2,823	2,632	(162)	1,014	-	1,014
SADD	1,823	3,037	2,774	(291)	1,795	-	1,795
Literary Club	36	666	514	-	188	-	188
Math Club	809	520	721	-	608	-	608
Wildcat Citizenship	1,614	395	226	15	1,798	-	1,798
International Club	2,266	85	-	-	2,351	-	2,351
Academic Team	23	2,073	1,821	-	275	-	275
Future Ed. Of America	23	-	-	-	23	-	23
ECHS PTO	-	10,863	8,402	-	2,461	-	2,461
Band	2	-	-	-	2	-	2
Total	\$ 93,501	\$ 262,811	\$ 262,185	\$ -	\$ 94,127	\$ 3,150	\$ 90,977

Edmonson 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 Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster			
Food Distribution Program - noncash	10.555	-	\$ 57,274
Passed-Through State Department of Education:			
School Breakfast Program	10.553	7760005 13	191,283
After School Snack Program	10.555	7750002 13	2,340
National School Lunch Program	10.555	7750002 13	496,656
Total U.S. Department of Agriculture			747,553
Appalachian Regional Commission			
Passed-Through State Department of Education:			
KY AHED	23.011	6881	462
Total Appalachian Regional Commission			462
U.S. Department of Education			
Impact Aid	84.041	-	240,597
Passed-Through State Department of Education:			
Title I, Part A Cluster			
Title I - 2011	84.010	3100002 10	22,528
Title I - 2012	84.010	3100002 11	81,004
Title I - 2013	84.010	3100002 12	484,786
Subtotal			588,318
Special Education Cluster			
IDEA-Part B Spec. Ed.	84.027	3810002 12	409,536
IDEA-Part B Preschool	84.173	3800002 12	19,687
Subtotal			429,223
Vocational Education-Basic - 2012	84.048	4621032 11	1,611
Vocational Education-Basic - 2013	84.048	4621032 12	22,095
Subtotal			23,706
Title VI-Rural/Low Income	84.358B	3140002 11	17,341
Title VI-Rural/Low Income	84.358B	3140002 12	23,606
Subtotal			40,947
Title II - Teacher Quality - 2012	84.367	3230002 11	20,765
Title II - Teacher Quality - 2013	84.367	3230002 12	100,263
Subtotal			121,028
Education Jobs	84.410	EJOB00 10	14,513
Race to the Top	84.413A	4521	7,445

Year Ended June 30, 2013

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed-Through State Workforce Cabinet:			
Adult education	84.002	3732	150
Adult education	84.002	3733	40,612
Adult Education	84.002	3733S	1,000
Recruitment, Retention, & Results	84.002	3652	5,312
Recruitment, Retention, & Results	84.002	3653	<u>3,501</u>
Subtotal			50,575
Passed-Through Green River Educational Cooperative:			
Gear-Up Program (GRREC)	84.334	3792G	(382)
Total U.S. Department of Education			1,515,970
Total Expenditures of Federal Awards			\$ 2,263,985

See accompanying notes to the schedule of expenditures of Federal awards.

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of **Edmonson County School District** (the "District") under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2: Summary of Significant Accounting Policies

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

Nonmonetary assistance is reported in the schedule of fair value of the goods received.

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

Edmonson County School District
Summary Schedule of Prior Year Audit Findings

None reported.



Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, 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 as defined in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Edmonson County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Edmonson County School District's basic financial statements and have issued our report thereon dated November 4, 2013.

● **Internal Control Over Financial Reporting**

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

- **Compliance and Other Matters**

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

- **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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 4, 2013

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, Kentucky

● Report on Compliance for Each Major Federal Program

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

● Management's Responsibility

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

● Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining,

on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

- **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the 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.

- **Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a 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 the District's internal control over compliance.

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

Carr, Riggs & Ingram, L.L.C.

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor's report issued on compliance for major programs: unqualified

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

Edmonson County School District
Schedule of Findings and Questioned Costs (Continued)

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555	Child Nutrition Cluster
84.041	Impact Aid
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Section II — Financial Statement Findings

None reported.

Section III — Federal Award Findings And Questioned Costs

None reported.



Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Management Letter

Kentucky State Committee for School District Audits
Members of the Board of Education
Edmonson County School District
Brownsville, Kentucky

In planning and performing our audit of the financial statements of Edmonson County School District (the "District") for the year ended June 30, 2013, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated November 4, 2013 contains our report on the District's internal control. This letter does not affect our report dated November 4, 2013 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 4, 2013

• School Food Service

- During our procedures over School Food Service, we reviewed the monthly reporting procedures for meals and snacks eligible for federal reimbursement. We noted insignificant errors were made in submitting six out of ten months of federal reimbursement requests. Included in these errors were five months where the School Food Director submitted reimbursement requests that did not agree to the individual school report printouts of meals and/or snacks. Another error was noted when reports for an individual school's afterschool snack program were not maintained; therefore, we did not have supporting documentation of snacks served to agree to the federal reimbursement request. We recommend establishing review and approval procedures for the calculation and submission of the monthly federal reimbursement request to ensure that accurate numbers are being remitted. In addition, we recommend maintaining adequate supporting documentation from the individual schools to support the number of meals and/or snacks served and eligible for federal reimbursement.
- Upon review of student eligibility for free and reduced meal programs, we noted the student eligibility forms were not signed by the School Food Director to show review and approval. Instead, the School Food Director signed off on a printed list of students eligible for free and reduced meal programs. We recommend that each individual eligibility form is completed and signed by the School Food Director to document review and approval.
- During our inventory observation, we discovered two inventory items at the Edmonson County High School cafeteria that were counted and recorded incorrectly on the count sheets. In addition, we discovered one item at the South Edmonson Elementary School cafeteria where the quantity of items recorded on the count sheet did not agree to the final inventory listing. We recommend establishing additional procedures to ensure inventory is counted correctly and the quantities are transferred appropriately from each individual school's count sheets to the final inventory listing used to calculate the monetary value of inventory.

EDMONSON COUNTY BOARD OF EDUCATION

PATRICK WADDELL, SUPERINTENDENT

100 Wildcat Way, P O Box 129
Brownsville, Kentucky 42210
Phone 270-597-2102 Fax 270-597-2103

November 4, 2013

Fiscal Year 2013

Management Letter Responses:

School Food Service:

Comment: During our procedures over School Food Service, we reviewed the monthly reporting procedures for meals and snacks eligible for federal reimbursement. We noted insignificant errors were made in submitting six out of ten months of federal reimbursement requests. Included in these errors were five months where the School Food Director submitted reimbursement requests that did not agree to the individual school report printouts of meals and/or snacks. Another error was noted when reports for an individual school's afterschool snack program were not maintained; therefore, we did not have supporting documentation of snacks served to agree to the federal reimbursement request. We recommend establishing review and approval procedures for the calculation and submission of the monthly federal reimbursement request to ensure that accurate numbers are being remitted. In addition, we recommend maintaining adequate supporting documentation from the individual schools to support the number of meals and/or snacks served and eligible for federal reimbursement.

Response: The mistakes in claim numbers were small variances, such as over-claiming 2 meals one month, or under claiming 4 meals on another month. This can only be accredited to human error involving adjustments necessary for afterschool snacks. We also began using a new counting/claims system during the 2012-2013 school year. Each month the claim numbers were pulled from each individual school and totaled but were not aware of a more reliable district wide report during that time. Since the audit, we have been made aware of a new district wide report that can be generated each month that combines all schools into a district wide total. This report will be used in the future to ensure that monthly claims match the district total reported by our counting/claim system.

The district wide report from the counting/claims system and the number of meals entered for reimbursement will be verified by the Board Treasurer, Amanda Morton, to ensure that claim counts are correct. Amanda will also be verifying that all required documentation is on file for snacks and/or meals served.

Comment: Upon review of student eligibility for free and reduced meal programs, we noted the student eligibility forms were not signed by the School Food Director to show review and approval. Instead, the School Food Director signed off on a printed list of students eligible for free and reduced meal programs. We recommend that each individual eligibility form is completed and signed by the School Food Director to document review and approval.

Response: When the School Food Service was last reviewed by KDE seven years ago, the reviewer indicated each individual application did not have to be signed. She suggested a roster be printed and signed by the Food Service Director for the applications. In response to the audit, all individual applications for the 2013-2014 school year will be signed by the School Food Director.

Comment: During our inventory observation, we discovered two inventory items at the Edmonson County High School cafeteria that were counted and recorded incorrectly on the count sheets. In addition, we discovered one item at the South Edmonson Elementary School cafeteria where the quantity of items recorded on the count sheet did not agree to the final inventory listing. We recommend establishing additional procedures to ensure inventory is counted correctly and the quantities are transferred appropriately from each individual school's count sheets to the final inventory listing used to calculate the monetary value of inventory.

Response: Kitchen managers are directed to conduct inventory counts and compare their count to the Food Usage Log that is kept daily. At this point, another food service employee then conducts a second count to ensure that numbers are correct. To strengthen internal controls the Food Service Director will randomly count inventory at each school at least two months during the school year to verify that inventory counts are accurate and reconciled. Year-end inventory counts will be verified by the Food Service Director to ensure accuracy of the monetary values.