

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

AUDITED FINANCIAL STATEMENTS
for the year ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Barbourville Independent Schools as of and for the year ended June 30, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages three and four and 30 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 3, 2014 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky

November 3, 2014

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
For the year ended June 30, 2014
(Unaudited)

Management of the Barbourville Independent Schools (Board) provides to readers and users of the accompanying financial statements an analysis and overview presentation of the Board's financial activities for the year ended June 30, 2014. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

Financial Highlights

General revenues totaled \$4,588,783 representing 82.46% of all revenues. General revenues consist primarily of tax assessments and state funding allocations. Program specific revenues of \$1,099,406 accounted for the remaining revenues. Program specific revenues include charges for services, sales, grants, contributions, etc.

Of the total general fund revenue, approximately \$861,300 was received in the form of local taxation and investment income.

District-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Notes to Financial Statements

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

District-Wide Financial Analysis and Budgetary Implications

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

Condensed Comparative Data

	<u>FY2013</u>	<u>FY2014</u>
General fund revenues	\$ 4,425,026	\$ 4,588,783
General fund expenses	4,821,795	4,944,333
Cash (district-wide)	543,224	264,202
Land, buildings and fixed assets (net)	5,190,223	5,010,775
Bond obligations	2,874,302	2,650,536
Fund balance	866,509	282,057

Financial Management

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

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 185,520	\$ 78,682	\$ 264,202
Accounts receivable	167,914	171	168,085
Inventories for consumption		13,647	13,647
Capital assets:			
Land	626,486	-	626,486
Land improvements	257,535	-	257,535
Other capital assets, net of depreciation	4,118,880	7,874	4,126,754
TOTAL ASSETS	<u>\$ 5,356,335</u>	<u>\$ 100,374</u>	<u>5,456,709</u>
LIABILITIES			
Accounts payable	\$ 53,477	\$ 1,439	\$ 54,916
Deferred revenue	17,900		17,900
Long-term liabilities			
Due or payable within one year			
Bond obligations	223,330	-	223,330
Due or payable after one year			
Bond obligations	2,427,206	-	2,427,206
TOTAL LIABILITIES	2,721,913	1,439	2,723,352
NET POSITION			
Net investment in capital assets	2,352,365	7,874	2,360,239
Restricted			
Restricted for capital projects	29,094	-	29,094
Restricted for inventory	-	13,647	13,647
District activities	95,835	-	95,835
Committed for SFCC escrow	6,942	-	6,942
Committed for accrued sick leave	21,344	-	21,344
Unrestricted	128,842	77,414	206,256
TOTAL NET POSITION	<u>\$ 2,634,422</u>	<u>\$ 98,935</u>	<u>\$ 2,733,357</u>

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF ACTIVITIES - DISTRICT WIDE
for the year ended June 30, 2014

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Governmental activities							
Instructional	\$ 3,158,841				\$ (3,158,841)		\$ (3,158,841)
Student support services	220,616				(220,616)		(220,616)
Staff support services	187,273				(187,273)		(187,273)
District administration	305,272				(305,272)		(305,272)
School administration	210,811				(210,811)		(210,811)
Business support services	413,093				(413,093)		(413,093)
Plant operation and maintenance	849,279				(849,279)		(849,279)
Student transportation	145,952				(145,952)		(145,952)
Community service	65,767				(65,767)		(65,767)
Facility acquisition/construction	5,877				(5,877)		(5,877)
Debt service	479,854		290,509		(189,345)		(189,345)
Total governmental activities	6,042,635		290,509		(5,752,126)		(5,752,126)
Business-type activities							
Food service	422,821	101,704	291,009			(30,108)	(30,108)
Total business-type activities	422,821	101,704	291,009			(30,108)	(30,108)
Total school district	\$ 6,465,456	\$ 101,704	\$ 291,009	\$ 290,509	(5,752,126)	(30,108)	(5,782,234)
General revenues:							
Taxes					789,124		789,124
State aid - formula grants					4,614,449		4,614,449
Investment earnings					4,369	995	5,364
Miscellaneous					156,814		156,814
Total general revenues					5,564,756	995	5,565,751
Change in net position					(187,370)	(29,113)	(216,483)
Net position - July 1, 2013					2,821,792	128,048	2,949,840
Net position - June 30, 2014					\$ 2,634,422	\$ 98,935	\$ 2,733,357

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	GENERAL FUND	SPECIAL REVENUE	DISTRICT ACTIVITY FUNDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ 159,433	\$ (63,044)	\$ 53,095	\$ 36,036	\$ 185,520
Accounts receivable	37,801	87,373	42,740	-	167,914
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 197,234	\$ 24,329	\$ 95,835	\$ 36,036	\$ 353,434
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Deferred revenue	\$ -	\$ 17,900			\$ 17,900
Accounts payable	47,048	6,429	-	-	53,477
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	47,048	24,329	-	-	71,377
FUND BALANCE					
Restricted for:					
Capital projects	-	-	-	29,094	29,094
SFCC escrow				6,942	6,942
District activities			95,835		95,835
Committed for:					
Accrued sick leave	21,344	-	-	-	21,344
Unassigned	128,842	-	-	-	128,842
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	150,186	-	95,835	36,036	282,057
TOTAL LIABILITIES AND FUND BALANCES	\$ 197,234	\$ 24,329	\$ 95,835	\$ 36,036	\$ 353,434

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENT OF NET POSITION
June 30, 2014**

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

Total governmental fund balance		\$ 282,057
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	9,852,726	
Accumulated depreciation	(4,849,825)	5,002,901
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long term liabilities at year end consist of:		
Bonds payable		(2,650,536)
Total net position - governmental		\$ 2,634,422

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2014

	BUILDING FUND	CONSTRUCTION FUND	CAPITAL OUTLAY FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 5,724	\$ 23,370	\$ 6,942	\$ 36,036
TOTAL ASSETS	<u>\$ 5,724</u>	<u>\$ 23,370</u>	<u>\$ 6,942</u>	<u>\$ 36,036</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
TOTAL LIABILITIES	-	-	-	-
FUND BALANCE				
Restricted for SFCC escrow	-	-	6,942	6,942
Restricted for capital projects	5,724	23,370	-	29,094
TOTAL FUND BALANCES	<u>5,724</u>	<u>23,370</u>	<u>6,942</u>	<u>36,036</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,724</u>	<u>\$ 23,370</u>	<u>\$ 6,939</u>	<u>\$ 36,036</u>

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2014

	GENERAL FUND	SPECIAL REVENUE FUND	DISTRICT ACTIVITY FUNDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues					
Taxes	\$ 736,927	\$ -	-	\$ 52,197	\$ 789,124
Earnings on investments	4,369	-	-	-	4,369
State sources (See Note L)	3,687,677	192,986	-	290,509	4,171,172
Federal sources	-	443,277	-	-	443,277
Other sources	159,810	(2,996)	123,433	-	156,814
Total revenues	4,588,783	633,267	123,433	342,706	5,564,756
Expenditures					
Instructional	2,744,032	404,846	18,330	-	3,148,878
Student support services	143,107	76,909	-	-	220,016
Staff support services	186,162	92,273	6,723	-	278,435
District administration	295,129	-	-	-	295,129
School administration	210,315	-	-	-	210,315
Business support services	412,680	-	-	-	412,680
Plant operation/maintenance	674,463	-	-	19,675	694,138
Student transportation	137,246	2,739	2,545	-	139,985
Food service operation	8,885	-	-	-	8,885
Community service	-	65,724	-	-	65,724
Debt service	132,314	-	-	290,998	423,312
Total expenditures	4,944,333	642,491	27,598	310,673	5,897,497
Excess (deficit) of revenues over expenditures	(355,550)	(9,224)	95,835	32,033	(332,741)
Other financing sources (uses):					
Loss compensation	3,771	-	-	-	3,770
Operating transfers in	51,705	9,224	-	223,766	284,695
Operating transfers out	(9,224)	-	-	(275,471)	(284,695)
Total other financing sources (uses)	46,252	9,224	-	(51,705)	3,771
Net change in fund balances	(309,298)	-	95,835	(19,672)	(233,135)
Fund balances July 1, 2013	459,484	-	-	55,708	515,192
Fund balances June 30, 2014	\$ 150,186	\$ -	\$ 95,835	\$ 36,036	\$ 282,057

The accompanying notes are an integral part of these statements.

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

June 30, 2014

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

Net changes - governmental funds:	\$ (233,135)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>	
Capital outlays	5,876
Depreciation expense	(183,877)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>	
Principal paid	<u>223,766</u>
Changes in net position - governmental funds	<u><u>\$ (187,370)</u></u>

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2014

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>CONSTRUCTION FUND</u>	<u>DEBT SERVICE</u>	<u>TOTAL NON-MAJOR GOV'T FUNDS</u>
REVENUES					
Taxes	\$ -	\$ 52,197	\$ -	-	\$ 52,197
State sources	59,562	163,715	-	67,232	290,509
Total revenues	59,562	215,912	-	67,232	342,706
EXPENDITURES					
Plant operation/maintenance	-	-	19,675	-	19,675
Debt service	-	-	-	290,998	290,998
Total expenditures	-	-	19,675	290,998	310,673
Excess (deficit) of revenues over expenditures	59,562	215,912	(19,675)	(223,766)	32,033
Operating transfers in	-	-	-	223,766	223,766
Operating transfers out	(59,559)	(215,912)	-	-	(275,471)
Net change in fund balance	3	-	(19,675)	-	(19,672)
Fund balance July 1, 2013	6,939	5,724	43,045	-	55,708
Fund balance June 30, 2014	\$ 6,942	\$ 5,724	\$ 23,370	\$ -	\$ 36,036

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2014

	ENTERPRISE FUNDS	
	FOOD SERVICE	TOTAL
ASSETS		
Current assets		
Cash and cash equivalents	\$ 78,682	\$ 78,682
Accounts receivable	171	171
Inventories for consumption	13,647	13,647
Total current assets	92,500	92,500
Noncurrent assets		
Invested in capital assets, net of depreciation	7,874	7,874
TOTAL ASSETS	\$ 100,374	\$ 100,374
LIABILITIES		
LIABILITIES		
Accounts payable	\$ 1,439	\$ 1,439
TOTAL LIABILITIES	1,439	1,439
NET POSITION		
Invested in capital assets	7,874	7,874
Reserved for inventory	13,647	13,647
Unrestricted	77,414	77,414
TOTAL NET POSITION	\$ 98,935	\$ 98,935

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
PROPRIETARY FUNDS
for the year ended June 30, 2014

	ENTERPRISE FUNDS	
	FOOD SERVICE	TOTAL
OPERATING REVENUES		
Lunchroom sales	\$ 101,704	\$ 101,704
Other operating revenues	995	995
	102,699	102,699
OPERATING EXPENSES		
Salaries and benefits	244,666	244,666
Contract services	6,654	6,654
Materials and supplies	169,968	169,968
Depreciation	1,447	1,447
Other operating expenses	86	86
	422,821	422,821
Total operating expenses	422,821	422,821
Operating income (loss)	(320,122)	(320,122)
NONOPERATING REVENUES (EXPENSES)		
Federal grants	214,939	214,939
State grants	50,872	50,872
Donated commodities	25,198	25,198
	291,009	291,009
Total nonoperating revenues	291,009	291,009
Income (loss) before capital contributions	(29,113)	(29,113)
Operating transfers in	-	-
Change in net position	(29,113)	(29,113)
Net position July 1, 2013	128,048	128,048
Net position June 30, 2014	\$ 98,935	\$ 98,935

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2014

	Food Service
Cash flows from operating activities:	
Cash received from lunchroom sales	\$ 101,704
Cash received for other services	995
Cash received from federal and state reimbursements	265,663
Cash payments to employees for services	(244,666)
Cash payments to suppliers	(150,207)
Cash payments for other operating expenses	(86)
Net cash provided by operating activities	(26,597)
 Net decrease in cash and cash equivalents	 (26,597)
 Cash and cash equivalents at beginning of year	 105,279
Cash and cash equivalents at end of year	\$ 78,682
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	(29,113)
 Effect of Increases and Decreases in Current Assets and Liabilities:	
Accounts payable and receivable	1,069
Depreciation	1,447
Net cash provided by operating activities	\$ (26,597)

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
for the year ended June 30, 2014

	ACTIVITY FUNDS
REVENUES	
Revenues from student activities	\$ 193,045
Total revenues	193,045
EXPENSES	
Student activities and transfers	312,967
Change in net position	(119,922)
Net position July 1, 2013	158,107
Net position June 30, 2014	\$ 38,185

The accompanying notes are an integral part of these statements.

BARBOURVILLE INDEPENDENT SCHOOLS
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Funds
ASSETS	
Cash and cash equivalents	<u>\$ 38,185</u>
TOTAL ASSETS	<u>38,185</u>
LIABILITIES	<u>—</u>
TOTAL NET POSITION	<u>\$ 38,185</u>

The accompanying notes are an integral part of these statements.

**BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

District-Wide and Fund Financial Statements

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

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

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

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

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

II. Debt Service Fund

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

III. Proprietary Funds (Enterprise Fund)

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

IV. Fiduciary Fund Type

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

V. Property Taxes

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

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

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$ 546,713. Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, \$ 250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2014, exclusive of activity and debt service funds, consisted of the following:

Forcht Bank	Operating Account	<u>\$ 264,202</u>
-------------	-------------------	-------------------

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

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

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

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

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

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

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

On July 1, 2013 indebtedness for the District, including principal and interest, totaled \$2,874,302. After timely principal and interest reductions, the outstanding principal balance at June 30, 2014 is \$2,650,536.

NOTE D - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. One-half of this amount is reserved each year. At June 30, 2014, this amount totaled \$21,344 for those employees with 27 or more years of experience. While no accrual is recorded in the financial statements due to the contingent nature of this amount, management will budget the appropriate amount on an annual basis. This amount is included as a committed portion of the general fund.

NOTE E - RETIREMENT PLANS

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

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

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

Medical Insurance Plan

In addition to the pension benefits described above, KRS 16.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE E - RETIREMENT PLANS, continued

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

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, 1.5% of the gross annual payroll of members before July 1, 2008 is contributed. One-half of this amount is derived from members' contributions and one-half from state appropriation. Members after July 1, 2008 contribute an additional 1.0% to the medical insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

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

Historical trend information showing KTRS and CERS progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2014 comprehensive annual financial reports. As the Board is only one of several employers participating in the Plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the Plan assets. However, as KTRS is considered to be substantially underfunded, this will likely contribute to increasing financial difficulties for all participating districts.

NOTE F - CONTINGENCIES

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

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE G - INSURANCE AND RELATED ACTIVITIES

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

NOTE H - LUNCHROOM ACCOUNT/COMMODITIES

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

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District has obtained insurance for workers compensation, errors and omissions, and general liability coverage.

Past and present members of Kentucky School Boards Insurance Trust (KSBIT) were required to pay additional, retroactive premiums to cover a \$60 million deficit in the Trust's general liability and workers' compensation pools. The District opted to pay their assessment through a KISTA bond issue. The District's first installment is due in August 2015 and will be paid in ten annual payments.

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

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

NOTE J - DEFICIT OPERATING/FUND BALANCES

At June 30, 2014, the following funds experienced a current year deficit of expenditures over revenue:

General fund	\$ (355,550)
Special revenue	\$ (9,224)

NOTE K - ON BEHALF PAYMENTS

The Commonwealth of Kentucky indirectly contributes funds of varying benefits to the District. These funds, known as "on-behalf payments" are represented as revenue from state sources in the appropriate financial statements. These funds, totaling \$ 1,080,627 for the year ended June 30, 2014, are not budgeted by the District. Corresponding amounts are entered to reflect the appropriate expense for the contributed funds, including but not limited to retirement, insurance and other benefits.

NOTE L - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 is detailed on the following page.

BARBOURVILLE INDEPENDENT SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

CAPITAL ASSET NOTE DISCLOSURE

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Land and improvements	884,021	-	-	884,021
Buildings and improvements	7,891,588	-	-	7,891,588
Technology equipment	640,891	4,453	-	645,344
Vehicles	214,304	-	-	214,304
General equipment	216,046	1,423	-	217,469
Totals at historical cost	9,846,850	5,876	-	9,852,726
Less accumulated depreciation for:				
Land and improvements	160,881	10,016	-	170,897
Buildings and improvements	3,555,487	144,860	-	3,700,347
Technology equipment	611,693	12,651	-	624,344
Vehicles	190,221	8,600	-	198,821
General equipment	147,666	7,750	-	155,416
Total accumulated depreciation	4,665,948	183,877	-	4,849,825
GOVERNMENTAL ACTIVITIES CAPITAL NET	\$ 5,180,902	\$ (178,001)	-	\$ 5,002,901
PROPRIETARY ACTIVITIES				
Technology equipment	3,125	-	-	3,125
General equipment	78,609	-	-	78,609
Totals at historical cost	81,734	-	-	81,734
Less accumulated depreciation for:				
Technology equipment	3,125	-	-	3,125
General equipment	69,288	1,447	-	70,735
Total accumulated depreciation	72,413	1,447	-	73,860
PROPRIETARY ACTIVITIES CAPITAL NET	\$ 9,321	\$ (1,447)	\$ -	\$ 7,874

DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 9,963
Student support services	600
Staff support services	1,111
District administration	10,143
School administration	496
Business support services	413
Plant operation/maintenance	155,141
Student transportation	5,967
Community services	43
Total	\$ 183,877

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2014

Fiscal Year				
Ending	Series	Series	Series	
June 30	2008R	2010	2010R	Total
2015	94,323	50,779	78,228	223,330
2016	101,472	44,404	76,660	222,536
2017	98,472	43,166	80,093	221,731
2018	97,002	51,704	78,383	227,089
2019		64,917	156,673	221,590
2020		67,641	157,683	225,324
2021		69,866	153,550	223,416
2022		66,907	159,418	226,325
2023		108,946		108,946
2024		104,072		104,072
2025		104,196		104,196
2026		108,996		108,996
2027		108,396		108,396
2028		107,596		107,596
2029		106,597		106,597
2030		110,396		110,396
	<u>\$ 391,269</u>	<u>\$ 1,318,579</u>	<u>\$ 940,688</u>	<u>\$ 2,650,536</u>

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS - BARBOURVILLE HIGH SCHOOL
June 30, 2014

	Beginning Cash July 1, 2013	Receipts and Transfers	Disbursements and Transfers	Ending Cash June 30, 2014
Freshmen	4,968	-	4,968	
Art	85	-	85	-
Baseball	1,350	6,773	7,725	398
Bookstore	2,912	2,384	4,751	545
Boys' Basketball	16,228	18,371	34,227	372
Dance team	1,738	7,057	6,715	2,080
Dr. Andrae Collins Scholarship	500	-	500	
FBLA	3	-	-	3
FCCLA	204	817	965	56
First Priority	146	730	805	71
Flower fund	26	-	26	
General Account	6,286	-	6,286	
Girls basketball	10,411	11,459	21,082	788
Golf	67	3,695	3,238	524
Graduate Music Scholarship	3,600	-	3,600	
HS Academic team	280	160	228	212
HS Beta	2,900	2,202	2,123	2,979
Juniors	2,919	19,583	17,559	4,943
KUNA	1,667	12,289	13,956	
Library	1,745	834	834	1,745
LL Basketball	5,708	2,645	6,514	1,839
LL Cheerleaders	2,524	1,377	2,772	1,129
LL Girls basketball	2,024	1,048	2,759	313
Middle School Baseball	-	1,577	1,577	
Middle School Softball	-	4,267	3,874	393
Misc Events	44,592	-	44,592	
Music	4,067	6,506	8,060	2,513
Odyssey of the Mind	304	9,808	6,168	3,944
Pep Club	105	-	-	105
Seniors	51	4,499	4,550	-
Softball	1,659	4,677	6,336	-
Sophomores	7,278	13,993	13,556	7,715
Spanish	-	2,172	-	2,172
Swim	-	2,455	2,455	-
Teens Against Drugs	483	-	483	
Tennis	-	1,242	895	347
Varsity Cheerleaders	1,154	20,052	21,095	111
Special fundraisers	1,988	-	1,988	
HS Science	-	585	585	-
Volleyball	-	8,414	8,414	
Yearbook	1,098	550	1,627	21
	<u>\$ 131,070</u>	<u>\$ 172,221</u>	<u>\$ 267,973</u>	<u>\$ 35,318</u>

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS - BARBOURVILLE ELEMENTARY SCHOOL
June 30, 2014

	Beginning Cash July 1, 2013	Receipts and Transfers	Disbursements and Transfers	Ending Cash June 30, 2014
All accounts	<u>\$ 27,037</u>	<u>\$ 24,867</u>	<u>\$ 49,037</u>	<u>\$ 2,867</u>

BARBOURVILLE INDEPENDENT SCHOOLS
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
for the year ended June 30, 2014

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 702,450	\$ 736,927	\$ 34,477
Other local sources	10,000	4,369	(5,631)
State sources (see Note L)	2,811,805	3,687,677	875,872
Other sources	14,250	159,810	145,560
Total revenues	3,538,505	4,588,783	1,050,278
Expenditures			
Instructional	2,093,446	2,744,032	(650,586)
Student support services	109,317	143,107	(33,790)
Staff support services	134,769	186,162	(51,393)
District administration	368,280	295,129	73,151
School administration	165,767	210,315	(44,548)
Business support services	423,287	412,680	10,607
Plant operation/ maintenance	556,599	674,463	(117,864)
Student transportation	127,912	137,246	(9,334)
Food service operations	18,125	8,885	9,240
Debt service	-	132,314	(132,314)
Total expenditures	3,997,502	4,944,333	(946,831)
Excess of revenues over (expenditures)	(458,997)	(355,550)	103,447
Loss compensation	3,771	3,771	-
Operating transfers in	-	51,705	51,705
Operating transfers out	-	(9,224)	(9,224)
Net other revenues (expenditures)	3,771	46,252	42,481
Net increase (decrease) in fund balance	(455,226)	(309,298)	145,928
Fund balance July 1, 2013	455,226	459,484	4,258
Fund balance June 30, 2014	\$ -	\$ 150,186	\$ 150,186

BARBOURVILLE INDEPENDENT SCHOOLS
BUDGETARY COMPARISON SCHEDULE FOR SPECIAL REVENUE FUND
for the year ended June 30, 2014

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
State sources (see Note L)	\$ 198,316	\$ 192,986	\$ - (5,330)
Federal sources	455,608	443,277	(12,331)
Other sources	<u>5</u>	<u>(2,996)</u>	<u>(3,001)</u>
Total revenues	653,929	633,267	(20,662)
Expenditures			
Instructional	421,838	404,846	16,992
Student support services	74,978	76,909	(1,931)
Staff support services	90,282	92,273	(1,991)
Student transportation	1,111	2,739	(1,628)
Community service operations	<u>65,720</u>	<u>65,724</u>	<u>(4)</u>
Total expenditures	<u>653,929</u>	<u>642,491</u>	<u>11,438</u>
Excess of revenues over expenditures	-	(9,224)	(9,224)
Operating transfer in	-	9,224	9,224
Net change in fund balance	-	-	-
Fund balance July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BARBOURVILLE INDEPENDENT SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>CFDA Name</u>	<u>CFDA Number</u>	<u>Passthrough/ MUNIS</u>	<u>Current Year Expenses</u>
U.S. Department of Education			
Pass-through Kentucky Department of Education			
Title I, Part A Cluster			
Title I	84.010	3103	25,702
Title I	84.010	3104	239,190
			<u>264,892</u>
Special Education Cluster			
IDEA-B Basic	84.027	3373 *	20,472
IDEA-B Basic	84.027	3374	109,981
IDEA-B Preschool	84.173	3434	11,654
			<u>142,107</u>
School Improvement Grants Cluster			
Title II, Teacher Quality	84.367A	4013	1,953
Title II, Teacher Quality	84.367A	4014	20,020
			<u>21,973</u>
Race to the Top	84.413A	4521	3,297
Title I-C	84.048	3483	4,259
Rural & Low Income School Program	84.358B	3504	6,748
Total Pass-Through from KY Department of Education			<u>443,276</u>
U.S. Department of Agriculture			
Pass-Through Kentucky Department of Education			
Child Nutrition Cluster			
National School Breakfast Program	10.553	n/a *	63,544
National School Lunch Program	10.555	n/a *	151,395
Total Child Nutrition Cluster			<u>214,939</u>
Passed through Kentucky Department of Agriculture			
Emergency Food Assistance Program (Commodities)		n/a *	<u>25,198</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$ 683,413</u></u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

- 1) The schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting, which is the same basis used in the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133.
- 2) Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.
- 3) Pass-through numbers were not provided for all programs/awards.

BARBOURVILLE INDEPENDENT SCHOOLS
Barbourville, Kentucky

BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
June 30, 2014

BOARD MEMBERS

Shirley F. Treadway, Jr., Chairman
Earl Hammons
Cassandra Lundy
Edwin Smith
Bonita Williams

ADMINISTRATIVE PERSONNEL

Larry E. Warren, Superintendent
Beulah Campbell, Finance Officer

BARRY D. DAULTON, CPA, PSC

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditor's Contract - Electronic Submission*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Barbourville Independent Schools as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued my report thereon dated November 3, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
November 3, 2014

BARRY D. DAULTON, CPA, PSC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

I have audited the Barbourville Independent School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
November 3, 2014

BARBOURVILLE INDEPENDENT SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Barbourville Independent Schools.
2. There are no deficiencies disclosed in the audit of the financial statements.
3. There are no questioned costs reported in the audit of the financial statements.
4. No instances of noncompliance material to the financial statements of Barbourville Independent Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit. There are no findings required to be reported under Section 510(a) of Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Barbourville Independent Schools expresses an unmodified opinion on all major federal programs.
6. Barbourville Independent Schools does not qualify as a low-risk auditee.
7. The programs tested as major programs included: Idea B (CFDA 84.027), National School Breakfast Program (CFDA 10.553) and National School Lunch Program (CFDA 10.555).
8. The threshold for distinguishing Type A and Type B programs was \$300,000. Barbourville Independent School District had no Type A programs.

CURRENT YEAR FINDINGS RELATED TO FINANCIAL STATEMENTS

None

CURRENT FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

**BARBOURVILLE INDEPENDENT SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014**

There are no prior audit findings.

BARRY D. DAULTON, CPA, PSC
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423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

MANAGEMENT LETTER

November 3, 2014

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

In planning and performing my audit of the financial statements of Barbourville Independent School District for the year ended June 30, 2014, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, during my audit, I became aware of some matters that are opportunities to strengthen internal controls and operate in a more efficient manner.

Current Year Conditions

Condition 1:

Statement of Condition: The General Fund has excess expenses over revenues in the amount of \$355,550. The cumulative excess for the previous two fiscal years is in excess of \$750,000.

Criteria for Condition: The District has exceeded expenses over revenues.

Cause of the Condition: Available revenues have not been sufficient to meet budgeted expenses.

Effect of the Condition: Excessive expenditures have caused a significant decrease in the general fund balance.

Recommendation: The Board must use all available means to increase revenues and make concerted efforts to decrease expenses. Expenses must be controlled and not exceed revenues.

Comment: Management will immediately seek solutions to increase revenues and decrease expenses.

The management letter comments for the audit period ended June 30, 2013 have been satisfactorily addressed.

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

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

Sincerely,

Barry D. Daulton, CPA, PSC