

BALLARD COUNTY SCHOOL DISTRICT



FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-3
Required Supplementary Information:	
Management's Discussion and Analysis	4-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	13
Statement of Net Position - Proprietary Funds	14
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	15
Statement of Cash Flows - Proprietary Funds	16
Statement of Fiduciary Net Position - Fiduciary Funds	17
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	18
Notes to Financial Statements	19-35
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund	36
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - Special Revenue Fund	37
Other Supplementary Schedules and Supporting Information:	
Statement of Revenues, Expenditures, and Changes in Due to Student Groups and Others - Agency Funds:	
Ballard Memorial High School Activity Funds	38
Other School Activity Funds	39
Annual Financial Report Differences	40
General Fund:	
Schedule of Accounts Receivable	41
Schedule of Insurance Coverage	42-43
Members of the Ballard County Board of Education	44
Schedule of Expenditures of Federal Awards	45
Notes to the Schedule of Expenditures of Federal Awards	46
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47-48

(Continued)

	<u>Pages</u>
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	49-50
Schedule of Findings and Questioned Costs	51
Summary Schedule of Prior Audit Findings	52

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
ROBERT R. ROBERTSON
MARK A. THOMAS

G. LEON WILLIAMS, 1926-2004
H. WILLIAM LENTZ, 1925-2007
J. RICHARD WALKER
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
www.willcpa.com

Independent Auditor's Report

Kentucky State Committee for School
District Audits
Members of the Board
Ballard County School District
Barlow, 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 Ballard County School District as of and for the year ended June 30, 2014, 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 *Appendix I to the Independent Auditor's Contract – Audit Extension Request and Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Ballard County School District as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 36 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ballard County School District's basic financial statements. The additional information shown on pages 37 through 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014 on our consideration of Ballard County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ballard County School District's internal control over financial reporting and compliance.

Williams, Williams + Lentz, LLP

Paducah, Kentucky
November 5, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BALLARD COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014

As management of the Ballard County School District, we offer readers of the District's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning government wide net position for the District on July 1, 2013 was \$11,983,511. The ending government wide net position for the District on June 30, 2014 was \$12,895,019. This total incorporates all governmental and proprietary funds.
- Earnings on investments in governmental funds totaled \$977 which is \$3,210 decrease from the prior year.
- The General Fund had \$8,475,361 in revenue, excluding on-behalf payments and transfers, primarily from the state program (SEEK) and taxes. Excluding interfund transfers and on-behalf payments, there were \$8,425,746 in General Fund expenditures.
- The state did not mandate a salary increase for certified and classified employees.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

(Continued)

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$12.9 million as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; as a result, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

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

Net Position for the Years Ended June 30

	<u>2013</u>	<u>2014</u>
Current assets	\$ 4,298,327	\$ 4,508,85
Noncurrent assets	<u>24,828,328</u>	<u>24,078,761</u>
TOTAL ASSETS	<u>\$29,126,655</u>	<u>\$28,587,616</u>
DEFERRED OUTFLOW OF RESOURCES	<u>\$ 1,341,760</u>	<u>\$ 1,152,808</u>
Current liabilities	2,069,900	1,694,737
Noncurrent liabilities	<u>16,201,155</u>	<u>14,874,839</u>
TOTAL LIABILITIES	<u>\$18,271,055</u>	<u>\$16,569,576</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 321,283</u>	<u>\$ 275,829</u>
Investment in capital assets (net of debt)	8,630,695	9,015,181
Restricted	1,841,208	2,005,952
Unrestricted	<u>1,404,174</u>	<u>1,873,886</u>
TOTAL NET POSITION	<u>\$11,876,077</u>	<u>\$12,895,019</u>

(Continued)

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

- Technology purchases continued by replacing outdated systems.

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

Revenues:	<u>2013</u>	<u>2014</u>
Charges for services	\$ 315,812	\$ 338,223
Operating grants and contributions	2,588,550	2,175,067
Capital grants and contributions	1,536,047	489,986
Taxes	4,216,013	4,290,966
State aid	6,734,662	7,800,868
Investment earnings	4,187	1,010
Gain on sale of equipment/loss compensation	4,322	5,425
Federal aid	-	84,513
Other	<u>27,585</u>	<u>163,710</u>
Total revenues	<u>15,427,178</u>	<u>15,349,768</u>
Expenses:		
Instruction	7,124,021	7,130,595
Student support services	486,856	504,050
Instructional support	436,341	428,537
District administration	774,334	702,508
School administration	901,609	870,830
Business support	659,170	412,315
Plant operations	1,839,716	1,426,767
Student transportation	831,417	950,312
Central office support	-	-
Community support	93,884	98,581
Facility acquisition and construction	6,750	-
Interest on long-term debt	727,646	661,999
Food service operations	1,031,903	1,030,509
Day care operations	<u>114,719</u>	<u>113,823</u>
Total expenses	<u>15,028,366</u>	<u>14,330,826</u>
CHANGE IN NET POSITION	<u>\$ 398,812</u>	<u>\$ 1,018,942</u>

OVERVIEW OF FUND ACTIVITIES AND BUDGET

The majority of revenue was derived from state funding at 51%, taxes at 28%, and operating and capital grants and contributions at 17%. All other funding sources accounted for 4% percent of total governmental and business activity revenue.

Comments on Budget Comparisons

- During the fiscal year ended June 30, 2014, the District amended its General Fund budget numerous times. Most amendments were due to changes in expenditure priorities.
- The District's total General Fund revenues for the fiscal year ended June 30, 2014, net of on-behalf payments and transfers, were 8,475,361.
- General Fund budget, compared to actual revenue, excluding on-behalf payments, varied slightly from line item to line item; with the ending actual balance \$532,453 more than budget. This is due primarily to favorable variances in tax revenue.
- The total cost of all programs and services for the General Fund was \$8.4 million, net of interfund transfers and on-behalf payments.
- General Fund actual expenditures were \$1,410,086 less than budgeted expenses. A contingency of \$792,310 was budgeted for which there were no actual expenditures.

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the District had \$24,078,761 invested in land, buildings, and equipment net of depreciation. Of that amount, \$24,017,586 is in governmental activities.

See note 5 for a breakdown of additions by class on page 28.

Debt Administration

The District had \$16,272,290 in long-term liabilities outstanding on June 30, 2014. A total of \$1,397,451 is due within one year.

See note 6 on pages 29 through 31 for a detailed listing.

BUDGETARY IMPLICATIONS

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

By law, the District must maintain a 2% contingency. The District ended the year with a 20% contingency. The District has developed a budget for the next fiscal year that contains a 13% contingency. Significant District actions may impact this budget during the year.

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

BASIC FINANCIAL STATEMENTS

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$ 3,896,578	\$238,587	\$ 4,135,165
Accounts receivable:			
Taxes	137,320	-	137,320
Accounts	22,120	-	22,120
Intergovernmental - federal	184,684	-	184,684
Inventories	-	29,566	29,566
Nondepreciated capital assets:			
Land	283,628	-	283,628
Depreciated capital assets:			
Land improvements	1,808,187	-	1,808,187
Buildings	29,992,194	-	29,992,194
Furniture and equipment	3,813,222	284,492	4,097,714
Less: accumulated depreciation	<u>(11,879,645)</u>	<u>(223,317)</u>	<u>(12,102,962)</u>
Total assets	<u>28,258,288</u>	<u>329,328</u>	<u>28,587,616</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u> 			
Deferred bond discounts	15,883	-	15,883
Deferred savings from bond refunding	<u>1,136,925</u>	<u>-</u>	<u>1,136,925</u>
Total deferred outflows of resources	<u>1,152,808</u>	<u>-</u>	<u>1,152,808</u>
 <u>LIABILITIES</u> 			
Liabilities:			
Accounts payable	10,024	6,966	16,990
Advanced revenues	213,532	-	213,532
Long-term obligations:			
Due within one year:			
Bond obligations	1,296,411	-	1,296,411
Capital leases	15,966	-	15,966
Interest payable	66,764	-	66,764
KSBIT Assessment	85,074	-	85,074
Due beyond one year:			
Bond obligations	14,539,424	-	14,539,424
Capital leases	88,758	-	88,758
KSBIT Assessment	197,457	-	197,457
Accrued sick leave payable	<u>49,200</u>	<u>-</u>	<u>49,200</u>
Total liabilities	<u>16,562,610</u>	<u>6,966</u>	<u>16,569,576</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u> 			
Deferred bond premium	<u>275,829</u>	<u>-</u>	<u>275,829</u>
 <u>NET POSITION</u> 			
Net investment in capital assets	8,954,006	61,175	9,015,181
Restricted for:			
Capital projects	1,995,277	-	1,995,277
Sick leave	10,600	-	10,600
Debt service	75	-	75
Unrestricted	<u>1,612,699</u>	<u>261,187</u>	<u>1,873,886</u>
TOTAL NET POSITION	<u>\$12,572,657</u>	<u>\$322,362</u>	<u>\$12,895,019</u>

See notes to financial statements.

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Instruction	\$ 7,130,595	\$ -	\$ 843,095	\$ -
Support services:				
Student	504,050	-	135,583	-
Instructional staff	428,537	-	242,313	-
District administration	702,508	-	-	-
School administration	870,830	-	30,392	-
Business	412,315	-	41,424	-
Plant operations and maintenance	1,426,767	-	76,296	-
Student transportation	950,312	-	88,790	-
Community service	98,581	-	98,581	-
Facility acquisition and construction	-	-	-	405,780
Interest on long-term debt	661,999	-	-	41,246
Total governmental activities	<u>13,186,494</u>	<u>-</u>	<u>1,556,474</u>	<u>447,026</u>
Business-type Activities:				
Food services	1,030,509	244,420	618,593	42,960
Day care	113,823	93,803	-	-
Total business-type activities	<u>1,144,332</u>	<u>338,223</u>	<u>618,593</u>	<u>42,960</u>
TOTAL SCHOOL DISTRICT	<u><u>\$14,330,826</u></u>	<u><u>\$338,223</u></u>	<u><u>\$2,175,067</u></u>	<u><u>\$489,986</u></u>

General revenue and receipts:

Taxes:
Property
Motor vehicle
Utility
In lieu
Telecommunications
Omitted
State aid
State aid - on-behalf
Federal - formula grants
Investment earnings
Other

Special items:

Gain on sale of equipment

Total general revenue and special items

Change in net position

Net position, July 1, 2013, as previously stated
Adjustment to net position, see notes 16 and 17

Net position, July 1, 2013, as restated

NET POSITION, JUNE 30, 2014

See notes to financial statements.

**Net (Expense) Revenue and
Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$(6,287,500)	\$ -	\$ (6,287,500)
(368,467)	-	(368,467)
(186,224)	-	(186,224)
(702,508)	-	(702,508)
(840,438)	-	(840,438)
(370,891)	-	(370,891)
(1,350,471)	-	(1,350,471)
(861,522)	-	(861,522)
-	-	-
405,780	-	405,780
(620,753)	-	(620,753)
<u>(11,182,994)</u>	<u>-</u>	<u>(11,182,994)</u>
-	(124,536)	(124,536)
<u>-</u>	<u>(20,020)</u>	<u>(20,020)</u>
<u>-</u>	<u>(144,556)</u>	<u>(144,556)</u>
<u>(11,182,994)</u>	<u>(144,556)</u>	<u>(11,327,550)</u>
2,459,173	-	2,459,173
480,161	-	480,161
1,305,217	-	1,305,217
28,312	-	28,312
14,774	-	14,774
3,329	-	3,329
4,559,338	-	4,559,338
3,035,343	206,187	3,241,530
84,513	-	84,513
977	33	1,010
162,360	1,350	163,710
<u>5,425</u>	<u>-</u>	<u>5,425</u>
<u>12,138,922</u>	<u>207,570</u>	<u>12,346,492</u>
955,928	63,014	1,018,942
11,724,163	259,348	11,983,511
<u>(107,434)</u>	<u>-</u>	<u>(107,434)</u>
<u>11,616,729</u>	<u>259,348</u>	<u>11,876,077</u>
<u>\$12,572,657</u>	<u>\$322,362</u>	<u>\$12,895,019</u>

BALLARD COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue (Grant) Fund</u>	<u>Capital Outlay Fund</u>
Cash and cash equivalents	\$1,870,393	\$ 30,833	\$ 767,985
Accounts receivable:			
Taxes	137,320	-	-
Accounts	22,120	-	-
Intergovernmental - federal	-	184,684	-
TOTAL ASSETS	<u><u>\$2,029,833</u></u>	<u><u>\$ 215,517</u></u>	<u><u>\$ 767,985</u></u>
 LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 8,039	\$ 1,985	\$ -
Advanced revenues	-	213,532	-
Total liabilities	<u>8,039</u>	<u>215,517</u>	<u>-</u>
Fund Balances:			
Restricted for:			
Future construction contracts	-	-	767,985
Debt service	-	-	-
Sick leave	10,600	-	-
Committed for:			
Site based carry forward SBDM	32,419	-	-
Assigned for:			
Encumbrances	39,452	-	-
Unassigned	<u>1,939,323</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>2,021,794</u>	<u>-</u>	<u>767,985</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$2,029,833</u></u>	<u><u>\$ 215,517</u></u>	<u><u>\$ 767,985</u></u>

See notes to financial statements.

FSPK Fund	Debt Service Fund	Nonmajor Construction Fund	Total Governmental Funds
<u>\$1,206,902</u>	<u>\$ 75</u>	<u>\$20,390</u>	<u>\$3,896,578</u>
-	-	-	137,320
-	-	-	22,120
-	-	-	184,684
<u>\$1,206,902</u>	<u>\$ 75</u>	<u>\$20,390</u>	<u>\$4,240,702</u>

\$ -	\$ -	\$ -	\$ 10,024
-	-	-	213,532
-	-	-	223,556

1,206,902	-	20,390	1,995,277
-	75	-	75
-	-	-	10,600
-	-	-	32,419
-	-	-	39,452
-	-	-	1,939,323
<u>1,206,902</u>	<u>75</u>	<u>20,390</u>	<u>4,017,146</u>
<u>\$1,206,902</u>	<u>\$ 75</u>	<u>\$20,390</u>	<u>\$4,240,702</u>

BALLARD COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total fund balances per fund financial statement \$ 4,017,146

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.

Cost	\$35,897,231	
Accumulated depreciation	<u>(11,879,645)</u>	24,017,586

Deferred bond discounts and premiums are amortized in the governmental activities, but were recognized in full in the governmental funds.

Deferred bond discounts	15,883	
Deferred savings from bond refinancing	1,136,925	
Deferred bond premium	<u>(275,829)</u>	876,979

Certain liabilities are not reported in this fund financial statement because they are not currently due and payable, but they are presented in the statement of net position.

Interest payable		(66,764)
------------------	--	----------

Long-term liabilities 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:

Bond obligations	(15,835,835)	
Lease obligations	(104,724)	
KSBIT Assessment	(282,531)	
Accrued sick leave payable	<u>(49,200)</u>	<u>(16,272,290)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$12,572,657</u></u>
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Note: Construction was only nonmajor governmental fund.

See notes to financial statements.

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Special Revenue (Grant) Fund	Capital Outlay Fund
Revenues:			
Taxes	\$ 3,684,497	\$ -	\$ -
Earnings on investments	527	-	166
Intergovernmental - state	4,574,112	757,275	120,906
Intergovernmental - on-behalf	1,998,498	-	-
Intergovernmental - federal	84,513	799,198	-
Other	126,287	36,006	-
	<hr/>	<hr/>	<hr/>
Total revenues	10,468,434	1,592,479	121,072
Expenditures:			
Current:			
Instruction	5,487,956	898,447	-
Support services:			
Student	368,467	135,583	-
Instructional staff	186,224	242,313	-
District administration	818,782	-	-
School administration	840,438	30,392	-
Business	508,140	41,423	-
Plant operations and maintenance	1,340,537	76,296	-
Student transportation	843,165	88,790	-
Community service	-	98,581	-
Debt service:			
Principal	26,811	-	-
Interest and other charges	3,724	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	10,424,244	1,611,825	-
Excess (deficit) of revenues over expenditures	<hr/>	<hr/>	<hr/>
	44,190	(19,346)	121,072
Other Financing Sources (Uses):			
Proceeds from sale of assets	5,425	-	-
Operating transfers in	115,376	19,346	-
Operating transfers out	(19,346)	-	(115,376)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	101,455	19,346	(115,376)
Net change in fund balances	145,645	-	5,696
Fund balances, July 1, 2013	1,876,149	-	762,289
FUND BALANCES, JUNE 30, 2014	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 2,021,794	\$ -	\$ 767,985

See notes to financial statements.

FSPK Fund	Debt Service Fund	Nonmajor Construction Fund	Total Governmental Funds
\$ 591,694	\$ -	\$ -	\$ 4,276,191
275	9	-	977
284,874	-	-	5,737,167
-	1,036,845	-	3,035,343
-	41,246	-	924,957
-	67	-	162,360
<u>876,843</u>	<u>1,078,167</u>	<u>-</u>	<u>14,136,995</u>
-	-	-	6,386,403
-	-	-	504,050
-	-	-	428,537
-	-	-	818,782
-	-	-	870,830
-	-	-	549,563
-	-	-	1,416,833
-	-	-	931,955
-	-	-	98,581
-	1,250,740	-	1,277,551
-	525,322	-	529,046
<u>-</u>	<u>1,776,062</u>	<u>-</u>	<u>13,812,131</u>
<u>876,843</u>	<u>(697,895)</u>	<u>-</u>	<u>324,864</u>
-	-	-	5,425
-	697,970	-	832,692
<u>(697,970)</u>	<u>-</u>	<u>-</u>	<u>(832,692)</u>
<u>(697,970)</u>	<u>697,970</u>	<u>-</u>	<u>5,425</u>
178,873	75	-	330,289
1,028,029	-	20,390	3,686,857
<u>\$ 1,206,902</u>	<u>\$ 75</u>	<u>\$20,390</u>	<u>\$ 4,017,146</u>

BALLARD COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Net change in fund balances		\$ 330,289
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.</p>		
Depreciation expense	\$ (861,148)	
Capital outlays	<u>93,944</u>	(767,204)
<p>Bond and capital lease proceeds are reported as financing sources, in governmental funds and, thus, contribute to the change in fund balance. In the statement of net position, however, issuing debt and capital lease agreements increase long-term liabilities and do not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Capital lease payments	26,811	
Principal paid	<u>1,250,740</u>	1,277,551
<p>Governmental funds report the effect of discounts and premiums when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.</p>		
Amortization of bond discounts	(188,951)	
Amortization of bond premium	<u>45,453</u>	(143,498)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred. These net differences are as follows:</p>		
Long-term sick leave	102,952	
Accrued interest expense	10,546	
KSBIT Assessment	<u>145,292</u>	<u>258,790</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 955,928</u></u>

See notes to financial statements.

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

<u>ASSETS</u>	<u>Enterprise Funds</u>		
	<u>Food Services</u>	<u>Nonmajor Child Care Center</u>	<u>Totals</u>
Current Assets:			
Cash and cash equivalents	\$ 203,391	\$35,196	\$ 238,587
Inventories	29,566	-	29,566
Total current assets	<u>232,957</u>	<u>35,196</u>	<u>268,153</u>
Noncurrent Assets:			
Furniture and equipment	284,492	-	284,492
Less accumulated depreciation	<u>(223,317)</u>	<u>-</u>	<u>(223,317)</u>
Total noncurrent assets	<u>61,175</u>	<u>-</u>	<u>61,175</u>
TOTAL ASSETS	<u><u>\$ 294,132</u></u>	<u><u>\$35,196</u></u>	<u><u>\$ 329,328</u></u>
<u>LIABILITIES</u>			
Accounts payable	<u>\$ 6,966</u>	<u>\$ -</u>	<u>\$ 6,966</u>
<u>NET POSITION</u>			
Invested in capital assets	61,175	-	61,175
Encumbrances	-	79	79
Unrestricted	<u>225,991</u>	<u>35,117</u>	<u>261,108</u>
TOTAL NET POSITION	<u><u>\$ 287,166</u></u>	<u><u>\$35,196</u></u>	<u><u>\$ 322,362</u></u>

See notes to financial statements.

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Enterprise Funds		Totals
	Food Services	Nonmajor Child Care Center	
Operating Revenues:			
Lunchroom sales	\$ 244,420	\$ -	\$ 244,420
Other operating revenues	1,350	93,803	95,153
Total operating revenues	<u>245,770</u>	<u>93,803</u>	<u>339,573</u>
Operating Expenses:			
Salaries and wages	491,678	103,614	595,292
Professional and contract services	44,115	312	44,427
Materials and supplies	466,711	8,791	475,502
Depreciation expense	7,552	-	7,552
Other operating expenses	20,453	1,106	21,559
Total operating expenses	<u>1,030,509</u>	<u>113,823</u>	<u>1,144,332</u>
Operating loss	<u>(784,739)</u>	<u>(20,020)</u>	<u>(804,759)</u>
Non-Operating Revenues:			
Federal grants	558,840	-	558,840
Federal grants - in-kind commodities	50,714	-	50,714
State grants	9,039	-	9,039
State grants - on-behalf	184,880	21,307	206,187
Contributions and donations	42,960	-	42,960
Interest income	33	-	33
Total non-operating revenues	<u>846,466</u>	<u>21,307</u>	<u>867,773</u>
Change in net position	61,727	1,287	63,014
Net position, July 1, 2013	<u>225,439</u>	<u>33,909</u>	<u>259,348</u>
NET POSITION, JUNE 30, 2014	<u><u>\$ 287,166</u></u>	<u><u>\$ 35,196</u></u>	<u><u>\$ 322,362</u></u>

See notes to financial statements.

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Enterprise Funds		Totals
	Food Services	Nonmajor Child Care Center	
Cash Flows from Operating Activities:			
Cash received from:			
Lunchroom sales	\$ 244,420	\$ -	\$ 244,420
Other activities	1,350	93,803	95,153
Cash paid to/for:			
Employees	(491,678)	(103,614)	(595,292)
Supplies	(403,514)	(8,791)	(412,305)
Other activities	(64,568)	(1,418)	(65,986)
Net cash used by operating activities	<u>(713,990)</u>	<u>(20,020)</u>	<u>(734,010)</u>
Cash Flows from Non-Capital Financing Activities:			
Government grants	792,867	21,307	814,174
Contributions and donations	42,960	-	42,960
Net cash provided by non-capital financing activities	<u>835,827</u>	<u>21,307</u>	<u>857,134</u>
Cash Flows from Investing Activities:			
Purchase of capital assets	(25,189)	-	(25,189)
Receipt of interest income	33	-	33
Net cash used by investing activities	<u>(25,156)</u>	<u>-</u>	<u>(25,156)</u>
Net increase in cash and cash equivalents	96,681	1,287	97,968
Cash and cash equivalents, July 1, 2013	<u>106,710</u>	<u>33,909</u>	<u>140,619</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2014	<u><u>\$ 203,391</u></u>	<u><u>\$ 35,196</u></u>	<u><u>\$ 238,587</u></u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (784,739)	\$ (20,020)	\$ (804,759)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	7,552	-	7,552
Commodities used	50,714	-	50,714
Change in assets and liabilities:			
Inventory	5,517	-	5,517
Accounts payable	6,966	-	6,966
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (713,990)</u></u>	<u><u>\$ (20,020)</u></u>	<u><u>\$ (734,010)</u></u>
Schedule of Non-Cash Transactions:			
Donated commodities received from federal government	<u><u>\$ 50,714</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 50,714</u></u>

See notes to financial statements.

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private- Purpose Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$ 83,686	\$ 115,861
Accounts receivable	-	-
Investments	275,720	-
Total assets	<u>359,406</u>	<u>115,861</u>
Liabilities:		
Accounts payable	-	2,932
Due to student groups	-	32,115
Due to students in general	-	78,043
Due to teachers	-	2,771
Total liabilities	<u>-</u>	<u>115,861</u>
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	<u><u>\$ 359,406</u></u>	<u><u>\$ -</u></u>

See notes to financial statements.

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private- Purpose Trust Funds
Additions:	
Net interest and investment gains	\$ 3,928
Private donations	15,937
Total additions	19,865
Deductions:	
Benefits paid	8,004
Change in net position	11,861
Net position, beginning of year, as previously stated	346,649
Adjustment to net position, see note (1)	896
Net position, beginning of year, restated	347,545
NET POSITION, END OF YEAR	\$ 359,406

Note (1) - In fiscal year 2014, the District changed the accounting policy for the Ballard County School District Foundation. In prior years, these funds were accounted for as an agency fund. The funds are currently accounted for in the Private Purpose Trust Fund. Foundation funds amounted to \$896. Beginning net position has been adjusted to reflect this change in policy.

See notes to financial statements.

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 - Reporting Entity:

The Ballard County Board of Education, a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Ballard County, Kentucky. The Ballard County School District (District) receives funding from local, state, and federal government sources and must comply with the commitment requirement 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 because 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 and account groups relevant to the operation of the Ballard 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 District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations, nor has any influence over the operation of the organization.

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

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

Ballard County School Board Finance Corporation - In 1991, the Ballard County, Kentucky School District resolved to authorize the establishment of the Ballard County School Board Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Ballard County School District also comprise the Corporation's Board of Directors. There are no audited financial statements issued separately for this component unit.

Note 2 - Summary of Significant Accounting Policies:

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

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 all financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Basis of Presentation

Government-Wide Financial Statements

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements

The financial statements of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. 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 government funds are a balance sheet, which generally includes only current assets, current liabilities, fund balances, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenue and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resource measurement focus.

Fund Accounting

The District has the following funds:

a. 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 unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

a. Governmental Fund Types

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

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

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan. This is a major fund of the District.
2. 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 may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. 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 the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

b. Proprietary Funds (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). An amount of \$50,714 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

The Child Care Centers Fund is used to account for after school programs for students. Revenues are generated by collection of fees from program participants. Expenditures are for operating activities of the programs.

c. Fiduciary Fund Types (Private Purpose Trust Funds and Agency)

The Private Purpose Trust Fund accounts for scholarship funds that provide for the college education of deserving senior students, chosen under procedures determined by the District. These are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Only the corpus earnings may be spent for scholarships.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

Agency Funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The Agency Funds account 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.

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

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

Advanced Revenue – Advanced 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 advanced revenue.

Deferred Outflows and Deferred Inflows of Resources – Deferred outflows of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position by the government that is applicable to a future reporting period.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014 to finance operations were \$.518 per \$100 valuation for real property, \$.518 per \$100 valuation for business personal property, and \$.479 per \$100 valuation for motor vehicles.

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

Budgetary Process

Budgetary Basis of Accounting – The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Expenditures are recorded with paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Cash and Cash Equivalents

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

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the proprietary fund. Inventory consists of purchased food held for consumption and is expensed when used. The purchased food is valued at cost.

Debt Costs

Unamortized debt discounts of \$1,152,808 and unamortized premiums of \$275,829 are included in the government-wide statements as deferred outflows and deferred inflows of resources, respectively. Both debt discounts and premiums are amortized over the lives of the related debt issues using the effective interest method.

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.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Capital Assets

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 five thousand dollars with exception for real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Technology assets acquired through E-rate are capitalized at full cost with the portion paid by E-rate being treated as donated assets.

All capital assets except land 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 governmental and business-type capital assets:

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

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted a policy of providing at retirement a percentage of their accumulated unused sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts, when applicable, are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Accrued Liabilities and Long-Term Obligations

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

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Accrued Liabilities and Long-Term Obligations

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

Fund Balance Classifications

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 and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes 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.

Assigned fund balances are those 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 the District's Superintendent, or his designee, to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts, except 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. The general fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. The Board committed funds to ensure fund balance remains above this level. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 2 - Summary of Significant Accounting Policies:

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net position reports \$2,005,952 of restricted net position, of which \$10,600 is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from exchange transactions or ancillary activities.

Use of Restricted Sources

When an expense is incurred for which there are both restricted and unrestricted net position available, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

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 after non-operating revenues/expenses in proprietary funds. Interfund transfers between funds of the same type are eliminated in the government-wide statements. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 5, 2014, the date the financial statements were available to be issued.

Note 3 - Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 3 - Estimates:

During the fiscal year ended June 30, 2013, the District received notification from Kentucky School Boards Insurance Trust (KSBIT) of underfunded risk pools and KSBIT proposed a plan to the Kentucky Department of Insurance for assessment of current and former member participants. Under the plan, the District's portion of the assessment was estimated at \$427,823 and recorded in accounts payable in the government-wide statements as of June 30, 2013 for the estimated liability. During the current fiscal year, the final assessments were provided to the District in the amount of \$282,531 which is \$145,292 less than the original estimate. The liability reported in the government-wide statements has been adjusted to reflect the final assessment with the difference reducing current year expenses.

Note 4 - Cash and Cash Equivalents and Investments:

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

At year end, the carrying amount of the District's cash and cash equivalents was \$4,334,712, and the carrying amount of investments was \$275,720. The bank balance for cash and cash equivalents and certificates of deposit (investments valued at cost which represents fair market value and with maturity dates of greater than ninety days subsequent to year end) was \$3,951,017. Of the bank balance, \$525,795 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Of the remaining balance, \$3,425,222 was uninsured and collateralized with securities held by the pledging bank's agent, not in the District's name.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 5 - Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

Governmental Activities:	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Land	\$ 283,628	\$ -	\$ -	\$ 283,628
Land improvements	1,808,187	-	-	1,808,187
Buildings and improvements	29,992,194	-	-	29,992,194
Technology equipment	1,588,857	-	-	1,588,857
General equipment	350,059	8,820	-	358,879
Vehicles	<u>1,837,171</u>	<u>85,124</u>	<u>56,809</u>	<u>1,865,486</u>
Totals at historical cost	<u>35,860,096</u>	<u>93,944</u>	<u>56,809</u>	<u>35,897,231</u>
Less accumulated depreciation:				
Land improvements	1,050,812	47,602	-	1,098,414
Buildings and improvements	6,758,248	654,734	-	7,412,982
Technology equipment	1,505,997	45,592	-	1,551,589
General equipment	330,035	5,236	-	335,271
Vehicles	<u>1,430,214</u>	<u>107,984</u>	<u>56,809</u>	<u>1,481,389</u>
Total accumulated depreciation	<u>11,075,306</u>	<u>861,148</u>	<u>56,809</u>	<u>11,879,645</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS – NET	<u>\$24,784,790</u>	<u>\$(767,204)</u>	<u>\$ -</u>	<u>\$24,017,586</u>
Business-type Activities:	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Food service equipment	\$256,018	\$25,189	\$ -	\$281,207
Technology equipment	<u>3,285</u>	<u>-</u>	<u>-</u>	<u>3,285</u>
Totals at historical cost	<u>259,303</u>	<u>25,189</u>	<u>-</u>	<u>284,492</u>
Less accumulated depreciation:				
Food service equipment	212,480	7,552	-	220,032
Technology equipment	<u>3,285</u>	<u>-</u>	<u>-</u>	<u>3,285</u>
Total accumulated depreciation	<u>215,765</u>	<u>7,552</u>	<u>-</u>	<u>223,317</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS – NET	<u>\$ 43,538</u>	<u>\$17,637</u>	<u>\$ -</u>	<u>\$ 61,175</u>

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note 5 - Capital Assets:

Depreciation expense was charged to governmental functions as follows:

Instruction	\$744,191
Support services:	
District administration	3,541
Plant operations and maintenance	9,935
Student transportation	<u>103,481</u>
 TOTAL DEPRECIATION EXPENSE	 <u>\$861,148</u>

Note 6 - Bond and Lease Obligations:

The amount shown in the accompanying government-wide financial statements as bond and lease obligations represents the District's future obligations to make payments relating to the bonds and leases issued by the Fiscal Court of Ballard County and the Ballard County School Board Finance Corporation. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, the SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund, is obligated to make bond and lease payments. The agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court and the Ballard County School Board Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security for the holders of the bonds.

Bonds

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Outstanding Balance</u>	<u>Rates</u>
June 2004	\$18,490,000	\$ -	2.000% - 5.000%
December 2009	182,284	85,835	1.000% - 3.250%
March 2010	2,850,000	2,525,000	1.000% - 5.600%
March 2012	13,785,000	13,225,000	2.000% - 3.125%

On March 20, 2012, the Board issued revenue refunding bonds to advance refund the June 2004 series bonds. The net proceeds redeemed outstanding June 2004 series bonds maturing after June 1, 2014 in the principal amount of \$12,300,000, at the redemption price of 100%. The liability for the defeased bonds is not included in the District's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$1,548,998. This amount is treated as deferred outflows of resources and amortized over the remaining life of the refunded debt. The amortization for the year is \$187,349 and is included as a component of interest expense. This advance refunding was undertaken to reduce future total debt service payments over the next 10 years by \$994,564 with a resulting net economic loss of \$434,555.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note 6 - Bond and Lease Obligations:

In March 2010, the District issued \$2,850,000 in School Building Revenue Bonds which are Build America Bonds. The District will receive a subsidy payment from the federal government equal to 35% of each interest payment on the Build America Bonds. Beginning July 1, 2013, the federal government will only pay 92.8% of the eligible interest subsidy due to budget cuts.

In December 2009, the District issued bonds to redeem its outstanding February 1, 1998 KISTA project bonds. The liabilities for the defeased bonds are not included in the District's financial statements. The discounts associated with the early debt retirement of the issue are treated as deferred outflows of resources and amortized over the remaining life of the refunded debt. The total deferred discounts were \$1,823. The amortization for the year was \$220 and is included as a component of interest expense.

The KISTA project bonds provided funds for construction projects of the District. The District leases and rents the projects from KISTA on an annual basis. The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to maintain the projects in good repair over the life of the lease terms.

In 2004, 2009, 2010, and 2012, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amounts remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

All bonds may be called prior to maturity at dates and redemption premiums specified in each bond issue. In the government-wide financial statements bond premiums, discounts, and advanced refunding savings are deferred and amortized over the life of the bonds using the effective interest method as a component of interest expense. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2014 for debt service (principal and interest) are as follows:

<u>Fiscal Year</u>	<u>Ballard County School District</u>		<u>US Treasury Interest Subsidy</u>	<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014-2015	\$ 493,916	\$ 246,300	\$ (40,892)	\$ 802,495	\$ 234,350	\$ 1,736,169
2015-2016	503,429	235,603	(40,063)	818,668	218,178	1,735,815
2016-2017	511,552	224,318	(39,069)	835,224	201,620	1,733,645
2017-2018	520,277	212,697	(38,048)	852,163	184,683	1,731,772
2018-2019	531,542	199,316	(36,861)	871,569	165,278	1,730,844
2020-2024	2,934,169	723,814	(163,545)	4,555,831	426,274	8,476,543
2025-2029	1,297,487	294,096	(96,974)	17,513	4,469	1,516,591
2029-2030	<u>284,455</u>	<u>15,929</u>	<u>(5,275)</u>	<u>5,545</u>	<u>311</u>	<u>300,965</u>
TOTALS	<u>\$7,076,827</u>	<u>\$2,152,073</u>	<u>\$(460,727)</u>	<u>\$8,759,008</u>	<u>\$1,435,163</u>	<u>\$18,962,344</u>

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 6 - Bond and Lease Obligations:

Capital Leases

The KISTA school bus acquisition bonds provide for the title of the equipment (buses) to vest in the District subject to a first lien, and if nonrenewal or default occurs, the title will revert to KISTA. The District leases and rents the equipment from KISTA on an annual basis and has an exclusive option to renew this lease from year to year for the period of time of the pooled bond issue (approximately 10 years). The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to keep the equipment in good repair and provide insurance coverage.

The buses have a historical cost and accumulated amortization of \$274,811 and \$167,673, respectively, under the capital lease agreements. Amortization is included in depreciation expense. Future minimum lease payments at June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-2015	\$ 15,966	\$ 3,066	\$ 19,032
2015-2016	16,089	2,739	18,828
2016-2017	16,671	2,345	19,016
2017-2018	17,063	1,891	18,954
2018-2019	16,184	1,371	17,555
2019-2023	<u>22,751</u>	<u>1,134</u>	<u>23,885</u>
TOTALS	<u>\$104,724</u>	<u>\$12,546</u>	<u>\$117,270</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Bonds payable	\$17,086,575	\$ -	\$(1,250,740)	\$15,835,835	\$1,296,411
Capital Leases	<u>131,535</u>	<u>-</u>	<u>(26,811)</u>	<u>104,724</u>	<u>15,966</u>
Bond and lease obligations	17,218,110	-	(1,277,551)	15,940,559	1,312,377
Accumulated sick leave	152,152	-	(102,952)	49,200	-
KSBIT assessment	<u>427,823</u>	<u>-</u>	<u>(145,292)</u>	<u>282,531</u>	<u>85,074</u>
GOVERNMENTAL ACTIVITY					
LONG-TERM LIABILITIES	<u>\$17,798,085</u>	<u>\$ -</u>	<u>\$(1,525,795)</u>	<u>\$16,272,290</u>	<u>\$1,397,451</u>

Note 7 - Operating Leases:

On August 1, 1993, the District signed an agreement with the Murray Independent School District to lease physical facilities of the District to conduct Head Start programs. This agreement is renewable for twenty-nine one-year periods.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 8 - Retirement Plans:

Plan Descriptions

The Ballard County School District participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing multiple-employer defined benefit pension plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system and other public educational agencies in Kentucky.

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan administrator.

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

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

Funding Policies

Contribution rates are established by the Kentucky Revised Statutes. Plan members of KTRS are required to contribute 11.355% of their annual covered salary for fiscal year 2014. Plan members were required to contribute 10.855% for fiscal year 2013, and 10.355% for fiscal year 2012 if employed before July 1, 2008 and 10.855% if employed after July 1, 2008. The State provides a contribution of 14.605%, except for federal programs for fiscal year 2014. The 14.605% and matching contributions for covered salaries of federal programs are paid by those programs. The State contribution for fiscal year 2013 was 14.105%. The State contribution for fiscal year 2012 was 13.605% if employed before July 1, 2008 and 14.605% if employed after July 1, 2008. For fiscal years ended June 30, 2014, 2013, and 2012, the District contributed an additional 1.50%, 1.00%, and .50%, respectively for employee medical insurance. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education. Plan members of CERS are required to contribute 5.000% of their annual covered salary, and the Ballard County School District provides a contribution of 18.89% of that salary. The required District contribution rates for fiscal years ending June 30, 2013 and 2012 were 19.55% and 18.96%, respectively. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed by employees to a health insurance account. The District's total payroll for the years ended June 30, 2014, 2013, and 2012 were \$7,570,741, \$7,711,804, and \$8,352,253, respectively. Payroll for employees covered under KTRS for the years ended June 30, 2014, 2013, and 2012 were \$5,655,983, \$5,739,767, and \$6,169,986, respectively. For the years ended June 30, 2014, 2013, and 2012 the Commonwealth contributed \$707,795, \$671,906, and \$718,381, respectively, to KTRS for the benefit of participating employees. The District's contribution to KTRS for the years ended June 30, 2014, 2013, 2012 were \$82,155, \$81,585, and \$99,756, respectively, which relates to those employees covered by federal programs. The District's contribution requirements and the amounts contributed to CERS were \$352,228, \$303,633, and \$314,831, respectively, for the years ended June 30, 2014, 2013, and 2012.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note 9 - Benefits Funded by Kentucky State Department of Education:

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contributions to Kentucky Teachers' Retirement System	\$ 707,975
Technology	59,853
Debt Service	1,036,845
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	<u>1,436,857</u>
TOTAL	<u>\$3,241,530</u>

These payments are recorded in the General, Debt Service, Food Service, and Child Care Centers Funds as revenue and expenditures. The District is not legally responsible for these contributions. These payments are not budgeted by the District.

On-behalf contributions were charged to governmental functions as follows:

Instruction	\$1,029,623
Support services:	
Student	69,071
Instructional staff	35,030
District administration	153,566
School administration	157,583
Business	143,974
Plant operations and management	251,562
Student transportation	158,089
Food services	184,880
Child services	21,307
Debt service	<u>1,036,845</u>
TOTAL ON-BEHALF CONTRIBUTIONS	<u>\$3,241,530</u>

Note 10 - 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 governmental agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the 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 grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

Note 11 - Insurance and Related Activities:

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

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

Note 11 - Insurance and Related Activities:

The District purchases unemployment insurance coverage through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District carries commercial insurance for all other risk of loss, including the workers compensation and liability coverage listed on pages 43 and 44 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 12 - COBRA:

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

Note 13 - Excess of Expenditures over Appropriations:

The District has no fund with a deficit fund balance. The general fund had excess current year expenditures over current year appropriations totaling \$588,412. If on-behalf expenditures had been budgeted, current year expenditures would not have exceeded appropriations for the general fund.

Note 14 - Transfer of Funds:

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	Operating	\$ 19,346
Operating	310	1	Debt Service	115,376
Operating	320	400	Debt Service	697,970

Note 15 - Change in Accounting Standards:

In March 2012, GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes guidance for properly classifying 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 expenditures or revenues. The provisions of this statement are effective for fiscal year ended June 30, 2014.

The effect of this statement on the financial statements is the reclassification of deferred bond issue costs from an asset on the statement of net position to an expense in the year incurred and decreasing the net position balance as shown in Note 17. This statement reclassified deferred bond discounts and premiums as deferred outflows of resources and deferred inflows of resources, respectively.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The new standard addresses several issues regarding public pension plans, including the liabilities reported pertaining to unfunded portions and the disclosure requirements of those plans. GASB Statement No. 68 will be effective for the District for the fiscal year beginning July 1, 2014. The effects of the new standard on the District have yet to be determined.

(Continued)

BALLARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 16 - Restatement of Beginning Net Position:

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. According to this statement, issuance costs related to bond issues must be expensed in the year incurred rather than amortized over the life of the debt. This only affects the government-wide statements since issuance costs were already expensed in the year incurred on the fund statements. Unamortized debt issuance costs at June 30, 2013 totaled \$107,434. Beginning net position at July 1, 2013 has been adjusted to reflect this new standard.

Net position July 1, 2013, as previously stated	\$11,724,163
Reduction for bond issuance costs	<u>(107,434)</u>
Adjustment to net position	<u>(107,434)</u>
NET POSITION JULY 1, 2013, AS RESTATED	<u>\$11,616,729</u>

REQUIRED SUPPLEMENTARY INFORMATION

BALLARD COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$3,050,000	\$3,375,000	\$3,684,497	\$ 309,497
Other	32,933	32,000	126,814	94,814
Intergovernmental - state	4,820,484	4,575,594	4,574,112	(1,482)
Intergovernmental - on-behalf	-	-	1,998,498	1,998,498
Intergovernmental - federal	13,000	71,690	84,513	12,823
Other sources	99,500	4,000	120,801	116,801
Total revenues	8,015,917	8,058,284	10,589,235	2,530,951
Expenditures:				
Instruction	4,574,688	5,015,721	5,487,956	(472,235)
Support services:				
Student	352,469	291,625	368,467	(76,842)
Instructional staff	165,957	167,915	186,224	(18,309)
District administration	1,612,187	1,434,420	818,782	615,638
School administration	615,304	681,034	840,438	(159,404)
Business	383,466	399,231	508,140	(108,909)
Plant operations and maintenance	1,157,905	1,158,653	1,340,537	(181,884)
Student transportation	594,118	646,044	843,165	(197,121)
Debt service	43,168	30,535	30,535	-
Other	30,000	30,000	19,346	10,654
Total expenditures	9,529,262	9,855,178	10,443,590	(588,412)
Excess (deficit) of revenues over expenditures and net change in fund balances	(1,513,345)	(1,796,894)	145,645	1,942,539
Fund balances, July 1, 2013	1,513,345	1,796,894	1,876,149	79,255
FUND BALANCES, JUNE 30, 2014	\$ -	\$ -	\$2,021,794	\$2,021,794

Note 1 - Benefits Funded by Kentucky State Department of Education:

The budget presented for the General Fund does not include on-behalf payments provided by the Kentucky State Department of Education. If on-behalf payments had been included, budgetary revenues would total \$10,056,782 and budgetary expenditures would total \$11,853,676.

BALLARD COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources	\$ 51,799	\$ -	\$ 36,006	\$ 36,006
Intergovernmental - state	123,157	756,468	757,275	807
Intergovernmental - federal	433,136	986,121	799,198	(186,923)
Other sources	10,654	30,000	19,346	(10,654)
Total revenues	618,746	1,772,589	1,611,825	(160,764)
Expenditures:				
Instruction	450,584	1,030,930	898,447	132,483
Support services:				
Student	437	135,837	135,583	254
Instructional staff	51,343	227,439	242,313	(14,874)
School administration	(9,719)	20,672	30,392	(9,720)
Business	60,000	80,000	41,423	38,577
Plant operations and maintenance	15,920	85,853	76,296	9,557
Student transportation	37,065	115,038	88,790	26,248
Community service activities	(14,732)	76,820	98,581	(21,761)
Total expenditures	590,898	1,772,589	1,611,825	160,764
Excess (deficit) of revenues over expenditures and net change in fund balances	27,848	-	-	-
Fund balances, July 1, 2013	-	-	-	-
FUND BALANCES, JUNE 30, 2014	\$ 27,848	\$ -	\$ -	\$ -

OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
BALLARD MEMORIAL HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Due to Student Groups and Others July 1, 2013	Revenues Actual (1)	Expenditures Actual (1)	Interfund Transfers	Due to Student Groups and Others June 30, 2014
	\$ -	\$ -	\$ -	\$ -	\$ -
Academic Team	-	-	-	-	-
All test	79	1,944	2,107	84	-
AP Test Fund	-	-	-	-	-
Art Club Fund	89	1,471	558	-	1,002
Athletic Fund	640	68,651	68,660	558	1,189
Beta Fund	1,266	6,387	6,021	-	1,632
Boys' Basketball	921	5,356	4,817	(156)	1,304
Cheerleader Fund	615	16,044	16,559	(10)	90
Chorus	1,508	24,341	24,756	(175)	918
Cross Country	-	-	-	-	-
FACS Fund	173	1,159	1,250	75	157
FCA Fund	-	-	-	-	-
FCCLA Fund	307	3,769	2,755	-	1,321
Football	775	712	1,336	(76)	75
General Fund	-	-	-	-	-
Girls' Basketball Fund	9	3,324	1,897	(283)	1,153
Golf	1,016	158	870	(100)	204
HS Play	909	2,053	1,652	-	1,310
Instructional Material Fund	4,915	3,503	7,806	(85)	527
John Walker Memorial	925	-	500	-	425
Junior Class Fund	213	-	-	(213)	-
Library Fund	918	382	404	148	1,044
Math Department	391	30	276	-	145
Media	3,548	1,961	1,436	-	4,073
Parking Tags	150	735	362	-	523
Project Graduation	385	24,152	21,006	(500)	3,031
Science Department	432	-	122	-	310
Soccer	-	250	674	424	-
Senior Class	-	-	-	-	-
Spanish Club Fund	281	-	-	-	281
Sportsmen's Club	-	-	-	-	-
Student Council Fund	555	5,866	5,695	254	980
Student Fund	2,233	8,049	5,285	539	5,536
Teachers' Fund	863	366	1,146	-	83
Tennis	266	-	-	(266)	-
Testing Team Shirts	-	-	-	-	-
Track Fund	3,459	-	2,932	(180)	347
Volleyball	-	5,360	4,063	-	1,297
Will Mallory Memorial Fund	2,355	-	-	-	2,355
Yearbook Fund	13,854	8,830	12,663	(38)	9,983
TOTALS	\$ 44,050	\$ 194,853	\$ 197,608	\$ -	\$ 41,295

(1) Included in revenues and expenditures are interfund transfers in the amount of \$2,719.

See auditor's report on pages 1-2.

BALLARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
OTHER SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Ballard County Middle	Ballard County Elementary	Career and Technical Center	Preschool	Totals
Due to student groups and others, July 1, 2013	<u>\$ 28,040</u>	<u>\$ 39,228</u>	<u>\$22,595</u>	<u>\$ 49,051</u>	<u>\$ 138,914</u>
Revenues:					
Student activities	<u>57,595</u>	<u>75,865</u>	<u>44,068</u>	<u>26,390</u>	<u>203,918</u>
Expenditures:					
Student activities	<u>62,407</u>	<u>111,337</u>	<u>57,942</u>	<u>39,512</u>	<u>271,198</u>
DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2014	<u><u>\$ 23,228</u></u>	<u><u>\$ 3,756</u></u>	<u><u>\$ 8,721</u></u>	<u><u>\$ 35,929</u></u>	<u><u>\$ 71,634</u></u>

See auditor's report on pages 1-2.

BALLARD COUNTY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT DIFFERENCES
FOR THE YEAR ENDED JUNE 30, 2014

The District has state on-behalf amounts included in total revenue from state sources in the District's AFR as specified by the Kentucky Department of Education. These funds are reported as intergovernmental revenues - on-behalf or state grants - on-behalf in the financial statements. The District also has child nutrition donated commodities included in the total revenue from federal sources in the District's AFR. These funds are recorded as federal grants - in-kind commodities in the financial statements. The following is a reconciliation of the receipts reported in the District's AFR with that shown in the financial statements.

General Fund:

Revenue from state sources reported to the Department of Education	\$ 6,572,610
On-behalf/state sources	<u>(1,998,498)</u>
Amount per financial statements	<u><u>\$ 4,574,112</u></u>

Debt Service:

Revenue from state sources reported to the Department of Education	\$ 1,036,845
On-behalf/state sources	<u>(1,036,845)</u>
Amount per financial statements	<u><u>\$ -</u></u>

Food Service:

Revenue from state sources reported to the Department of Education	\$ 193,919
On-behalf/state sources	<u>(184,880)</u>
Amount per financial statements	<u><u>\$ 9,039</u></u>
Revenue from federal sources reported to the Department of Education	\$ 609,554
In-kind donated commodities	<u>(50,714)</u>
Amount per financial statements	<u><u>\$ 558,840</u></u>

Child Care Center:

Revenue from state sources reported to the Department of Education	\$ 21,307
On-behalf/state sources	<u>(21,307)</u>
Amount per financial statements	<u><u>\$ -</u></u>

BALLARD COUNTY SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
JUNE 30, 2014

General Fund:

Accounts receivable reported in the District's annual financial report to the State Department of Education, Division of Finance	\$ 128,320
Additional accounts receivable recorded subsequent to the annual financial report	
Kentucky Department of Revenue - omitted property tax	1,355
Kentucky Department of Revenue - motor vehicle tax	9,022
Kentucky School Board Insurance Trust - unemployment refund	20,068
Ballard County Sheriff - franchise tax	245
Pepsi Mid-America - commissions	430
	<hr/>
TOTAL ACCOUNTS RECEIVABLE	<u><u>\$ 159,440</u></u>

See auditor's report on pages 1-2.

BALLARD COUNTY SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
 JUNE 30, 2014

Fire and Extended Coverage - 90%	Expires	Building	Contents
Co-Insurance:			
Ballard County Elementary School	7/1/14	\$ 15,416,801	\$ 2,037,300
LaCenter School - Preschool/Headstart	7/1/14	2,928,325	385,800
LaCenter Activity Building - Preschool Gym	7/1/14	1,361,360	104,040
LaCenter Shop - Preschool storage	7/1/14	-	7,100
Ballard County Jr./Sr. High School & Gym	7/1/14	30,482,142	3,265,700
Ballard Memorial Shop	7/1/14	928,219	40,000
Ballard County Board of Education - Bus Garage	7/1/14	926,542	50,000
Vocational School	7/1/14	5,608,857	600,000
Central Office Building	7/1/14	612,861	94,000
Football Field House	7/1/14	405,697	66,795
Central Storage and Vocational Storage	7/1/14	471,862	61,000
Property in the open	7/1/14	-	715,800
Press Box & Bleachers	7/1/14	-	100,000
Athletic Training Facility	7/1/14	878,085	50,000
Grace United Methodist Church	7/1/14	2,466,048	25,000
TOTALS		<u>\$ 62,486,799</u>	<u>\$ 7,602,535</u>

Collision, Comprehensive, and Property Damage:	Amount of Coverage	
School buses and other vehicles:		
Liability	7/1/14	\$ 2,000,000
Uninsured motorist	7/1/14	500,000
Underinsured motorist	7/1/14	500,000
Educator's Legal Liability (Errors and Omissions):		
Ballard County Board of Education, Superintendent, Board Members and employees	7/1/14	1,000,000
General Liability:		
Ballard County Board of Education, Superintendent and employees	7/1/14	2,000,000
Umbrella Coverage	7/1/14	5,000,000
Workmen's compensation insurance	7/1/14	Statutory
Blanket fidelity bond - all employees	7/1/14	25,000
Equipment Floater	7/1/14	25,490

(Continued)

BALLARD COUNTY BOARD OF EDUCATION
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2014

General Liability:	<u>Expires</u>	<u>Amount of Coverage</u>
Treasurer's bond	6/30/14	\$300,000
Weight wagon - vocational school 1 Acre Farm	2/27/15	5,000
Depository Bonds:		
Regions Bank:		
U.S. Government Securities	6/30/15	103% of daily deposits above FDIC insured limits

See auditor's report on pages 1-2.

**MEMBERS OF THE BALLARD COUNTY BOARD OF EDUCATION
AS OF JUNE 30, 2014**

<u>Name</u>	<u>Address</u>	<u>Date Elected</u>	<u>Term Expires</u>
Haskell Sheeks Chair	2012 Deerfield Lane Wickliffe, Kentucky	November 2011	December 2014
Karen Tilford Vice Chair	868 E Clarkline Road Kevil, Kentucky	November 2011	December 2014
Kent Gordon	436 Gordon Lane LaCenter, Kentucky	June 2013	December 2014
Cara Hunt Mills	1332 Batta Road Wickliffe, Kentucky	January 2013	December 2016
Tammy Dennis	1935 Borden Road Wickliffe, Kentucky	January 2013	December 2016

Other Officials:

Casey Allen, Superintendent and Secretary of the Board

Kim Bailey, Treasurer of the Board

BALLARD COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Totals</u>
U.S. Department of Education:				
Passed-through Kentucky Department of Education:				
Special Education - Grants to States (IDEA, Part B)	84.027	3810002 12 3810002 13	\$ 98,775 <u>173,717</u>	\$ 272,492
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002 12 3800002 13	30,391 <u>7,958</u>	<u>38,349</u>
Special Education Cluster Sub-Total				310,841
Title I Grants to Local Educational Agencies (LEAs)	84.010	3100002 12 3100002 13	2,800 <u>203,227</u>	206,027
Improving Teacher Quality State Grants	84.367	3230002 12 3230002 13	8,115 <u>43,513</u>	51,628
Rural Education	84.358	3140002 13	<u>20,544</u>	20,544
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	4621332 13 3710002 13	719 <u>5,603</u>	6,322
Twenty-First Century Community Learning Centers	84.287	3400002 11 3400002 12	27,116 <u>173,504</u>	200,620
Race to Top	84.414	3960002 11	<u>3,216</u>	<u>3,216</u>
Total U.S. Department of Education				<u>799,198</u>
U.S. Department of Agriculture:				
Passed-through Kentucky Department of Agriculture:				
School Breakfast Program	10.553	7760005 13 7760005 14	30,170 <u>101,267</u>	131,437
National School Lunch Program	10.555	7750002 13 7750002 14	94,883 <u>332,520</u>	
Passed through State Department of Agriculture National School Lunch Program - Non-monetary Food Distribution (1)	10.555	2014	<u>50,714</u>	<u>478,117</u>
Child Nutrition Cluster Sub-Total				<u>609,554</u>
Total U.S. Department of Agriculture				609,554
U.S. Department of Health and Human Services:				
Passed-through Murray, KY Board of Education:				
Head Start	93.600	6554	<u>61,690</u>	<u>61,690</u>
TOTAL FEDERAL AWARDS				<u><u>\$ 1,470,442</u></u>

BALLARD COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

- (1) Expense recognized is the total dollar value of commodities used during the year. Amounts are based on dollar values reported by the State Department of Agriculture. This amount is included in the combined statement of revenues, expenditures, and changes in net assets.

Note 1 - Basis of Presentation:

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

Note 2 - Federal Awards Reconciliation:

In March 2012, the Ballard County School District issued School Building Revenue Bonds which are Build America Bonds. The United States Treasury will pay the semi-annual interest on these bonds directly to the issuer or its designee paying agent and be applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Interest subsidy payments are reported as intergovernmental federal revenues and interest expense on the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, they are not required to be reported on the Schedule of Expenditures of Federal Awards. Federal revenues reflected in the general fund include reimbursements for Medicaid claims and are not included in the Schedule of Expenditures of Federal Awards.

Federal revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds	\$ 924,957
Federal grants as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	558,840
Federal grants – in-kind commodities as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	<u>50,714</u>
Total federal expenditures	1,534,511
Less federal interest subsidy	(41,246)
Less Medicaid claims	<u>(22,823)</u>
TOTAL FEDERAL AWARDS	<u>\$1,470,442</u>

See auditor's report on pages 1-3.

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
ROBERT R. ROBERTSON
MARK A. THOMAS

G. LEON WILLIAMS, 1926-2004
H. WILLIAM LENTZ, 1925-2007
J. RICHARD WALKER
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
www.willcpa.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
Ballard County School District
Barlow, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – Audit Extension Request and Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ballard County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Ballard County School District's basic financial statements, and have issued our report thereon dated November 5, 2014.

Internal Control Over Financial Reporting

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

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

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 Ballard County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations prescribed by the Kentucky State Committee for School District Audits in *the Independent Auditor's Contract*.

We noted certain matters that we reported to management of Ballard County School District in a separate report letter dated November 5, 2014.

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.

Williams, Williams + Lentz, LLP

Paducah, Kentucky
November 5, 2014

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
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G. LEON WILLIAMS, 1926-2004
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J. RICHARD WALKER
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
www.willcpa.com

**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
Audits of School Districts
Members of the Board of Education
Ballard County School District
Bardwell, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Ballard County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ballard County School District's major federal programs for the year ended June 30, 2014. Ballard County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Ballard County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Williams, Williams + Lentz, LLP

Paducah, Kentucky
November 5, 2014

BALLARD COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

A. Summary of Audit Results:

1. The auditor’s report expresses an unqualified opinion on the financial statements of the Ballard County School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor’s Report. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Ballard County School District which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor’s Report On Compliance for Each Major Program and On Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The auditor’s report on compliance for the major federal awards programs for the Ballard County School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
5. The programs tested as major programs included:

Name	CFDA #
Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
National School Lunch Program – Non-monetary Food Distribution	10.555
 Cluster:	
Special Education – Grants to States (IDEA, Part B)	84.027
Special Education – Preschool Grants (IDEA Preschool)	84.173

6. The threshold for distinguishing between Type A and B programs was \$300,000.
7. The Ballard County School District did not qualify to be a low-risk auditee.

B. Findings - Financial Statements Audit:

None

C. Findings and Questioned Costs - Major Federal Programs:

None

BALLARD COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

There are no prior year findings to report.

Statement of Certification

State Committee for School District Audits

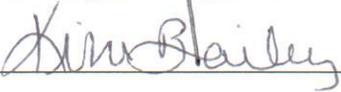
Frankfort, KY

The Ballard County School District certifies that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report.

SUBMITTED, October 28, 2014



Superintendent



Finance Officer

One scanned or hard copy statement is due to KDE on or before November 15, 2014. **Please send hard copy to:**

**Division of District Support
Kentucky Department of Education
500 Mero Street, CPT 15th Floor
Frankfort, KY 40601**

Please send scanned copy to:

Finance.Reports@education.ky.gov
with the "DISTRICT NAME - SOC"
in the subject line (SUBJECT: DISTRICT NAME - SOC)

BALLARD COUNTY SCHOOL DISTRICT



MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2014

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
601 JEFFERSON
PADUCAH, KENTUCKY 42001

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
ROBERT R. ROBERTSON
MARK A. THOMAS

G. LEON WILLIAMS, 1926-2004
H. WILLIAM LENTZ, 1925-2007
J. RICHARD WALKER
JERRY G. SEVERNS

MAILING ADDRESS
POST OFFICE BOX 2500
PADUCAH, KY 42002-2500

TELEPHONE
270-443-3643

FAX
270-444-0652

WEBSITE
www.lcpa.com

Ballard County School District
Members of the Board
Barlow, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ballard County School District as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Ballard County School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. This letter does not affect our report dated November 5, 2014 on the financial statements of Ballard County School District.

SEGREGATION OF DUTIES

Finding: As previously noted, the proper segregation of duties does not exist.

Criteria: This District is small and it is not feasible to hire additional staff necessary to provide the proper segregation of duties.

Cause: The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Effect: Weaknesses in internal controls can create the possibility for the misappropriation of assets and/or fraudulent financial reporting.

Recommendation: Lack of proper segregation of duties dictates that the board continues to be involved in the financial affairs of the District to provide oversight and independent review functions. The Superintendent should review journal entries in addition to the year-to-date budget reports received each month.

Management's Response: The board will continue to be involved in the financial affairs of the district. The Superintendent will continue to review journal entries and the year to date budget reports each month.

DISBURSEMENTS

Finding: Six purchase orders were dated and approved after the invoice/purchase date. Three purchase orders not filled out completely prior to approval.

Criteria: Purchase orders are prepared on a 3-part form for most goods. For site-based funds, the principal issues an approved purchase order from the teachers' written purchase request. For programs, such as IDEA or Title I, the program coordinator issues an approved purchase order from either a written or verbal request.

For district purchases, purchase orders are approved by the Superintendent. When a purchase order is approved, one copy is sent to the vendor, one copy to the accounts payable clerk, and one copy is retained. Purchase orders should be filled out completely including: school, date, function, account code, quantity, description, estimated amount, signature of approval. The purchase order should not include a description that is the invoice number and invoice amount or wait until the purchase is made to fill in the amount.

Cause: There was a breakdown in internal controls over purchases.

Effect: Purchase order procedures serve as an approval mechanism for management. Approval before the purchase is made allows management to ensure that appropriate funds are available and that purchases are for allowed expenditures. Weakness in this internal control could serve as a way to misappropriate funds.

Recommendation: The individuals in charge of purchases should always make sure there is a complete and appropriately approved purchase order prior to purchase.

Management's Response: Purchase order processing procedures will be discussed with directors and we will be more diligent in making sure everything is correct before processing.

Finding: Invoices were not approved for payment.

Criteria: Invoices may be approved by signature on the actual invoice or by signature on the request for payment, which lists the invoices individually.

Cause: There was breakdown in internal controls over disbursements.

Effect: Approval for payment serves as an internal control for management to ensure that disbursements are made for approved purchases. Weakness in this internal control could serve as a way to misappropriate funds.

Recommendation: The individual in charge of disbursements should always make sure there is proper documentation and approvals prior to disbursing funds. Approvals on the purchase order authorize the purchase, while signatures on the invoice authorize the payment. These are two separate controls and should both be present.

Management's Response: The accounts payable clerk will make sure all invoices have the approval for payment and will return to correct if not.

Finding: There was no shipping documentation or packing slip with initials of person receiving goods included with supporting documentation on one disbursement.

Criteria: When the goods and the invoice arrive, the person who placed the order checks the items received against the invoice and purchase order. If a packing slip is present, it is dated and initialed and any overage or shortage noted.

Cause: This was a breakdown in internal controls over purchases and disbursements.

Effect: This internal control serves to provide accountability and reassurance that all goods ordered/purchased were actually received. This mitigates the risk of paying an invoice for which items have not yet been received. It also mitigates the risk of unauthorized purchases through the District that may be shipped to another location. A weakness in this internal control could serve as a way to misappropriate assets.

Recommendation: The individuals in charge of disbursements should always make sure there is proper documentation and approvals prior to disbursing funds.

Management's Response: The accounts payable will not process without proper documentation.

Finding: One individual enters all purchase orders, posts all accounts payable, pays bills, prints checks, attaches checks to invoices, and mails the checks. An individual other than the accounts payable clerk does reconcile the checking account.

Criteria: The individual entering purchase orders, posting accounts payable and paying the bills, should not be the same person opening the mail and attaching checks to invoices and mailing them.

Cause: There is a lack of segregation of duties over accounts payable.

Effect: There is only one set of eyes over accounts payable transactions. The risk of undetected keying errors increase as well as the risk of unauthorized purchases.

Recommendation: Someone other than the accounts payable clerk should review/compare checks printed by the accounts payable clerk against approved invoices and warrants for correct amounts, dates and payees. The same individual should attach the checks to the invoices and mail them.

Management's Response: The superintendent will assign the duty of comparing checks printed to approved invoices and warrants for correct amounts, dates and payees. This person will also attach the checks to invoices and mail.

All prior year comments appear to have been properly addressed.

ACTIVITY FUNDS

The following findings on the activity funds are listed by school in order to ensure the personnel in charge obtain the appropriate recommendations.

Ballard Memorial High School

Finding: We noted two old outstanding checks.

Criteria: Old outstanding checks greater than 90 days should be investigated to determine if checks should be voided as a negative disbursement and/or reissued.

Cause: The checks may not have been cashed for several reasons, including but not limited to, misplacement of check or check was lost in route to vendor through the mail.

Effect: These checks could represent errors in bank reconciliations or methods of covering up fraudulent activity. These checks could also represent overdue bills if vendors never received payment.

Recommendation: Outstanding checks greater than 90 days old should be investigated to see if they need to be voided and/or reissued.

Management's Response: The new high school treasurer will investigate the two outstanding checks and either void or rewrite.

Finding: Several activity fund accounts had excessive balances at year end.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), school activity funds are raised for a specific function or purpose during a specific fiscal year and must be used for that specific function during that period. Due to timing of fundraiser activities, a school may carry forward funds from year to year. However, the carry over balances should not be excessive and should be associated with a specific expense that was not paid by the end of the fiscal year. If extra funds were raised over expenditures, the activity fund group should vote on how to handle the extra funds at year end.

Cause: Fees and fundraising receipts were more than actual expenditures.

Effect: Activity funds are intended for the use of the students that actually paid or raised the funds. Excessive funds could cause the student organization to be prohibited from fundraising until excessive fund/balances have been appropriately used.

Recommendation: Principal and central fund treasurer should evaluate activity fund balances on a regular basis, especially year end, for excessive amounts and evaluate if the specific student organization should be prohibited from fundraising until the excessive balance have decreased appropriately or if the funds should be transferred to the general fund for the benefit of the entire student body.

Management's Response: The principal and treasurer will evaluate activity fund balances on a regular basis and determine the course of action needed.

Finding: Signature stamps are still in use on disbursements and supporting documentation.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), signature stamps are not permitted to be used for indicating approval of activity fund checks or any other financial documents.

Cause: There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

Effect: Signature stamps do not provide the assurance required that proper segregation of duties policies are being executed. A weakness in this internal control could serve as a way to misappropriate funds.

Recommendation: Ensure that all personnel with authorization to provide approval for disbursements are aware of the Redbook's guidance on use of signature stamps.

Management's Response: Signature stamps are no longer being used.

Finding: Standard invoices are not signed by the vendor or individual providing goods/services.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), the standard invoice provided by the Redbook calls for a signature from the vendor or individual receiving payment.

Cause: There was a breakdown in internal controls over disbursements.

Effect: Vendor signatures on a standard invoice provide documentation that the vendor is real and validates that the disbursement was received by the vendor or individual. A weakness in this internal control could serve as a way to misappropriate funds.

Recommendation: Ensure that all appropriate signatures are obtained and documentation is completely filled out prior to distributing funds.

Management's Response: The treasurer will ensure all appropriate signatures are obtained.

Finding: Several purchase orders were dated and approved after the invoice/purchase date.

Criteria: Purchase requests are submitted to the CFT by the teacher/sponsors. The CFT prepares the purchase order for approval from the principal. Purchase orders are to be approved prior to any purchase made.

Cause: There was a breakdown in internal controls over purchases.

Effect: Purchase order procedures serve as an approval mechanism for management. Approval before the purchase is made allows management to ensure that appropriate funds are available and that purchases are for allowed expenditures. Weakness in this internal control could serve as a way to misappropriate funds.

Recommendation: The individuals in charge of purchases should always make sure there is a complete and appropriately approved purchase order prior to purchase.

Management's Response: The treasurer will make sure there is a completed approved purchase order prior to purchases.

Finding: A purchase order could not be located for one disbursement.

Criteria: Purchase requests are submitted to the CFT by the teacher/sponsors. CFT prepares the purchase order for approval from the principal. Purchase orders are to be approved prior to any purchase made. According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), a purchase order must exist for all purchases prior to the purchase being made.

Cause: There was a breakdown in internal controls over purchases.

Effect: Purchase order procedures serve as an approval mechanism for management. Approval before the purchase is made allows management to ensure that appropriate funds are available and that purchases are for allowed expenditures. Weakness in this internal control could serve as a way to misappropriate funds.

Recommendation: The individuals in charge of purchases should always make sure there is a complete and appropriately approved purchase order prior to purchase.

Management's Response: The treasurer will make sure there is a completed approved purchase order prior to purchases.

Finding: The teacher/sponsor appears to be completing the Multiple Receipt Forms with students' names instead of students signing their own name.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), students third grade and above must sign the Multiple Receipt Form.

Cause: There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

Effect: Student signatures provide verification from the student that they actually remitted a certain amount of funds to the teacher.

Recommendation: Teachers/sponsors should allow students to fill out the Multiple Receipt Form with their signatures and the amount paid. The teacher should verify the amount is correct.

Management's Response: The treasurer will inform teachers to have the students fill out the Multiple Receipt Form with their signature and the amount paid. The teacher will verify that the amount is correct.

Finding: The initials of the individual receiving goods were not found on the invoice or shipping/packing slip.

Criteria: When the goods and the invoice arrive, the person who placed the order checks the items received against the invoice and purchase order. If a packing slip is present, it is dated and initialed and any overage or shortage is noted.

Cause: There was a breakdown in internal controls over purchases and disbursements.

Effect: This internal control serves to provide accountability and reassurance that all goods ordered/purchased were actually received. This mitigates the risk of paying an invoice for which items have not yet been received. It also mitigates the risk of unauthorized purchases through the District that may be shipped to another location. A weakness in this internal control could serve as a way to misappropriate assets.

Recommendation: The individuals in charge of disbursements should always make sure there is proper documentation of all items being received and approvals prior to disbursing funds.

Management's Response: The treasurer will enforce the policy of having the proper person initial the packing slips and invoices.

All prior year comments appear to have been properly addressed.

Ballard County Middle School

Finding: The Multiple Receipt Form was used when collecting money from Regions Bank. The person remitting the funds per the Multiple Receipt Form and the payor shown in the system are not the same. They should be the same person.

Criteria: According to “Accounting Procedures for Kentucky School Activity Funds,” (the Redbook), any checks that come through the mail shall be annotated on the Multiple Receipt Form by the person opening the mail and submit it to the CFT. A pre-numbered receipt shall be issued to the payor immediately any time money is received by the CFT. The payor in the receipts journal should match the payor on the primary receipt issued by the CFT.

Cause: There was a breakdown in internal controls over receipts.

Effect: Proper documentation provides accountability for receipts if an issue were to ever arise regarding the receipt of funds and the chain of custody.

Recommendation: Receipts should be made out and given to each individual teacher/sponsor turning in money collected. The payor in the system should be the same as the person remitting the money.

Management’s Response: The treasurer will give each individual teacher turning in money collected a receipt.

Finding: The teacher/sponsor appears to be completing the Multiple Receipt Forms with students’ names instead of the students signing their own names.

Criteria: According to “Accounting Procedures for Kentucky School Activity Funds,” (the Redbook), students third grade and above must sign the Multiple Receipt Form.

Cause: There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

Effect: Student signatures provide verification from the student that they actually remitted a certain amount of funds to the teacher.

Recommendation: Teachers/sponsors should allow the students to fill out the Multiple Receipt Form with their signatures and the amount paid. The teacher should verify the amount is correct.

Management’s Response: Teachers will be instructed to allow students to fill out the Multiple Receipt Form with their signature and then verify that the amount is correct.

Finding: Several purchase orders were dated and approved after the invoice/purchase date.

Criteria: Purchase requests are submitted to the CFT by the teacher/sponsors. CFT prepares the purchase order for approval from the principal. Purchase orders are to be approved prior to any purchase made.

Cause: There was a breakdown in internal controls over purchases.

Effect: Purchase order procedures serve as an approval mechanism for management. Approval before the purchase is made allows management to ensure that appropriate funds are available and that purchases are for allowed expenditures. Weakness in this internal control could serve as a way to misappropriate funds.

Recommendation: The individuals in charge of purchases should always make sure there is a complete and appropriately approved purchase order prior to purchase.

Management’s Response: The treasurer will ensure there is a completed approval purchase order prior to purchases.

All prior year comments appear to have been properly addressed.

Ballard County Elementary School

Finding: The teacher/sponsor appears to be completing the Multiple Receipt Forms with students’ names instead of students signing their own name.

Criteria: According to “Accounting Procedures for Kentucky School Activity Funds,” (the Redbook), students third grade and above must sign the Multiple Receipt Form.

Cause: There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

Effect: Student signatures provide verification from the student that they actually remitted a certain amount of funds to the teacher.

Recommendation: The Multiple Receipt Form should indicate the grade level of students. If third grade or above, the students should be filling out the Multiple Receipt Form with their signature and amount paid. The teacher should verify the amount is correct.

Management's Response: Teachers will be instructed to have third grade and above students fill out the Multiple Receipt Form with their signature and amount paid. The teacher will verify the amount is correct.

All prior year comments appear to have been properly addressed.

Ballard County Preschool

Finding: The Donation Acceptance Form was not properly completed for one donation received.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), the Donation Acceptance Form (F-SA-18) shall be completed stating the purpose of and any restrictions on the donation received. An example of this form is included in the Redbook. Cash donations for a specific purpose (restricted) shall be maintained in a separate activity account and expended as indicated by the donor. Cash donations to the school for general use (unrestricted) shall be deposited in a general activity account and the principal will decide the use of these donations. These donations must be used to support student activity.

Cause: There was a breakdown in internal controls over receipts.

Effect: Lack of proper donation documentation could lead to improper use of restricted donations, in that the use of these funds does not reflect the donors' wishes. Weakness in this internal control could serve as a way to misappropriate funds

Recommendation: The individual in charge of receiving donations should always make sure there is proper documentation and accounting for donated funds and that listings of these donations are submitted annually to the board.

Management's Response: The Family Focus director will ensure that a F-SA-18 form will be included with each deposit. The deposit book will be checked monthly for the F-SA-18 forms when the financial reports are generated.

All prior year comments appear to have been properly addressed.

Ballard County Vocational School

Finding: Signature stamps are still in use on disbursements and supporting documentation.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), signature stamps are not permitted to be used for indicating approval of activity fund checks or any other financial documents.

Cause: There may be a lack of adequate training and knowledge with regard to the guidance governing school activity funds.

Effect: Signature stamps do not provide the assurance required that proper segregation of duties policies are being executed. A weakness in this internal control could serve as a way to misappropriate funds.

Recommendation: Ensure that all personnel with authorization to provide approval for disbursements are aware of the Redbook's guidance on use of signature stamps.

Management's Response: The principal will initial each invoice beside the paid stamp.

All prior year comments appear to have been properly addressed.

* * * * *

This report is intended solely for the District, management, and others within the organization as deemed appropriate.

Williams, Williams + Lentz, LLP

November 5, 2014