

# Butler County School District

## Financial Statements

June 30, 2014



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**REPORT**



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## **Independent Auditors' Report**

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Butler County School District  
Morgantown, 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 Butler County School District (the "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.

### **● Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditors' Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

● **Opinions**

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

● **Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 15 and 52 through 55 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 combining and individual nonmajor fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

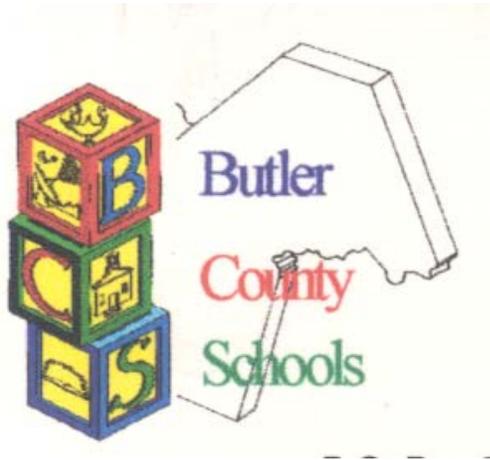
● **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 on our consideration of Butler County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*



# FINANCIAL STATEMENTS



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

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

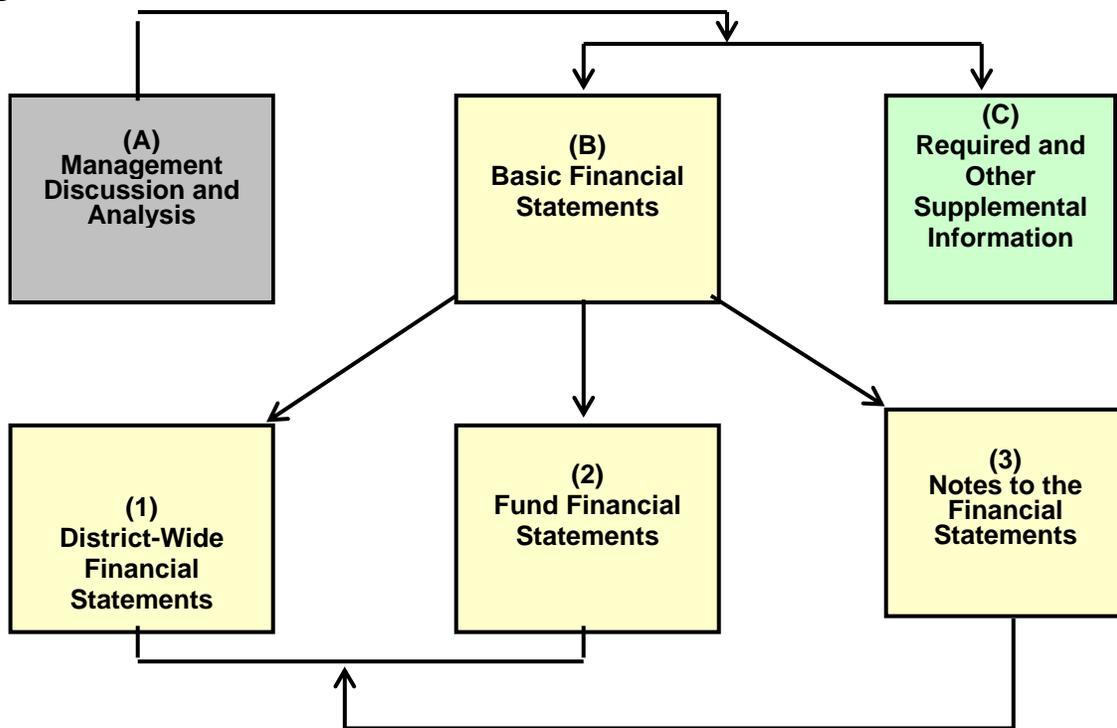
**FINANCIAL HIGHLIGHTS**

- The beginning General Fund balance for the District was \$2,931,060. The ending General Fund balance was \$3,187,817.
- The beginning Special Revenue Fund balance for the District was \$97,467. The ending Special Revenue Fund balance was \$81,139.
- The beginning Debt Service Fund balance for the District was \$1,642. The ending Debt Service Fund balance was \$611.
- The beginning balance for Other Governmental Funds was \$40,135. The ending balance for Other Governmental Funds was \$62,156.

## Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Butler County School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section), (B) the basic financial statements, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Organization of the Annual Financial Report



The District-Wide Financial Statements have two sections (1) the *Statement of Net Position* and (2) the *Statement of Activities*. The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other nonmajor funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements can be found on pages 31 to 51.

### Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during the current fiscal year?” The *Statement of Net Position* and the *Statement of Activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s SEEK funding formula and its adjustments, the School District’s property tax base, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District’s food service is reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$19,675,127 as of June 30, 2014. This was an increase of \$48,434 over the previous year.

The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The amount of capital assets, net of related debt was \$16,993,549 (a decrease of \$198,565 over the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the

resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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 government-wide financial statements can be found on pages 16 to 19.

## **Reporting the School District's Most Significant Funds**

### **Fund Financial Statements**

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary fund and fiduciary fund. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The only proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Butler County School District are the general fund, special revenue (grants), and the debt service fund.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

**Proprietary Fund** - Proprietary fund uses the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The only proprietary fund is our food service operations.

**Fiduciary Funds** – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity fund cash balances at year-end totaled \$188,804 (an increase of \$10,832 from the previous year).

The fund financial statements are on page 20 to 30.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Position for the period ending June 30, 2013 & June 30, 2014

	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2013	FY2014	FY 2013	FY 2014	FY 2013	FY 2014
Current and Other Assets	\$3,724,401	\$4,030,474	\$325,292	\$246,177	\$4,049,693	\$4,276,651
Capital Assets	\$33,852,696	\$32,505,504	\$304,250	\$262,223	\$34,156,946	\$32,767,727
<b>Total Assets</b>	<b>\$37,577,097</b>	<b>\$36,535,978</b>	<b>\$629,542</b>	<b>\$508,400</b>	<b>\$38,206,639</b>	<b>\$37,044,378</b>
Deferred Debt Refund	\$734,370	\$694,915			\$734,370	\$694,915
Long Term Liabilities	\$18,291,440	\$17,119,414	\$0	\$0	\$18,291,440	\$17,119,414
Other Liabilities (current)	\$851,471	\$849,356	\$68,534	\$8,368	\$920,005	\$857,724
<b>Total Liabilities</b>	<b>\$19,142,911</b>	<b>\$17,968,770</b>	<b>\$68,534</b>	<b>\$8,368</b>	<b>\$19,211,445</b>	<b>\$17,977,138</b>
Deferred Inflows	\$102,871	\$87,028			\$102,871	\$87,028
<b>Net Assets</b>						
Investment in Capital Assets (net of Debt)	\$16,887,864	\$16,731,326	\$304,250	\$262,223	\$17,192,114	\$16,993,549
Restricted	\$139,244	\$143,906	\$0	\$0	\$139,244	\$143,906
Unrestricted Fund	\$2,038,577	\$2,299,863	\$256,758	\$237,809	\$2,295,335	\$2,537,672
<b>Total Net Assets</b>	<b>\$19,065,685</b>	<b>\$19,175,095</b>	<b>\$561,008</b>	<b>\$500,032</b>	<b>\$19,626,693</b>	<b>\$19,675,127</b>

### Changes in Net Assets for June 30, 2013 and June 30, 2014

Revenues	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2013	FY2014	FY2013	FY2014	FY2013	FY2014
Program Revenues						
Charges for Services	\$17,678	\$28,176	\$279,145	\$241,528	\$296,823	\$269,704
Operating Grants and Contributions	\$2,417,631	\$2,214,421	\$966,247	\$991,394	\$3,383,878	\$3,205,815
Capital Grants and Contributions	\$1,398,589	\$1,419,724			\$1,398,589	\$1,419,724
General Revenue						
Taxes						
Property Tax	\$1,461,537	\$1,454,097			\$1,461,537	\$1,454,097
Motor Vehicle Tax	\$327,162	\$356,305			\$327,162	\$356,305
Utility Tax	\$798,243	\$779,871			\$798,243	\$779,871
Other Tax	\$250,021	\$235,597			\$250,021	\$235,597
State Aid	\$12,482,742	\$12,898,728			\$12,482,742	\$12,898,728
Investment Earnings	\$37,971	\$39,027	\$257	\$142	\$38,228	\$39,169
Other Revenue	\$212,482	\$164,995	-\$57,713	-\$64,497	\$154,769	\$100,498
Gain on Sale of Assets	\$29,394	\$0			\$29,394	\$0
<b>Total Revenues</b>	<b>\$19,433,450</b>	<b>\$19,590,941</b>	<b>\$1,187,936</b>	<b>\$1,168,567</b>	<b>\$20,621,386</b>	<b>\$20,759,508</b>

Expenses	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2013	FY2014	FY2013	FY2014	FY2013	FY2014
Instruction	\$11,105,359	\$11,504,168			\$11,105,359	\$11,504,168
Support Services						
Student Support Services	\$666,422	\$640,734			\$666,422	\$640,734
Instructional Staff	\$740,900	\$774,050			\$740,900	\$774,050
District Administration	\$650,668	\$1,016,271			\$650,668	\$1,016,271
School Administration	\$833,269	\$849,316			\$833,269	\$849,316
Business Administration	\$367,877	\$392,454			\$367,877	\$392,454
Plant Operations & Maintenance	\$2,085,360	\$1,956,481			\$2,085,360	\$1,956,481
Student Transportation	\$1,375,777	\$1,506,229			\$1,375,777	\$1,506,229
Other	\$188,030	\$217,236			\$188,030	\$217,236
Food Service Operations			\$ 1,177,792	\$ 1,229,543	\$1,177,792	\$1,229,543
Interest on Long-Term Debt	\$715,209	\$624,592			\$715,209	\$624,592
Total Expenses	\$18,728,871	\$19,481,531	\$1,177,792	\$1,229,543	\$19,906,663	\$20,711,074

- The District's total revenues were \$20,759,508 and the total expenses were \$20,711,074. Revenues exceeded expenses by \$48,434.
- State revenues accounted for 62% and local taxes accounted for 14% of the revenue.
- Instruction was the major expense category and accounted for 56% of the expense.
- Food service expense exceeded revenue by \$60,976.

## Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances	FY 2013	FY 2014	Amount of Change	% Change
General Fund	\$2,931,060	\$3,187,817	\$256,757	9%
Special Revenue Fund	\$97,467	\$81,139	(\$16,328)	-17%
Debt Service	\$1,642	\$611	(\$1,031)	0%
Other Governmental Funds	\$40,135	\$62,156	\$22,021	100%
School Food Fund	\$561,008	\$500,032	(\$60,976)	-11%
Total	\$3,631,312	\$3,831,755	\$200,443	6%

- The General Fund’s fund balance showed a positive change of \$256,757. This was primarily the result of budgeting for mid-year funding cuts that did not occur. The District also received more SEEK money than expected due to an increase in enrollment.
- The Special Revenue fund had a negative change of \$16,328. The principal reason for the difference is that in FY 2002 the technology fund was transferred to the special revenue fund. This fund balance will vary from year to year depending on how much state money is received for technology and the time of year received. This is because all other Fund 2 projects must be zero’d out at end-of-year. The only fund left in the Special Revenue fund is technology at year end.
- Debt Service fund and Other Governmental funds show an increase of \$20,990.
- The School Food Fund’s fund balance had a \$60,976 decrease. This was primarily due to reduced participation in food service program.

### Comments on General Fund and Special Revenue Budget Comparisons

- The District’s General Fund total revenues for the fiscal year ended June 30, 2014, net of interfund transfers, were \$12,701,852. This is \$746,652 more than was budgeted in the final working budget. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner and a mid-year cut was budgeted based on the previous year that did not occur.
- Expenditures were less than budgeted, primarily because of unspent contingency funds of \$1,426,786.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$256,757 more than the prior year. This was primarily the result of budgeting for a mid-year State cut that did not occur in the current fiscal year.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By June 30, 2014, the district had invested \$32,767,727 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total initial cost of assets was \$52,674,563 with accumulated depreciation of \$19,906,836.

### SUMMARY OF CAPITAL ASSETS

CAPITAL ASSETS (net of depreciation)	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY2013	FY2014	FY2013	FY2014	FY2013	FY2014	2013-2014
Land and improvements	\$524,804	\$504,173	\$0	\$0	\$524,804	\$504,173	-3.9%
Construction in Progress	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
Buildings	\$31,650,488	\$30,610,915	\$0	\$0	\$31,650,488	\$30,610,915	-3.3%
Equipment & Furniture	1,677,404	1,390,416	\$304,250	\$262,223	\$1,981,654	\$1,652,639	-16.6%
<b>Total Assets</b>	<b>\$33,852,696</b>	<b>\$32,505,504</b>	<b>\$304,250</b>	<b>\$262,223</b>	<b>\$34,156,946</b>	<b>\$32,767,727</b>	<b>-4.1%</b>

### Long-Term Debt

At year-end the district had \$16.40 million in general obligation bonds outstanding. This was a decrease of 8% over last year. The decrease was due to the normal repayment of bonds.

### BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The district receives approximate 62% of its new general fund revenue each year through the state funding formula (SEEK). On occasions, there have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 14% of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$3,187,817 as a beginning balance for next year.

By law, the budget must have a minimum 2 % contingency. The beginning fund balance for beginning the fiscal year is \$3,187,817 well above the minimum state requirement. Significant Board action that impacts finances includes additional spending on proposed construction projects and general fund matching dollars for other grants. Many other grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. At year-end, the District's General Fund was due \$211,076 from the special revenue grant fund. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

## **DISTRICT CHALLENGES FOR THE FUTURE**

The primary challenges for Butler County Schools are to continue to maintain a healthy General Fund balance, ensure student learning, and maintain the average daily attendance count.

With the economic down turn that the State of Kentucky is experiencing, the administration of the district has to focus on the finances of the district as a whole. It has been the district's stance to reduce expenditures and be more efficient with expenses, with as little impact on student achievement as possible. One aspect of daily operations that the district has focused on to cut cost has been utilities. Currently all schools within the district are Energy Star and the Butler County School District is the most efficient school district in the State of Kentucky based on its' kw usage per square foot.

The second challenge is to ensure that all students learn at high levels. Maintaining and improving student achievement is essential to the future well being of our students and our community. Butler County Schools, in cooperation with parents and community, must ensure that all students demonstrate proficient academic performance, as well as positive social and emotional development and growth.

The third challenge mentioned is preserving the average daily attendance count. The district receives funding through the SEEK formula based on this count. Past history reflects a decrease in enrollment or at best maintaining the previous year's count. Therefore, growth within the district is limited. It is vital that our schools have high attendance percentages and that parents and students continue to choose Butler County Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing the district's challenge.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information they should be directed to Eric Elms, Director of Financial Services (270) 526-5624, PO Box 339, 203 North Tyler St., Morgantown, KY, 42261 or e-mail at [eric.elms@butler.kyschools.us](mailto:eric.elms@butler.kyschools.us).

Butler County School District  
Statement of Net Position

June 30, 2014	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
Cash	\$ 1,818,509	\$ 162,048	\$ 1,980,557
Investments	1,704,603	-	1,704,603
Accounts receivable:			
Taxes	117,670	-	117,670
Interest	5,146	-	5,146
Accounts	21,951	-	21,951
Intergovernmental	362,595	13,560	376,155
Inventory	-	70,569	70,569
Non-depreciable capital assets	389,106	-	389,106
Depreciable capital assets	51,541,359	744,098	52,285,457
Less: accumulated depreciation	(19,424,961)	(481,875)	(19,906,836)
Total assets	36,535,978	508,400	37,044,378
<b>Deferred Outflows of Resources</b>			
Deferred loss on debt refundings	694,915	-	694,915
Total deferred outflows of resources	694,915	-	694,915
<b>Liabilities</b>			
Accounts payable	111,456	8,368	119,824
Accrued liabilities	563,453	-	563,453
Unearned revenue	23,842	-	23,842
Accrued interest	150,605	-	150,605
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,440,733	-	1,440,733
Other	34,200	-	34,200
Compensated absences	177,452	-	177,452
Due beyond one year:			
Outstanding bonds	14,811,284	-	14,811,284
Other	95,848	-	95,848
Compensated absences	559,897	-	559,897
Total liabilities	17,968,770	8,368	17,977,138

See accompanying notes to the financial statements.

Butler County School District  
Statement of Net Position

June 30, 2014	Governmental Activities	Business- Type Activities	Total
<b>Deferred Inflows of Resources</b>			
Deferred gain on debt refundings	87,028	-	87,028
Total deferred inflows of resources	87,028	-	87,028
<b>Net Position</b>			
Invested in capital assets, net of related debt	16,731,326	262,223	16,993,549
Restricted for:			
Capital projects	62,156	-	62,156
Grant programs	81,139	-	81,139
Debt service	611	-	611
Unrestricted	2,299,863	237,809	2,537,672
<b>Total Net Position</b>	<b>\$ 19,175,095</b>	<b>\$ 500,032</b>	<b>\$ 19,675,127</b>

See accompanying notes to the financial statements.

Butler County School District  
Statement of Activities

Year Ended June 30, 2014	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
<b>Governmental Activities:</b>							
Instruction	\$ 11,504,168	\$ 27,465	\$ 1,382,868	\$ 50,157	\$ (10,043,678)	\$ -	\$ (10,043,678)
<b>Support Services:</b>							
Student	640,734	-	253,074	-	(387,660)	-	(387,660)
Instructional staff	774,050	-	325,724	-	(448,326)	-	(448,326)
District administration	1,016,271	-	11,955	-	(1,004,316)	-	(1,004,316)
School administration	849,316	-	-	-	(849,316)	-	(849,316)
Business	392,454	-	30,000	-	(362,454)	-	(362,454)
Plant operations and maintenance	1,956,481	711	57,159	-	(1,898,611)	-	(1,898,611)
Student transportation	1,506,229	-	-	-	(1,506,229)	-	(1,506,229)
Other	175,431	-	153,641	-	(21,790)	-	(21,790)
Interest on long-term debt	624,592	-	-	1,369,567	744,975	-	744,975
Bond issuance cost	25,190	-	-	-	(25,190)	-	(25,190)
Loss on disposal of assets	16,615	-	-	-	(16,615)	-	(16,615)
<b>Total governmental activities</b>	<b>19,481,531</b>	<b>28,176</b>	<b>2,214,421</b>	<b>1,419,724</b>	<b>(15,819,210)</b>	<b>-</b>	<b>(15,819,210)</b>
<b>Business-Type Activities:</b>							
Food services	1,229,543	241,528	991,394	-	-	3,379	3,379
<b>Total business-type activities</b>	<b>1,229,543</b>	<b>241,528</b>	<b>991,394</b>	<b>-</b>	<b>-</b>	<b>3,379</b>	<b>3,379</b>
<b>Total School District</b>	<b>\$ 20,711,074</b>	<b>\$ 269,704</b>	<b>\$ 3,205,815</b>	<b>\$ 1,419,724</b>	<b>(15,819,210)</b>	<b>3,379</b>	<b>(15,815,831)</b>

See accompanying notes to the financial statements.

Butler County School District  
Statement of Activities

Year Ended June 30, 2014	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business- Type Activities	Total
General Revenues			
Taxes:			
Property	1,454,097	-	1,454,097
Motor vehicle	356,305	-	356,305
Utilities	779,871	-	779,871
Unmined minerals	5,276	-	5,276
Other	230,321	-	230,321
State aid	12,898,728	-	12,898,728
Investment earnings	39,027	142	39,169
Other	100,498	-	100,498
Transfers	64,497	(64,497)	-
Total general revenues and transfers	15,928,620	(64,355)	15,864,265
Change in Net Position	109,410	(60,976)	48,434
Net Position - Beginning of Year	19,065,685	561,008	19,626,693
Net Position - End of Year	\$ 19,175,095	\$ 500,032	\$ 19,675,127

See accompanying notes to the financial statements.

Butler County School District  
Balance Sheet  
Governmental Funds

June 30, 2014	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 1,750,702	\$ -	\$ 5,651	\$ 62,156	\$ 1,818,509
Investments	1,704,603	-	-	-	1,704,603
Accounts receivable:					
Taxes	117,670	-	-	-	117,670
Interest	5,146	-	-	-	5,146
Accounts	21,951	-	-	-	21,951
Intergovernmental	-	362,595	-	-	362,595
Due from other funds	211,076	-	-	-	211,076
<b>Total Assets</b>	<b>\$ 3,811,148</b>	<b>\$ 362,595</b>	<b>\$ 5,651</b>	<b>\$ 62,156</b>	<b>\$ 4,241,550</b>

See accompanying notes to the financial statements.

Butler County School District  
Balance Sheet  
Governmental Funds

June 30, 2014	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Liabilities and Fund Balances</b>					
Liabilities					
Accounts payable	\$ 59,878	\$ 46,538	\$ 5,040	\$ -	\$ 111,456
Accrued liabilities	563,453	-	-	-	563,453
Due to other funds	-	211,076	-	-	211,076
Unearned revenue	-	23,842	-	-	23,842
Total liabilities	623,331	281,456	5,040	-	909,827
Fund Balances					
Restricted	-	81,139	611	62,156	143,906
Committed	345,000	-	-	-	345,000
Unassigned	2,842,817	-	-	-	2,842,817
Total fund balances	3,187,817	81,139	611	62,156	3,331,723
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,811,148</b>	<b>\$ 362,595</b>	<b>\$ 5,651</b>	<b>\$ 62,156</b>	<b>\$ 4,241,550</b>

See accompanying notes to the financial statements.

Butler County School District  
Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Position

June 30,	2014
Total Fund Balances – Governmental Funds	\$ 3,331,723
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$51,930,465 and the accumulated depreciation is (\$19,424,961).	32,505,504
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow of resources.	694,915
Governmental funds record gains on debt refundings as other financing sources when the issues are refunded. Unamortized gains on refundings are included on the government-wide financial statements as a deferred inflow of resources.	(87,028)
Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:	
Bonds payable	(16,252,017)
Other debt	(130,048)
Accrued interest on the bonds	(150,605)
Compensated absences	(737,349)
<b>Total Net Position – Governmental Activities</b>	<b>\$ 19,175,095</b>

See accompanying notes to the financial statements.

Butler County School District  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year Ended June 30, 2014	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 1,217,828	\$ -	\$ -	\$ 236,269	\$ 1,454,097
Motor vehicle	356,305	-	-	-	356,305
Utilities	779,871	-	-	-	779,871
Unmined minerals	5,276	-	-	-	5,276
Other	230,321	-	-	-	230,321
Tuition and fees	27,465	-	-	-	27,465
Earnings on investments	39,027	81	-	-	39,108
Other local revenue	95,450	16,865	-	-	112,315
Intergovernmental - state	12,898,728	739,597	657,350	682,807	14,978,482
Intergovernmental - federal	11,189	1,508,035	29,410	-	1,548,634
Total revenues	15,661,460	2,264,578	686,760	919,076	19,531,874
Expenditures					
Current:					
Instruction	9,262,439	1,480,219	-	-	10,742,658
Support services:					
Student	377,733	253,074	-	-	630,807
Instructional staff	448,238	325,724	-	-	773,962
District administration	931,815	11,955	-	-	943,770

See accompanying notes to the financial statements.

Butler County School District  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year Ended June 30, 2014	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
School administration	831,720	-	-	-	831,720
Business	362,454	30,000	-	-	392,454
Plant operations and maintenance	1,509,745	57,159	-	-	1,566,904
Student transportation	1,316,536	-	-	-	1,316,536
Other	-	153,641	-	-	153,641
Debt service:					
Principal	-	-	1,415,129	-	1,415,129
Interest	-	-	567,982	-	567,982
Bond issuance costs	-	-	25,190	-	25,190
Total expenditures	15,040,680	2,311,772	2,008,301	-	19,360,753
Excess (Deficiency) of Revenues over Expenditures	620,780	(47,194)	(1,321,541)	919,076	171,121
Other Financing Sources (Uses)					
Proceeds of advance refunded bonds - net of discount	-	-	1,896,468	-	1,896,468
Payment to advance refunded bond escrow agent	-	-	(1,870,667)	-	(1,870,667)
Operating transfers in	66,139	30,866	1,296,351	-	1,393,356
Operating transfers out	(430,162)	-	(1,642)	(897,055)	(1,328,859)
Total other financing sources (uses)	(364,023)	30,866	1,320,510	(897,055)	90,298
Net Change in Fund Balances	256,757	(16,328)	(1,031)	22,021	261,419
Fund Balances - Beginning of Year	2,931,060	97,467	1,642	40,135	3,070,304
<b>Fund Balances - End of Year</b>	<b>\$ 3,187,817</b>	<b>\$ 81,139</b>	<b>\$ 611</b>	<b>\$ 62,156</b>	<b>\$ 3,331,723</b>

See accompanying notes to the financial statements.

Butler County School District  
 Reconciliation of the Governmental Funds  
 Statement of Revenues, Expenditures and Changes in  
 Fund Balances to the Statement of Activities

Year Ended June 30,	2014
Total Net Change in Fund Balances - Governmental Funds	\$ 261,419
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds 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 expense, (\$1,535,408), exceeds capital outlays, (\$64,699), in the period.	(1,470,709)
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual loss from the sale net to this amount for the year.	(22,045)
Repayment of bond principal and capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,465,396
The issuance of a bond and other debt service for an advance refunding of bonds is shown as an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position. Correspondingly, the transfer to an escrow agent for the refunding of bonds is shown as an other financing use in the governmental funds, but the transfer reduces long-term liabilities in the statement of net position. The net of these other financing sources and uses is shown here for the period.	(25,801)
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	(98,850)
<b>Change in Net Position - Governmental Activities</b>	<b>\$ 109,410</b>

See accompanying notes to the financial statements.

Butler County School District  
Statement of Net Position  
Proprietary Fund

<b>June 30, 2014</b>	<b>Enterprise Fund Food Service</b>
<b>Assets</b>	
Current Assets	
Cash	\$ 162,048
Accounts receivable:	
Intergovernmental	13,560
Inventory	70,569
Total current assets	246,177
Noncurrent Assets	
Fixed assets - net	262,223
Total assets	508,400
 <b>Liabilities</b>	
Current Liabilities	
Accounts payable	8,368
Total liabilities	8,368
 <b>Net Position</b>	
Invested in capital assets	262,223
Unrestricted	237,809
Total Net Position	\$ 500,032

See accompanying notes to the financial statements.

Butler County School District  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Fund

<b>Year Ended June 30, 2014</b>	<b>Enterprise Fund Food Service</b>
Operating Revenues	
Lunchroom sales	\$ 241,528
Total operating revenues	241,528
Operating Expenses	
Salaries and wages	607,802
Contract services	95,154
Materials and supplies	482,158
Other operating expenses	2,402
Depreciation expense	42,027
Total operating expenses	1,229,543
Operating loss	(988,015)
Non-Operating Revenues	
State operating grants	108,476
Federal operating grants	802,911
Donated commodities	80,007
Interest revenue	142
Total non-operating revenues	991,536
Income before transfers	3,521
Transfers	(64,497)
Change in Net Position	(60,976)
Net Position - Beginning of Year	561,008
<b>Net Position - End of Year</b>	<b>\$ 500,032</b>

See accompanying notes to the financial statements.

Butler County School District  
Statement of Cash Flows  
Proprietary Fund

<b>Year Ended June 30, 2014</b>	<b>Enterprise Fund Food Service</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from user charges	\$ 323,977
Cash payments to employees for services	(511,461)
Cash payments for contract services	(95,154)
Cash payments to suppliers for goods and services	(456,434)
Cash payments for other operating expenses	(2,402)
Net cash used in operating activities	(741,474)
 <b>Cash Flows from Noncapital Financing Activities</b>	
Indirect cost transfer to general fund	(64,497)
Non-operating grants received	815,046
Net cash provided by noncapital financing activities	750,549
 <b>Cash Flows from Investing Activities</b>	
Interest on investments	142
Net cash provided by investing activities	142
Net Increase in Cash	9,217
Cash - Beginning of Year	152,831
Cash - End of Year	\$ 162,048

See accompanying notes to the financial statements.

Butler County School District  
Statement of Cash Flows  
Proprietary Fund

<b>Year Ended June 30, 2014</b>	<b>Enterprise Fund Food Service</b>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
Operating loss	\$ (988,015)
Adjustments to reconcile operating income loss to net cash used in operating activities:	
Depreciation	42,027
Commodities received	80,007
On-behalf payments received	96,341
Changes in assets and liabilities:	
Receivables	82,449
Inventories	5,883
Accounts payable	(60,166)
<b>Net Cash Used In Operating Activities</b>	<b>\$ (741,474)</b>

**Non-Cash Activities**

The school food service fund received \$80,007 of donated commodities from the federal government.

The school food service fund recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$96,341 from the state government.

See accompanying notes to the financial statements.

Butler County School District  
Statement of Fiduciary Net Position  
Fiduciary Funds

<b>June 30, 2014</b>	<b>Agency Fund</b>
<b>Assets</b>	
Cash	\$ 188,804
Accounts receivable	856
<b>Total Assets</b>	<b>\$ 189,660</b>
<b>Liabilities</b>	
Accounts payable	\$ 2,519
Due to student groups	187,141
<b>Total Liabilities</b>	<b>\$ 189,660</b>

See accompanying notes to the financial statements.

## Butler County School District Notes to the Financial Statements

### Note 1: Summary of Significant Accounting Policies

#### ● Reporting Entity

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

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

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 the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements as a blended component unit:

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

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 1: Summary of Significant Accounting Policies (Continued)**

• ***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 District, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances.

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 1: Summary of Significant Accounting Policies (Continued)**

Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

▶ **Governmental Fund Types**

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

The *Special Revenue Fund* accounts for proceeds of specific revenue sources that are restricted, committed, or assigned to expenditures for specified purposes other than debt service or capital projects. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards. The special revenue fund is a major fund.

*Capital Projects Funds* are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments.

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

The *Facility Support Program of Kentucky (FSPK) Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and other debt related costs. The debt service fund is a major fund.

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 1: Summary of Significant Accounting Policies (Continued)**

▶ **Proprietary Fund Types**

*Enterprise Fund*

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

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

▶ **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others.

*Agency Funds*

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

● **Basis of Accounting**

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

The records of the District and the budgetary process are based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the general fund, special revenue fund and capital projects funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 1: Summary of Significant Accounting Policies (Continued)**

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The financial statements of the governmental fund types are prepared on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **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, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

● **Investments**

Investments of non-brokered certificates of deposit are reported at cost.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the proprietary funds, which record inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 1: Summary of Significant Accounting Policies (Continued)**

date received. The District maintains a capitalization threshold of \$5,000 with the exception of real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **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.

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave when earned for all employees with more than five years of service.

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

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 1: Summary of Significant Accounting Policies (Continued)**

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the funds from which the employees will be paid.

● ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

● ***Net Position***

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

*Invested in capital assets* - This represents the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds that are attributable to 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* - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*Unrestricted* - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

● ***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are mailed timely, the collection date is the

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 1: Summary of Significant Accounting Policies (Continued)**

period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

● **Revenues — Exchange and Non-Exchange Transactions**

Revenues resulting from exchange transactions are those where each party receives equal value. On the modified accrual basis of accounting, 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 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from non-exchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds.

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 1: Summary of Significant Accounting Policies (Continued)**

● ***Interfund Balances***

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

● ***Contributions of Capital***

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

● ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

● ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through October 27, 2014, which was the date the financial statements were made available.

● ***New Accounting Pronouncements***

**Recently Issued Accounting Pronouncements**

GASB issued 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 evaluation the impact of the adoption of this statement on the District’s financial statements.

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 2: Cash and Investments**

• **Deposits**

At June 30, 2014, the carrying amounts of the District's deposits were \$3,873,964 and the bank balances were \$4,554,435 which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

The carrying amounts are reflected in the financial statements in cash and investments as follow:

<b>June 30,</b>	<b>2014</b>
Governmental funds	\$ 3,523,112
Proprietary funds	162,048
Fiduciary funds	188,804
	<b>\$ 3,873,964</b>

▶ *Custodial Credit Risk Deposits*

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. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$4,554,435 was not exposed to custodial credit risk as of June 30, 2014.

• **Investments**

The District's investments, which are stated at cost, at June 30, 2014 are as follow:

<b>June 30, 2014</b>			
<b>General Fund Investments</b>	<b>Rating</b>	<b>Maturities</b>	<b>Cost</b>
Certificate of Deposit	N/R	2/13/2016	\$ 543,641
Certificate of Deposit	N/R	2/13/2016	543,641
Certificate of Deposit	N/R	2/13/2016	543,641
Certificate of Deposit	N/R	2/13/2016	73,680
			<b>\$ 1,704,603</b>

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 2: Cash and Investments (Continued)**

▶ *Interest Rate Risk*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

▶ *Credit Risk*

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has no investment policy that would further limit its investment choices.

**Note 3: Interfund Receivables and Payables**

Interfund balances at June 30, 2014 consist of the following:

June 30, 2014		
Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue	\$ 211,076

The amount represents a loan between the general fund and special revenue fund that is necessary to fulfill the current cash requirements of the special revenue fund.

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 4: Capital Assets**

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

<b>June 30, 2014</b>	<b>Capital Cost</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements/ Reclassifications</b>	
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 389,106	\$ -	\$ -	\$ 389,106
Total non-depreciable historical cost	389,106	-	-	389,106
Capital assets that are depreciated:				
Land improvements	638,447	-	-	638,447
Buildings and improvements	44,953,738	26,370	-	44,980,108
Technology Equipment	2,244,157	145,562	427,900	1,961,819
Vehicles	2,681,927	-	14,000	2,667,927
General	1,276,603	38,329	21,874	1,293,058
Total depreciable historical cost	51,794,872	210,261	463,774	51,541,359
Less accumulated depreciation for:				
Land improvements	502,749	20,631	-	523,380
Buildings and improvements	13,303,250	1,065,943	-	14,369,193
Technology Equipment	1,860,964	177,961	414,453	1,624,472
Vehicles	1,887,744	190,517	14,000	2,064,261
General	776,575	80,356	13,276	843,655
Total accumulated depreciation	18,331,282	1,535,408	441,729	19,424,961
Total depreciable historical cost, net	33,463,590	(1,325,147)	22,045	32,116,398
<b>Governmental Activities,</b>				
<b>Capital Assets, Net</b>				
	<b>\$ 33,852,696</b>	<b>\$ (1,325,147)</b>	<b>\$ 22,045</b>	<b>\$ 32,505,504</b>

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 4: Capital Assets (Continued)**

June 30, 2014	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
<b>Business-Type Activities:</b>				
Technology Equipment	\$ 11,451	\$ -	\$ 6,358	\$ 5,093
General	739,005			739,005
Total depreciable historical cost	750,456	-	6,358	744,098
Less accumulated depreciation for:				
Technology Equipment	9,606	1,204	6,358	4,452
General	436,600	40,823		477,423
Total accumulated depreciation	446,206	42,027	6,358	481,875
<b>Business-Type Activities, Capital Assets, Net</b>	<b>\$ 304,250</b>	<b>\$ (42,027)</b>	<b>\$ -</b>	<b>\$ 262,223</b>

Depreciation expense was charged to governmental functions as follows:

Year ended June 30,	2014
Instruction	\$ 764,473
Support services:	
Student	9,927
Instructional staff	88
District administration	77,565
School administration	25,571
Facilities operations	446,301
Student transportation	189,693
Other	21,790
<hr/>	
<b>Total Depreciation Expense</b>	<b>\$ 1,535,408</b>

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 5: Long-Term Obligations**

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

Issue Date	Proceeds	Rates
2003	835,000	2.00% - 4.10%
2004 KISTA	539,750	1.00% - 3.50%
2004-B	4,150,000	2.00% - 3.76%
2004-C	7,720,000	3.00% - 5.00%
2005 KISTA	321,366	3.00% - 3.625%
2006	2,440,000	3.75% - 4.00%
2006 KISTA	338,162	3.50% - 3.875%
2008	3,690,000	3.00% - 3.87%
2008 KISTA	387,782	3.00% - 3.75%
2009 KISTA	316,907	2.00% - 3.80%
2010	760,000	1.00% - 2.85%
2011	5,640,000	1.00% - 2.75%
2012	292,000	1.125%
2013 KISTA	257,353	2.000%
2014	1,915,000	2.00% - 3.50%

On June 20, 2014, the District issued \$1,915,000 in Revenue Refunding Bonds with interest rates 2.00% to 3.50%. The District issued the bonds to advance refund \$1,835,000 of outstanding 2010 Series bonds with an average interest rate of 4.99%. The net proceeds of \$1,870,667 (after payment of \$25,801 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments on the 2010 Series bonds. As a result, the advance refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$61,897. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2030 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 16 years by \$93,797 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$79,024.

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

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 5: Long-Term Obligations (Continued)**

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amounts to be paid by the District and the Commission 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 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 Commission, at June 30, 2014 for debt service (principal and interest) are as follow:

Year	Butler County School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2014—2015	\$ 335,132	\$ 906,766	\$ 123,384	\$ 533,967	\$ 1,899,249
2015—2016	324,248	868,096	113,260	544,090	1,849,694
2016—2017	295,566	884,475	102,338	535,521	1,817,900
2017—2018	269,066	884,578	90,568	504,050	1,748,262
2018—2019	240,247	872,204	79,306	515,312	1,707,069
2019—2020	213,972	789,110	67,256	527,365	1,597,703
2020—2021	187,733	811,756	54,348	520,358	1,574,195
2021—2022	171,131	738,318	42,010	498,505	1,449,964
2022—2023	151,309	756,410	29,644	501,870	1,439,233
2023—2024	128,252	769,831	16,343	515,169	1,429,595
2024—2025	103,217	812,477	2,057	12,523	930,274
2025—2026	75,877	836,992	1,572	13,008	927,449
2026—2027	46,288	631,488	1,067	13,512	692,355
2027—2028	22,693	550,964	544	14,036	588,237
2028—2029	1,400	20,000	-	-	21,400
2029—2030	700	20,000	-	-	20,700
	<b>\$ 2,566,831</b>	<b>\$ 11,153,465</b>	<b>\$ 723,697</b>	<b>\$ 5,249,286</b>	<b>\$ 19,693,279</b>

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 5: Long-Term Obligations (Continued)**

Maturities of other debt are as follows for the fiscal years ending:

<b>June 30,</b>		
2015	\$	34,200
2016		34,200
2017		32,512
2018		29,136
	<b>\$</b>	<b>130,048</b>

Changes in long-term obligations are as follows:

<b>June 30, 2014</b>	<b>Balance July 1, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2014</b>	<b>Amounts Due Within One Year</b>
<b>Governmental Activities</b>					
Bonds and notes payable:					
Bonds	\$ 17,737,880	\$ 1,915,000	\$ (3,250,129)	\$ 16,402,751	\$ 1,440,733
Less: deferred issuance discounts and premiums	(176,302)	(18,532)	44,100	(150,734)	-
Total bonds and notes payable	17,561,578	1,896,468	(3,206,029)	16,252,017	1,440,733
Other Liabilities:					
Compensated absences	695,109	140,924	(98,684)	737,349	177,452
Other	34,753	145,562	(50,267)	130,048	34,200
Total other liabilities	729,862	286,486	(148,951)	867,397	211,652
<b>Total Long-Term Liabilities</b>	<b>\$ 18,291,440</b>	<b>\$ 2,182,954</b>	<b>\$ (3,354,980)</b>	<b>\$ 17,119,414</b>	<b>\$ 1,652,385</b>

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 6: Fund Balances**

The Board follows GASB Statement Number 54. Under this statement, fund balance is separated into five categories, as follows:

*Nonspendable fund balances* are amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

*Restricted fund balances* arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, the District had \$81,139 restricted in the special revenue fund for technology grants, \$611 restricted in the debt service fund for debt service and \$62,156 restricted in the nonmajor funds (\$55,978 restricted for capital projects and \$6,178 restricted from SFCC offers).

*Committed fund balances* are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments at June 30, 2014: \$100,000 for future construction, \$175,000 for compensated absences and \$70,000 for SBDM allocation.

*Assigned fund balances* are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2014 was \$0. Assigned fund balances also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

*Unassigned fund balance* is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 6: Fund Balances (Continued)**

year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2014 in the governmental funds balance sheet.

**Note 7: Pension Plans**

• ***Plan Descriptions***

The Butler County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS). The CERS is a cost-sharing multiple-employer defined benefit plan. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

• ***Funding Policy***

KTRS plan members are required to contribute 11.355% of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and KTRS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 14.61% for the Commonwealth and 1.5% for the District of annual covered payroll. The rate for CERS is 18.89%, 19.55% and 18.96% for the years ended June 30, 2014, 2013 and 2012, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2014, 2013, and 2012 were \$431,390, \$435,277, and \$450,930 respectively, equal to the required contributions for each year.

For the year ended June 30, 2014 the Commonwealth contributed \$1,001,138 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2014 were \$203,962.

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 7: Pension Plans (Continued)**

• **Medical Insurance Plan**

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

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

*Funding Policy* — In order to fund the post-employment 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.

• **Deferred Compensation Plans**

The District offers its employees to defer compensation in accordance with Internal Revenue Code Sections 457 and 401(k). The Plans, available to all employees, permit 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, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement 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 in the financial statements.

**Note 8: 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 the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant.

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 8: Contingencies (Continued)**

Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**Note 9: Risk Management**

The District is exposed to various forms of loss of assets associated with the risks related to torts; theft of, damage to and destruction of assets; fire, personal liability, vehicular accidents; errors and omissions; injuries to employees; fiduciary responsibility; and natural disaster. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

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

**Note 10: Excess Expenditures over Appropriations**

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

<b>Year ended June 30, 2014</b>	
<b>Fund</b>	<b>Amount</b>
Special revenue	\$ 16,328
Debt service	1,031
Food service	60,976

**Note 11: Fund Transfers**

Fund transfers for the year ended June 30, 2014 consist of the following:

<b>From Fund</b>	<b>To Fund</b>	<b>Purpose</b>	<b>Amount</b>
General	Special Revenue	Matching	\$ 30,866
General	Debt Service	Debt service	399,296
SEEK	Debt Service	Debt service	186,933
FSPK	Debt Service	Debt service	710,122
Debt Service	General	Reimbursement	1,642
Food Service	General	Indirect costs	64,497

Butler County School District  
Notes to the Financial Statements (Continued)

**Note 12:            On-behalf Payments**

The District receives on-behalf payments from the State of Kentucky and US Treasury for items including pension, technology, health care costs, operating costs and debt service. The amount received for the fiscal year ended June 30, 2014, was \$3,742,709. These payments were recorded as follows:

<b>Year ended June 30, 2014</b>	
<b>Fund</b>	<b>Amount</b>
General Fund	\$ 2,959,608
Food Service Fund	96,341
Debt Service Fund	686,760
<hr/>	
Total	\$ 3,742,709

Butler County School District  
Budgetary Comparison Schedule for the General Fund

<b>Year Ended June 30, 2014</b>	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variances Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		<b>Final to Actual</b>
<b>Revenues</b>				
Local and intermediate sources	\$ 2,560,200	\$ 2,560,200	\$ 2,751,543	\$ 191,343
State programs	9,380,000	9,380,000	9,939,120	559,120
Federal programs	15,000	15,000	11,189	(3,811)
Total revenues	11,955,200	11,955,200	12,701,852	746,652
<b>Expenditures</b>				
Current:				
Instruction	6,673,177	6,673,177	7,117,193	(444,016)
Support services:				
Student	266,104	266,104	280,914	(14,810)
Instructional staff	337,004	337,004	342,953	(5,949)
District administration	2,602,152	2,602,152	875,517	1,726,635
School administration	660,737	660,737	622,382	38,355
Business	318,752	318,752	262,359	56,393
Plant operations and maintenance	1,505,371	1,505,371	1,406,101	99,270
Student transportation	1,144,561	1,144,561	1,173,653	(29,092)
Total expenditures	13,507,858	13,507,858	12,081,072	1,426,786
Excess (Deficiency) of Revenues over Expenditures	(1,552,658)	(1,552,658)	620,780	2,173,438

Butler County School District  
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2014	Budgeted Amounts		Actual (Budgetary Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<b>Other Financing Sources (Uses)</b>				
Operating transfers- net	(447,342)	(447,342)	(364,023)	83,319
Total other financing sources (uses)	(447,342)	(447,342)	(364,023)	83,319
Net Change in Fund Balance	(2,000,000)	(2,000,000)	256,757	2,256,757
Fund Balance - Beginning of Year	2,000,000	2,000,000	2,931,060	931,060
<b>Fund Balance - End of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,187,817</b>	<b>\$ 3,187,817</b>

**Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

Inflows/revenues:

Actual amounts (budgetary basis) \$ 12,701,852

Differences - budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts 2,959,608

**Total Revenues as Reported on Statement of Revenues,  
Expenditures and Changes in Fund Balances -  
Governmental Funds**

**\$ 15,661,460**

Outflows/expenditures:

Actual amounts (budgetary basis) \$ 12,081,072

Differences - budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts 2,959,608

**Total Expenditures as Reported on the  
Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds**

**\$ 15,040,680**

Butler County School District  
Budgetary Comparison Schedule for the Special Revenue Fund

Year Ended June 30, 2014	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local and intermediate sources	\$ -	\$ -	\$ 16,946	\$ 16,946
State programs	686,860	820,316	739,597	(80,719)
Federal programs	1,467,037	1,463,894	1,508,035	44,141
Total revenues	2,153,897	2,284,210	2,264,578	(19,632)
<b>Expenditures</b>				
Current:				
Instruction	1,470,830	1,524,116	1,480,219	43,897
Support services:				
Student	229,518	229,518	253,074	(23,556)
Instructional staff	313,490	320,678	325,724	(5,046)
District administration	11,630	12,903	11,955	948
Business	24,300	34,300	30,000	4,300
Plant operations and maintenance	-	57,159	57,159	-
Student transportation	1,054	1,895	-	1,895
Other	153,075	153,641	153,641	-
Total expenditures	2,203,897	2,334,210	2,311,772	22,438
Deficiency of Revenues over Expenditures	(50,000)	(50,000)	(47,194)	2,806

Butler County School District  
Budgetary Comparison Schedule for the Special Revenue Fund

<b>Year Ended June 30, 2014</b>	<u>Budgeted Amounts</u>		<b>Actual (GAAP Basis)</b>	<b>Variances Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		<b>Final to Actual</b>
Other Financing Sources (Uses)				
Operating transfers- net	50,000	50,000	30,866	(19,134)
Total other financing sources (uses)	50,000	50,000	30,866	(19,134)
Net Change in Fund Balance	-	-	(16,328)	(16,328)
Fund Balance-Beginning of Year	-	-	97,467	97,467
<b>Fund Balance-End of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 81,139</b>	<b>\$ 81,139</b>

Butler County School District  
Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2014	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Total Other Governmental Funds
<b>Assets</b>				
Cash	\$ 17,964	\$ 10,235	\$ 33,957	\$ 62,156
<b>Total Assets</b>	<b>\$ 17,964</b>	<b>\$ 10,235</b>	<b>\$ 33,957</b>	<b>\$ 62,156</b>
<b>Fund Balances</b>				
Fund Balances				
Restricted				
SFCC prior offer	\$ 6,178	\$ -	\$ -	\$ 6,178
Capital projects	11,786	10,235	33,957	55,978
Total fund balances	17,964	10,235	33,957	62,156
<b>Total Fund Balances</b>	<b>\$ 17,964</b>	<b>\$ 10,235</b>	<b>\$ 33,957</b>	<b>\$ 62,156</b>

Butler County School District  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds

Year Ended June 30, 2014	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Total Other Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 236,269	\$ -	\$ 236,269
Intergovernmental - state	198,719	484,088	-	682,807
Total revenues	198,719	720,357	-	919,076
Excess (Deficiency) of Revenues over Expenditures	198,719	720,357	-	919,076
Other Financing Sources (Uses)				
Operating transfers-out	(186,933)	(710,122)	-	(897,055)
Total other financing sources (uses)	(186,933)	(710,122)	-	(897,055)
Net Change in Fund Balances	11,786	10,235	-	22,021
Fund Balances - Beginning of Year	6,178	-	33,957	40,135
<b>Fund Balances - End of Year</b>	<b>\$ 17,964</b>	<b>\$ 10,235</b>	<b>\$ 33,957</b>	<b>\$ 62,156</b>

Butler County School District  
Combining Statement of Fiduciary Net Position  
All Schools  
Agency Funds

<b>Year Ended June 30, 2014</b>	<b>Cash</b>			<b>Cash</b>			<b>Accounts</b>		<b>Accounts</b>		<b>Due to Student</b>
	<b>July 1, 2013</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>June 30, 2014</b>	<b>Receivable</b>	<b>Payable</b>	<b>Receivable</b>	<b>Payable</b>	<b>Groups</b>		
									<b>June 30, 2014</b>		
Butler County High School	\$ 75,549	\$ 385,254	\$ 377,606	\$ 83,197	\$ -	\$ 2,040			\$ 81,157		
Butler County Middle School	26,956	135,546	144,043	18,459	-	-			18,459		
North Butler Elementary School	16,267	36,977	29,394	23,850	-	-			23,850		
Morgantown Elementary School	59,200	44,305	40,207	63,298	856	479			63,675		
<b>Total</b>	<b>\$ 177,972</b>	<b>\$ 602,082</b>	<b>\$ 591,250</b>	<b>\$ 188,804</b>	<b>\$ 856</b>	<b>\$ 2,519</b>			<b>\$ 187,141</b>		

Butler County School District  
Statement of Fiduciary Net Position  
School Activity Funds  
Butler County High School

Year Ended June 30, 2014	Cash			Cash	Accounts	Accounts	Due To Student
	July 1, 2013	Receipts	Disbursements				
							June 30, 2014
General	\$ 2,786	\$ 5,349	\$ 3,724	\$ 4,411	\$ -	\$ -	\$ 4,411
Student Fund	3,581	17,539	10,322	10,798	-	-	10,798
Faculty Fund	319	4,450	3,981	788	-	-	788
School Safety	325	-	-	325	-	-	325
ROTC	10,296	20,949	24,849	6,396	-	-	6,396
Cheerleaders	4,275	24,583	24,302	4,556	-	-	4,556
Tree Scape Fund	426	-	-	426	-	-	426
Europe	-	2,911	2,902	9	-	-	9
Science Club	4,149	3,896	5,455	2,590	-	-	2,590
Athletics	9,341	106,772	105,437	10,676	-	2,040	8,636
Football Jr. Pro	409	160	-	569	-	-	569
Girls BK Jr. Pro	7	-	-	7	-	-	7
Jr. Pro Cheerleading	197	-	-	197	-	-	197
Boys BK/Donation	1,106	-	-	1,106	-	-	1,106
Soccer Jr. Pro	432	7,890	6,056	2,266	-	-	2,266
Band	4	55,143	54,913	234	-	-	234
Choir	208	1,209	653	764	-	-	764
Library Supplies	323	535	653	205	-	-	205
FCS	885	3,049	2,780	1,154	-	-	1,154
TASA Grant	-	1,000	969	31	-	-	31
Brick Fundraiser	1,013	400	242	1,171	-	-	1,171
Calculators	393	1,932	906	1,419	-	-	1,419
Business & Office	3,510	159	1,349	2,320	-	-	2,320
Yearbook	14,782	25,577	35,769	4,590	-	-	4,590
Class of 2013	1,153	-	1,153	-	-	-	-
Class of 2014	1,979	406	1,856	529	-	-	529
Class of 2015	-	10,395	8,605	1,790	-	-	1,790

Butler County School District  
Statement of Fiduciary Net Position  
School Activity Funds  
Butler County High School

Year Ended June 30, 2014	Cash			Cash	Accounts	Accounts	Due To Student
	July 1, 2013	Receipts	Disbursements	June 30, 2014	Receivable	Payable	Groups
							June 30, 2014
FFA	24	25,842	24,225	1,641	-	-	1,641
FCCLA	3,763	18,731	19,895	2,599	-	-	2,599
Beta Club	1,483	1,453	1,243	1,693	-	-	1,693
SUPA	1,220	6,078	4,105	3,193	-	-	3,193
NAC	160	-	-	160	-	-	160
Foreign Language	200	235		435	-	-	435
TSA	1,066	3,799	1,528	3,337	-	-	3,337
PRIDE	46	112	-	158	-	-	158
FBLA	217	1,570	1,296	491	-	-	491
FCS Screenprint	-	7,432	6,027	1,405	-	-	1,405
FCA	151	-	-	151	-	-	151
Food For All	-	2,500	1,005	1,495	-	-	1,495
Student Council	768	-	-	768	-	-	768
Rental	57	125	32	150	-	-	150
Project Prom	2,548	20,099	19,200	3,447	-	-	3,447
Region 4 KATFACS	1,753	940	962	1,731	-	-	1,731
Pep Club	147	1,809	1,062	894	-	-	894
Renaissance Leadership	2	-	-	2	-	-	2
Art Club	45	225	150	120	-	-	120
	<b>\$ 75,549</b>	<b>\$ 385,254</b>	<b>\$ 377,606</b>	<b>\$ 83,197</b>	<b>\$ -</b>	<b>\$ 2,040</b>	<b>\$ 81,157</b>

Butler County School District  
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster			
Food Distribution Program - noncash	10.555	-	\$ 80,007
Passed-Through State Department of Education:			
School Breakfast Program	10.553	7760005 13	211,180
National School Lunch Program	10.555	7750002 13	570,557
National School Summer Meals Program	10.559	7740023 13	21,174
Total U.S. Department of Agriculture			882,918
U.S. Department of Defense			
NJROTC	12.000	-	51,772
Total U.S. Department of Defense			51,772
U.S. Department of Education			
Passed-Through State Department of Education:			
Title I, Part A Cluster			
Title I to Local Educational Agencies - 2013	84.010	3100002 12	35,722
Title I to Local Educational Agencies - 2014	84.010	3100002 13	562,653
Title I - Professional Development - 2012	84.010	3100002 11	5,635
Title I - Parent Involvement - 2014	84.010	3100002 13	1,232
Title I - Parent Involvement - 2013	84.010	3100002 12	4,886
Title I School Improvements	84.010	3100202 12	3,007
Subtotal			613,135
Special Education Cluster			
Special Education	84.027	3810002 14	418,310
Special Education - Preschool	84.173	3800002 13	28,648
Subtotal			446,958
Title VI - Rural/Low Income - 2013	84.358	3140002 12	7,357
Title VI - Rural/Low Income - 2014	84.358	3140002 13	35,712
Subtotal			43,069
Vocational Education - 2014	84.048	3710002 13	15,055
Vocational Education - 2013	84.048	4621332 12	785
Subtotal			15,840
Improving Teacher Quality	84.367	3230002 13	123,554

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Butler County School District  
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Race to the Top	84.413A	3960002 11	971
Title IV - PEP Fund for Improvement of Ed - 2013	84.215F	5173	16,147
Title IV - PEP Fund for Improvement of Ed - 2014	84.215F	5174	<u>104,273</u>
Subtotal			120,420
Passed-Through State Department for Social Services:			
Title I Neglected & Delinquent	84.013	3134	13,480
Title I Transition Services	84.013	3134T	<u>2,360</u>
Subtotal			15,840
Passed-Through State Workforce Cabinet:			
Adult Education - 2014	84.002	3734	37,371
Adult Education - Professional Development	84.002	3734S	795
Community Based Work Transition- 2014	84.002	3714	31,974
Recruitment Retention and Results	84.002	3654	<u>6,336</u>
Subtotal			76,476
Total U.S. Department of Education			<u>1,456,263</u>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 2,390,953</b>

See accompanying notes to the schedule of federal awards.

Butler County School District  
Notes to the Schedule of Expenditures of Federal Awards

**Note 1:           Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of Butler County School District (the “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 Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because 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 2:           Summary of Significant Accounting Policies**

Expenditures reported 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*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Nonmonetary assistance is reported in the schedule of fair value of the goods received.

**Note 3:           Subrecipients**

There were no subrecipients during the fiscal year.



Butler County School District  
Summary Schedule of Prior Year Audit Findings

None



Carr, Riggs & Ingram, LLC

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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Butler County School District  
Morgantown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits as defined in the *Independent Auditors' Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Butler County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Butler County School District's basic financial statements and have issued our report thereon dated October 27, 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.

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

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

● **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Independent Auditors' Contract—State Audit Requirements*.

● **Purpose of this Report**

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

*Carr, Riggs & Ingram, L.L.C.*



Carr, Riggs & Ingram, LLC

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**Independent Auditors' Report on Compliance for Each Major Program  
and on Internal Control over Compliance Required by  
OMB Circular A-133**

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Butler County School District  
Morgantown, Kentucky

● **Report on Compliance for Each Major Federal Program**

We have audited Butler County School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditors' 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.

● **Auditors' 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; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence

about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

● **Opinion on Each Major Federal Program**

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

● **Report on Internal Control over Compliance**

Management of 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, we considered the District's internal control over compliance with the 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Butler County School District

---

consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Bowling Green, Kentucky  
October 27, 2014

Butler County School District  
Schedule of Findings and Questioned Costs

**Section I — Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  None reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Butler County School District  
Schedule of Findings and Questioned Costs

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.215F	Title IV - PEP Fund for the Improvement of Education
84.027/84.173	Special Education Cluster
10.553/10.555/10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee?  Yes  No

**Section II — Financial Statement Findings**

None reported.

**Section III — Federal Award Findings and Questioned Costs**

None reported.



**THOUGHT LEADERSHIP**



## Join Our Conversation



### WEBSITE (CRIcpa.com)

CRI's website features financial calculators, current tax and estate tax guides, a record retention schedule, glossary of common financial terms, and hundreds of articles with topics ranging from current legislation to industry-specific news.



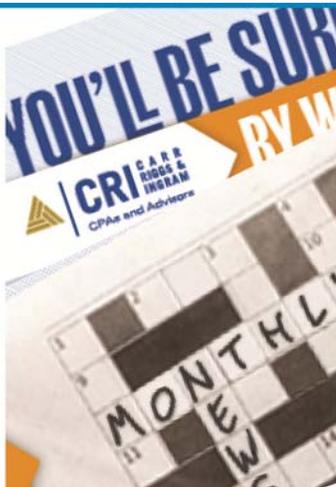
### BLOG SITE (blog.CRIcpa.com)

Featuring articles and videos, CRI's interactive blog site provides helpful tips for readers both personally and professionally. Written by our partners from their perspective and experiences, these plain English explanations of current regulations and trends exemplify our commitment to open dialogue.



### CRInsights (CRIcpa.com)

We understand that just because a topic makes perfect sense to a CPA doesn't mean that it will to our clients. That's why we developed CRInsights, our in-depth yet down-to-earth explanations of complex topics.



### NEWSLETTER (Sign up at CRIcpa.com)

Our team is dedicated to keeping our clients informed, and we prove it by creating a custom monthly e-newsletter with widely-applicable topics. The articles are designed to help you improve your business and personal finances. Popular recent topics include:

- Reportable Health Care Coverage on W-2s
- Navigating Alternative Minimum Tax (AMT)
- Key Considerations of Health Care Law
- Six Commandments of Estate Planning