

Financial Statements and  
Related Information

2013

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013



Strothman+Co

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**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

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## **Independent Auditors' Report**



Members of the Board  
Jefferson County Board of Education  
Louisville, Kentucky

### **Report on Financial Statement**

We have audited the accompanying combined statement of fiduciary net position of the Middle School Activity Funds (the "Activity Funds") of the Jefferson County Board of Education (the "Board") as of June 30, 2013, and the related notes to the financial statement, which collectively comprise the Activity Funds' financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the combined statement of fiduciary net position 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 a financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the combined statement of fiduciary net position 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined statement of fiduciary net position is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined statement of fiduciary net position. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Activity Funds' preparation and fair presentation of the financial statement 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 Activity Funds' 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 statement.

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

## Opinion

In our opinion, the combined statement of fiduciary net position referred to above presents fairly, in all material respects, the financial position of the Activity Funds of the Board as of June 30, 2013 in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (Unaudited) on pages 3 and 4 be presented to supplement the combined statement of fiduciary net position. Such information, although not a part of the financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Management's Discussion and Analysis (Unaudited) in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statement, and other knowledge we obtained during our audit of the financial statement. 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 an opinion on the combined statement of fiduciary net position taken as a whole. The combining information listed in the preceding table of contents on pages 9 through 16, is presented for purposes of additional analysis and are not a required part of the combined statement of fiduciary net position of the Activity Funds of the Board.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined statement of fiduciary net position. This information has been subjected to the auditing procedures applied in our audit of the financial statement and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined statement of fiduciary net position taken as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued a report dated November 11, 2013 on our consideration of the Activity Funds' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance related to the Activity Funds.

Stuchman & Company PSC

Louisville, Kentucky  
November 11, 2013

Management's Discussion and Analysis (Unaudited)

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

The management team of the Jefferson County Board of Education (the "Board") presents this Management's Discussion and Analysis (Unaudited) of the Middle School Activity Funds (the "Activity Funds") for the fiscal year ended June 30, 2013. Please read it in conjunction with the Activity Funds' financial statement on page 5.

**Government Structure**

The twenty-seven middle schools, special educational schools and other related facilities sponsor programs to supplement the activities provided by the Board. These supplemental activities are accounted for in various funds categorized by the particular activity or group involved. The Board prescribes policies for the supervision and administration of the Activity Funds, and generally has custodial responsibility over these funds. Such custodial responsibility is mandated by the Kentucky Department of Education.

**Basic Financial Statements**

This financial report includes the combined statement of fiduciary net position and combining statements of fiduciary net position and cash receipts and disbursements for all twenty-seven middle schools. The Independent Auditors' Report on this information precedes this Management's Discussion and Analysis (Unaudited).

The Activity Funds of the Board are being presented as agency funds in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and related standards.

**Financial Highlights**

Total assets of all Activity Funds amounted to \$1,523,640 at June 30, 2013, compared to \$1,453,823 of total assets in the prior year, which reflects an increase of \$69,817. At June 30, 2013, total assets consist primarily of cash and temporary cash investments totaling \$1,391,748, compared to June 30, 2012 which reflected cash and temporary cash investments of \$1,307,589. This increase in cash and temporary cash investments was due primarily to the excess of cash receipts over cash disbursements of \$104,159 during the fiscal year ended June 30, 2013. Total liabilities of all Activity Funds amounted to \$1,523,640 at June 30, 2013, compared to total liabilities of \$1,453,823 in the prior year.

Middle schools generate receipts for the Activity Funds primarily from student fees, athletic events admission, fund raising projects, donations and allocations from the Board. Cash receipts of the Activity Funds amounted to \$4,429,146 during the fiscal year ended June 30, 2013, which reflects a \$1,726 decrease from prior year's cash receipts of \$4,430,872. Disbursements by the Activity Funds amounted to \$4,324,987 and \$4,419,278 during the fiscal years ended June 30, 2013 and 2012, respectively.

Continued

Management's Discussion and Analysis (Unaudited)--Continued

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

**Contacting the Jefferson County Board of Education Financial Management**

This financial report is designed to provide a general overview of the finances of the Jefferson County Board of Education Middle School Activity Funds and to show management's accountability for these funds. If you have questions about this report or need additional information, contact the Chief Financial Officer/Treasurer of the Jefferson County Board of Education, P. O. Box 34020, Louisville, Kentucky 40232-3674.

Combined Statement of Fiduciary Net Position

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

**Assets**

Cash	\$ 1,264,182
Temporary cash investments	127,566
Accounts receivable	8,172
Inventory	<u>123,720</u>

**Total Assets** \$ 1,523,640

**Liabilities**

Accounts payable	\$ 45,161
Due to student groups	<u>1,478,479</u>

**Total Liabilities** \$ 1,523,640

See Notes to Combined Statement of Fiduciary Net Position

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

**Note A--Fund Structure and Summary of Significant Accounting Policies**

Fund Structure--The Jefferson County Board of Education (the "Board") Middle School Activity Funds (the "Activity Funds") provide funding for the programs in twenty-seven middle schools, special educational schools and other related facilities for Board sponsored programs, and to supplement the activities provided by the Board. The Board prescribes policies for the supervision and administration of the Activity Funds, in accordance with the requirements of the Kentucky Department of Education as set forth in its publication, "A Uniform Program of Accounting for School Activity Funds." Salaries for the treasurers of Activity Funds and other administrative support are paid by the Board and recorded in the Board's General Fund.

Middle schools generate revenue for the Activity Funds primarily from allocations from the Board, athletic event admissions, fund raising projects and donations.

Basis of Accounting--The combined statement of fiduciary net position of the Activity Funds has been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The combined statement of fiduciary net position was prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related standards.

The Activity Funds are fiduciary/agency funds of the Board. For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All fiduciary/agency funds are accounted for by using an economic resources measurement focus and the accrual basis of accounting.

Inventory--Inventory, consisting primarily of bookstore supplies and vending machine supplies, is stated at the lower of cost (using first-in, first-out method) or market.

Use of Estimates--The preparation of the combined statement of fiduciary net position requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of this financial statement. Actual results could differ from those estimates.

Subsequent Events--In preparing this financial statement, management of the Board has evaluated events and transactions for potential recognition or disclosure through November 11, 2013, the date the financial statement was available to be issued.

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

**Note B--Cash and Temporary Cash Investments**

Generally accepted accounting principles require the Activity Funds to disclose how they address custodial credit risk, interest rate risk, credit risk and concentration of credit risk.

Statutes authorize the Activity Funds to invest in the following:

- (1) Obligations of the United States and of its agencies and instrumentalities, repurchase agreements and specially approved AAA rated corporate bonds;
- (2) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities;
- (3) Any savings and loan associations insured by an agency of the United States up to the amount insured;
- (4) Interest bearing deposits in national and state banks chartered in Kentucky and insured by an agency of the United States up to the amount so insured, and in larger amounts providing such bank shall pledge securities having a current quoted market value at least equal to any uninsured deposits.

Temporary cash investments consist of certificates of deposit at various financial institutions located in Jefferson County, Kentucky, with various maturity dates and rates of interest. Such temporary cash investments are stated at cost, which approximates their market value.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Activity Funds' deposits may not be returned to it. All cash deposits and temporary cash investments of the Activity Funds are covered by depositor insurance provided by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor. Any amounts in excess of FDIC coverage are covered by pledged securities at the various financial institutions in the Board's name.

By investing in certificates of deposit, the Activity Funds have minimized their exposure to credit risk. Interest rate risk is minimized by primarily investing in certificates of deposits with maturity dates of one year or less.

Continued

Notes to Combined Statement of Fiduciary Net Position--Continued

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

**Note B--Cash and Temporary Cash Investments--Continued**

Temporary cash investment activity during the year ended June 30, 2013 is summarized as follows:

	<b>Temporary Cash Investments July 1, 2012</b>	<b>Deposits</b>	<b>Withdrawals</b>	<b>Temporary Cash Investments June 30, 2013</b>
Barret Traditional Middle School	\$ 25,000			\$ 25,000
Carrithers Middle School	15,000			15,000
Highland Middle School	5,038			5,038
Thomas Jefferson Middle School	10,000			10,000
Knight Middle School	10,000			10,000
Myers Middle School	20,000		\$ 20,000	
Noe Middle School	10,000			10,000
Stuart Middle School	52,528			52,528
	<u>\$ 147,566</u>	<u>\$</u>	<u>\$ 20,000</u>	<u>\$ 127,566</u>

**Note C--Due To Jefferson County Board of Education**

The amounts due to the Board consist primarily of supplies and services provided by the Board to the middle schools. These amounts are usually reimbursed to the Board promptly.

**Note D--Future Funding**

Funding for the Activity Funds is generally dependent upon the fund raising ability of the students, parents and others in the middle schools, and the success of the other programs. Continuation of the various activities in each middle school is predicated upon the ability of students, parents and others to raise funds, the students' intent to continue their activities, and upon the Board's continued support of these activities.

## Combining Information

Combining Statement of Fiduciary Net Position

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

	<u>Total</u>	<u>Barret Traditional Middle School</u>	<u>Binet School</u>	<u>Carrithers Middle School</u>
<b>Assets</b>				
Cash	\$ 1,264,182	\$ 138,261	\$ 36,211	\$ 30,609
Temporary cash investments	127,566	25,000		15,000
Accounts receivable	8,172	225	1,356	752
Inventory	<u>123,720</u>	<u>9,591</u>	<u>1,168</u>	<u>1,076</u>
<b>Total Assets</b>	<u><u>\$ 1,523,640</u></u>	<u><u>\$ 173,077</u></u>	<u><u>\$ 38,735</u></u>	<u><u>\$ 47,437</u></u>
<b>Liabilities</b>				
Accounts payable	\$ 45,161	\$ 934	\$ 2,802	\$ 613
Due to student groups	<u>1,478,479</u>	<u>172,143</u>	<u>35,933</u>	<u>46,824</u>
<b>Total Liabilities</b>	<u><u>\$ 1,523,640</u></u>	<u><u>\$ 173,077</u></u>	<u><u>\$ 38,735</u></u>	<u><u>\$ 47,437</u></u>

Continued

Combining Statement of Fiduciary Net Position--Continued

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

	<b>Conway Middle School</b>	<b>Crosby Middle School</b>	<b>Duvalle Education Center</b>	<b>Farnsley Middle School</b>
<b>Assets</b>				
Cash	\$ 41,897	\$ 119,455	\$ 3,562	\$ 76,265
Accounts receivable		100		
Inventory	472		929	1,016
	<u>472</u>	<u>100</u>	<u>929</u>	<u>1,016</u>
<b>Total Assets</b>	<b><u>\$ 42,369</u></b>	<b><u>\$ 119,555</u></b>	<b><u>\$ 4,491</u></b>	<b><u>\$ 77,281</u></b>
<b>Liabilities</b>				
Accounts payable	\$ 1,643	\$ 4,062		\$ 1,579
Due to student groups	40,726	115,493	\$ 4,491	75,702
	<u>40,726</u>	<u>115,493</u>	<u>\$ 4,491</u>	<u>75,702</u>
<b>Total Liabilities</b>	<b><u>\$ 42,369</u></b>	<b><u>\$ 119,555</u></b>	<b><u>\$ 4,491</u></b>	<b><u>\$ 77,281</u></b>

Continued

Combining Statement of Fiduciary Net Position--Continued

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

	<b>Frost Middle School</b>	<b>Highland Middle School</b>	<b>Jefferson County Traditional Middle School</b>	<b>Thomas Jefferson Middle School</b>
<b>Assets</b>				
Cash	\$ 11,191	\$ 62,702	\$ 55,161	\$ 19,781
Temporary cash investments		5,038		10,000
Accounts receivable				2
Inventory	644	48	12,353	11,809
<b>Total Assets</b>	<b>\$ 11,835</b>	<b>\$ 67,788</b>	<b>\$ 67,514</b>	<b>\$ 41,592</b>
<b>Liabilities</b>				
Accounts payable		\$ 110	\$ 24	\$ 296
Due to student groups	\$ 11,835	67,678	67,490	41,296
<b>Total Liabilities</b>	<b>\$ 11,835</b>	<b>\$ 67,788</b>	<b>\$ 67,514</b>	<b>\$ 41,592</b>

Continued

Combining Statement of Fiduciary Net Position--Continued

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

	<b>Johnson Traditional Middle School</b>	<b>Kammerer Middle School</b>	<b>Alex R. Kennedy Metro Middle School</b>	<b>Knight Middle School</b>
<b>Assets</b>				
Cash	\$ 100,427	\$ 117,501	\$ 13,056	\$ 717
Temporary cash investments				10,000
Accounts receivable				
Inventory	<u>19,980</u>	<u>1,852</u>	<u>16</u>	<u>587</u>
<b>Total Assets</b>	<b><u><u>\$ 120,407</u></u></b>	<b><u><u>\$ 119,353</u></u></b>	<b><u><u>\$ 13,072</u></u></b>	<b><u><u>\$ 11,304</u></u></b>
<b>Liabilities</b>				
Accounts payable	\$ 2,071	\$ 5,245		
Due to student groups	<u>118,336</u>	<u>114,108</u>	<u>\$ 13,072</u>	<u>\$ 11,304</u>
<b>Total Liabilities</b>	<b><u><u>\$ 120,407</u></u></b>	<b><u><u>\$ 119,353</u></u></b>	<b><u><u>\$ 13,072</u></u></b>	<b><u><u>\$ 11,304</u></u></b>

Continued

Combining Statement of Fiduciary Net Position--Continued

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

	<b>Lassiter Middle School</b>	<b>Meyzeek Middle School</b>	<b>Myers Middle School</b>	<b>Newburg Middle School</b>
<b>Assets</b>				
Cash	\$ 26,261	\$ 51,118	\$ 28,583	\$ 44,074
Temporary cash investments				
Accounts receivable			93	3,210
Inventory	<u>14,760</u>	<u>910</u>	<u>55</u>	<u>16,164</u>
<b>Total Assets</b>	<b><u>\$ 41,021</u></b>	<b><u>\$ 52,028</u></b>	<b><u>\$ 28,731</u></b>	<b><u>\$ 63,448</u></b>
<b>Liabilities</b>				
Accounts payable		\$ 599	\$ 825	\$ 3,056
Due to student groups	<u>\$ 41,021</u>	<u>51,429</u>	<u>27,906</u>	<u>60,392</u>
<b>Total Liabilities</b>	<b><u>\$ 41,021</u></b>	<b><u>\$ 52,028</u></b>	<b><u>\$ 28,731</u></b>	<b><u>\$ 63,448</u></b>

Continued

Combining Statement of Fiduciary Net Position--Continued

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

	<b>Noe Middle School</b>	<b>Olmsted Academy North</b>	<b>Olmsted Academy South</b>	<b>Ramsey Middle School</b>
<b>Assets</b>				
Cash	\$ 105,368	\$ 5,571	\$ 50,475	\$ 86,104
Temporary cash investments	10,000			
Accounts receivable	950	150	162	60
Inventory	5,531		7,870	7,921
	<u>5,531</u>	<u>150</u>	<u>7,870</u>	<u>7,921</u>
<b>Total Assets</b>	<b><u>\$ 121,849</u></b>	<b><u>\$ 5,721</u></b>	<b><u>\$ 58,507</u></b>	<b><u>\$ 94,085</u></b>
<b>Liabilities</b>				
Accounts payable	\$ 2,331	\$ 1,165	\$ 412	\$ 9,730
Due to student groups	119,518	4,556	58,095	84,355
	<u>119,518</u>	<u>4,556</u>	<u>58,095</u>	<u>84,355</u>
<b>Total Liabilities</b>	<b><u>\$ 121,849</u></b>	<b><u>\$ 5,721</u></b>	<b><u>\$ 58,507</u></b>	<b><u>\$ 94,085</u></b>

Continued

Combining Statement of Fiduciary Net Position--Continued

**Jefferson County Board of Education  
Middle School Activity Funds**

June 30, 2013

	<b>Stuart Middle School</b>	<b>Waller Williams Environmental School</b>	<b>Western Middle School</b>	<b>Westport Middle School</b>
<b>Assets</b>				
Cash	\$ 26,833	\$ 8,875	\$ 2,289	\$ 1,835
Temporary cash investments	52,528			
Accounts receivable	500		537	75
Inventory	6,997	52	117	1,802
<b>Total Assets</b>	<b><u>\$ 86,858</u></b>	<b><u>\$ 8,927</u></b>	<b><u>\$ 2,943</u></b>	<b><u>\$ 3,712</u></b>
<b>Liabilities</b>				
Accounts payable		\$ 115	\$ 1,061	\$ 6,488
Due to student groups	\$ 86,858	8,812	1,882	(2,776)
<b>Total Liabilities</b>	<b><u>\$ 86,858</u></b>	<b><u>\$ 8,927</u></b>	<b><u>\$ 2,943</u></b>	<b><u>\$ 3,712</u></b>

See Independent Auditors' Report

Combining Statement of Cash Receipts and Disbursements

**Jefferson County Board of Education  
Middle School Activity Funds**

Year Ended June 30, 2013

<u>Name of School</u>	<u>Cash Balance July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance June 30, 2013</u>
Barret Traditional Middle School	\$ 124,157	\$ 317,458	\$ 303,354	\$ 138,261
Binet School	32,541	52,221	48,551	36,211
Carrithers Middle School	16,742	97,437	83,570	30,609
Conway Middle School	42,611	154,450	155,164	41,897
Crosby Middle School	85,546	280,298	246,389	119,455
Duvalle Education Center	5,837	12,651	14,926	3,562
Farnsley Middle School	73,888	270,859	268,482	76,265
Frost Middle School	12,183	42,874	43,866	11,191
Highland Middle School	59,835	192,464	189,597	62,702
Jefferson County Traditional Middle School	52,628	298,520	295,987	55,161
Thomas Jefferson Middle School	22,597	126,164	128,980	19,781
Johnson Traditional Middle School	110,288	211,123	220,984	100,427
Kammerer Middle School	136,884	235,053	254,436	117,501
Alex R. Kennedy Metro Middle School	8,954	5,787	1,685	13,056
Knight Middle School	12,354	70,572	82,209	717
Lassiter Middle School	15,572	77,418	66,729	26,261
Meyzeek Middle School	37,510	372,534	358,926	51,118
Myers Middle School	1,862	101,402	74,681	28,583
Newburg Middle School	41,051	258,333	255,310	44,074
Noe Middle School	96,212	312,265	303,109	105,368
Olmsted Academy North	14,972	50,654	60,055	5,571
Olmsted Academy South	46,200	140,167	135,892	50,475
Ramsey Middle School	72,405	371,469	357,770	86,104
Stuart Middle School	26,011	116,465	115,643	26,833
Waller Williams Environmental School	9,651	12,159	12,935	8,875
Western Middle School	978	44,082	42,771	2,289
Westport Middle School	554	204,267	202,986	1,835
<b>Total</b>	<u>\$ 1,160,023</u>	<u>\$ 4,429,146</u>	<u>\$ 4,324,987</u>	<u>\$ 1,264,182</u>

See Independent Auditors' Report

**Report Required by *Government Auditing Standards***

**Independent Auditors' 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***

**Strothman and Company**  
*Certified Public Accountants and Advisors*  
1600 Waterfront Plaza  
325 West Main Street  
Louisville, KY 40202  
502 585 1600



**Independent Auditors' 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***

Members of the Board  
Jefferson County Board of Education  
Louisville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined statement of fiduciary net position of the Middle School Activity Funds (the "Activity Funds") of the Jefferson County Board of Education (the "Board") as of June 30, 2013, and the related notes to the financial statement, which collectively comprise the Activity Funds basic financial statements and have issued our report thereon dated November 11, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Activity Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined statement of fiduciary net position, but not for the purpose of expressing an opinion on the effectiveness of the Activity Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Activity Funds' 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 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 Activity Funds' combined statement of fiduciary net position 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 the 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.

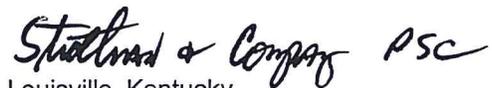
## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Activity Funds' combined statement of fiduciary net position is 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*.

We also noted certain other matters that we reported to management of the Board in a separate letter dated November 11, 2013.

## **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 Activity Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Activity Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Louisville, Kentucky  
November 11, 2013