

BELL COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2014

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County School District as of and for the year ended June 30, 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 the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, on our consideration of the Bell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

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

White & Associates, PSC

Richmond, Kentucky
November 21, 2014

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the district was \$1,348,274 of which \$1,141,622 was General Fund, \$206,652 was in the restricted funds of Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$10,906,105 of which \$765,839 was General Fund, \$10,140,266 was in the restricted funds of Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$129,512 for General Fund.
- General Fund Revenue totaled \$21,913,757 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$22,125,899 exclusive of inter-fund transfers. These totals include \$4,403,028 of on-behalf payments from the Commonwealth of Kentucky for health insurance, life insurance and Kentucky Teachers’ Retirement contributions.
- The District has also attained funding through Gear-up Programs . This Program is a Federal grant administered through Berea College. Students will be provided resources to help students overcome barriers, so they can achieve overall success in High School and College and life.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.
- Our District remains committed to educational excellence by keeping teacher salaries comparable to those of surrounding areas and the student-teacher ratio low.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014

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

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

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

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

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on pages 13-22 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets plus deferred outflows exceeded liabilities by approximately \$17,365,981 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, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

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

2014 District-Wide Governmental Net position compared to 2013 as follows:

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

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Percentage
	2013	2014	2013	2014	2013	2014	2013-2014
Assets:							
Current and Other Assets	1.74	12.01	0.26	0.50	2.00	12.51	527%
Capital Assets	<u>32.27</u>	<u>32.84</u>	<u>0.00</u>	<u>0.00</u>	<u>32.27</u>	<u>32.84</u>	2%
Total Assets	<u>34.01</u>	<u>44.85</u>	<u>0.26</u>	<u>0.50</u>	<u>34.27</u>	<u>45.35</u>	32%
Loss for the difference							
in reacquisition and carrying							
value of refunding debt	<u>0.63</u>	<u>0.56</u>	<u>0.00</u>	<u>0.00</u>	<u>0.63</u>	<u>0.56</u>	
	<u>0.63</u>	<u>0.56</u>	<u>0.00</u>	<u>0.00</u>	<u>0.63</u>	<u>0.56</u>	
Liabilities:							
Current Liabilities	1.88	2.73	0.03	0.02	1.91	2.75	44%
Noncurrent Liabilities	<u>16.42</u>	<u>25.79</u>	<u>0.00</u>	<u>0.00</u>	<u>16.42</u>	<u>25.79</u>	57%
Total Liabilities	<u>18.30</u>	<u>28.52</u>	<u>0.03</u>	<u>0.02</u>	<u>18.33</u>	<u>28.54</u>	56%
Net Position:							
Invested in Capital Assets							
Net of Debt	15.32	6.28	0.00		15.32	6.28	-59%
Restricted	0.23	10.16	0.23	0.48	0.46	10.64	2206%
Unrestricted Net Position	<u>0.79</u>	<u>0.45</u>	<u>0.00</u>	<u>0.00</u>	<u>0.79</u>	<u>0.45</u>	-43%
Total Net Position	<u>16.34</u>	<u>16.89</u>	<u>0.23</u>	<u>0.48</u>	<u>16.57</u>	<u>17.36</u>	5%

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

GOVERNMENTAL ACTIVITIES

Ending net position were \$17.36 million for the District. This was an increase of \$.5 million including a prior period adjustment from 2014.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2013-2014
	2013	2014	2013	2014	2013	2014	
Revenues:							
Charges for services	\$ 0.57	\$ 0.47	\$ 0.08	\$ 0.11	\$ 0.65	\$ 0.58	-11%
Operating grants and contributions	4.87	4.72	1.88	2.26	6.74	6.98	4%
Capital grants and contributions	1.47	1.46	-	-	1.47	1.46	0%
General revenues	22.80	22.10	0.00	0.01	22.80	22.11	-3%
Total revenue	29.71	28.76	1.96	2.37	31.66	31.13	-2%
Expenses:							
Instruction	15.22	16.61	-	-	15.22	16.61	9%
Student	1.55	1.06	-	-	1.55	1.06	-32%
Instructional staff	2.21	1.94	-	-	2.21	1.94	-12%
District administration	1.00	0.94	-	-	1.00	0.94	-6%
School administration	1.50	0.91	-	-	1.50	0.91	-39%
Business	0.34	0.34	-	-	0.34	0.34	-1%
Plant operation & maintenance	2.97	2.52	-	-	2.97	2.52	-15%
Student transportation	1.91	2.28	-	-	1.91	2.28	19%
Land Improvements	0.02	-	-	-	0.02	-	0%
Facilities acquisition and construction	-	-	-	-	-	-	100%
Community services operations	0.41	0.38	-	-	0.41	0.38	-7%
Amortization	0.08	0.08	-	-	-	0.08	0%
Depreciation	0.61	0.59	-	-	0.61	0.59	-4%
Interest on long-term debt	0.55	0.55	-	-	0.55	0.55	-1%
Debt service	-	0.31	-	-	-	0.31	0%
Food Service Operations	-	-	1.94	2.12	1.94	2.12	10%
Extraordinary Item	0.65	-	-	-	0.65	-	-100%
Total Expenses	\$ 29.02	\$ 28.48	\$ 1.94	\$ 2.12	\$ 30.96	\$ 30.61	-1%
Change in net position	\$ 0.68	\$ 0.27	\$ 0.02	\$ 0.25	\$ 0.70	\$ 0.52	26%

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

CAPITAL ASSETS

At the end of fiscal 2014, the District had \$32.84 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents an increase (including additions and deductions) of \$.6 million over last year.

Capital Assets at Year-End
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2013	2014	2013	2014	2013	2014
Land	169,422	169,422			169,422	169,422
Land and Improvements	96,932	84,338			96,932	84,338
Buildings & Improvements	31,794,799	31,274,273			31,794,799	31,274,273
Technology Equipment	88,046	72,059			88,046	72,059
Vehicles	(25,505)	(57,729)			(25,505)	(57,729)
General Equipment	147,305	142,379			147,305	142,379
Construction In Progress	-	1,156,159			-	1,156,159

DEBT

New bonds were issued during the year. Capital lease and general obligation debt increased \$9.61 million from FY 2013.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2013	2014
Capital Lease Obligations	\$ 0.71	\$ 0.62
General Obligation Bonds	<u>16.24</u>	<u>25.94</u>
Total Obligations	\$ <u>16.95</u>	\$ <u>26.56</u>

THE DISTRICT’S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$765,839, which is less than last year’s fund balance of \$1,141,622. The unassigned portion of the fund balance at the end of fiscal year 2014 is \$748,713, compared to \$1,126,463 from the preceding year.

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2014:

*Note This chart does not include beginning balances.

REVENUE	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	360	400	51
Local Revenue Sources	3,756,280	20,995		631,750			115,585
State Revenue Sources	18,077,925	1,131,703	256,833	615,142		592,438	207,990
Federal Revenue Sources	79,553	3,593,013					2,048,935
Other	3,639				10,945,000		
Transfers		62,226				1,155,799	
TOTALS	21,917,396	4,807,937	256,833	1,246,892	10,945,000	1,748,237	2,372,510
EXPENDITURES	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	360	400	51
Instruction	13,400,290	3,063,729					
Student Support Services	942,860	112,610					
Instructional Staff Support Services	776,618	1,164,010					
District Admin Support	936,780						
School Admin Support	907,757						
Business Support Services	294,755	42,081					
Plant Operation & Management	2,521,881						
Student Transportation	2,232,534	46,896					
Food Service Operations							2,123,429
Community Services	656	378,612					
Debt Service	111,770				308,207	1,748,237	
Site Improvement					1,156,159		
Transfers	167,280			1,050,745			
TOTALS	22,293,179	4,807,937	-	1,050,745	1,464,367	1,748,237	2,123,429
Excess / (Deficit)	(375,783)	-	256,833	196,147	9,480,633	-	249,081

**BELL COUNTY PUBLIC SCHOOL DISTRICT – PINEVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

Comments on Budget Comparisons

- The District’s total general fund revenues for the fiscal year ended June 30, 2014, net of Interfund transfers, “On-Behalf” payments and bond proceeds, were \$17.51 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual revenue being \$.51 less than budget or approximately 3 percent.
- General fund budget expenditures to actual varied by approximately \$1.25 million in total.

BUDGETARY IMPLICATIONS

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2014-2015 with over a 5% General Fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates.
- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the “shared” KTRS (which requires a 2.25% district match of gross pay for all KTRS eligible employees in FY2014 and will continue to increase to a 3.0% contribution rate), initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, and additional anticipated reductions in funding continues to press the district’s ability to continue programs.
- Continued insufficient funding of the state transportation formula.

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

Bell County School District
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 456,322	\$ 456,322
Investments	403,789		403,789
Receivables (net)	11,603,592	22,635	11,626,228
Inventories		24,705	24,705
Capital assets:			
Land, improvements, and construction in progress	1,325,581		1,325,581
Other capital assets, net of depreciation	31,515,321		31,515,321
Total capital assets	32,840,902	-	32,840,902
Total assets	44,848,284	503,662	45,351,946
DEFERRED OUTFLOWS OF RESOURCES			
Loss for the difference in reacquisition and carrying value of refunding debt	555,302		555,302
LIABILITIES			
Cash shortage	773,746		773,746
Accounts payable and accrued expenses	151,924	24,312	176,235
Accrued interest payable	175,237		175,237
Unearned revenue	172,391		172,391
Accrued salaries and benefits payable	3,216		3,216
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,360,000		1,360,000
Capital lease obligations	91,743		91,743
Total due within 1 year	1,451,743	-	1,451,743
Due in more than 1 year:			
Bond obligations	24,580,000		24,580,000
Capital lease obligations	530,774		530,774
KSBIT payable	378,388		378,388
Sick leave	299,536		299,536
Total due in more than 1 year	25,788,698	-	25,788,698
Total liabilities	28,516,955	24,312	28,541,266
NET POSITION			
Net Investment in capital assets	6,278,385	-	6,278,385
Restricted for:			
Expendable restricted for encumbrances	17,126		17,126
Expendable restricted for capital projects	10,140,266		10,140,266
Expendable restricted for food services		479,350	479,350
Unrestricted	450,854		450,854
Total net position	\$ 16,886,631	\$ 479,350	\$ 17,365,981

See the accompanying notes to the financial statements.

Bell County School District
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 16,613,008	\$ 468,196	\$ 3,010,698	\$ -	\$ (13,134,114)		\$ (13,134,114)
Support Services							
Student	1,055,469		110,661		(944,809)		(944,809)
Instructional Staff	1,940,628		1,143,862		(796,766)		(796,766)
District Administration	936,780				(936,780)		(936,780)
School Administration	907,757				(907,757)		(907,757)
Business	336,835		41,353		(295,483)		(295,483)
Plant Operation & Maintenance	2,521,881			871,975	(1,649,906)		(1,649,906)
Student Transportation	2,279,430		46,085		(2,233,345)		(2,233,345)
Community Services Operations	379,268		372,058		(7,209)		(7,209)
Amortization	78,536				(78,536)		(78,536)
Depreciation	586,255				(586,255)		(586,255)
Interest on General Long-term Debt	546,034			592,438	46,404		46,404
Debt Service	308,207				(308,207)		(308,207)
Total governmental activities	<u>28,490,090</u>	<u>468,196</u>	<u>4,724,716</u>	<u>1,464,413</u>	<u>(21,832,764)</u>		<u>(21,832,764)</u>
Business-type activities:							
Food service operations	2,123,429	109,286	2,256,926			\$ 242,782	242,782
Total business-type activities	<u>2,123,429</u>	<u>109,286</u>	<u>2,256,926</u>	<u>-</u>	<u>-</u>	<u>242,782</u>	<u>242,782</u>
Total primary government	\$ <u>30,613,519</u>	\$ <u>577,482</u>	\$ <u>6,981,642</u>	\$ <u>1,464,413</u>	<u>(21,832,764)</u>	<u>242,782</u>	<u>(21,589,982)</u>
General revenues:							
Taxes:							
Property taxes					1,996,404		1,996,404
Motor vehicle taxes					419,118		419,118
Utility taxes					986,182		986,182
Unmined minerals tax					489,845		489,845
State and formula grants					18,157,477		18,157,477
Unrestricted investment earnings					49,280	6,299	55,579
Sale of equipment					3,639		3,639
Total general revenues					<u>22,101,946</u>	<u>6,299</u>	<u>22,108,245</u>
Change in net position					269,181	249,081	518,263
Net position - beginning					16,341,092	230,269	16,571,361
Prior period adjustment					276,357		276,357
Restated net position - beginning					<u>16,617,449</u>	<u>230,269</u>	<u>16,847,718</u>
Net position - ending					\$ <u>16,886,631</u>	\$ <u>479,350</u>	\$ <u>17,365,981</u>

See the accompanying notes to the financial statements.

Bell County School District
Balance Sheet
Governmental Funds
June 30, 2014

	Governmental Funds					
	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 129,512	\$ -	\$ -	\$ -	\$ 659,633	\$ 789,145
Investments	403,789					403,789
Receivables, net						
Taxes-current	242,425					242,425
Taxes-delinquent	6,860					6,860
Accounts	103,532		10,636,793			10,740,325
Intergovernmental-state	-	82,241				82,241
Intergovernmental-federal	34,860	496,881				531,741
Total assets	920,979	579,122	10,636,793	-	659,633	12,796,526
LIABILITIES						
Accounts payable	151,924					151,924
Cash shortage		406,731	1,156,159			1,562,891
Accrued salaries and benefits payable	3,216					3,216
Unearned revenue		172,391				172,391
Total liabilities	155,140	579,122	1,156,159	-	-	1,890,422
FUND BALANCE						
Assigned	17,126					17,126
Restricted			9,480,633		659,633	10,140,266
Unassigned	748,713					748,713
Total fund balance	\$ 765,839	\$ -	\$ 9,480,633	\$ -	\$ 659,633	\$ 10,906,105

See the accompanying notes to the financial statements.

Bell County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balance per fund financial statements	\$	10,906,105
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		32,840,902
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the refunded bond.</p>		555,302
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(175,237)
Bonds payable		(25,940,000)
Capital lease payable		(622,517)
KSBIT payable		(378,388)
Noncurrent sick leave payable		(299,536)
		(299,536)
Net position of governmental activities	\$	16,886,631

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 1,364,654	\$ -	\$ -	\$ -	\$ 631,750	\$ 1,996,404
Motor vehicle	419,118					419,118
Unmined minerals	489,845					489,845
Utilities	986,182					986,182
Earnings on investments	28,285					28,285
Other local revenue	468,196	20,995				489,191
Intergovernmental - state	18,077,925	1,131,703		592,438	871,975	20,674,041
Intergovernmental - federal	79,553	3,593,013				3,672,565
Total revenues	<u>21,913,757</u>	<u>4,745,711</u>	<u>-</u>	<u>592,438</u>	<u>1,503,725</u>	<u>28,755,632</u>
EXPENDITURES						
Instruction	13,400,290	3,063,729				16,464,018
Support Services						
Student	942,860	112,610				1,055,469
Instructional Staff	776,618	1,164,010				1,940,628
District Administration	936,780					936,780
School Administration	907,757					907,757
Business	294,755	42,081				336,835
Plant Operation & Maintenance	2,521,881					2,521,881
Student Transportation	2,232,534	46,896				2,279,430
Community Services Operations	656	378,612				379,268
Debt Service	111,770			1,748,237		2,168,214
Land/Site Acquisitions				1,156,159	-	1,156,159
Total expenditures	<u>22,125,899</u>	<u>4,807,937</u>	<u>1,464,367</u>	<u>1,748,237</u>	<u>-</u>	<u>30,146,440</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(212,142)	(62,226)	(1,464,367)	(1,155,799)	1,503,725	(1,390,808)
OTHER FINANCING SOURCES (USES)						
Bond Proceeds			10,945,000			10,945,000
Sale of equipment	3,639					3,639
Operating transfers in		62,226		1,155,799		1,218,025
Operating transfers out	(167,280)				(1,050,745)	(1,218,025)
Total other financing sources and (uses)	<u>(163,641)</u>	<u>62,226</u>	<u>10,945,000</u>	<u>1,155,799</u>	<u>(1,050,745)</u>	<u>10,948,639</u>
NET CHANGE IN FUND BALANCE	(375,783)	-	9,480,633	-	452,980	9,557,831
FUND BALANCE-BEGINNING	<u>1,141,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,652</u>	<u>1,348,274</u>
FUND BALANCE-ENDING	<u>\$ 765,839</u>	<u>\$ -</u>	<u>\$ 9,480,633</u>	<u>\$ -</u>	<u>\$ 659,633</u>	<u>\$ 10,906,105</u>

See the accompanying notes to the financial statements.

Bell County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 Year ended June 30, 2014

Net change in total fund balances per fund financial statements	\$	9,557,831
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		569,904
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the shorter of the life of the new or refunded issue.</p>		(78,536)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		1,331,061
<p>Bond proceeds are recognized as revenues in the fund financial statements but are increases in liabilities in the statement of net position.</p>		(10,945,000)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		(17,088)
<p>Noncurrent sick leave payable</p>		(148,990)
		(166,078)
Change in net position of governmental activities	\$	269,181

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 1,879,157	\$ 1,894,157	\$ 1,364,654	\$ (529,503)
Motor vehicle	441,008	441,008	419,118	(21,890)
Unmined minerals	460,017	460,017	489,845	29,829
Utilities	810,000	810,000	986,182	176,182
Earnings on investments	27,486	28,346	28,285	(60)
Other local revenue	504,812	534,578	468,196	(66,383)
Intergovernmental - state	13,506,857	13,789,022	*	13,674,896
Intergovernmental - federal	73,759	68,000	79,553	11,553
Total revenues	<u>17,703,095</u>	<u>18,025,127</u>	<u>17,510,729</u>	<u>(514,398)</u>
EXPENDITURES				
Instruction	9,402,280	9,351,834	*	9,205,928
Support Services				
Student	1,006,999	960,201	942,860	17,342
Instructional Staff	839,395	819,605	776,618	42,987
District Administration	2,058,981	2,026,390	936,780	1,089,610
School Administration	864,000	919,191	907,757	11,434
Business	242,951	254,661	294,755	(40,093)
Plant Operation & Maintenance	2,176,455	2,534,540	2,521,881	12,659
Student Transportation	2,009,938	2,002,945	*	2,023,867
Community Services	-	700	656	44
Debt Service	181,800	108,000	111,770	(3,770)
Total expenditures	<u>18,782,800</u>	<u>18,978,067</u>	<u>17,722,871</u>	<u>1,255,196</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(1,079,706)	(952,940)	(212,142)	740,798
OTHER FINANCING SOURCES (USES)				
Sale of equipment			3,639	3,639
Operating transfers out			(167,280)	(167,280)
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>(163,641)</u>	<u>(163,641)</u>
NET CHANGE IN FUND BALANCE	(1,079,706)	(952,940)	(375,783)	577,157
FUND BALANCE-BEGINNING	<u>1,079,706</u>	<u>1,141,622</u>	<u>1,141,622</u>	<u>(0)</u>
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ 188,682</u>	<u>\$ 765,839</u>	<u>\$ 577,157</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$4,403,028.

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Other local revenue	\$ 174	\$ 20,996	\$ 20,995	\$ (1)
Intergovernmental - state	498,664	1,018,154	1,131,703	113,549
Intergovernmental - federal	3,471,668	5,357,964	3,593,013	(1,764,951)
Total revenues	<u>3,970,506</u>	<u>6,397,114</u>	<u>4,745,711</u>	<u>(1,651,403)</u>
EXPENDITURES				
Instruction	2,298,875	3,969,519	3,063,729	905,790
Support Services				
Student	93,403	127,968	112,610	15,358
Instructional Staff	1,499,933	2,098,104	1,164,010	934,094
Business			42,081	(42,081)
Student Transportation	78,295	78,295	46,896	31,399
Community Services Operations	-	378,814	378,612	202
Total expenditures	<u>3,970,506</u>	<u>6,652,700</u>	<u>4,807,937</u>	<u>1,844,763</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	-	(255,586)	(62,226)	193,360
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	171,686	62,226	(109,460)
Operating transfers out		(286,673)		286,673
Total other financing sources and (uses)	<u>-</u>	<u>(114,987)</u>	<u>62,226</u>	<u>177,213</u>
NET CHANGE IN FUND BALANCE	-	(370,573)	-	370,573
FUND BALANCE-BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ (370,573)</u>	<u>\$ -</u>	<u>\$ 370,573</u>

See the accompanying notes to the financial statements.

Bell County School District
Statement of Net Position
Proprietary Funds
June 30, 2014

	Enterprise Funds
	School Food Services
ASSETS	
Cash and cash equivalents	\$ 456,322
Receivables (net)	22,635
Inventories	24,705
Capital assets:	
Other capital assets, net of depreciation	-
Total assets	503,662
LIABILITIES	
Accounts payable and accrued expenses	24,312
Total liabilities	24,312
NET POSITION	
Net Investment in capital assets	-
Restricted for:	
Expendable Restricted for Food Service	479,350
Total net position	\$ 479,350

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2014

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	109,286
Total operating revenues		<u>109,286</u>
OPERATING EXPENSES		
Food service operations		
Employee services		985,171
Operational expenses		1,138,258
Total operating expenses		<u>2,123,429</u>
Operating income (loss)		<u>(2,014,143)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		2,048,935
State grants		207,990
Earnings from investments		6,299
Total nonoperating revenues (expenses)		<u>2,263,225</u>
CHANGE IN NET POSITION		249,081
NET POSITION - BEGINNING		<u>230,269</u>
NET POSITION - ENDING	\$	<u><u>479,350</u></u>

See the accompanying notes to the financial statements.

Bell County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$	234,882
Payments to suppliers		(1,114,109)
Payments to employees		(985,171)
Net cash provided (used) by operating activities		<u>(1,864,398)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants and contributions		<u>2,256,926</u>
Net cash provided (used) by noncapital financing activities		<u>2,256,926</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest		<u>6,299</u>
Net cash provided (used) by investing activities		<u>6,299</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		398,827
CASH AND CASH EQUIVALENTS-BEGINNING		<u>57,495</u>
CASH AND CASH EQUIVALENTS-ENDING	\$	<u><u>456,322</u></u>
Reconciliation of operating income (loss) to net cash used		
by operating activities:		
Operating income (loss)	\$	(2,014,143)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Changes in assets and liabilities:		
Receivables		125,596
Inventories		29,622
Payables		(5,473)
Net cash provided (used) by operating activities	\$	<u><u>(1,864,398)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$124,976 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$190,274 provided by state government.

See the accompanying notes to the financial statements.

Bell County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

		<u>School Activity Funds</u>
ASSETS		
Cash and cash equivalents	\$	257,701.01
Accounts receivable		<u>1,300.00</u>
Total Assets		<u><u>259,001.01</u></u>
 LIABILITIES		
Due to student groups		<u>259,001.01</u>
Total Liabilities		<u>259,001.01</u>
NET POSITION HELD IN TRUST	\$	<u><u>-</u></u>

See the accompanying notes to the financial statements.

BELL COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Bell County Board Of Education Finance Corporation

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

Basis of Presentation

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

(B) Special Revenue (Grant) Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

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

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

(D) Debt Service Fund

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

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

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

Basis of Accounting

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

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

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

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.534 (including exonerations) per \$100 valuation of real property, \$.534 per \$100 valuation for business personal property and \$.566 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

Budgetary Process

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Cash and Cash Equivalents

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

Inventories

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

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

Prepaid Assets

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

Nonspendable	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Net Position

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

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

	Bank <u>Balance</u>		
<u>First State Financial</u>	<u>Demand</u>	<u>Time</u>	<u>Total</u>
FDIC	\$ 125,000	\$ 125,000	\$ 250,000
Securities pledged to district	1,292,198	278,789	1,570,988
Bank balance	<u>\$ 1,417,198</u>	<u>\$ 403,789</u>	<u>\$ 1,820,988</u>

	Book <u>Balance</u>	
	<u>Cash equivalents</u>	<u>Time</u>
Governmental Activities	\$ (773,746)	\$ 403,789
Business-type Activities	456,322	
School activity funds	257,701	
Total carrying amount	<u>\$ (59,723)</u>	<u>\$ 403,789</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – CAPITAL ASSETS

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

	Balance			Balance
<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Land	\$ 169,422	\$ -	\$ -	\$ 169,422
Land improvements	917,593			917,593
Buildings	44,873,959			44,873,959
Technology equipment	2,355,495			2,355,494.98
Vehicles	2,981,055			2,981,055
General equipment	989,392			989,392
Construction in progress	-	1,156,159	-	1,156,159
Total at historical cost	<u>\$ 52,286,916</u>	<u>\$ 1,156,159</u>	<u>\$ -</u>	<u>\$ 53,443,076</u>
Less: Accumulated depreciation				
Land improvements	\$ 820,661	\$ 12,593	\$ -	\$ 833,255
Buildings	13,079,161	520,526		13,599,686
Technology equipment	2,267,449	15,986		2,283,435.63
Vehicles	3,006,560	32,224		3,038,784
General equipment	842,087	4,926		847,013
Total accumulated depreciation	<u>\$ 20,015,918</u>	<u>\$ 586,255</u>	<u>\$ -</u>	<u>\$ 20,602,174</u>
Governmental Activities Capital Assets-net	<u>\$ 32,270,998</u>	<u>\$ 569,904</u>	<u>\$ -</u>	<u>\$ 32,840,902</u>
	Balance			Balance
<u>Business-Type Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2014</u>
Technology equipment	\$ 14,259	\$ -	\$ -	\$ 14,259
General equipment	619,608			619,608
Total at historical cost	<u>\$ 633,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 633,867</u>
Less: Accumulated depreciation				
Technology equipment	\$ 14,259	\$ -	\$ -	\$ 14,259
General equipment	619,608			619,608
Total accumulated depreciation	<u>\$ 633,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 633,867</u>
Business-Type Activities Capital Assets-net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Bell County School District Finance Corporation aggregating \$25,940,000 and \$1,360,000 is the portion due within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Bell County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2014 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2013</u>			<u>2014</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2007	\$ 975,000	11/1/2022	4.0%	\$ 775,000	\$ -	\$ 55,000	\$ 720,000
2008A	7,810,000	2/1/2028	3.55%	6,705,000		345,000	6,360,000
2008B	945,000	4/1/2029	3.75 - 4.8%	895,000		25,000	870,000
2009	6,780,000	11/1/2020	1.0 - 3.4%	5,600,000		640,000	4,960,000
2010	670,000	11/1/2030	2.875-3.875%	625,000		25,000	600,000
2012	1,800,000	11/1/2030	1.0 - 2.125%	1,635,000		150,000	1,485,000
2014	3,265,000	6/1/2034	3.0 - 3.75%		3,265,000		3,265,000
2014	\$ 7,680,000	6/1/2034	1.0 - 4.0%		7,680,000		7,680,000
Totals				<u>\$ 16,235,000</u>	<u>\$ 10,945,000</u>	<u>\$ 1,240,000</u>	<u>\$ 25,940,000</u>

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

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2014 for debt service, (principal and interest) are as follows:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended June 30th	Principal		Interest		Principal Total	Interest Total
	Local	SFCC	Local	SFCC		
2015	\$ 933,106	\$ 426,894	\$ 623,852	\$ 191,567	\$ 1,360,000	\$ 815,420
2016	956,867	438,133	624,708	180,328	1,395,000	805,036
2017	1,003,564	451,436	597,426	167,025	1,455,000	764,451
2018	1,044,353	465,647	567,608	152,816	1,510,000	720,424
2019	1,064,544	480,456	535,936	138,006	1,545,000	673,941
2020-2024	5,430,526	1,949,474	2,179,761	475,325	7,380,000	2,655,085
2025-2029	4,989,403	1,480,597	1,360,467	170,191	6,470,000	1,530,658
2030-2034	4,645,099	179,901	545,664	16,026	4,825,000	561,690
	<u>\$ 20,067,462</u>	<u>\$ 5,872,538</u>	<u>\$ 7,035,422</u>	<u>\$ 1,491,284</u>	<u>\$ 25,940,000</u>	<u>\$ 8,526,705</u>

NOTE F – CAPITAL LEASE PAYABLE

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

KISTA Issue	Original Amount	Maturity Date	Interest Rates	2013	Additions	Retirements	2014
				Outstanding Balance			Outstanding Balance
2005	\$ 435,000	3/1/2015	3.0 - 3.625%	\$ 80,070	\$ -	\$ 39,364	\$ 40,706
2011	243,875	3/1/2021	1.0 - 4.0%	190,625		23,000	167,625
2011 EFLC	133,990	10/1/2031	1.5 - 4.3%	128,990		5,000	123,990
2012	174,917	3/1/2022	2.0 - 2.625%	155,893		19,697	136,196
2012 EFLC	\$ 158,000	8/1/2022	2.0 - 3.0%	158,000		4,000	154,000
Totals				<u>\$ 713,578</u>	<u>\$ -</u>	<u>\$ 91,061</u>	<u>\$ 622,517</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2014:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended <u>June 30th</u>	<u>Principal</u> <u>Local</u>	<u>Interest</u> <u>Local</u>	<u>Total</u>
2015	\$ 91,743	\$ 18,360	\$ 110,103
2016	50,748	15,875	66,623
2017	50,709	14,757	65,466
2018	51,671	13,546	65,217
2019	53,824	12,195	66,019
2020-2024	249,832	33,999	283,831
2025-2029	45,000	11,373	56,373
2030-2032	28,990	2,049	31,039
	<u>\$ 622,517</u>	<u>\$ 122,154</u>	<u>\$ 744,671</u>

Total minimum lease payments	\$ 744,671
Less: Amount representing interest	(122,154)
 Present Value of Net Minimum Lease Payments	 \$ 622,517

NOTE G – RETIREMENT PLANS

Kentucky Teachers’ Retirement System

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

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

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.605%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Medical Insurance Plan

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

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

Funding policy –In order to fund the post-retirement healthcare benefit, four and a half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and a half percent (1.5%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Bell County School System's total payroll for the year was \$16,218,177. The payroll for employees covered under KTRS was \$12,203,416. For the year ended June 30, 2014, the Commonwealth contributed \$1,388,196 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2014 were \$249,946, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,789,795, \$1,930,850, and \$2,005,138 respectively.

County Employees Retirement System

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

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.89%. The District contributed \$728,039 of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$927,732, \$959,688, and \$926,887 respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will require that unfunded portions of future pension benefit obligations shall be recorded as a liability of governments. This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. Although the data is not available from the Kentucky Teachers Retirement System or the County Employees Retirement System at this time, we believe that this implementation will have a material effect on future financial statements.

NOTE H – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Outlay	\$ 360,396	School Facilities Construction Commission Requirement
FSPK	299,236	School Facilities Construction Commission Requirement
Construction	9,480,633	Future Construction
Food Service	\$ 479,350	School Facilities Construction Commission Requirement

NOTE I - CONTINGENCIES

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

NOTE J - LITIGATION

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

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE L – RISK MANAGEMENT

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

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

NOTE M - COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$ 62,226	KETS Matching
General Fund	Debt Service Fund	105,054	Debt Service
FSPK Fund	Debt Service Fund	\$ 1,050,745	Debt Service

NOTE O – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Bell County School District for teacher's retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and School Food Services. The amounts recorded for both revenues and expenditures (expenses) are \$4,403,028 for the General Fund, \$190,274 for the School Food Service Fund, and \$592,438 for the Debt Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE P- PRIOR PERIOD ADJUSTMENT

Governmental Activities:

Due to the decrease in the estimated KSBIT liability from the prior year, beginning net position was understated as follows:

Net Position July 1, 2013	\$	16,341,092
Prior Period Adjustment		276,357
Restated Net Position July 1, 2013	\$	<u>16,617,449</u>

NOTE Q – COMMITMENTS

The District has committed \$9,480,633 for construction projects in the Construction Fund.

NOTE R – DEFICIT FUND AND OPERATING BALANCES

The following funds had an operating deficit causing a reduction in fund balance:

<u>Fund</u>		<u>Reduction in Fund Balance / Net Position</u>
General	\$	(375,783)
School Activity	\$	(33,581)

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 21, 2014, the date the financial statements were available to be issued.

Bell County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2014

	Other Governmental Funds		
	Capital Outlay	FSPK	Total
Assets			
Cash and Cash Equivalents	\$ 360,396	\$ 299,236	\$ 659,633
Total Assets	360,396	299,236	659,633
Fund Balances			
Restricted	360,396	299,236	659,633
Total Fund Balances	\$ 360,396	\$ 299,236	\$ 659,633

See the accompanying notes to the financial statements.

Bell County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2014

	Other Governmental Funds		
	Capital Outlay	FSPK	Total
Revenues			
From Local Sources			
Taxes			
Property	\$ -	\$ 631,750	\$ 631,750
Intergovernmental - State	256,833	615,142	871,975
Total Revenues	256,833	1,246,892	1,503,725
Expenditures			
Debt Service			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	256,833	1,246,892	1,503,725
Other Financing Sources (Uses)			
Transfers Out		(1,050,745)	(1,050,745)
Total Other Financing Sources (Uses)	-	(1,050,745)	(1,050,745)
Net change in fund balances	256,833	196,147	452,980
Fund Balance beginning	103,563	103,089	206,652
Fund Balance ending	\$ 360,396	\$ 299,236	\$ 659,633

See the accompanying notes to the financial statements.

Bell County School District
Combining Balance Sheet - School Activity Funds
As of June 30, 2014

	SCHOOL ACTIVITY FUNDS								FIDUCIARY FUND TOTAL
	<u>BELL COUNTY HIGH SCHOOL</u>	<u>BELL CO HIGH SCHOOL CHARITABLE GAMING</u>	<u>BELL CENTRAL SCHOOL CENTER</u>	<u>FRAKES SCHOOL CENTER</u>	<u>LONE JACK SCHOOL CENTER</u>	<u>PAGE SCHOOL CENTER</u>	<u>RIGHT FORK SCHOOL CENTER</u>	<u>YELLOW CREEK SCHOOL CENTER</u>	
ASSETS									
Cash and cash equivalents	\$ 83,488	\$ 431	\$ 42,933	\$ 44,866	\$ 26,221	\$ 8,244	\$ 17,819	\$ 33,698	\$ 257,701
Accounts receivable	1,300	-	-	-	-	-	-	-	1,300
Total Assets	<u>84,788</u>	<u>431</u>	<u>42,933</u>	<u>44,866</u>	<u>26,221</u>	<u>8,244</u>	<u>17,819</u>	<u>33,698</u>	<u>259,001</u>
FUND BALANCE									
School Activities	84,788	431	42,933	44,866	26,221	8,244	17,819	33,698	259,001
Total Fund Balance	<u>\$ 84,788</u>	<u>\$ 431</u>	<u>\$ 42,933</u>	<u>\$ 44,866</u>	<u>\$ 26,221</u>	<u>\$ 8,244</u>	<u>\$ 17,819</u>	<u>\$ 33,698</u>	<u>\$ 259,001</u>

See the accompanying notes to the financial statements.

Bell County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds
For the year ended June 30, 2014

	SCHOOL ACTIVITY FUNDS									FIDUCIARY FUND TOTAL
	<u>BELL COUNTY HIGH SCHOOL</u>	<u>BELL CO HIGH SCHOOL CHARITABLE GAMING</u>	<u>BELL CENTRAL SCHOOL CENTER</u>	<u>FRAKES SCHOOL CENTER</u>	<u>LONE JACK SCHOOL CENTER</u>	<u>PAGE SCHOOL CENTER</u>	<u>RIGHT FORK SCHOOL CENTER</u>	<u>YELLOW CREEK SCHOOL CENTER</u>		
REVENUES										
Student/Trust revenues	\$ 341,420	\$ 6,483	\$ 108,535	\$ 47,860	\$ 51,867	\$ 85,737	\$ 74,018	\$ 77,424	\$	793,344
EXPENDITURES										
Student/Trust activities	360,998	6,524	108,072	48,227	43,215	95,360	76,525	88,004		826,925
Excess (Deficit) of Revenues Over Expenses	(19,578)	(41)	463	(367)	8,652	(9,623)	(2,507)	(10,580)		(33,581)
Fund balance July 1, 2013	<u>104,366</u>	<u>472</u>	<u>42,470</u>	<u>45,233</u>	<u>17,569</u>	<u>17,867</u>	<u>20,327</u>	<u>44,278</u>		<u>292,582</u>
Fund balance June 30, 2014	<u>\$ 84,788</u>	<u>\$ 431</u>	<u>\$ 42,933</u>	<u>\$ 44,866</u>	<u>\$ 26,221</u>	<u>\$ 8,244</u>	<u>\$ 17,819</u>	<u>\$ 33,698</u>	<u>\$</u>	<u>\$ 259,001</u>

See the accompanying notes to the financial statements.

Bell County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Bell County High School
For the period ended June 30, 2014

	FUND BALANCE July 1, 2013	REVENUES	EXPENDITURES	TRANSFERS	FUND BALANCE June 30, 2014
VENDOR COMMISSIONS	\$ 5,640	\$ 13,303	\$ 12,281	\$ 649	\$ 7,311
SCIENCE OLYMPIAD	-	466	-	(466)	-
COPIER LEASE	1,300	3,250	1,950	(1,300)	1,300
INSTRUCTIONAL	782	698	262	271	1,490
MSD	-	1,691	1,536	-	155
TEACHERS LOUNGE	1,457	1,248	2,801	96	-
JAGS	294	69	-	-	363
FBLA CLUB	393	-	-	-	393
FCCLA	3,341	5,905	6,227	(412)	2,607
DISCOVER GRANT	21,550	-	21,550	-	-
STUDENT COUNCIL	5,053	11,402	8,002	(3,127)	5,325
DRAMA CLUB	11	2,745	2,218	(283)	256
FOOTBALL	14,596	36,472	26,666	(231)	24,172
FOOTBALL BOOSTERS	5	25,413	19,197	(1,781)	4,440
BOYS BASKETBALL	-	11,104	11,039	-	65
HOOPS BOOSTERS	2,622	12,831	14,414	(162)	877
SPORTS GENERAL	19	8,684	4,330	(3,369)	1,005
GIRLS BOOSTERS	626	15,590	13,859	(188)	2,170
GIRLS BASKETBALL	1,262	6,658	12,059	4,188	50
CHEERLEADERS	321	23,689	21,503	(32)	2,475
DANCE TEAM	-	9,354	5,599	(3,207)	548
ATHLETICS	4,643	10,645	9,627	(780)	4,882
MS FOOTBALL BOOSTERS	-	6,346	4,818	-	1,527
MS BOYS BASKETBALL	-	1,473	1,663	190	-
AGRIBUS-FFA	487	8,767	8,728	400	925
BETA CLUB	-	9,482	8,381	(140)	961
STLP	183	-	72	(110)	-
NATIONAL HONOR SOCIETY	-	800	1,005	205	-
ACADEMIC TEAM	-	1,096	2,018	1,792	870
SCIENCE OLYMPIAD	-	778	922	466	322
BAND	532	-	265	558	826
BAND BOOSTERS	1,337	0	686	(651)	-
CHOIR	967	1,278	1,507	-	738
TRI-MUSIC HONORS	65	122	24	-	163
ANNUAL	3,529	825	1,754	-	2,600
BASEBALL	-	740	2,505	1,765	-
MS BASEBALL	-	451	1,165	714	-
BASEBALL BOOSTERS	290	8,060	6,541	(1,809)	-
FASTPITCH SOFTBALL	-	961	1,755	794	-
SOFTBALL BOOSTERS	3,035	770	2,735	1,450	2,519
TENNIS	-	825	633	-	192
TRACK	-	750	420	-	330
TRACK BOOSTERS	-	3,910	4,774	864	0
CROSS COUNTRY	25	594	916	297	-
CROSS CTRY BOOSTERS	3,226	142	2,396	(864)	107
GOLF	-	-	807	807	-
VOLLEYBALL	1,718	1,948	3,978	312	-
VBALL BOOSTERS	2,616	5,276	8,244	352	-
GUIDANCE OFFICE	2,512	9,047	9,084	-	2,475
BASS FISHING	100	-	-	(100)	-
SOCCER	-	333	1,327	993	-
SOCCER BOOSTERS	1,094	-	726	-	368
SENIORS	3,727	37,326	38,361	-	2,693
RESERVE FUNDS	4,692	4,456	10,127	979	-
UK SPORTS CLUB	300	-	35	(265)	-
PROJECT GRADUATION	4,212	27,339	28,101	(1,455)	1,996
CITY/COUNTY BOWL	1,341	-	-	-	1,341
YOUTH SERVICE CENTER	3,556	5,912	9,407	2,554	2,614
ANGEL TREE	-	395	-	35	430
KEY CLUB	906	-	-	-	906
TOTALS	\$ 104,366	\$ 341,420	\$ 360,998	\$ (0)	\$ 84,788

See the accompanying notes to the financial statements.

BELL COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the District had food commodities totaling \$124,976.

BELL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
* School Breakfast Program	10.553			
Fiscal Year 13		7760005 13	\$ N/A	\$ 138,599
Fiscal Year 14		7760005 14	N/A	460,686
* National School Lunch Program	10.555			
Fiscal Year 13		7750002 13	N/A	263,869
Fiscal Year 14		7750002 14	N/A	923,550
* Summer Food Service Program for Children	10.559			
Fiscal Year 13		7690024 13	N/A	3,319
Fiscal Year 13		7740023 13	N/A	31,781
Child Nutrition Cluster Subtotal				<u>1,821,804</u>
Child & Adult Care	10.558			
Fiscal Year 13		7790021 13	N/A	5,054
Fiscal Year 14		7790021 14	N/A	17,212
				<u>22,266</u>
Fresh Fruits & Vegetables	10.582			
Fiscal Year 13		7720012 13	N/A	14,070
Fiscal Year 14		7720012 14	N/A	65,820
				<u>79,890</u>
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 14		510.4950	N/A	124,976
Total US Department of Agriculture				<u>2,048,935</u>
US Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13	1,726,668	430,680
Fiscal Year 13M		3100002 13	168,490	82
Fiscal Year 14		3100002 14	1,671,988	1,631,306
Fiscal Year 14A		3100002 14	31,552	31,552
Fiscal Year 14M		3100002 14	171,412	138,554
* Title I Grants to Local Education Agencies, School Improvement	84.010A			
Fiscal Year 12		3100002 12	25,548	41
Title i Cluster Subtotal				<u>41</u>
				<u>2,232,214</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	647,038	1,397
Fiscal Year 14		3810002 14	609,234	608,900
Special Education - Preschool Grants	84.173A			
Fiscal Year 13		3800002 13	48,630	10,209
Fiscal Year 14		3800002 14	29,137	9,755
Special Education Cluster Subtotal				<u>630,262</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 14		4621232 14	25,404	19,198
Rural Education	84.358B			
Fiscal Year 14		3140002 14	51,646	51,646
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 12		3230002 12	285,802	6,016
Fiscal Year 13		3230002 13	550,676	750
Fiscal Year 14		3230002 14	268,673	268,673
				<u>275,439</u>
Race to the Top Phase 3	84.413A			
Fiscal Year 11		3960002 11	72827	38,566
Passed through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs II	84.334S			
Fiscal Year 12		6972		
Fiscal Year 13		6973	342,547	4,651
Fiscal Year 14		6974	301,568	277,281
Fiscal Year 14B		6974B	219,239	200,301
Fiscal Year 14C		6974C	9,769	9,769
Fiscal Year 14J		6974J	20,000	20,000
Fiscal Year 14L		6974L	1,220	1,042
Fiscal Year 14M		6974M	64,968	28,537
Fiscal Year 14P		6974P	57,403	55,036
Fiscal Year 14R		6974R	5,000	4,100
				<u>600,717</u>
Total US Department of Education				<u>3,848,041</u>

BELL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of the Air Force				
ROTC	12.000			
Fiscal Year 14		5044	50,673	50,673
Fiscal Year 14X		504X	58,773	53,171
Total US Department of the Air Force				<u>103,844</u>
US Department of Health and Human Services				
Passed Through Kentucky School Board Association				
Medical Assistance Program	93.778			
Fiscal Year 14		110.4810	N/A	68,000
Total US Department of Health and Human Services				<u>68,000</u>
US Department of Commerce				
Passed Through Eastern Kentucky PRIDE				
PRIDE-Environmental Education	11.420			
Fiscal Year 14		2704	\$ 6,618	6,618
Total US Department of Commerce				<u>6,618</u>
 Total Expenditure of Federal Awards				 <u>\$ 6,075,438</u>

* Major programs

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bell County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Bell County School District's basic financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses [14-1, 14-2, 14-3, 14-4, 14-5, 14-6].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Bell County School District, in a separate letter dated November 21, 2014.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

Bell County School District's Responses to Findings

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

Purpose of this Report

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

White & Associates, PSC

Richmond, Kentucky
November 21, 2014

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

White & Associates, PSC

Richmond, Kentucky
November 21, 2014

BELL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2014

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	Yes
If so, was any significant deficiencies material (GAGAS)?	Yes
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559] Title I [CFDA 84.010A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

Finding 14-1

Statement of the Condition: Bank statements are not being reconciled.

Criteria for Condition: All bank statements must be reconciled to prepare financial statements for monthly board meetings and to identify and detect errors or suspicious transactions.

Cause of the Condition: Management has not established, nor has a system in place that assures the completion of the process of reconciliation, to comply with district policies and procedures.

Effect of the Condition: Financial statements presented at board meetings did not reflect correct reconciled cash balances. Additionally, the absence of the reconciliation process significantly increases the district’s risk of material misstatement of the financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 14-2

Statement of Condition: Identification by the auditor of significant adjustments needed between funds to properly adjust the financial statements for the period under audit that was not initially identified by the entity's internal control.

Criteria for Condition: Suggested auditor adjustments.

Cause of the Condition: Policies and procedures were not in place to assure the financial statements were adjusted properly.

Effect of the Condition: Significant audit adjustments were recommended to properly report fund balances.

Finding 14-3

Statement of Condition: Transactions were made to the fiscal year ending June 30, 2013 after the completion of the financial audit and submission of the financial statements to the Kentucky Department of Education of which must agree with the audit report.

Criteria for Condition: The prior year financial statements balances must agree with the independent audit report.

Cause of the Condition: The district made adjustments to a FRYSC grant that would show the grant was closed as of June 30, 2013 so the unspent funds would not have to be returned to the state.

Effect of the Condition: The prior year balances did not agree with the audit report. All entries made changed the financial statements in the current year and since the software MUNIS only allows 2 years to be open the entries could not be reversed.

Finding 14-4

Statement of Condition: Management has not implemented checks and balances in the accounts payable process to ensure that policies and procedures are being followed.

Criteria for Condition: The practice of processing accounts payable checks has sufficient internal controls in place to avoid a misstatement of the financial statements.

Cause of the Condition: The accounts payable clerk has the finance officer's signature stamp, furthermore; there is no review of accounts payable transactions before the printing of a check.

Effect of the Condition: The financial statements could be misstated due to error or fraud without proper segregation of duties during the processing of transactions. Current practice could allow the accounts payable clerk to process a purchase order and submit a payment without review.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 14-5

Statement of Condition: Review of the district's financial statements show balances that have not been reconciled to subsidiary ledgers, or supporting documentation, to ensure accurate reporting, i.e. debit balances in payroll liability accounts in the district balance sheet.

Criteria for Condition: All accounts must have supporting documentation to substantiate the amounts reported in the financial statements.

Cause of the Condition: Management has not implemented proper checks and balances to ensure the financial statements are properly supported and reported.

Effect of the Condition: The financial statements did not have documentation to support the amounts recorded in the financial statements.

Finding 14-6

Statement of Condition: The district is entering transactions for the period of June months after the period should have been closed.

Criteria for Condition: Procedures should be in place to ensure that monthly financial statements presented for review monthly by the board of education have been properly reported and closed.

Cause of the Condition: Proper accounting procedures for reporting monthly to the board of education have not been followed.

Effect of the Condition: The financial statements reported to the board of education have significantly changed since that report. Additionally, transactions entered to properly close the fiscal year should have been entered in a separate period (Period 13) to show that the entries were post June 30th and made to properly adjust the financial statements at the close of the year.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No major federal award findings.

BELL COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

Material Weaknesses

13-1

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

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

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

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

Subsequent Review: This finding has been corrected.

13-2

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

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

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

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

Subsequent Review: This finding has been corrected.

BELL COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
Year Ended June 30, 2014

Date: November 21, 2014

Oversight Agency: Kentucky Department of Education

The *Bell County School District* respectfully submits the following corrective action plan for the year ended June 30, 2014.

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

Audit Period: For the year ended June 30, 2014.

The findings from the year ended June 30, 2014 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

14-1

Recommendation for Correction: Management should implement checks and balances to ensure the financial statements have been properly adjusted. This would include a monthly review of financial reports, general journal adjustments, and review of key transactions.

Management Response to the Recommendation: The recommendation will be taken under advisement and appropriate steps will be taken to remedy the condition.

Implementation: Immediate.

14-2

Recommendation for Correction: The district should inform the Kentucky Department of Education that the FRYSC grant submitted was not fully expended and give an accurate account of the grant. Policies and procedures should be in place to ensure that the financial statements are protected after being audited.

Management Response to the Recommendation: The recommendation will be taken under advisement and appropriate steps will be taken to remedy the condition.

Implementation: Immediate.

14-3

Recommendation for Correction: All bank statements should be reconciled within days of receiving the bank statement and before the scheduled board meeting. Management should initiate checks and balances that assure the reconciliation process is following district policies and procedures.

CORRECTIVE ACTION PLAN (CONTINUED)

Management Response to the Recommendation: The recommendation will be taken under advisement and appropriate steps will be taken to remedy the condition.

Implementation: Immediate.

14-4

Recommendation for Correction: Management should implement proper checks and balances in the accounts payable processing to ensure compliance with district policies and procedures.

Management Response to the Recommendation: The recommendation will be taken under advisement and appropriate steps will be taken to remedy the condition.

Implementation: Immediate.

14-5

Recommendation for Correction: Management should implement proper checks and balances to ensure the amounts reported in the financial statement have support.

Management Response to the Recommendation: The recommendation will be taken under advisement and appropriate steps will be taken to remedy the condition.

Implementation: Immediate.

14-6

Recommendation for Correction: Proper accounting procedures should be initiated by the district and checks and balances should be in place to ensure its compliance.

Management Response to the Recommendation: The recommendation will be taken under advisement and appropriate steps will be taken to remedy the condition.

Implementation: Immediate.

If the Kentucky Department of Education has questions regarding this plan, please call me at 606-337-7051.

Sincerely yours,

Yvonne Gilliam

Mrs. Yvonne Gilliam, Superintendent