

BRECKINRIDGE COUNTY SCHOOL DISTRICT

**REPORT ON AUDIT OF COMPREHENSIVE
ANNUAL FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

FOR THE YEAR ENDED JUNE 30, 2014

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Breckinridge County School District
Hardinsburg, Kentucky

Report on the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 Breckinridge County School District as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note A to the financial statements, in fiscal year 2014 the District adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis - Unaudited on pages 4 through 9 and budgetary comparison information on pages 39 through 41 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 District's basic financial statements. The accompanying supplementary information shown on pages 42 through 45 and the Schedule of Expenditures of Federal Awards, required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information shown on pages 42 through 45 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 accompanying supplementary information shown on pages 42 through 45 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 October 8, 2014 on our consideration of Breckinridge County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Breckinridge County School District's internal control over financial reporting and compliance.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, KY

October 8, 2014

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2014**

As management of the Breckinridge County School District (District), we offer readers of the District's financial statements this overview and analysis of the financial activities 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

- In total, the District's net position decreased by \$772,390. Net position of governmental activities decreased by \$829,392, while net position of business-type activities increased by \$57,002. The decrease in the net position in governmental activities was a result of flat revenue growth from program revenues and increased expenses due in large part to bus fleet updates and increased personnel costs, which created additional burden on the General Fund. The decrease in program revenue is a situation the District is monitoring closely. In addition, the District is liable for an insurance assessment from KSBIT, which created an additional increase in liabilities of \$60,415 (*additional information can be obtained from the notes to the financial statements located herein*).
- General revenues accounted for \$6,686,268 or 26% of total governmental revenues including transfers. Program revenues in the form of grants and contributions and charges for service accounted for \$19,001,451 or 74% of total governmental revenues including transfers of \$25,711,003.
- The multi-purpose athletic facility project was substantially complete during fiscal year 2014. The facility will provide much needed space and resources for a variety of groups within the District.
- Debt service decreased from 2013 levels. Debt service for fiscal year 2014 decreased 5.4%. This reflects the District's commitment to managing existing debt levels through refundings and cash funded projects.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the 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.

District-wide financial statements

The district-wide (government-wide) financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with a difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the 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 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. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 10 and 11 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 designated for specific activities or objectives. This is a state mandated uniform system 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.

The funds of the District can be divided into two categories: governmental and proprietary. The only proprietary fund is our food service operation. All other activities of the District are included in the governmental funds.

The basic fund financial statements can be found on pages 12 through 18 of this report.

Notes to 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 19 through 38 of this report.

ANALYSIS AND DISCUSSION OF THE DISTRICT-WIDE FINANCIAL STATEMENTS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflow of resources exceeded liabilities by \$27,189,445 for governmental activities and \$1,021,084 for business-type activities as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is currently 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 because the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The district-wide financial statements are grouped according to governmental activities and business-type activities.

Analysis of Governmental Activities

Total net position decreased by \$829,392. This decrease was due to several factors, such as an increase in sick leave payout for retirees from \$85,328 in fiscal year 2013 to \$97,665 in fiscal year 2014. The District also invested in its fleet by adding four school buses at a cost of \$366,770. The District also booked an additional \$60,415 liability for a KSBIT insurance assessment.

Instruction comprised 56.2% of all governmental expenses. Table 2 displays information from the statement of activities and shows cost of program services and the operating grants and contributions offsetting those services. In addition, the table identifies the cost of services supported by tax revenue and other income. For fiscal year 2014, the burden of school district operations being supported by tax revenue was \$7.5 million due in part to a decline in federal and state grant revenue. Additional burden being passed to the local effort is a situation the District is monitoring closely and is concerned about.

Analysis of Business-Type Activities

The business-type activities of the District is the food service program. Business activities receive no support from tax revenues. The total of all revenue was \$2,064,889, which consisted of \$489,683 in charges for services, \$1,572,708 from state and federal grants, and \$2,498 from general revenues. Total expenditures accounted for \$1,984,603. Indirect cost transfers accounted for \$23,284. Decreased expenditures resulted in a \$57,002 increase in the net position of the program. A primary concern of the Food Service program is declining amounts in charges for services and participation levels. The District will continue to monitor the charges and costs of these activities.

The following tables show a comparison of the total net position and a summary of changes in net position for the periods ended June 30, 2014 and June 30, 2013:

Table 1-Changes in Net Position

	2014				2013 *		
	Governmental Activities	Business Activities	Total		Governmental Activities	Business Activities	Total
Current and Other Assets	\$10,006,665	\$916,329	\$10,922,994		\$10,892,109	\$822,070	\$11,714,179
Capital Assets	29,498,591	209,819	29,708,410		30,279,432	238,672	30,518,104
Total Assets	\$39,505,256	\$1,126,148	\$40,631,404		\$41,171,541	\$1,060,742	\$42,232,283
Deferred Outflow of Resources	\$17,273	\$ -	\$17,273		\$20,978	\$ -	\$20,978
Current Liabilities	\$3,424,066	\$105,064	\$3,529,130		\$3,228,808	\$96,660	\$3,325,468
Long-Term Liabilities	8,909,018	-	8,909,018		9,944,874	-	9,944,874
Total Liabilities	\$12,333,084	\$105,064	\$12,438,148		\$13,173,682	\$96,660	\$13,270,342
Net investment in capital assets	\$19,843,792	\$209,819	\$20,053,611		\$19,749,864	\$238,672	\$19,988,536
Restricted	771,068	-	771,068		742,318	725,410	1,467,728
Unrestricted	6,574,585	811,265	7,385,850		7,526,655	-	7,526,655
Net Position	\$27,189,445	\$1,021,084	\$28,210,529		\$28,018,837	\$964,082	\$28,982,919

* Figures for the 2013 governmental activities have been restated due to the adoption of GASB Statement 65 (see Note A).

Table 2-Statement of Activities

	2014			2013 *		
	Governmental Activities	Business Activities	Total	Governmental Activities	Business Activities	Total
Program Revenues						
Charges for Services	\$252,315	\$489,683	\$741,998	\$198,262	\$523,045	\$721,307
Operating Grants & Contributions	18,129,490	1,572,708	19,702,198	18,590,226	1,523,515	20,113,741
Capital Grants & Contributions	619,646	-	619,646	1,007,833	-	1,007,833
General Revenues						
Property Taxes	4,626,732	-	4,626,732	4,409,288	-	4,409,288
Motor Vehicle Taxes	814,898	-	814,898	784,908	-	784,908
Utility Taxes	951,362	-	951,362	845,938	-	845,938
Interest Income	33,797	2,498	36,295	81,558	5,388	86,946
Other Income	271,990	-	271,990	203,331	17,069	220,400
Disposal of Fixed Assets	(12,511)	-	(12,511)	(47,198)	(1,537)	(48,735)
Total Revenue	\$25,687,719	\$2,064,889	\$27,752,608	\$26,074,146	\$2,067,480	\$28,141,626
Program Expenses						
Instruction	\$14,938,230	\$ -	\$14,938,230	\$14,670,000	\$ -	\$14,670,000
Student Support	861,253	-	861,253	823,602	-	823,602
Instructional Staff	949,749	-	949,749	977,863	-	977,863
District Administration	1,768,995	-	1,768,995	1,936,800	-	1,936,800
School Administration	1,720,244	-	1,720,244	1,656,723	-	1,656,723
Business Support	913,677	-	913,677	1,075,139	-	1,075,139
Plant Operations & Maintenance	2,640,627	-	2,640,627	2,522,270	-	2,522,270
Student Transportation	2,168,385	-	2,168,385	2,184,688	-	2,184,688
Other Support Services	772	-	772	595	-	595
Food Service	2,703	-	2,703	1,810	-	1,810
Community Services	356,865	-	356,865	359,616	-	359,616
Building Improvements	-	-	-	900	-	900
Bond Costs Amortization	-	-	-	36,847	-	36,847
Interest on L/T Debt	218,895	-	218,895	282,451	-	282,451
Food Service	-	1,984,603	1,984,603	-	2,010,011	2,010,011
Total Expenses	\$26,540,395	\$1,984,603	\$28,524,998	\$26,529,304	\$2,010,011	\$28,539,315
Transfers	\$23,284	(\$23,284)	\$ -	\$23,769	(\$23,769)	\$ -
Change in Net Position	(\$829,392)	\$57,002	(\$772,390)	(\$431,389)	\$33,700	(\$397,689)
Ending Net Position	\$27,189,445	\$1,021,084	\$28,210,529	\$28,018,837	\$964,082	\$28,982,919

* Net position of the 2013 governmental activities has been restated due to the adoption of GASB Statement 65 (see Note A).

DISTRICT'S INDIVIDUAL FUNDS

Information about the District's major funds begins on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources (uses) of \$25,595,888 and expenditures of \$26,814,226. This contributed to a net change in fund balance of (\$1,218,338). Overall, the net deficiency in revenue over expenditures was mainly due to increases in General Fund expenditures from student transportation, which included a fleet investment of \$366,770 and increased personnel costs in instruction. Additional information can be obtained from the notes to the financial statements located herein.

ANALYSIS OF BUDGET AMOUNTS

The District's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. A variance comparison is presented between the final budgeted amounts and the actual amounts on page 39. The General Fund revenues show a budget of \$20,114,708 and an actual amount of \$20,446,895 or 1.65% over budget. Expenditures show a budget of \$22,539,983 and an actual amount of \$21,560,463 or 4.4% under budget. The variance in budgeted expenditures versus actual expenditures is mainly due to a mandatory budgeted contingency that is placed into the budget. The effect after removing the \$1,100,000 budgeted contingency from expenditures was .56% over budget. Overall, the District was satisfied with the budget to actual results.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the District had \$29,498,591 in net capital assets of governmental activities and \$209,819 in net capital assets of business-type activities. The \$780,841 decrease in net capital assets of governmental activities is due in part to increased depreciation costs from added renovation projects in previous periods and decreased activity in the addition of capital assets. The \$28,853 decrease in net capital assets of business-type activities is due to the Food Service program deferring equipment purchases until fiscal year 2015 and retiring equipment at various locations. Table 3 below shows a summary of activity for fiscal year 2014.

Table 3-Changes in Capital Assets

<u>Governmental Activities</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Not Depreciated:				
Land	\$451,448	\$ -	\$ -	\$451,448
Construction in Progress	24,642	524,482	-	549,124
Subtotal	476,090	524,482	-	1,000,572
Depreciated:				
Land Improvements	3,405,164	-	-	3,405,164
Buildings	39,365,751	-	2,800	39,362,951
Technology Equipment	2,619,172	138,631	121,447	2,636,356
Vehicles	4,867,518	366,770	18,631	5,215,657
General Equipment	2,522,051	35,334	32,982	2,524,403
Subtotal	52,779,656	540,735	175,860	53,144,531
Less accumulated depreciation for:				
Land Improvements	2,920,627	99,244	-	3,019,871
Buildings	12,962,558	970,923	2,800	13,930,681
Technology Equipment	1,700,743	337,162	118,132	1,919,773
Vehicles	3,517,784	325,744	18,010	3,825,518
General Equipment	1,874,602	99,697	23,630	1,950,669
Subtotal	22,976,314	1,832,770	162,572	24,646,512
Capital Assets-Net	\$30,279,432	(\$767,553)	\$13,288	\$29,498,591

Table 3-Changes in Capital Assets (Concluded)

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
<u>Business-Type Activities</u>				
Depreciated:				
General Equipment	\$988,920	\$3,511	\$ -	\$992,431
Technology Equipment	30,567	6,883	_____ -	37,450
<u>Subtotal</u>	<u>1,019,487</u>	<u>10,394</u>	<u>_____ -</u>	<u>1,029,881</u>
Less accumulated depreciation for:				
General Equipment	753,623	37,600	-	791,223
Technology Equipment	27,192	1,647	_____ -	28,839
<u>Subtotal</u>	<u>780,815</u>	<u>39,247</u>	<u>_____ -</u>	<u>820,062</u>
<u>Capital Assets-Net</u>	<u>\$238,672</u>	<u>(\$28,853)</u>	<u>\$ _____ -</u>	<u>\$209,819</u>

Debt

At June 30, 2014, the Breckinridge County School District had \$9,562,000 in bonds outstanding; of this amount \$6,121,844 is to be paid by the School District. \$765,000 is due within one year from the District and School Facilities Commission combined. The District also had \$41,649 in capital leases from commercial copiers with \$39,438 due within one year. Additional information can be obtained from the notes to the financial statements located herein.

DISTRICT CHALLENGES FOR THE FUTURE

The Breckinridge County School District's financial status continues to remain financially stable year after year. This continues in the wake of decreases in federal and state grant funding, pushing expenses for necessary services back to the General Fund. Certainly, the decrease in overall net position is a concern, but the District has taken measures such as obtaining better financing on district copiers, which is projected to save \$12,000 annually, and staffing schools responsibly as enrollment changes. In addition, the District plans on recognizing savings from efficient processes from personnel to janitorial supply spending. Also, the District is faced with the challenge of providing for inadequate facilities with limited funding available. The District has two elementary schools in need of replacement. This is reflected in the Parsons/MGT Facilities Report of November 2011 and verified by the Kentucky Department of Education. Finally, with the per pupil funding from state SEEK flattening, further pressure is placed on the local community to bridge the gap in funding shortfalls. This creates an issue for the District to provide quality services to the community while limiting the undue burden put on the community from state funding deficits. However, even in the wake of these challenges, the District continues to use great caution and care in planning and monitoring its finances.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 through June 30; other programs operate on a different fiscal calendar, but are reflected in the district's overall budget. By law, the budget must have a minimum 2% contingency.

Questions regarding this report should be directed to the following:

Janet Meeks, Superintendent
86 Airport Road
Hardinsburg, KY 40143
(270) 756-3000

Michael Moreland, Finance Director
86 Airport Road
Hardinsburg, KY 40143
(270) 756-3000

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 8,691,183	\$ 850,742	\$ 9,541,925
Accounts receivable:			
Taxes	204,910	-	204,910
Other	51,963	-	51,963
Intergovernmental	822,581	21,316	843,897
Inventory	-	41,863	41,863
Prepaid expenses	236,028	2,408	238,436
Total Current Assets	<u>10,006,665</u>	<u>916,329</u>	<u>10,922,994</u>
Noncurrent Assets			
Capital assets:			
Land and construction in process	1,000,572	-	1,000,572
Other capital assets, net of depreciation	28,498,019	209,819	28,707,838
Total Noncurrent Assets	<u>29,498,591</u>	<u>209,819</u>	<u>29,708,410</u>
Total Assets	<u>39,505,256</u>	<u>1,126,148</u>	<u>40,631,404</u>
<u>Deferred Outflow of Resources</u>			
Deferred amount on debt refundings	17,273	-	17,273
Total Deferred Outflow of Resources	<u>17,273</u>	<u>-</u>	<u>17,273</u>
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	190,811	5,998	196,809
Contracts and retainage payable	147,556	-	147,556
Accrued payroll and related expenses	2,106,723	99,066	2,205,789
Unearned revenue	134,460	-	134,460
Current portion of bond obligations	759,750	-	759,750
Current portion of capital leases	39,438	-	39,438
Interest payable	45,328	-	45,328
Total Current Liabilities	<u>3,424,066</u>	<u>105,064</u>	<u>3,529,130</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	8,723,117	-	8,723,117
Noncurrent portion of capital leases	2,211	-	2,211
Noncurrent portion of accrued sick leave	183,690	-	183,690
Total Noncurrent Liabilities	<u>8,909,018</u>	<u>-</u>	<u>8,909,018</u>
Total Liabilities	<u>12,333,084</u>	<u>105,064</u>	<u>12,438,148</u>
<u>Net Position</u>			
Net investment in capital assets	19,843,792	209,819	20,053,611
Restricted for capital and debt service	771,068	-	771,068
Unrestricted	6,574,585	811,265	7,385,850
Total Net Position	<u>\$ 27,189,445</u>	<u>\$ 1,021,084</u>	<u>\$ 28,210,529</u>

The accompanying notes are an integral part of this financial statement.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Instruction	\$14,938,230	\$ 109,981	\$ 16,674,763	\$ -	\$ 1,846,514	\$ -	\$ 1,846,514
Support services:							
Student	861,253	5,444	148,694	-	(707,115)	-	(707,115)
Instructional staff	949,749	-	108,307	-	(841,442)	-	(841,442)
District administration	1,768,995	-	190,653	-	(1,578,342)	-	(1,578,342)
School administration	1,720,244	-	300,699	-	(1,419,545)	-	(1,419,545)
Business	913,677	-	199,558	-	(714,119)	-	(714,119)
Plant operations and maintenance	2,640,627	2,000	243,951	619,646	(1,775,030)	-	(1,775,030)
Student transportation	2,168,385	134,890	262,865	-	(1,770,630)	-	(1,770,630)
Other support services	772	-	-	-	(772)	-	(772)
Food service	2,703	-	-	-	(2,703)	-	(2,703)
Community services	356,865	-	-	-	(356,865)	-	(356,865)
Interest on long-term debt	218,895	-	-	-	(218,895)	-	(218,895)
Total Governmental Activities	26,540,395	252,315	18,129,490	619,646	(7,538,944)	-	(7,538,944)
Business-Type Activities							
Food service	1,984,603	489,683	1,572,708	-	-	77,788	77,788
Total Business-Type Activities	1,984,603	489,683	1,572,708	-	-	77,788	77,788
Total Primary Government	\$28,524,998	\$ 741,998	\$ 19,702,198	\$ 619,646	\$ (7,538,944)	\$ 77,788	\$ (7,461,156)
			General Revenues				
			Taxes:				
			Property		\$ 4,626,732	\$ -	\$ 4,626,732
			Motor vehicle		814,898	-	814,898
			Utility		951,362	-	951,362
			Interest income		33,797	2,498	36,295
			Other income		271,990	-	271,990
			Disposal of fixed assets		(12,511)	-	(12,511)
			Total General Revenues		6,686,268	2,498	6,688,766
			Transfers		23,284	(23,284)	-
			Changes in Net Position		(829,392)	57,002	(772,390)
			Net Position - Beginning of Year (Restated - See Note O)		28,018,837	964,082	28,982,919
			Net Position - End of Year		\$ 27,189,445	\$ 1,021,084	\$ 28,210,529

The accompanying notes are an integral part of this financial statement.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Special Revenue (Grant) Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 7,772,559	\$ -	\$ 918,624	\$ 8,691,183
Accounts receivable:				
Taxes	204,910	-	-	204,910
Other	51,963	-	-	51,963
Intergovernmental	-	822,581	-	822,581
Due from other funds	318,413	-	-	318,413
Prepaid expenses	236,028	-	-	236,028
Total Assets	\$ 8,583,873	\$ 822,581	\$ 918,624	\$ 10,325,078
Liabilities				
Accounts payable	\$ 150,115	\$ 40,696	\$ -	\$ 190,811
Contracts and retainage payable	-	-	147,556	147,556
Due to other funds	-	318,413	-	318,413
Accrued payroll	1,745,297	361,426	-	2,106,723
Unearned revenue	-	134,460	-	134,460
Total Liabilities	1,895,412	854,995	147,556	2,897,963
Fund Balances				
Nonspendable	236,028	-	-	236,028
Restricted	-	-	771,068	771,068
Committed	3,797,019	-	-	3,797,019
Assigned	2,009,051	-	-	2,009,051
Unassigned	646,363	(32,414)	-	613,949
Total Fund Balances	6,688,461	(32,414)	771,068	7,427,115
Total Liabilities and Fund Balances	\$ 8,583,873	\$ 822,581	\$ 918,624	\$ 10,325,078

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities

Total Governmental Fund Balances	\$ 7,427,115
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	29,498,591
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Bond obligations (net of discounts and deferred amounts on refundings)	(9,465,594)
Capital leases	(41,649)
Accrued sick leave	(183,690)
Interest payable	(45,328)
Total Net Position of Governmental Activities	\$ 27,189,445

The accompanying notes are an integral part of this financial statement.

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

	General Fund	Special Revenue (Grant) Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues</u>				
From local sources:				
Taxes:				
Property	\$ 4,107,910	\$ -	\$ 518,822	\$ 4,626,732
Motor vehicle	814,898	-	-	814,898
Utility	951,362	-	-	951,362
Tuition and textbook fees	5,612	109,813	-	115,425
Transportation reimbursement	134,890	-	-	134,890
Interest income	29,337	-	4,460	33,797
Donations/grants	2,500	32,916	-	35,416
Other income	106,499	39,089	-	145,588
Intergovernmental - state	14,263,484	661,111	999,337	15,923,932
Intergovernmental - indirect federal	-	1,828,706	-	1,828,706
Intergovernmental - direct federal	30,403	930,678	-	961,081
Total Revenues	20,446,895	3,602,313	1,522,619	25,571,827
<u>Expenditures</u>				
Current:				
Instruction	11,934,070	2,558,575	-	14,492,645
Support services:				
Student	678,925	181,211	-	860,136
Instructional staff	494,431	456,238	-	950,669
District administration	1,072,881	-	-	1,072,881
School administration	1,722,392	-	-	1,722,392
Business	969,101	47,943	-	1,017,044
Plant operations and maintenance	2,286,348	24,650	-	2,310,998
Student transportation	2,355,717	7,948	-	2,363,665
Other support services	-	772	-	772
Food service	2,703	-	-	2,703
Community services	-	356,865	-	356,865
Facilities acquisition and construction	-	-	523,583	523,583
Debt service:				
Payment of principal	40,920	-	885,000	925,920
Payment of interest and fiscal charges	2,975	-	210,978	213,953
Total Expenditures	21,560,463	3,634,202	1,619,561	26,814,226
Excess (Deficiency) of Revenues over Expenditures	(1,113,568)	(31,889)	(96,942)	(1,242,399)
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	28,292	44,334	919,878	992,504
Operating transfers out	(170,026)	(5,008)	(794,186)	(969,220)
Sale of fixed assets	777	-	-	777
Total Other Financing Sources (Uses)	(140,957)	39,326	125,692	24,061
Net Changes in Fund Balances	(1,254,525)	7,437	28,750	(1,218,338)
Fund Balances - Beginning of Year	7,942,986	(39,851)	742,318	8,645,453
Fund Balances - End of Year	\$ 6,688,461	\$ (32,414)	\$ 771,068	\$ 7,427,115

The accompanying notes are an integral part of this financial statement.

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

Net Changes in Fund Balances - Total Governmental Funds \$ (1,218,338)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$1,832,770) exceeded capital outlay (\$1,065,217) in the current period. (767,553)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. This is the book value of the disposed assets. (13,288)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 925,920

Interest is recorded as an expenditure when due in the governmental funds and as it accrues in the Statement of Activities. (4,942)

In the Statement of Activities, sick leave is measured by the amount earned during the year. In governmental funds, however, expenditures for this item are measured by the amount actually paid. 59,989

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This represents a decrease in noncurrent liabilities. 188,820

Change in Net Position of Governmental Activities \$ (829,392)

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014**

	Enterprise Fund
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 850,742
Intergovernmental receivable	21,316
Inventory	41,863
Prepaid expenses	2,408
	916,329
Total Current Assets	
Noncurrent Assets	
Capital assets	1,029,882
Less: accumulated depreciation	(820,063)
	209,819
Total Noncurrent Assets	
	1,126,148
Total Assets	
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	5,998
Accrued payroll and related expenses	99,066
	105,064
Total Current Liabilities	
<u>Net Position</u>	
Investment in capital assets	209,819
Unrestricted	811,265
	1,021,084
Total Net Position	
	\$ 1,021,084

The accompanying notes are an integral part of this financial statement.

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

	Enterprise Fund
<u>Operating Revenues</u>	
Lunchroom sales	\$ 489,683
Total Operating Revenues	489,683
<u>Operating Expenses</u>	
Salaries and wages	916,298
Contract services	42,568
Materials and supplies	986,490
Depreciation	39,247
Total Operating Expenses	1,984,603
Operating Loss	(1,494,920)
<u>Non-operating Revenues</u>	
Federal grants	1,228,641
State grants	218,998
Donated commodities	125,069
Interest income	2,498
Total Non-operating Revenues	1,575,206
Income Before Transfers	80,286
Transfers Out	(23,284)
Change in Net Position	57,002
Total Net Position - Beginning of Year	964,082
Total Net Position - End of Year	\$ 1,021,084

The accompanying notes are an integral part of this financial statement.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Enterprise Fund</u>
<u>Cash Flows from Operating Activities</u>	
Cash received from user charges	\$ 489,683
Cash payments to employees for services	(709,092)
Cash payments for contract services	(42,617)
Cash payments to suppliers for goods and services	(860,354)
Net Cash Used by Operating Activities	<u>(1,122,380)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers to other funds	(23,284)
Net Cash Used by Noncapital Financing Activities	<u>(23,284)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition of capital assets	(10,394)
Federal grants	1,230,494
State grants	16,931
Net Cash Provided by Capital and Related Financing Activities	<u>1,237,031</u>
<u>Cash Flows from Investing Activities</u>	
Interest income	2,498
Net Increase in Cash and Cash Equivalents	93,865
Cash and Cash Equivalents - Beginning of Year	<u>756,877</u>
Cash and Cash Equivalents - End of Year	<u>\$ 850,742</u>
<u>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</u>	
Operating loss	\$ (1,494,920)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	39,247
Commodities used	125,069
On-behalf payments	202,067
Net changes in assets and liabilities:	
Inventory	(2,198)
Prepaid expenses	(49)
Accounts payable	3,265
Accrued payroll and related expenses	5,139
Net Cash Used by Operating Activities	<u>\$ (1,122,380)</u>
<u>Schedule of Non-cash Transactions</u>	
Donated commodities received from federal government	<u>\$ 125,069</u>
On-behalf payments relating to fringe benefits provided by state government	<u>\$ 202,067</u>

The accompanying notes are an integral part of this financial statement.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014**

	<u>Agency Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 239,024
Accounts receivable	7,132
Total Assets	<u>246,156</u>
<u>Liabilities</u>	
Accounts payable	11,401
Due to students and teachers	234,755
Total Liabilities	<u>246,156</u>
<u>Net Position</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Breckinridge County Board of Education (Board), a five-member group, is the level of government that has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Breckinridge County School District (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. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies that 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 Breckinridge County Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, such as booster clubs, Parent-Teacher Organizations, etc., which although associated with the school system, have not originated within the Board itself.

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

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

Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the 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.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

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

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 fund types. 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 fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in net position presents increases and decreases in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

The District has the following funds:

I. Governmental Funds

- (A) 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 a major fund.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Concluded)

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

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing projects identified in the district's facility plan. This is not a major fund.
 - 2. The Facility Support Program of Kentucky (FSPK) Building Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is not a major fund.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is not a major fund.

- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs. This is not a major fund.

II. Proprietary Fund (Enterprise 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).

III. Fiduciary Fund (Agency Fund)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These activities are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds* (Redbook). Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are 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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are collected. 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 non-exchange transactions must also be available before it can be recognized.

Operating revenues are those revenues that are generated directly from the primary activity of the Proprietary Funds. Those revenues are primarily charges for meals and related items provided by the various schools. Nonoperating revenues of the Proprietary Funds include grants, donations, and interest income.

When both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

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 of Revenues, Expenses, and Changes in Net Position - Proprietary Fund as an expense with a like amount reported as donated commodities revenue.

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

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

Property taxes are levied by the county on behalf of the school district each October on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings, which are mailed by November 1, 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. A 2% discount is offered through November 30 and a penalty is assessed after December 31. Property taxes received after December 31 are considered to be delinquent and a lien can be filed against the property. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

The property tax rates assessed for the year ended June 30, 2014 were \$.514 per \$100 valuation for real property, \$.514 per \$100 valuation for tangible property, and \$.557 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 communication services, cablevision services, electric power, water, and natural, artificial, and mixed gas.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal, state, and local governments is limited due to the historical stability of those institutions; therefore, no allowance for doubtful accounts is recorded.

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.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the Proprietary Fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the Proprietary Fund are reported both in the business-type activities column of the government-wide Statement of Net Position and in the fund financial statements.

All capital assets are carried at historical cost. Where cost cannot be determined from the available records, estimated historical cost has been used to record the estimated value of the assets. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized, but the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Concluded)

The District maintains a capitalization threshold of \$5,000; however, the threshold for technology items is \$1,000, with the exception of workstations, laptops, and tablet devices, for which there is no threshold. The District does not possess any infrastructure. Insurance recovery of \$11,349 for asset impairment was reported in the General Fund. All reported capital assets except land and construction in progress are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	5-12 years
General equipment	5-20 years
Land improvements	10-20 years
Buildings	25-50 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables and payables. These generally arise from payments made from the General Fund on behalf of the Special Revenue Fund. The General Fund does not have the legal liability for the expenditure, so a payable from the fund having the legal liability is established at such time. Unless there are net residual amounts due between governmental and business-type activities, these amounts are eliminated in the Statement of Net Position.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of goods or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. Outstanding encumbrances at year-end are included in assigned fund balance at June 30, 2014.

Accumulated Unpaid Sick Leave Benefits

The District's policies regarding sick leave permit employees to accumulate earned but unused sick leave. See Note B for additional information.

Budgetary Process

The Superintendent must submit the proposed budget for all funds other than agency funds to the Board members each year. The working budget is adopted by September 30 of each fiscal year, and amendments to the budget can be approved by the Board as needed. The budgetary data for the General Fund and Special Revenue Fund is presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Transfers

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues and expenses in proprietary funds.

Inventory

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the Proprietary Fund. Inventory consists of donated and purchased foods held for resale and are expensed when used. Purchased food is valued at cost (first-in, first-out method) and the value of U.S. Government donated commodities is determined by the U.S. Department of Agriculture.

Prepaid Expenses

Payments made that will benefit periods beyond June 30, 2014 are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports the deferred charge on refunding in the government-wide Statement of Net Position in this category. A deferred charge on refunded debt results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Net Position

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

- Net investment in capital assets - Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.
- Restricted - Restricted net position consists of restricted financial assets reduced by liabilities and deferred inflows of resources related to those assets. Limitations can be imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- Unrestricted - If an amount does not meet the definition of net investment in capital assets or restricted, it is unrestricted.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payables, Accrued Liabilities, and Long-Term Obligations

Payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and in the Proprietary Fund financial statements.

In general, payables, accrued liabilities, and long-term obligations that will be paid from governmental funds are reported on the government-wide financial statements regardless of whether they will be liquidated with current resources. However, these amounts are not recognized as liabilities in the fund financial statements until due.

Estimates

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

Fund Equity

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory and prepayments) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

The District establishes (and modifies or rescinds) fund balance commitments by passage of a board order, which is done through motions made by the board of education members. Assigned fund balance is established by the Superintendent through adoption or amendment of the budget as intended for a specific purpose. Unassigned fund balances are reduced first, unless expenditures are incurred for a specific purpose for which fund balance has been restricted, committed, or assigned.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

New Accounting Pronouncements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The District implemented the new requirements of this statement for the fiscal year ended June 30, 2014. The implementation of GASB 65 resulted in the write-off of bond issuance costs and the effect of the adoption of GASB 65 was the reduction of beginning net position of the governmental activities by \$236,942 (see Note O).

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

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, was released to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

Other GASB statements effective for the fiscal year had no impact on the District's financial statements.

NOTE B - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a qualified 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.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE C - CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Not Depreciated:				
Land	\$ 451,448	\$ -	\$ -	\$ 451,448
Construction in progress	24,642	524,482	-	549,124
Subtotal	<u>476,090</u>	<u>524,482</u>	<u>-</u>	<u>1,000,572</u>
Depreciated:				
Land improvements	3,405,164	-	-	3,405,164
Buildings	39,365,751	-	2,800	39,362,951
Technology equipment	2,619,172	138,631	121,447	2,636,356
Vehicles	4,867,518	366,770	18,631	5,215,657
General equipment	2,522,051	35,334	32,982	2,524,403
Subtotal	<u>52,779,656</u>	<u>540,735</u>	<u>175,860</u>	<u>53,144,531</u>
Less accumulated depreciation:				
Land improvements	2,920,627	99,244	-	3,019,871
Buildings	12,962,558	970,923	2,800	13,930,681
Technology equipment	1,700,743	337,162	118,132	1,919,773
Vehicles	3,517,784	325,744	18,010	3,825,518
General equipment	1,874,602	99,697	23,630	1,950,669
Subtotal	<u>22,976,314</u>	<u>1,832,770</u>	<u>162,572</u>	<u>24,646,512</u>
Capital Assets - Net	<u>\$30,279,432</u>	<u>\$ (767,553)</u>	<u>\$ 13,288</u>	<u>\$29,498,591</u>
 <u>Business-Type Activities</u>				
Depreciated:				
General equipment	\$ 988,920	\$ 3,511	\$ -	\$ 992,431
Technology equipment	30,567	6,883	-	37,450
Subtotal	<u>1,019,487</u>	<u>10,394</u>	<u>-</u>	<u>1,029,881</u>
Less accumulated depreciation:				
General equipment	753,623	37,600	-	791,223
Technology equipment	27,192	1,647	-	28,839
Subtotal	<u>780,815</u>	<u>39,247</u>	<u>-</u>	<u>820,062</u>
Capital Assets - Net	<u>\$ 238,672</u>	<u>\$ (28,853)</u>	<u>\$ -</u>	<u>\$ 209,819</u>

Depreciation expense was charged to functions in the Statement of Activities as follows:

<u>Governmental Activities</u>	
Instruction	\$ 609,781
Support services:	
Student	1,117
District administration	696,114
Plant operations and maintenance	354,268
Student transportation	171,490
	<u>\$1,832,770</u>
 <u>Business-Type Activities</u>	
Food service	<u>\$ 39,247</u>

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE D - CASH AND CASH EQUIVALENTS

Cash and cash equivalents were reported at cost and consisted of the following at June 30, 2014:

	Bank Balance	Book Balance
Governmental and proprietary funds	\$9,526,338	\$9,541,925
Fiduciary funds	262,845	239,024
	\$9,789,183	\$9,780,949

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At year-end, the deposits of the District were either insured or collateralized with securities held by the pledging financial institution.

Kentucky Revised Statutes and Board policy authorize the District to invest in direct obligations of the U.S. government; obligations backed by the full faith and credit of the U.S. government; certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct U.S. government obligations; bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities; securities issued by any state or local government of the U.S. or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency; certain mutual funds; commercial paper rated in the highest category by a nationally recognized rating agency. The District has formally adopted deposit and investment policies that limit its allowable deposits or investments and address the specific types of risk to which the government is exposed, but it currently has no investments.

NOTE E - LONG-TERM LIABILITIES

The District is obligated to make payments in amounts sufficient to satisfy debt service requirements on revenue bonds or refunding bonds of revenue bonds issued by the Breckinridge County School District Finance Corporation to construct or renovate school facilities. The bonds payable are collateralized by the educational facilities constructed/renovated with bond proceeds. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. Bonds are repaid principally from state and local revenues in the Building Fund. General Fund and Capital Outlay Fund revenues are available to pay for debt service if needed.

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

Bond Series	Issue Date	Interest Rates	Bond Maturity	Original Issue	Outstanding Balance
2004	2/1/04	2.5% to 4.4%	2/1/24	\$ 735,000	\$ 190,000
2008	4/1/08	2.75% to 3.85%	4/1/28	\$3,005,000	\$2,635,000
2009A	5/1/09	2% to 3%	5/1/19	\$1,250,000	\$ 725,000
2009B	9/23/09	2% to 3.6%	12/1/20	\$1,175,000	\$1,015,000
2012	6/1/12	4.85%	6/1/32	\$2,647,000	\$2,647,000
2013	1/29/13	1%	6/30/19	\$2,930,000	\$2,350,000

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE E - LONG-TERM LIABILITIES (CONTINUED)

During the year ended June 30, 2013, the District defeased the 2004 series bond by placing \$410,645 in an irrevocable trust with an escrow agent to provide for future debt service payments to February 1, 2014. Accordingly, the trust account assets and liability for the defeased bonds are not included in the District's financial statements. The Kentucky School Facility Construction Commission's share of the 2004 series bond remained outstanding at \$190,000.

In July 1985, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission (SFCC). The SFCC was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the SFCC for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the government-wide financial statements.

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

Year	District		SFCC		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 644,952	\$ 147,031	\$ 120,048	\$ 50,377	\$ 765,000	\$ 197,408
2016	656,855	137,672	123,145	46,681	780,000	184,353
2017	673,342	127,567	126,658	42,568	800,000	170,135
2018	674,714	116,914	135,286	38,339	810,000	155,253
2019	690,967	105,908	139,033	33,793	830,000	139,701
2020-24	1,082,302	384,815	437,698	112,905	1,520,000	497,720
2025-29	1,095,687	168,128	314,313	30,823	1,410,000	198,951
2030-32	603,025	60,351	2,043,975	-	2,647,000	60,351
	<u>\$6,121,844</u>	<u>\$1,248,386</u>	<u>\$3,440,156</u>	<u>\$355,486</u>	<u>\$9,562,000</u>	<u>\$1,603,872</u>

Qualified Zone Academy Bonds

On June 1, 2012, the District issued \$2,647,000 in Qualified Zone Academy Bonds (QZAB) to fund renovations to Custer Elementary School. The District and the SFCC are required to make annual sinking fund payments to be held in escrow until the bonds mature. The amount accumulated in the sinking fund at the maturity date of June 1, 2032 is expected to be sufficient to retire the debt. The amount on deposit at June 30, 2014 was \$168,108. The following schedule reports the annual deposits to be made to the sinking fund by the District and the SFCC.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE E - LONG-TERM LIABILITIES (CONCLUDED)

Year	Sinking Fund Requirements		Total
	District Principal	SFCC Principal	
2015	\$ 2,702	\$ 80,298	\$ 83,000
2016	2,702	80,298	83,000
2017	2,702	80,298	83,000
2018	2,702	80,298	83,000
2019	2,702	80,298	83,000
2020-24	313,510	401,490	715,000
2025-29	95,260	401,490	496,750
2030-32	72,784	240,894	313,678
	<u>\$495,064</u>	<u>\$1,445,364</u>	<u>\$1,940,428</u>

Changes in long-term debt principal (including current portion) were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due In One Year
Bond obligations	\$10,447,000	\$ -	\$ 885,000	\$9,562,000	\$765,000
Discount	(84,383)	5,250	-	(79,133)	(5,250)
Total bonds	10,362,617	5,250	885,000	9,482,867	759,750
Capital leases	82,569	-	40,920	41,649	39,438
Accrued sick leave	243,681	37,674	97,665	183,690	-
	<u>\$10,688,867</u>	<u>\$42,924</u>	<u>\$1,023,585</u>	<u>\$9,708,206</u>	<u>\$799,188</u>

The Debt Service Fund is primarily responsible for paying bond obligations through funding from the Capital Outlay and Building Funds. The General Fund is primarily responsible for paying capital leases and accrued sick leave.

NOTE F - COMMITMENTS UNDER LEASES

During the fiscal year, the District made payments totaling \$1,783 for operating leases on office equipment. Commitments under these operating lease agreements provide the minimum future rental payments as of June 30, 2014 as follows:

Year Ending June 30,	Future Payments
2015	\$1,950
2016	1,950
2017	1,950
2018	163
Total	<u>\$6,013</u>

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE F - COMMITMENTS UNDER LEASES (CONCLUDED)

The schedule of future minimum lease payments on all capital leases as of June 30, 2014 is as follows:

	Year Ending June 30,	Governmental Activities
	2015	\$40,480
	2016	2,269
Future Minimum Payments		42,749
Less Interest		(1,100)
Present Value of Future Minimum Payments		\$41,649

Amortization expense of \$15,976 is included in depreciation expense. The gross amount of assets recorded under capital leases and the accumulated amortization at year-end by major class according to nature or function is as follows:

Class	Gross Amount	Accumulated Amortization
Office Equipment	\$159,758	\$46,932

NOTE G - DEFICIT FUND BALANCES

The Special Revenue fund ended the year with a deficit balance. In addition, the General Fund and Construction Fund had operations that resulted in current year deficits of revenues over expenditures and corresponding reductions of fund balances. The governmental activities also experienced a reduction in net position.

NOTE H - RETIREMENT PLANS

Teachers' Retirement System of Kentucky

Plan description - The Breckinridge 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 its members occupy a position requiring either a four-year college degree or certification by the Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE H - RETIREMENT PLANS (CONTINUED)

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 in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. For members whose salaries are federally funded, the employer contributes 14.605% of salaries.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment 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 - The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of members' salary for the 2013-2014 fiscal year.

The Breckinridge County School District's total payroll for the year was \$15,982,687. The payroll for employees covered under KTRS was \$11,932,665. For the year ended June 30, 2014, the Commonwealth contributed an estimated \$1,352,241 to KTRS for the benefit of the District's participating employees. The School District's contributions to KTRS for the year ended June 30, 2014 were \$390,525 for employees covered by federal programs.

The District's contributions to KTRS for the past three years are listed below. The actual contributions were equal to the required contributions for each year.

Fiscal Year Ended June 30,	Total Payroll Subject to KTRS	Contributions		Total
		Employee	Employer	
2014	\$11,932,665	\$1,354,954	\$390,525	\$1,745,479
2013	\$11,576,182	\$1,256,595	\$324,731	\$1,581,326
2012	\$11,463,463	\$1,195,046	\$344,803	\$1,539,849

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE H - RETIREMENT PLANS (CONTINUED)

County Employee's Retirement System

Plan Description - Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a defined benefit plan sponsored by the Commonwealth of Kentucky. CERS is a cost-sharing, multiple-employer, public employee retirement system that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county and city, non-certified school board employees, and any additional eligible local agencies electing to participate in CERS. The Kentucky Retirement System (KRS) issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or from the KRS website at www.kyret.ky.gov.

Funding Policy - Funding for the plan is provided through payroll withholdings and participating employers are required to contribute at an actuarially determined rate. For the year ended June 30, 2014, non-hazardous plan employees who began participating with KRS prior to September 1, 2008 contributed 5% of creditable compensation to CERS. Employees who began participating with KRS on or after September 1, 2008 contributed 6%, with the additional 1% going to a health insurance account. Employer contribution rates, determined by the Board of Trustees of the Kentucky Retirement Systems, are intended to fund the CERS's normal cost on a current basis plus fund an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Participating employers contributed 18.89% of members' non-hazardous compensation for the year ended June 30, 2014.

The District's contributions to CERS for the past three years are listed below. The actual contributions were equal to the required contributions for each year.

Fiscal Year Ended June 30,	Total Payroll Subject to CERS	Contributions		
		Employee	Employer	Total
2014	\$3,850,311	\$200,719	\$727,324	\$928,043
2013	\$3,925,908	\$203,213	\$767,515	\$970,728
2012	\$3,936,173	\$201,709	\$746,299	\$948,008

As the District is only one of several employers participating in the plan, it is not practical to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the plan assets.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. Changes made to the medical plan may be made by the Kentucky Retirement Systems' Board of Trustees and the General Assembly. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE H - RETIREMENT PLANS (CONCLUDED)

To be eligible for medical benefits, the member must have retired either for service or disability. The amount funded by the insurance fund depends on the months of service. The insurance fund shall continue the same level of coverage for a recipient who was a member of the CERS after the age of 65 as before the age of 65, if the recipient is not eligible for Medicare coverage.

Funding policy - The post-retirement healthcare provided by CERS is financed wholly or partly from funds contributed by the recipient of a retirement allowance, by the Kentucky Retirement Systems insurance fund, or by another state-administered retirement system under a reciprocal agreement. Also, any premiums collected from retirees and investment interest help with the medical expenses of the plan.

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

The District makes available 401(k) and 403(b) defined contribution pension plans for all employees. Employees are allowed to contribute to the plans up to the Internal Revenue Code maximum allowable amount. The District does not contribute to these plans.

NOTE I - DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32 allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its financial statements. The District does not contribute to this plan.

NOTE J - INSURANCE AND RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, students, and guests; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, general and automotive liability coverage, and other miscellaneous risks, the District purchases commercial insurance.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund.

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

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE K - COMMITMENTS AND CONTINGENCIES

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

The Kentucky School Boards Insurance Trust (KSBIT) determined its Workers' Compensation and Liability Self-Insurance Pools were running in insurmountable deficits. As part of a corrective action plan required by state law, KSBIT assessed current and past participating members to fund the deficit and transfer the liability to a qualified insurer/reinsurer. As a final assessment had not yet been issued, a preliminary estimate of \$188,820 was recorded as a noncurrent liability in the government-wide financial statements for the year ended June 30, 2013. The actual amount of \$60,415 is included in accounts payable for the current fiscal year in both the government-wide and fund level financial statements. Accordingly, the difference in the estimated and actual liability of \$128,405 is included as other income on the Statement of Activities.

In addition, the KSBIT is currently in litigation involving \$5.5 million owed in surplus notes. If it is determined that the notes must be repaid, it is probable that a second assessment will be made for the District's portion of the judgment. As it is not possible to estimate the amount of a second assessment, no entries have been made to the District's financial statements for the current year.

The District had \$78,644 remaining on a \$543,000 contract for the construction of a multi-purpose facility.

The District is in early planning stages for the construction of two new elementary schools. The estimated costs are \$14 million for Irvington Elementary and \$16 million for Hardinsburg Elementary. The District anticipates receiving donated land for the Irvington school, but the value of the land has not been determined yet. Funding for the schools would be provided by additional bonding and cash reserved for capital projects. An estimated start date cannot be provided at this time.

NOTE L - ON-BEHALF PAYMENTS

For the year ended June 30, 2014, payments were made for life insurance, health insurance, health reimbursement accounts, KTRS matching retirement contributions, administrative fees, and technology by the Commonwealth of Kentucky on behalf of the District. In addition, debt service payments (principal and interest) were made by the SFCC on behalf of the District. These on-behalf payments were recorded as intergovernmental revenue and expenses/expenditures in the government-wide, General Fund, Proprietary Fund, and Debt Service Fund financial statements.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE L - ON-BEHALF PAYMENTS (CONCLUDED)

The on-behalf payments received were as follows:

Health insurance	\$2,940,746
Life insurance	6,846
Administrative fee	32,471
Health reimbursement account	159,512
KTRS retirement contributions (estimated)	1,352,241
Federal reimbursement (pd by District)	(319,009)
Debt service (SFFC payments)	379,691
Technology (KEN, MUNIS, etc.)	39,814
Total On-Behalf Payments	<u><u>\$4,592,312</u></u>

The amount received for the fiscal year ended June 30, 2014 was allocated as follows:

General Fund/Governmental Activities	\$4,010,554
Proprietary Fund/Business-Type Activities	202,067
Debt Service Fund	379,691
Total On-Behalf Payments	<u><u>\$4,592,312</u></u>

NOTE M - FUND BALANCES

The fund balances for the Governmental Funds were classified as follows:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Special Revenue (Grant) Fund</u>	<u>Nonmajor Governmental Funds</u>
Nonspendable:			
Prepaid items	\$ 236,028	\$ -	\$ -
Restricted:			
Capital projects	-	-	602,960
Debt service	-	-	168,108
Committed:			
Sick leave	1,764	-	-
Future construction	3,795,255	-	-
Assigned:			
Encumbrances	39,303	-	-
Site based councils	20,842	-	-
Educational programs	385,000	-	-
District improvement plan	264,100	-	-
Other programs	114,500	-	-
Future facilities needs	1,185,306	-	-
Unassigned	646,363	(32,414)	-
Total Fund Balances	<u><u>\$6,688,461</u></u>	<u><u>\$(32,414)</u></u>	<u><u>\$771,068</u></u>

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE N - INTERFUND ACTIVITY

Most program costs in the Special Revenue Fund must be paid for by District funds before reimbursement is requested from the federal government. The General Fund temporarily covered program expenditures, so an interfund balance resulted from the time lag between the dates expenditures were made and the date that grant funds were received. As a result, interfund balances at June 30, 2014 consisted of \$318,413 due to the General Fund from the Special Revenue Fund.

The following interfund transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Special Revenue	\$ 4,948	Fund local projects
General	Special Revenue	39,386	Technology match
General	Construction	125,692	Construction
Food Service	General	23,284	Indirect costs
Special Revenue	General	5,008	Move local projects
Building	Debt Service	794,186	Debt service
		<u>\$992,504</u>	

NOTE O - RESTATEMENT

The implementation of GASB Statement No. 65 (see Note A) resulted in the restatement of the beginning net position of the governmental activities in the government-wide financial statements. The deferred charges for bond issuance costs were reclassified as expenses of prior periods and resulted in the adjustment below:

	<u>Governmental Activities</u>
Net Position at June 30, 2013	<u>\$28,255,779</u>
Change in reporting for deferred charges for debt issuance costs	<u>(236,942)</u>
Net Position at June 30, 2013, Restated	<u>\$28,018,837</u>

REQUIRED SUPPLEMENTARY INFORMATION

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable) Final to Actual</u>
Revenues				
From local sources:				
Property taxes	\$ 3,897,922	\$ 4,142,758	\$ 4,107,910	\$ (34,848)
Motor vehicle taxes	738,787	748,830	814,898	66,068
Utility taxes	797,900	820,000	951,362	131,362
Tuition and textbook fees	6,200	14,004	5,612	(8,392)
Transportation reimbursement	110,000	110,000	134,890	24,890
Interest income	35,353	35,353	29,337	(6,016)
Donations/grants	-	-	2,500	2,500
Other income	168,500	168,500	106,499	(62,001)
Intergovernmental - state	14,606,648	14,050,263	14,263,484	213,221
Intergovernmental - direct federal	25,000	25,000	30,403	5,403
Total Revenues	<u>20,386,310</u>	<u>20,114,708</u>	<u>20,446,895</u>	<u>332,187</u>
Expenditures				
Instruction	11,669,678	11,711,504	11,934,070	(222,566)
Support services:				
Student	690,935	654,764	678,925	(24,161)
Instructional staff	481,968	481,668	494,431	(12,763)
District administration	2,363,236	2,269,533	1,072,881	1,196,652
School administration	1,760,039	1,754,846	1,722,392	32,454
Business	971,917	1,018,094	969,101	48,993
Plant operations and maintenance	2,368,492	2,268,104	2,286,348	(18,244)
Student transportation	2,353,661	2,379,311	2,355,717	23,594
Food service	2,159	2,159	2,703	(544)
Debt service:				
Payment of principal	-	-	40,920	(40,920)
Payment of interest and fiscal charges	-	-	2,975	(2,975)
Total Expenditures	<u>22,662,085</u>	<u>22,539,983</u>	<u>21,560,463</u>	<u>979,520</u>
Deficiency of Revenues over Expenditures	<u>(2,275,775)</u>	<u>(2,425,275)</u>	<u>(1,113,568)</u>	<u>1,311,707</u>
Other Financing Sources (Uses)				
Operating transfers in	262,330	262,330	28,292	(234,038)
Operating transfers out	(60,000)	(34,616)	(170,026)	(135,410)
Proceeds from sale of fixed assets	500	500	777	277
Total Other Financing Sources (Uses)	<u>202,830</u>	<u>228,214</u>	<u>(140,957)</u>	<u>(369,171)</u>
Net Changes in Fund Balances	<u>(2,072,945)</u>	<u>(2,197,061)</u>	<u>(1,254,525)</u>	<u>942,536</u>
Fund Balances - Beginning of Year	<u>2,072,945</u>	<u>2,197,061</u>	<u>7,942,986</u>	<u>5,745,925</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,688,461</u>	<u>\$ 6,688,461</u>

See accompanying notes to required supplementary information.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable) Final to Actual</u>
<u>Revenues</u>				
From local sources:				
Tuition and textbook fees	\$ 16,000	\$ 16,000	\$ 109,813	\$ 93,813
Donations/grants	30,000	32,983	32,916	(67)
Other income	-	2,000	39,089	37,089
Intergovernmental - state	532,430	701,699	661,111	(40,588)
Intergovernmental - indirect federal	1,827,743	1,723,654	1,828,706	105,052
Intergovernmental - direct federal	984,336	933,367	930,678	(2,689)
Total Revenues	<u>3,390,509</u>	<u>3,409,703</u>	<u>3,602,313</u>	<u>192,610</u>
<u>Expenditures</u>				
Instruction	2,355,987	2,455,174	2,558,575	(103,401)
Support services:				
Student	175,076	132,162	181,211	(49,049)
Instructional staff	599,249	445,468	456,238	(10,770)
Business	29,179	39,840	47,943	(8,103)
Plant operations and maintenance	-	103,256	24,650	78,606
Student transportation	22,078	18,073	7,948	10,125
Other support services	-	-	772	(772)
Community services	268,940	265,116	356,865	(91,749)
Total Expenditures	<u>3,450,509</u>	<u>3,459,089</u>	<u>3,634,202</u>	<u>(175,113)</u>
Deficiency of Revenues over Expenditures	<u>(60,000)</u>	<u>(49,386)</u>	<u>(31,889)</u>	<u>17,497</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	60,000	49,386	44,334	(5,052)
Operating transfers out	-	-	(5,008)	(5,008)
Total Other Financing Sources (Uses)	<u>60,000</u>	<u>49,386</u>	<u>39,326</u>	<u>(10,060)</u>
Net Changes in Fund Balances	-	-	7,437	7,437
Fund Balances - Beginning of Year	<u>-</u>	<u>-</u>	<u>(39,851)</u>	<u>(39,851)</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,414)</u>	<u>\$ (32,414)</u>

See accompanying notes to required supplementary information.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A - BASIS OF PRESENTATION

The Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the General Fund and Special Revenue Fund present the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, and variances between the final budget and actual data.

NOTE B - BUDGET VIOLATIONS

During the 2014 fiscal year, the District's General Fund and Special Revenue Fund incurred line item expenditures in excess of budget, and the Special Revenue Fund's expenditures exceeded the appropriations for the fiscal year.

SUPPLEMENTARY INFORMATION

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Capital Project Funds</u>				Total Nonmajor Governmental Funds
	SEEK Capital Outlay Fund	FSPK Building Fund	Construction Fund	Debt Service Fund	
<u>Assets</u>					
Cash and cash equivalents	\$ 245,467	\$ 98,317	\$ 406,732	\$ 168,108	\$ 918,624
Total Assets	\$ 245,467	\$ 98,317	\$ 406,732	\$ 168,108	\$ 918,624
<u>Liabilities</u>					
Contracts and retainage payable	\$ -	\$ -	\$ 147,556	\$ -	\$ 147,556
<u>Fund Balances</u>					
Restricted for capital projects	245,467	98,317	259,176	-	602,960
Restricted for debt service	-	-	-	168,108	168,108
Total Fund Balances	245,467	98,317	259,176	168,108	771,068
Total Liabilities and Fund Balances	\$ 245,467	\$ 98,317	\$ 406,732	\$ 168,108	\$ 918,624

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Capital Project Funds</u>				Total Nonmajor Governmental Funds
	SEEK Capital Outlay Fund	FSPK Building Fund	Construction Fund	Debt Service Fund	
<u>Revenues</u>					
From local sources:					
Property taxes	\$ -	\$ 518,822	\$ -	\$ -	\$ 518,822
Interest income	512	190	1,659	2,099	4,460
Intergovernmental - state	246,155	373,491	-	379,691	999,337
Total Revenues	<u>246,667</u>	<u>892,503</u>	<u>1,659</u>	<u>381,790</u>	<u>1,522,619</u>
<u>Expenditures</u>					
Facilities acquisition and construction	-	-	523,583	-	523,583
Debt service:					
Payment of principal	-	-	-	885,000	885,000
Payment of interest and fiscal charges	1,200	-	-	209,778	210,978
Total Expenditures	<u>1,200</u>	<u>-</u>	<u>523,583</u>	<u>1,094,778</u>	<u>1,619,561</u>
Excess (Deficiency) of Revenues over Expenditures	<u>245,467</u>	<u>892,503</u>	<u>(521,924)</u>	<u>(712,988)</u>	<u>(96,942)</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in	-	-	125,692	794,186	919,878
Operating transfers out	-	(794,186)	-	-	(794,186)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(794,186)</u>	<u>125,692</u>	<u>794,186</u>	<u>125,692</u>
Net Changes in Fund Balances	245,467	98,317	(396,232)	81,198	28,750
Fund Balances - Beginning of Year	-	-	655,408	86,910	742,318
Fund Balances - End of Year	<u>\$ 245,467</u>	<u>\$ 98,317</u>	<u>\$ 259,176</u>	<u>\$ 168,108</u>	<u>\$ 771,068</u>

BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
BRECKINRIDGE COUNTY HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Cash Balances July 1, 2013	Receipts	Disbursements	Transfers In (Out)	Cash Balances June 30, 2014	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balances June 30, 2014
ACCOUNTS:								
Academic Team	\$ -	\$ 475	\$ 4,160	\$ 3,685	\$ -	\$ -	\$ -	\$ -
Archery	-	4,954	5,647	693	-	-	-	-
Art Club	253	-	100	-	153	-	-	153
Athletics	3,992	12,537	14,335	(1,405)	789	-	-	789
Athletic Concessions	6,997	24,691	27,610	(3,073)	1,005	1,816	50	2,771
Band	-	4,122	4,122	-	-	-	-	-
Baseball	-	32,697	34,096	2,085	686	-	-	686
Boys Basketball	5,691	40,897	42,234	(1,190)	3,164	-	-	3,164
Challenge Club	1,429	4,500	5,929	-	-	-	-	-
Charitable Gaming	-	13,080	13,080	-	-	-	-	-
Chorus	4,758	11,220	10,672	17	5,323	-	-	5,323
College Bound 101	-	488	98	-	390	-	-	390
Cross Country	199	1,501	2,099	399	-	-	-	-
Dance	5,028	17,583	20,312	100	2,399	225	109	2,515
Drama Club	459	580	1,072	143	110	-	-	110
FCA	119	-	-	(119)	-	-	-	-
FFA	218	17,369	17,844	257	-	75	-	75
FCCLA	78	10,558	10,175	(230)	231	-	-	231
5 K Run	375	-	-	(375)	-	-	-	-
Floral Design	-	823	1,624	1,431	630	-	-	630
Flower Fund	618	655	348	-	925	-	-	925
Football	21,604	32,880	59,049	9,412	4,847	440	2,249	3,038
General	1,704	27,929	33,426	3,852	59	757	580	236
Girls Basketball	-	26,127	24,203	200	2,124	-	288	1,836
Girls Soccer	468	15,128	6,175	(8,742)	679	-	300	379
Girls Softball	3,059	18,459	17,593	-	3,925	296	2,420	1,801
Golf	2,431	8,913	10,562	-	782	335	-	1,117
Greenhouse	25,391	16,067	15,006	(757)	25,695	1,260	1,291	25,664
JV Cheerleaders	2,323	3,397	3,017	(540)	2,163	-	-	2,163
Music Club	70	-	-	-	70	-	-	70
National Honor Society	409	425	281	(145)	408	-	-	408
Pep Club	2,667	4,916	3,478	(525)	3,580	-	-	3,580
Powderpuff	-	1,158	50	(1,108)	-	-	-	-
Project Graduation	1,714	37,856	38,253	(135)	1,182	-	-	1,182
Prom	9,479	7,800	3,882	-	13,397	-	-	13,397
SADD	42	730	500	-	272	-	-	272
Scholarships	-	2,500	-	-	2,500	-	2,500	-
Spanish Club	324	-	-	(324)	-	-	-	-
Sports Flex	320	-	-	-	320	-	-	320
Student Council	227	-	-	(227)	-	-	-	-
Student Y Club	680	5,852	6,205	-	327	-	-	327
Teacher Concessions	980	1,728	2,154	-	554	140	57	637
Tiger Paws	8,660	8,648	14,108	2,077	5,277	-	-	5,277
Varsity Cheerleader	4,266	23,036	22,974	(1,242)	3,086	17	-	3,103
Volleyball	5,904	32,174	28,269	-	9,809	1,015	-	10,824
Yearbook	15,619	14,890	30,142	-	367	-	-	367
Youth Services Center	5,419	1,288	2,239	(4,214)	254	-	-	254
Totals	\$ 143,974	\$ 490,631	\$ 537,123	\$ -	\$ 97,482	\$ 6,376	\$ 9,844	\$ 94,014

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
ACTIVITY FUNDS BY SCHOOL
FOR THE YEAR ENDED JUNE 30, 2014**

ACTIVITY FUND:	Cash			Cash	Accounts	Accounts	Fund
	Balances			Balances	Receivable	Payable	Balances
	July 1,	Receipts	Disbursements	June 30,	June 30,	June 30,	June 30,
	2013			2014	2014	2014	2014
Ben Johnson Elementary School	\$ 25,234	\$ 42,090	\$ 43,978	\$ 23,346	\$ 76	\$ 319	\$ 23,103
Custer Elementary School	16,709	34,411	30,713	20,407	-	80	20,327
Hardinsburg Elementary School	40,607	84,845	88,766	36,686	136	50	36,772
Irvington Elementary School	17,365	56,102	54,168	19,299	-	1,063	18,236
Breckinridge County Middle School	41,383	131,271	130,850	41,804	544	45	42,303
Totals	<u>\$ 141,298</u>	<u>\$ 348,719</u>	<u>\$ 348,475</u>	<u>\$ 141,542</u>	<u>\$ 756</u>	<u>\$ 1,557</u>	<u>\$ 140,741</u>



DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA

CHRISTI A. BROOKS, CPA

Telephone (270) 756-5704

FAX (270) 756-5927

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Breckinridge County School District
Hardinsburg, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Breckinridge County School District (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, and have issued our report thereon dated October 8, 2014.

Internal Control over Financial Reporting

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

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 a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 *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. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 also noted certain additional matters that we have reported to management in a separate letter dated October 8, 2014.

Breckinridge County School District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, KY

October 8, 2014



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

Kentucky State Committee for School District Audits
Members of the Board of Education
Breckinridge County School District
Hardinsburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Breckinridge County School District's (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 and 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

The District's responses to the noncompliance 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 compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 and 2014-003, that we consider to be significant deficiencies.

The District's responses to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the responses.

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.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, KY

October 8, 2014

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Local Code	Grant or Pass-Through Number	Federal Expenditures
U.S. Department of Health and Human Services				
Direct Programs:				
Head Start	93.600	655X	04CH4659/01	\$ 930,678
Total U.S. Department of Health and Human Services				<u>930,678</u>
U.S. Department of Agriculture				
Passed Through Kentucky Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	203X	7760005 13/14	348,274
National School Lunch Program [Cash Assistance]	10.555	205X	7750002 13/14	813,969
National School Lunch Program [Noncash Assistance]	10.555	205X	7750002 14	125,069
Total National School Lunch Program				<u>939,038</u>
Summer Food Service Program for Children	10.559	209X	7690024 13	4,471
Summer Food Service Program for Children	10.559	209X	7740023 13	42,941
Total Summer Food Service Program for Children				<u>47,412</u>
Total Child Nutrition Cluster				<u>1,334,724</u>
Child and Adult Care Food Program	10.558	208X	7790021 13/14	20,735
Child and Adult Care Food Program	10.558	208X	7800016 14	103
Total Child and Adult Care Food Program				<u>20,838</u>
Total U.S. Department of Agriculture				<u>1,355,562</u>
U.S. Department of Education				
Passed Through Kentucky Department of Education:				
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	337X	3810002 13	564,986
Special Education - Preschool Grants	84.173	343X	3800002 13	30,058
Total Special Education Cluster (IDEA)				<u>595,044</u>
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	84.010	310X	3100002 12/13	971,838
Title I Grants to Local Educational Agencies	84.010	320X	3100202 11	2,088
Total Title I Grants to Local Educational Agencies				<u>973,926</u>
Total Title I, Part A Cluster				<u>973,926</u>
Migrant Education - State Grant Program	84.011	311X	3110002 13/14	5,947
Career and Technical Education - Basic Grants to States	84.048	348X	3710002 13	22,551
Rural Education	84.358	350X	3140002 11/12	76,546
Improving Teacher Quality State Grants	84.367	401X	3230002 11/12	149,692
Race to the Top	84.413	452X	3960002 11	5,000
Total U.S. Department of Education				<u>1,828,706</u>
Total Expenditures of Federal Awards (All Programs)				<u>\$ 4,114,946</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (schedule) includes the federal grant activity of the Breckinridge County School District under programs of the federal government for the year ended June 30, 2014. 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*. As the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR, Part 225).

NOTE C - FOOD DONATION

Non-monetary assistance in the form of commodities received and disbursed, which is equivalent to a fair market value of \$125,069, is included in the schedule under National School Lunch Program [Noncash Assistance] (CFDA 10.555).

NOTE D - SUBRECIPIENTS

There were no subrecipients for federal awards during the fiscal year.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- | | | |
|---|---|---|
| Any material weakness(es) identified? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |
| Any significant deficiency(ies) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> none reported |
| Any noncompliance material to financial statements noted? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |

Federal Awards

Internal control over major programs:

- | | | |
|---|---|--|
| Any material weakness(es) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
| Any significant deficiency(ies) identified? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> none reported |

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

- | | | |
|--|---|-----------------------------|
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |
|--|---|-----------------------------|

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
•Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
•Head Start	93.600

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

- | | | |
|--|------------------------------|--|
| Auditee qualified as low-risk auditee? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

Section II: Financial Statement Findings

Finding 2014-001.

Section III: Federal Awards Findings

Findings 2014-002 and 2014-003.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding: 2014-001 (Repeat)

<i>Criteria:</i>	Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.
<i>Condition:</i>	Material adjustments were required as part of the audit process.
<i>Cause:</i>	Certain adjustments were overlooked.
<i>Effect:</i>	Account balances were overstated or understated.
<i>Recommendation:</i>	Staff should obtain any necessary training to familiarize themselves with the applicable accounting principles for the preparation of complete governmental financial statements, as well as routinely perform a final review to determine that all known adjustments have been made.
<i>Management Response:</i>	<i>The District Finance Officer will ensure all material adjustments are made. The District will ensure all financial staff receives and maintains all necessary training for preparation of the financial statements.</i>

Finding: 2014-002

Federal Program: Head Start 93.600

Federal Award # and Year: 04CH4659/01 July 1, 2013 – June 30, 2014

Federal Agency: U.S. Department of Health and Human Services

Compliance Requirement: Cash Management

<i>Criteria:</i>	Per 45 CFR 74.21 and 92.20, all agencies receiving federal funds are required to have a financial management system that provides timely, current, and complete disclosure of financial information. Cash management procedures should minimize the amount and duration of cash on hand.
<i>Condition:</i>	The final drawdown included \$60,703 for accrued payroll expenses and was made seventeen days prior to the actual disbursement.
<i>Questioned Costs:</i>	None.
<i>Context:</i>	Out of ten requests for federal funds, we examined nine and found one instance of noncompliance.
<i>Cause:</i>	Salaries and related expenses earned prior to the end of the budget period were accrued at year-end but were not paid out until July and August.
<i>Effect:</i>	The District did not minimize the time between the drawdown and disbursement of funds.
<i>Recommendation:</i>	In order to minimize the time between the receipt and disbursement of funds, the District should submit a drawdown request when payroll is processed.
<i>Management Response:</i>	<i>See Corrective Action Plan.</i>

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding: 2014-003

Program: Child Nutrition Cluster: School Breakfast Program (10.553); National School Lunch Program (10.555); Summer Food Service Program for Children (10.559)

Federal Award Year: July 1, 2013 – June 30, 2014

Federal Agency: U.S. Department of Agriculture

Pass-through Agency: Kentucky Department of Education

Compliance Requirement: Special Tests and Provisions - Verification

<i>Criteria:</i>	In accordance with 7 CFR Section 245.6a, the District must verify the current free and reduced price eligibility of households selected from a sample of error prone applications (those showing household incomes within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals) by November 15 th of each year.
<i>Condition:</i>	Using the standard sample size, the District selected twelve applications for verification. Of those twelve, only six responses were received, all of which were reviewed during the audit. The following exceptions were noted: three were not signed by the verifying official; two applicants did not provide the proper documentation; and the eligibility status for two was incorrect.
<i>Questioned Costs:</i>	None.
<i>Context:</i>	See Condition.
<i>Cause:</i>	The lack of signatures by the verifying official was oversight. One applicant submitted a tax return as documentation, which included a business loss. As business losses are not allowed to offset income, the applicant's status should not have been changed from reduced to free. For another applicant, net wages instead of gross wages were used, which caused the eligibility status to incorrectly remain at reduced. In both cases, prior year income was used instead of current income.
<i>Effect:</i>	Although noncompliance was not material, verification requirements may not have been met. The eligibility status for two applicants was incorrect.
<i>Recommendation:</i>	Employees performing verifications should be informed about what types of pay should be included in the calculation of income. When an applicant does not submit current documentation, he should be contacted and asked to provide the necessary information. More effort should be made to ensure verified applications are signed and dated by the Food Service Director.
<i>Management Response:</i>	See <i>Corrective Action Plan</i> .

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding: 05-1

<i>Finding:</i>	Time and Effort
<i>Status:</i>	The District did not maintain adequate time and effort documentation for all employees working in federal programs.
<i>Corrective Action:</i>	The District Finance Officer will ensure adequate time and effort documentation is being completed. In addition, a review of all time and effort documentation will occur annually to ensure OMB compliance for time and effort requirements. Completion date: 06/30/2015

Finding: 11-2

<i>Finding:</i>	Maintenance of Fiscal Effort
<i>Status:</i>	This was corrected during the fiscal year.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

Reference Number:	Management Response:
2014-002	In order to minimize the amount and duration of cash on hand, the District will delay submission of the final drawdown request until the payroll for July and August have been processed. This should have the effect of minimizing the time between drawdown and disbursement. The Head Start Director and Finance Director will ensure this process is in place each year. Completion Date: 06/30/2015
2014-003	Effective with the 2014-2015 school year, the Finance Director will review all documentation related to mandatory verification of free and reduced price eligibility. He will ensure all verification requirements have been met. Also, the Finance Director and Food Service Director will review all verification requirements to ensure the program is meeting those requirements annually. Completion Date: 11/15/2014
Name of Contact Persons:	Janet Meeks, Superintendent Michael Moreland, District Finance Officer October 20, 2014

MANAGEMENT LETTER POINTS



DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA
CHRISTI A. BROOKS, CPA
Telephone (270) 756-5704
FAX (270) 756-5927

Superintendent and
Members of the Board of Education
Breckinridge County School District
Hardinsburg, Kentucky

In planning and performing our audit of the basic financial statements of Breckinridge County School District for the year ended June 30, 2014, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those immaterial matters. A separate report dated October 8, 2014 contains our report on internal control. This letter does not affect our report dated October 8, 2014 on the basic financial statements of the Breckinridge County School District.

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

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, KY

October 8, 2014

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

PRIOR YEAR

CENTRAL OFFICE

Bonding

The District's public employee dishonesty coverage may be inadequate, as it is limited to \$50,000 per occurrence. 702 KAR 3:080(4) stipulates, "A district board of education shall require the bonding of **all** employees who are responsible for board funds." In addition to a possible violation of state statute, the current coverage may be inadequate to safeguard the funds of the District. The District should review its coverage for compliance with 702 KAR 3:080(4), and at a minimum, the superintendent should be bonded for the same amount as the finance officer.

Management Response: The District implemented additional bonding for all bookkeepers effective with the 2014-2015 school year. The District will ensure compliance each year and update bonding amounts to ensure all district funds are covered.

Disbursements

As in the prior year, in order to ensure payments are made by the due date, one of the District's credit cards is paid by automatic bank draft; however, the District still prepares a paper check through the accounts payable function. Although the check is typically voided (on paper only), the potential exists for the check to be accidentally mailed to the vendor. The amount of the check does not always agree with the amount of the bank draft, so a reconciling item is then created during the bank reconciliation. The check has to be cleared in the system even though it never actually cleared the bank. This failure to maintain document control effectively removes any audit trail and could permit misappropriation. We continue to recommend that the District discontinue this practice as soon as possible. The District should either cancel the automatic bank draft and resume payment by paper check or enter the amount paid by automatic bank draft as a journal entry and discontinue preparation of a paper check.

Management Response: The District agrees with the recommendation and in 2014-2015 plans to make the necessary changes needed to ensure proper control in all points of the process. Specifically, the District will continue to pay by automatic bank draft and enter the amount paid as a journal entry.

As in prior years, errors were found during the testing of disbursements. Out of seventy disbursements, ten errors were found, consisting of five payments made without a proper invoice (charges appearing on credit card statements without supporting invoices), one purchase made without a proper purchase order, one with sales tax paid, one where the check and invoice did not match, and two without indication of proper approval. Every effort should be made to obtain a purchase order prior to the purchase, and payments should only be made from supporting invoices that are properly approved. Sales tax should be deducted prior to payment.

Management Response: The Finance Officer will ensure that all purchasing procedures are being followed. This will be done by meeting with Central Office personnel and reviewing proper purchasing procedures. The Finance Officer will also conduct periodic audits to ensure all necessary paperwork is included with payment vouchers.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

CENTRAL OFFICE (Concluded)

Published Information

As in the prior year, the District did not publish annual financial information required by state law. KRS 424.220 requires that local boards of education publish annual financial statements which shall include the total amount of funds collected and received during the fiscal year from each individual source, the amount dispersed during the fiscal year to each individual payee, and the purpose for which the funds were expended. The amount of salaries paid to district employees shall be shown as lump sum expenditures. We recommend that the District make more effort to ensure that all required information is published timely and in accordance with state laws.

Management Response: The District will ensure all public information and reports are published in accordance with all applicable statutes.

INDIVIDUAL SCHOOL ACTIVITY FUNDS

Ben Johnson Elementary School

Annual Reports

As in the prior year, the annual financial report submitted by one of the school's support organizations was not in the prescribed format, and it did not appear that a budget was presented at the beginning of the year. The Redbook states that support/booster organizations should submit a budget at the start of the school year and report receipts, expenditures, and beginning and ending balances to the principal by July 15 for the year ended June 30. We continue to recommend that more effort be made to obtain the required reports in the prescribed format.

Receipts

As in the prior year, we noted problems with receipts tested. Out of twenty-five transactions tested, eight Multiple Receipt Forms (MRF) did not contain the student's signatures as required by Redbook, and four were not completed properly. We recommend that more effort be made to ensure the proper completion of the MRF. We noted eighteen instances where several MRF were combined into one receipt. A separate pre-numbered receipt should be issued to the payer any time money is received. The amount on one receipt did not match the receipts journal, a Fundraiser Worksheet was missing, and one receipt was dated after the deposit date. Receipts should match what is posted in the accounting system, Fundraiser Worksheets should be used when applicable, and receipts should be issued prior to deposits.

Ticket Sales

As in the prior year, we noted Ticket Sale Forms that were completed incorrectly (four for the current fiscal year). The recorded beginning ticket number was incorrect. The beginning number should be the first ticket number sold. We continue to recommend that more attention be given to the accurate preparation of Ticket Sale Forms.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Ben Johnson Elementary School (Concluded)

Transfers

As in the prior year, we noted that transfers were missing the faculty signature (fifteen out of twenty-seven for the current fiscal year). We also noted one transfer missing the principal's signature and one with a date out of order. We continue to recommend that the sponsor of the remitting activity and the principal sign the Transfer Form as outlined in the Redbook. Forms should also be kept in numerical and chronological order.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

Breckinridge County High School

Annual Reports

Although the annual report included a list of accounts receivable and accounts payable during the current year, the audit revealed additional receivables and payables of \$2,533 and \$8,519, respectively. We recommend that more effort be made to ensure that complete lists of receivables and payables accompany the annual school activity report as required by the Redbook.

As in the prior year, annual financial reports were not submitted in the prescribed format by the school's support organizations. Also, it did not appear that the lists of officers and budgets were filed at the beginning of the school year. The Redbook states that support/booster organizations should submit a list of officers at the start of the school year and a final budget within thirty days after the school year begins. Support/booster organizations must also report receipts, expenditures, and beginning and ending balances to the principal by July 15 for the year ended June 30. We recommend that more effort be made to obtain the required reports in the prescribed format in a timely manner.

Credit Cards

As in prior years, we noted instances in which the Credit Card Sign-In/Out Form was not completed properly. There were seven instances where the date and/or time the card was issued or returned were not documented. We also noted six instances where the credit card was not returned by the close of the next business day, as required by the Redbook. We recommend that more effort be made to follow Redbook guidelines regarding the return of credit cards and proper completion of the Credit Card Sign-In/Out Form.

Disbursements

As in the prior year, we noted problems with the disbursements tested. Out of sixty transactions tested, three purchase orders appeared to be made after the purchases, and two invoices were paid late. Purchase orders should be made prior to purchases, and invoices should be paid timely.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Breckinridge County High School (Concluded)

Receipts

As in the prior year, we noted problems with the receipts tested. Out of sixty transactions tested, there were four instances where the Fundraiser Approval Forms and/or Worksheets were not completed, and thirteen receipts were not supported by Multiple Receipt Forms (MRF). We also noted five instances where the worksheet for sales from concessions was missing and three donations not supported by a Donation Acceptance Form. We continue to recommend that support forms available in the Redbook accompany receipts when applicable. Three MRF did not contain the student's signatures as required by Redbook, and seven were missing other information. We recommend that more effort be made to ensure the proper completion of the MRF. Two deposits over \$100 were not made timely. Per Redbook guidelines, deposits over \$100 should be made daily.

Transfers

As in the prior year, we noted some transfers were missing the faculty signature. Although, faculty members sign a request to transfer funds, we continue to recommend that the sponsor of the remitting activity and the principal sign the Transfer Form as outlined in the Redbook.

Travel Advances

As in the prior year, we noted two instances where Form FS-A-9 (Expense Report) was not used for travel advances. In both cases, a standard invoice was used to request travel money. In one case, the check received appeared to be cashed, and money was used to purchase tickets for a field trip, and the remaining funds were disbursed to students to cover food expenditures. The only receipt on file was for the tickets, there was no indication that the students actually received the money, and no funds were returned. As this practice could permit misappropriation, we recommend that it be discontinued immediately. Money should not be distributed to students. As outlined in the Redbook, cash advances should be supported by Form FS-A-9. The completed form, related receipts, other supporting documents, and unused cash should be returned the next business day after the travel.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

Breckinridge County Middle School

Annual Reports

As in the prior year, a list of accounts receivable did not accompany the annual school activity report for the fiscal year. The current year audit also revealed accounts payable, although none were recorded by the school. We recommend that a list of receivables and payables accompany the annual report as required by the Redbook.

As in the prior year, the annual financial report presented by one of the school's support organizations was not submitted timely. The Redbook states that support/booster organizations should report receipts, expenditures, and beginning and ending balances to the principal by July 15 for the year ended June 30. We recommend that more effort be made to obtain the required reports in the prescribed format by the due date.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Breckinridge County Middle School (Concluded)

Disbursements

As in the prior year, we noted problems during the testing of twenty-five disbursements. We noted one instance where the statement was cancelled instead of the invoice, one instance of sales tax paid, and two purchase orders made after the invoice date. All invoices should be cancelled to avoid duplicate payments, sales tax should be deducted prior to payment, and purchase orders should be made prior to purchases.

Receipts

As in the prior year, we noted problems during the testing of twenty-five receipts. One Multiple Receipt Form (MRF) did not contain the student's signatures as required by Redbook. Seven concession worksheets lacked proper signatures. We recommend that more effort be made to ensure the proper completion of all forms required by the Redbook.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

Custer Elementary School

Annual Reports

As in the prior year, the annual financial report from one of the school's support organizations was not submitted timely. The Redbook states that support/booster organizations should report receipts, expenditures, and beginning and ending balances to the principal by July 15 for the year ended June 30. We recommend that more effort be made to obtain the required reports by the due date.

Disbursements

Out of twenty-five disbursements tested, we noted the following problems. Two purchase orders were made after the purchase, one invoice was not cancelled, five invoices were paid late, two disbursements were made based on a statement only, two disbursements were made based on a purchase order only, two disbursements were missing the signature of the faculty sponsor, five disbursements were made without a purchase order, and sales tax was paid on one invoice. Payments should be made based on invoices, sales tax should be deducted before payment, and all invoices should be paid by the due date and cancelled to avoid duplicate payments. Purchase orders should be made prior to purchases, and proper signatures should be acquired.

Receipts

As in the prior year, we noted problems with the receipts tested. Out of twenty-five transactions, four Multiple Receipt Forms (MRF) did not contain the student's signatures as required by Redbook, and one MRF was not used when required. One receipt for concessions was not supported by the form for sales from concessions. We recommend that more effort be made to ensure the proper completion of all forms required by Redbook.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Custer Elementary School (Concluded)

Ticket Sales

As in the prior year, we noted problems with Ticket Sale Forms. The recorded beginning ticket number was incorrect. It is our recommendation that more attention be given to the accurate preparation of Ticket Sale Forms.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

Hardinsburg Elementary School

Credit Cards

As in the prior year, we noted instances in which the Credit Card Sign-In/Out Form was not completed properly. There were four instances where the check-in time was missing, three instances where the check-out time was missing, and one instance where the check-in date was missing. We continue to recommend that more effort be made to ensure that the Credit Card Sign-In/Out Form is completed properly. We also noted three instances where the credit card was not returned by the close of the next business day, as required by the Redbook. We recommend that more effort be made to follow Redbook guidelines regarding the return of credit cards.

Disbursements

Out of twenty-five disbursements tested, we noted the following problems. One payment was based on a purchase order instead of an invoice, one invoice was paid late, and one purchase order was prepared after the invoice date. Payments should be made from invoices, all invoices should be paid by the due date, and purchase orders should be prepared prior to purchases.

Receipts

As in the prior year, we noted problems during the testing of twenty-five receipts. One Multiple Receipt Form (MRF) did not contain the student's signatures as required by Redbook, one MRF was not totaled correctly, and one MRF was used to collect money from adults, but the persons remitting money did not sign the form. We recommend that more effort be made to ensure the proper completion of the MRF.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Irvington Elementary School

Activity Fund

As in the prior year, as a result of payables recorded, four activity funds ended the year with deficit balances. As this is not allowed by the Redbook, we recommend that transfers be made prior to year-end to cover funds with a deficit balance after receivables and payables are recorded.

Annual Reports

As in the prior year, an annual financial report was not submitted in the prescribed format by one of the school's support organizations. In addition, it did not appear that a budget was presented at the beginning of the year. The Redbook states that support/booster organizations should submit a budget at the start of the school year and report receipts, expenditures, and beginning and ending balances to the principal by July 15 for the year ended June 30. We continue to recommend that more effort be made to obtain the required reports in the prescribed format in a timely manner.

Disbursements

As in the prior year, we noted problems during the testing of twenty-five disbursements. Two payments were made based on statements only, two payments had no purchase order, one purchase order was prepared after the invoice date, one payment was made without a confirmation signature of the person receiving the goods or services, and seven invoices were paid late. Purchase orders should be properly completed prior to a purchase, and payments should be made from an original or standard invoice by the due date. The person receiving the goods or services should sign the invoice to indicate receipt.

Receipts

As in the prior year, we noted problems during the testing of twenty-five receipts. Two Multiple Receipt Forms (MRF) did not contain the student's signatures as required by Redbook, and two MRF had other information missing. Four receipts for donations were not supported by the Donation Acceptance form, and one receipt for a fundraiser did not have a Fundraiser Approval form. Some Donation Acceptance forms were used but did not tie to the receipts. We recommend that more effort be made to ensure the proper completion of all forms required by the Redbook.

Support Organizations

As in the prior year, the Parent Teacher Organization (PTO) was given control over ticket sales and concessions at ballgames. As these ballgames are school-sponsored events, we continue to recommend that the school resume control over ticket sales and concessions.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

CURRENT YEAR

CENTRAL OFFICE

Maintenance Contract

The District engaged an individual to perform a specific maintenance function on a contractual basis. The Internal Revenue Service and U.S. Department of Labor provide a number of tests to determine whether such a relationship constitutes the conditions of an independent contractor or an employer/employee. Based on our understanding of the regulations, we believe that this is in the nature of an employer/employee relationship. To avoid potential liabilities, the District should evaluate the arrangement to consider whether to continue on the same basis.

Management Response: The District's Financial Officer and Superintendent will conduct further evaluation of worker status by the engaged individual. The District, using IRS established guidelines from publication 15-A, will determine whether the individual performing work for the school is acting as an employee of the district or as an independent contractor working on a contractual basis.

INDIVIDUAL SCHOOL ACTIVITY FUNDS

Ben Johnson Elementary School

Credit Cards

We noted instances in which the Credit Card Sign-In/Out Form was not completed properly. In one case, the employee that checked out the credit card did not sign the form. In another case, the date and time the card was returned was not documented. There was also one instance where an employee did not witness the return of the credit card. We recommend that more effort be made to ensure that the Credit Card Sign-In/Out Form is completed properly.

Disbursements

Out of twenty-five disbursements tested, we noted the following problems. One payment was made based only on a purchase order, one payment was made without a confirmation signature of the person receiving the goods or services, and four invoices were paid late. Payments should only be made from invoices, the person receiving the goods or services should sign the invoice to indicate receipt, and all invoices should be paid by the due date.

Operating expenses were paid from activity funds. Per Redbook guidelines, activity funds should not be used to cover operating expenses, as these should be purchased with District funds.

Receipts

Receipt numbers were not noted on deposit slips. Per Redbook guidelines, the deposit slip shall note the receipt numbers in the deposit.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Breckinridge County High School

Annual Report

The annual financial report was prepared incorrectly. The receipts and disbursements listed on the Recapitulation and Bank Reconciliation did not agree with the annual financial report. We continue to recommend that more effort be made to ensure that all reports are correct.

Disbursements

Cash prizes and operating expenses were paid from activity funds. Per Redbook guidelines, activity funds should not be used to award cash prizes or cover operating expenses that should be purchased with District funds.

During the testing of sixty disbursements, we noted twenty-two without a confirmation signature of the person receiving the goods or services. The Purchase Order form issued with the newly revised Redbook no longer contains a section for receivership; however, the Redbook states that the vendor invoice or standard invoice must have a confirmation signature of the person receiving the goods or services before the payment process can continue. We recommend that the person receiving the goods or services sign the invoice prior to payment to indicate receipt.

Receipts

Receipt numbers were not noted on deposit slips. Per Redbook guidelines, the deposit slip shall note the receipt numbers in the deposit.

Ticket Sales

Although ticket sale forms appeared to be prepared correctly, we noted several with "cash over" amounts in excess of \$75. Surplus cash in that amount would indicate that money is being collected, while tickets are not being distributed. Two forms had notes that tickets were no longer handed out due to inclement weather. We also noted that the same ticket color was used for two consecutive events. We recommend that more effort be made to properly account for ticket sales and that more attention be given to alternating ticket colors between consecutive events, as mandated by the Redbook.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

Breckinridge County Middle School

Credit Cards

We noted seven instances where the credit card was not returned by the close of the next business day, as required by the Redbook. In some cases, the credit card was kept several days. We recommend that more effort be made to follow Redbook guidelines regarding the return of credit cards.

Disbursements

Gift cards, cash prizes, and operating expenses were paid from activity funds. Per Redbook guidelines, activity funds should not be used to purchase gift cards, award cash prizes, or cover operating expenses that should be purchased with District funds.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Breckinridge County Middle School (Concluded)

Receipts

Receipt numbers were not noted on deposit slips. Per Redbook guidelines, the deposit slip shall note the receipt numbers in the deposit.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

Custer Elementary School

Activity Fund

One activity fund ended the year with a small deficit balance. As this is not allowed by the Redbook, we recommend that transfers be made prior to year-end to cover funds with a deficit balance.

Credit Cards

We noted that the Credit Card Sign-In/Out Form was not always completed properly. We noted eighteen instances where the time of issuance and five instances where the time of return were not documented. There was also one instance where an employee did not witness the return of the credit card. We recommend that more effort be made to ensure that the Credit Card Sign-In/Out Form is completed properly. We also noted three instances where the credit card was not returned by the close of the next business day, as required by the Redbook. We recommend that more effort be made to follow Redbook guidelines regarding the return of credit cards.

Disbursements

Gift cards, food and gifts for staff, and operating expenses were paid from activity funds. Per Redbook guidelines, activity funds should not be used to purchase gift cards or cover operating expenses that should be purchased with District funds. Only staff generated funds such as proceeds from vending machines in staff areas should be used for staff gifts, dinners, etc.

Fundraiser

A candy sale was held, but a Fundraiser Approval form and Fundraiser Worksheet were not prepared. Redbook requires that a Fundraiser Approval form be completed before the fundraiser begins and that the Fundraiser Worksheet be used to track profitability. We recommend that more effort be made to complete the required forms for future fundraisers.

Receipts

Receipt numbers were not noted on deposit slips. Per Redbook guidelines, the deposit slip shall note the receipt numbers in the deposit.

Ticket Sales

We noted that the same ticket color was used for four consecutive events. We recommend that more attention be given to alternating ticket colors between consecutive events, as mandated by the Redbook.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Custer Elementary School (Concluded)

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

Hardinsburg Elementary School

Disbursements

For checks issued from the gaming account to cover prizes, there was no supporting documentation. We recommend that an itemized statement showing where the proceeds went be kept on file as support.

Operating expenses were paid from activity funds. Per Redbook guidelines, activity funds should not be used to cover operating expenses, as these should be purchased with District funds.

Fundraiser

A candy sale was held, but a Fundraiser Approval form was not prepared. Although a Fundraiser Worksheet was prepared, there was no stated purpose for the fundraiser, so it was not possible to determine whether the funds were used for the intended purpose. Redbook requires that a Fundraiser Approval form be completed before the fundraiser begins and that the Fundraiser Worksheet be used to track profitability. We recommend that more effort be made to complete all of the required forms for future fundraisers.

Receipts

Receipt numbers were not noted on deposit slips. Per Redbook guidelines, the deposit slip shall note the receipt numbers in the deposit.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.

Irvington Elementary School

Credit Cards

We noted that the Credit Card Sign-In/Out Form was not always completed properly. We noted twenty-five instances where the time of issuance and the time of return were not documented. We also noted one instance where the credit card was not returned by the close of the next business day, as required by the Redbook. We recommend that more effort be made to follow Redbook guidelines regarding the return of credit cards and proper completion of the Credit Card Sign-In/Out Form.

**BRECKINRIDGE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2014**

Irvington Elementary School (Concluded)

Disbursements

Supplies for the staff lounge, gifts for staff, and operating expenses were paid from the General Fund. Per Redbook guidelines, activity funds should not be used to cover operating expenses, as these should be purchased with District funds. Only staff generated funds such as proceeds from vending machines in staff areas should be used for staff gifts, dinners, etc.

Receipts

Receipt numbers were not noted on deposit slips. Per Redbook guidelines, the deposit slip shall note the receipt numbers in the deposit.

Management Response: Each year a meeting will be held with the Principal and school bookkeeper regarding each finding. An internal audit will be conducted by the District Finance Officer as a follow-up to ensure Redbook compliance and proper procedures are being followed.