Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Education
Bell County School District

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 Bell County School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bell County School District's management. 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, the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirement, Appendix III to the Independent Auditor's Contract –Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bell County School District, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2013, on our consideration of the Bell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United State of America require that the management's discussion and analysis and budgetary comparison information on pages 3 – 11 and 40 – 44 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 audit standards generally accepted in the United State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bell County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are fairly stated in all material respects in relation to the financial statements as a whole.

Troy A. Gaw

Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

January 7, 2013

Bell County Board of Education

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Dean Knuckles, Vice Chairman
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Management Discussion & Analysis (MD&A)

The discussion and analysis of Bell County School District's financial performance provides an overview of the district's financial activities for the fiscal year ended June 30, 2012 ("FY 2012"). The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements along with the notes to these statements to enhance their understanding of the district's financial performance.

Financial Highlights

Key financial highlights for FY 2012 are as follows:

- The ending cash balance for the District was $274,837 in 2012 and $(317,353) in 2011.
- From 2011 to 2012 total general fund revenue increased by 3.16%.
- Among major funds, the General Fund had $29.2 million in revenue, which primarily consists of ad valorem, utility, federal and state funding (the SEEK program). There were $31.5 million in expenditures.

Using the Annual Report

This annual financial report contains, in addition to this Management Discussion and Analysis, the district's basic financial statements and supplementary information. These three sections together provide a comprehensive overview of the district's finances. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long term information about the district's overall financial position.
- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operation in more detail. These fund financial statements comprise the remaining statements.

Notes to the financials, which are included just following the basic financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including a comparison of the district's budget to actual revenues and expenditures for the year.

Additional elements of this report include sections on State and Federal Award Compliance and Findings and Recommendations.

Overview of the Financial Statements

District-wide Financial Statements – Statement of Net Assets and the Statement of Activities

While this document contains specific information on the many funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, "How did we do financially during the previous year?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the district's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the district has either improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the district's property tax base, current property tax laws in Kentucky, facility condition, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the district reports governmental activities. Governmental activities are the activities where most of the district's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plants and facilities, pupil transportation and extracurricular activities. The district does not have any business-type activities.

The district-wide financial statements can be found on pages 12 – 13 of this report.

Fund Financial Statements

The analysis of the district's major funds begins on page 14. Fund financial reports provide detailed information about the district's major funds. The district uses several funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district's most significant funds and not the district as a whole. The district's major governmental funds are the General Fund and Special Revenue Fund.

Governmental Funds

Nearly all of this district's activities are reported in governmental funds. Governmental fund financial statements focus on how money flows into and out of these funds and the balance 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 district's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

The district is the trustee, or fiduciary, for student body funds. All of the district's fiduciary activities are reported in a separate *Statement of Fiduciary Net Assets and Liabilities* on page 20. We exclude these activities from the district's other financial statements because the district cannot use these assets to finance its operations.

Notes to the Basic Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found starting on page 22 of this report.

Financial analysis of the District as a Whole

As stated earlier the *Statement of Net Assets* and the *Statement of Activities* provide a financial glimpse of the District as a whole. Table 1 (Net Assets Summary) provides a summary of the district's net assets for FY 2012 as contained in the Statement of Net Assets and compares that information to FY 2011. As the table shows, our total assets as of June 30, 2012 were $34,742,820, a decrease of $4,245,366 from the prior year.

Table 1: Summary of Net Assets

	June 30, 2011	June 30, 2012	Change	Percentage Change
Assets				
Current and Other Assets	$ 4,606,516	$ 2,021,489	$ (2,585,027)	-56.12%
Capital Assets	34,381,680	32,721,341	(1,660,339)	-4.83%
Total Assets	$ 38,988,196	$ 34,742,830	$ (4,245,366)	-10.89%
Liabilities				
Current Liabilities	$ 4,517,858	$ 2,372,087	$ (2,145,771)	-47.50%
Long-Term Liabilities	18,055,391	16,833,288	(1,222,103)	-6.77%
Total Liabilities	$ 22,573,249	$ 19,205,375	$ (3,367,874)	-14.92%
Net Assets				
Non-spendable	$ 15,127,039	$ 14,814,699	$ (312,340)	-2.06%
Restricted	(142,707)	1,189	143,896	-100.83%
Unrestricted	1,430,615	721,567	(709,048)	-49.56%
Total Net Assets	$ 16,414,947	$ 15,537,455	$ (877,492)	-5.35%

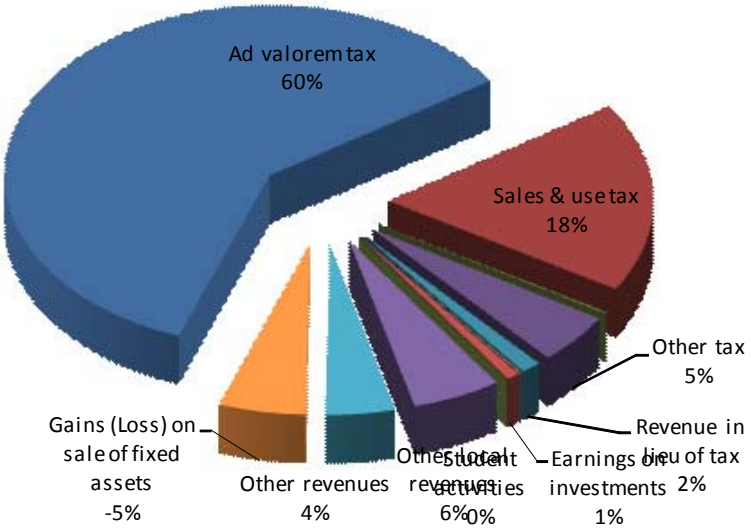
Table 2 (Change in Net Assets) reflects data extracted from the *Statement of Activities* and shows the changes in net assets from FY 2011 to FY 2012.

Table 2: Changes in Net Assets				
	June 30, 2011	June 30, 2012	Change	Percentage Change
Revenues				
Program Revenues:				
Charges for Services				
Local sources	$ 252,890	$ 250,043	$ (2,847)	-1.13%
Operating Grants and Contributions				
State sources	19,912,706	19,801,660	(111,046)	-0.56%
Federal sources	6,241,792	6,233,881	(7,911)	-0.13%
Capital Grants and Contributions				
State sources	863,500	839,259	(24,241)	-2.81%
Federal sources	110,508	92,007	(18,501)	-16.74%
General Revenues:				
Ad valorem tax	2,520,041	2,753,273	233,232	9.26%
Sales & use tax	750,721	826,669	75,948	10.12%
Penalties & interest on tax	3,401	4,431	1,030	30.29%
Other tax	126,920	219,848	92,928	73.22%
Revenue in lieu of tax	63,698	55,383	(8,315)	-13.05%
Tuition	2,450	4,100	1,650	67.35%
Transportation	1,591	310	(1,281)	-80.52%
Earnings on investments	34,309	35,166	857	2.50%
Student activities	-	-	-	0.00%
Other local revenues	462,057	247,794	(214,263)	-46.37%
Total local revenue	3,965,188	4,146,974	181,786	4.58%
Other revenues	-	193,624	193,624	0.00%
Gains (Loss) on sale of fixed assets	4,632	(243,714)	(248,346)	-5361.53%
Total Revenues	31,351,216	31,313,734	(37,482)	-0.12%
Program Expenses:				
Instruction	16,397,695	17,055,556	657,861	4.01%
Support services				
Student	1,699,956	1,540,597	(159,359)	-9.37%
Instruction staff	1,821,060	2,019,492	198,432	10.90%
District administration	922,714	1,057,653	134,939	14.62%
School administration	1,664,316	1,488,688	(175,628)	-10.55%
Business	304,526	366,647	62,121	20.40%
Plant operation and maintenance	3,077,504	2,912,774	(164,730)	-5.35%
Student transportation	1,811,639	2,121,341	309,702	17.10%
Total support services	11,301,715	11,507,192	205,477	1.82%
Community servuce activities	477,921	391,415	(86,506)	-18.10%
Facilities acquisition and construction	-	253,737	253,737	0.00%
Interest Expense	655,764	643,555	(12,209)	-1.86%
Food Service	2,021,662	2,339,772	318,110	15.74%
Total Expenses	30,854,757	32,191,227	1,336,470	4.33%
Change in Net Assets	$ 496,459	$ (877,493)	$ (1,373,952)	-276.75%

- Depreciation Expense was allotted to individual expense accounts this year.

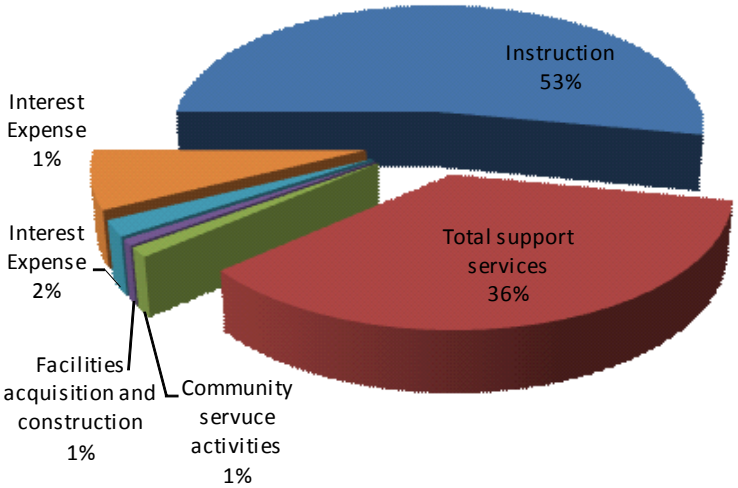
District programs for FY 2012 cost $32,191,227. To support those programs the district garnered $27,216,850 in program revenues. The balance of support came from property taxes and other general revenues. The chart below shows FY 2012 revenues by category.

FY 2012 Revenues



Instruction comprises 53% of district expenses. Support service expenses make up 36% of the total, with the balance being interest and fiscal charges. The following chart displays FY 2012 expenses by category.

FY 2012 Expenses



Governmental Activities

The *Statement of Activities* on page 13 shows the cost of program services and the charges for services and grants offsetting those services. Table 3 (Net Cost of Services) extract information from the *Statement of Activities* and compares the net cost of services from one year to the next. It identifies the cost of those services supported by tax revenue and unrestricted state entitlements. The net cost of services increased by $1.3 million.

Table 3: Net Cost of Services

	June 30, 2011	June 30, 2012	Change	Percentage Change
Instruction	$ 2,282,147	$ 2,856,231	$ 574,084	25.16%
Support services				
Student	229,814	268,102	38,288	16.66%
Instruction staff	203,371	245,542	42,171	20.74%
District administration	109,346	142,166	32,820	30.01%
School administration	189,413	171,745	(17,668)	-9.33%
Business	35,773	48,089	12,316	34.43%
Plant operation and maintenance	413,711	499,361	85,650	20.70%
Student transportation	64,253	362,816	298,563	464.67%
Community service activities	49,728	45,082	(4,646)	-9.34%
Facilities acquisition and construction	-	253,737	253,737	0.00%
Interest Expense	(68,880)	(59,291)	9,589	-13.92%
Total Expenses	$ 3,508,676	$ 4,833,580	$ 1,324,904	37.76%

The program expense categories shown in Table 3 are summarized below.

- "Instruction" expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

- "Instruction-related services" and "pupil services" include the activities involved with assisting staff with the content and process of teaching to pupils, as well as direct non-instructional services to students (including health, library, transportation, and other services).

- "General administration" costs include expenses associated with the administrative and financial supervision of the district.

- "Plant services" involve keeping the school grounds, buildings, and equipment in good working condition.

- "Facilities acquisition and construction" represents the difference between the amount spent on our facilities and the amount capitalized.

- "Interest and fiscal charges" involve the transactions associated with the payment of interest and other charges related to debt of the district.

Financial Analysis of the District's Funds

The district's governmental funds report a combined fund balance of $759,074, which is decreased from last year's total of $1,140,787. Table 4 (Governmental Fund Balances) provides an analysis of the district's fund balances and the total change in fund balances from the prior year.

Table 4: Governmental Fund Balances

	June 30, 2011	June 30, 2012	Change	Percentage Change
Fund:				
General	$ 1,245,893	$ 757,885	$ (488,008)	-39.17%
Special Revenue	5,018	-	(5,018)	-100.00%
Capital Outlay	(110,124)	1,189	111,313	-101.08%
Building Fund	-	-	-	0.00%
Construction Fund	-	-	-	0.00%
Debt Service Fund	-	-	-	0.00%
Total Fund Balances	$ 1,140,787	$ 759,074	$ (381,713)	-33.46%

The following information helps explain the changes from the prior year.

- Operations.

General Fund Budgetary Highlights

The district's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting.

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the district overall budget. By Kentucky statute the budget must have a minimum 2% contingency. This district adopted a budget for 2011 and 2012 that satisfies the statute requirement.

We do a draft, tentative and working budget. We made minor amendments to the working budget for FY 2012 based upon unexpected changes in the revenues received or expenditures. The working budget is amended only if there is a significant change in revenues or expenditures. Expenditure appropriation adjustments were made to reflect actual staffing, restoration of previously cut programs, increased cost of contracted services, and other changes during the year.

Major differences between final budget amounts and actual revenues and expenditures are identified as follows:

- On behalf adjustment

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the district had $52,128,916 invested in land, building, equipment (including computer equipment, furniture and vehicles), and construction in progress. Table 5 Capital Assets shows FY 2012 balances as compared to FY 2011.

Table 5: Capital Assets

	June 30, 2011	June 30, 2012	Change	Percentage Change
Land	$ 169,422	$ 169,422	$ -	0.00%
Land Improvements	917,593	917,593	-	0.00%
Buildings and improvements	34,231,645	44,873,959	10,642,314	31.09%
Technology Equipment	2,355,495	2,355,495	-	0.00%
Vehicles	3,224,930	2,981,055	(243,875)	-7.56%
General equipment	831,392	831,392	-	0.00%
Construction in progress	10,642,314	-	(10,642,314)	-100.00%
Total	52,372,791	52,128,916	(243,875)	-0.47%
Less: Accumulated Depreciation	18,028,382	19,407,575	1,379,193	7.65%
Net Capital Assets	$ 34,344,409	$ 32,721,341	$ (1,623,068)	-4.73%

For more information see Note C to the Basic Financial Statements.

Long-Term Debt

At June 30, 2012 the district had $18,115,391 in long term debt obligations. The bulk of this total is debt service on general obligation bonds issued by the district to finance its construction and modernization program. The remaining $321,858 in long term obligations is the amount of compensated absences liability recorded by the district at year end.

Table 6 (Long-Term Debt) shows the district's outstanding debt as of June 30, 2012 as well as comparable data for the prior year. A more detailed discussion is included in Note D to the Basic Financial Statements.

Table 6: Long-Term Debt

	June 30, 2011	June 30, 2012	Change	Percentage Change
General obligation bonds	$ 19,116,559	$ 17,793,533	$ (1,323,026)	-6.92%
Compensated absences	321,858	327,593	5,735	1.78%
Net Long-Term Debt	$ 19,438,417	$ 18,121,126	$ (1,317,291)	-6.78%

Factors bearing on the District's Future

- Attendance percentage.
- Continued decrease of area population.
- Property valuation flux.
- Economic downturn.
- State budget shortfalls.
- Changes in SEEK Allotment allocation

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District's Finance Department at 211 Virginia Avenue • PO Box 340 • Pineville, Kentucky 40977 • Phone: 606.337.7051 • Fax: 606.337.1412.

Bell County School District

Statement of Net Assets - District Wide

As of June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 69,671	$ 202,518	$ 272,189
Investments	403,789	-	403,789
Accounts receivable			
Taxes	440,000	-	440,000
Intergovernmental - State	430,284	-	430,284
Intergovernmental - Federal	418,350	-	418,350
Other	7,616	-	7,616
Inventory	-	49,261	49,261
Total current assets	1,769,710	251,779	2,021,489
Noncurrent Assets			
Capital assets	52,128,916	633,867	52,762,783
Less: Accumulated depreciation	(19,407,575)	(633,867)	(20,041,442)
Total noncurrent assets	32,721,341	-	32,721,341
Total assets	$ 34,491,051	$ 251,779	$ 34,742,830
LIABILITIES			
Current Liabilities			
Amount in excess of deposits	$ 632,694	$ -	$ 632,694
Accounts payable	181,577	41,528	223,105
Accrued interest payable	162,370	-	162,370
Deferrred Revenue	66,080	-	66,080
Current portion of KISTA payable	72,838	-	72,838
Current portion of bonds payable	1,215,000	-	1,215,000
Total current liabilities	2,330,559	41,528	2,372,087
Noncurrent Liabilities			
Sick leave payable	327,593	-	327,593
KISTA Payable	270,695	-	270,695
Bonds payable	16,235,000	-	16,235,000
Total noncurrent liabilities	16,833,288	-	16,833,288
			-
Total liabilities	$ 19,163,847	$ 41,528	$ 19,205,375
NET ASSETS			
Invested in capital assets, net of related debt	$ 14,765,438	$ 49,261	$ 14,814,699
Restricted	1,189	-	1,189
Unrestricted	560,577	160,990	721,567
Total net assets	$ 15,327,204	$ 210,251	$ 15,537,455

The accompanying notes to the financial statements are an integral part of these financial statements.

Bell County School District

Statement of Activities - District Wide

For the year ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental Activities							
Instruction	$ 17,055,556	$ -	$ 14,199,325	$ -	$ (2,856,231)	$ -	$ (2,856,231)
Support services							
Student	1,540,597	-	1,272,495	-	(268,102)	-	(268,102)
Instruction staff	2,019,492	-	1,773,950	-	(245,542)	-	(245,542)
District administration	1,057,653	-	915,487	-	(142,166)	-	(142,166)
School administration	1,488,688	-	1,316,943	-	(171,745)	-	(171,745)
Business	366,647	-	318,558	-	(48,089)	-	(48,089)
Plant operation and maintenance	2,912,774	-	2,413,413	-	(499,361)	-	(499,361)
Student transportation	2,121,341	-	1,758,525	-	(362,816)	-	(362,816)
Community service activities	391,415	-	346,333	-	(45,082)	-	(45,082)
Facilities acquisition and construction	253,737	-	-	-	(253,737)	-	(253,737)
Interest Expense	643,555	-	-	702,846	59,291	-	59,291
Total governmental activities	29,851,455	-	24,315,029	702,846	(4,833,580)	-	(4,833,580)
Business-type Activities							
Food service	2,339,772	250,043	1,720,512	228,420	-	(140,797)	(140,797)
Total business-type activities	2,339,772	250,043	1,720,512	228,420	-	(140,797)	(140,797)
Total district	$ 32,191,227	$ 250,043	$ 26,035,541	$ 931,266	$ (4,833,580)	$ (140,797)	$ (4,974,377)
		General Revenues					
		Ad valorem tax			$ 2,753,273	$ -	$ 2,753,273
		Sales & use tax			826,669	-	826,669
		Penalties & interest on tax			4,431	-	4,431
		Other tax			219,848	-	219,848
		Revenue in lieu of tax			55,383	-	55,383
		Tuition			4,100	-	4,100
		Transportation			310	-	310
		Earnings on investments			30,735	4,431	35,166
		Other local revenues			247,794	-	247,794
		Other revenues			193,624	-	193,624
		Gains (Loss) on sale of fixed assets			(243,714)	-	(243,714)
		Total General Revenues			4,092,453	4,431	4,096,884
		Change in net assets			(741,127)	(136,366)	(877,493)
		Net assets - beginning			16,068,331	346,617	16,414,948
		Net assets - ending			$ 15,327,204	$ 210,251	$ 15,537,455

The accompanying notes to the financial statements are an integral part of these financial statements.

Bell County School District

Balance Sheet - Governmental Funds

As of June 30, 2012

	General Fund	Special Revenue	Debt Service Fund	Nonmajor	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 68,481	$ -	$ -	$ 1,189	$ 69,670
Investments	403,789	-	-	-	403,789
Accounts receivable					
Taxes	440,000	-	-	-	440,000
Intergovernmental - State	-	300,000	-	-	300,000
Intergovernmental - Federal	-	418,350	-	-	418,350
Other	7,616	-	-	-	7,616
Total assets	$ 919,886	$ 718,350	$ -	$ 1,189	$ 1,639,425
LIABILITIES					
Amount in excess of deposits	$ -	$ 632,694	$ -	$ -	$ 632,694
Accounts payable	162,001	19,576	-	-	181,577
Deferred revenue	-	66,080	-	-	66,080
Total liabilities	162,001	718,350	-	-	880,351
FUND BALANCE					
Non-spendable	-	-	-	-	-
Restricted	-	-	-	1,189	1,189
Assigned	-	-	-	-	-
Committed	-	-	-	-	-
Unassigned	757,885	-	-	-	757,885
Total fund balances	757,885	-	-	1,189	759,074
Total liabilities and fund balances	$ 919,886	$ 718,350	$ -	$ 1,189	$ 1,639,425
Total fund balance					$ 759,074
Amounts reported for *governmental activities* in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					32,721,341
Bond issue costs are not current financial resources and, therefore, are not reported as assets in governmental funds.					-
Accounts receivables for SFCC are not current financial resources and therefore are not reported as revenues in governmental funds.					130,284
Long-term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.					(333,328)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but is is presented in the statement of net assets.					(162,370)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therfore are not reported in the funds.					(17,787,798)
Rounding					1
Net assets of governmental activities					$ 15,327,204

The accompanying notes to the financial statements are an integral part of these financial statements.

Bell County School District

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

For the year ended June 30, 2012

	General Fund	Special Revenue	Debt Service Fund	Nonmajor	Total Governmental Funds
Revenues					
From local sources					
Ad valorem tax	$ 2,444,450	$ -	$ -	$ 308,823	$ 2,753,273
Sales & use tax	826,669	-	-	-	826,669
Penalties & interest on tax	4,431	-	-	-	4,431
Other tax	219,848	-	-	-	219,848
Revenue in lieu of tax	55,383	-	-	-	55,383
Tuition	4,100	-	-	-	4,100
Transportation	310	-	-	-	310
Earnings on investments	30,735	-	-	-	30,735
Other local revenues	247,794	-	-	-	247,794
State sources					
SEEK	13,558,802	-	-	-	13,558,802
Other	87,285	580,481	-	864,868	1,532,634
Expenditure Reimbursements	122,980	-	-	-	122,980
Revenue in lieu of tax	18,847	-	-	-	18,847
On behalf payments	4,554,079	-	-	-	4,554,079
SFCC	-	-	702,846	-	702,846
Federal sources					
Restricted direct	-	150,150	-	-	150,150
Ristricted through state	-	4,382,649	-	-	4,382,649
Reimbursements	73,759	-	-	-	73,759
Total revenues	$ 22,249,472	$ 5,113,280	$ 702,846	$ 1,173,691	$ 29,239,289
Expenditures					
Instruction	$ 12,560,619	$ 3,487,021	$ -	$ -	$ 16,047,640
Support services					
Student	1,350,677	176,596	-	-	1,527,273
Instruction staff	937,091	1,067,773	-	-	2,004,864
District administration	1,034,655	-	-	-	1,034,655
School administration	1,476,923	11,445	-	-	1,488,368
Business	315,702	44,322	-	-	360,024
Plant operation and maintenance	2,759,395	3,155	-	(34,985)	2,727,565
Student transportation	1,842,210	145,221	-	-	1,987,431
Community service activities	-	391,415	-	-	391,415
Facilities acquisition and construction	-	-	-	253,737	253,737
Debt Service	-	-	3,791,816	-	3,791,816
Total expenditures	22,277,272	5,326,948	3,791,816	218,752	31,614,788
Excess (deficit) of revenues over expenditures	(27,800)	(213,668)	(3,088,970)	954,939	(2,375,499)
Other Financing Sources (Uses)					
Proceeds of long-term capital-related debt	-	-	1,800,000	193,624	1,993,624
Gain (Loss) on sale of equipment	161	-	-	-	161
Operating transfers in	-	208,649	3,042,266	60,113	3,311,028
Operating transfers out	(460,369)	-	(1,753,296)	(1,097,363)	(3,311,028)
Total other financing sources (uses)	(460,208)	208,649	3,088,970	(843,626)	1,993,785
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(488,008)	(5,019)	-	111,313	(381,714)
Fund balance, Beginning	1,245,893	5,019	-	(110,124)	1,140,788
Fund balance, Ending	$ 757,885	$ -	$ -	$ 1,189	$ 759,074

The accompanying notes to the financial statements are an integral part of these financial statements.

Bell County School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

For the year ended June 30, 2012

Net change in fund balances--total governmental funds	$ (381,714)

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

Governmental funds report capital outlays 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 capital outlay exceeded depreciation in the current period.	(1,379,193)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net assets.	3,123,026
Bond proceeds are recognized as other financing sources and uses in the governmental fund statements but are increases of liabilities in the statement of net assets.	(1,800,000)
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities.	25,235
Accounts receivable for SFCC are not recognized as revnue of current financial resouces in the governmental fund financial statements, but are increases of assets in the statement of net assets.	(78,872)
Rounding	1
Change in net assets of governmental activities	$ (741,127)

The accompanying notes to the financial statements are an integral part of these financial statements.

Bell County School District

Statement of Net Assets - Proprietary Funds

As of June 30, 2012

	Food Service Fund
ASSETS	
Current Assets	
Cash and cash equivalents	$ 202,518
Inventory	49,261
Total current assets	251,779
Noncurrent Assets	
Furniture and equipment	633,867
Less: Accumulated depreciation	(633,867)
Total noncurrent assets	-
Total assets	$ 251,779
LIABILITIES	
Current Liabilities	
Accounts payable	$ 41,528
Total current liabilities	41,528
Noncurrent Liabilities	
Total noncurrent liabilities	-
Total liabilities	41,528
NET ASSETS	
Non-spendable	49,261
Unrestricted	160,990
Total net assets	$ 210,251

The accompanying notes to the financial statements are an integral part of these financial statements.

Bell County School District

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds

For the year ended June 30, 2012

	Food Service Fund
Operating Revenues	
Food service sales	$ 249,304
Other operating revenues	739
Total operating revenues	250,043
Operating Expenses	
Salaries and wages	934,814
Professional and contract services	37,928
Supplies and materials	1,325,586
Depreciation	37,271
Other operating expenses	4,173
Total operating expenses	2,339,772
Operating income (loss)	(2,089,729)
Nonoperating revenues (expenses)	
Federal grants	1,701,082
State grants	19,430
On-Behalf payments	136,413
Commodities Received	92,007
Interest income	4,431
Total nonoperating revenues (expenses)	1,953,363
Operating transfers	
Transfers in (out)	-
Net income (loss)	(136,366)
Total net assets, beginning	346,617
Total net assets, ending	$ 210,251

The accompanying notes to the financial statements are an integral part of these financial statements.

Bell County School District

Statement of Cash Flows - Proprietary Funds

For the year ended June 30, 2012

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from lunchroom sales	$ 249,304
Cash received from other activities	739
Cash payments to employees for services	(934,814)
Cash payments to suppliers for goods and services	(1,271,974)
Cash payments for other operating activities	(4,173)
Net cash from operating activities	(1,960,918)
Cash Flows from Capital Financing Activities	
Net cash from capital financing activities	-
Cash Flows from Noncapital Financing Activities	
Nonoperating grants received	1,856,925
Net cash from noncapital financing activities	1,856,925
Cash Flows from Investing Activities	
Sale of investments	
Interest on investments	4,431
Net cash flows from investing activities	4,431
Net increase in cash and cash equivalents	(99,562)
Cash and cash equivalents - beginning	302,080
Cash and cash equivalents - ending	$ 202,518
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	$ (2,089,729)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	37,271
Commodities usage	92,007
Changes in assets and liabilities:	
Inventory	262
Accounts payable	(729)
Net Cash Provided by Operating Activities	$ (1,960,918)

The accompanying notes to the financial statements are an integral part of these financial statements.

Bell County School District

Statement of Fiduciary Net Assets - Fiduciary Funds

As of June 30, 2012

	Trust/Agency Fund
ASSETS	
Current Assets	
Cash and cash equivalents	$ 231,382
Total current assets	231,382
Noncurrent Assets	
Total noncurrent assets	-
Total assets	$ 231,382
LIABILITIES	
Current Liabilities	
Due to student groups	$ 231,382
Total current liabilities	231,382
Noncurrent Liabilities	
Total noncurrent liabilities	-
Total liabilities	231,382
NET ASSETS	
Net Assets	
Total net assets	$ -

The accompanying notes to the financial statements are an integral part of these financial statements.

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Note A – Summary of Significant Accounting Policies

The accounting and reporting framework and the more significant accounting principles and practices of Bell County School District (District) are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2012.

Accounting Principles

The District accounts for its financial transactions in accordance with the policies, procedures, applicable laws and regulations of the State of Kentucky. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U.S. Governmental Accounting Standards Board ("GASB"); and it complies with the requirements of the appropriate version of contracts and grants of agencies from which it receives funds.

Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials whom, together constitute the Board of Education. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise over-sight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2012, the District is not a component unit of any other reporting entity.

Bell County Board of Education Finance Corporation

The Board of Education resolved to authorize the establishment of the Bell 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 Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund activities.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues 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. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as 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 exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

Agency funds have no measurement focus.

Basis of Accounting

Basis of account refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected with 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 collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements 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 to be used or the fiscal year when use is first permitted; matching requirement, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with nonexchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortizations, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses as appropriate. The District's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

The General Fund – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Non-major Governmental Funds:

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

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

Construction (Capital Projects) Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Funds:

Agency Funds – The District accounts for activities of student groups and others in a custodial capacity in agency funds. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Proprietary Funds:

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

The District applies all GASB pronouncements to proprietary funds 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.

Permanent Funds:

Trust Funds – Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs. These funds do not apply to the Bell County School District.

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

Estimates

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

Assets, Liabilities, and Equity

Cash and Investments

Cash balances held in banks and in revolving funds are insured to $250,000 by the Federal Deposit Insurance Corporation.

The District is authorized to deposit cash and invest excess fund pursuant to the regulations set forth by Kentucky Revised Statue. The funds maintained by the District are either secured by federal depository insurance or are collateralized.

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds are related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less. Additional cash and investment information, and fair values are presented in Note B.

Inventories and Prepaid Expenditures

Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid Expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Assets.

Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets

Capital assets are those purchased or acquired with an original cost of $1,000 or more and are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Deprecation on all capital assets is computed using a straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciation assets are as follows:

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

Deferred Revenue

Cash received for federal and state special project and programs are recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Donated Commodities

The fair value of donated commodities received during the year is reported in the proprietary fund statement of revenues, expenses, and changes in net assets as an expense and as donated commodities revenue (non-operating revenue).

Compensated Absences

Employees are allowed to accrue ten days of sick leave each year without limit. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Teachers and administrative personnel do not receive paid vacations but are paid only for the number of days they are required to work each year (180 days for teachers and 240 days for administrative personnel).

Maintenance employees are granted vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. The District has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

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

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

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

Fund Balance Reserves and Designations

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

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds when an expenditure is incurred for which those fund balances are available.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amounts of the debt issued, premiums, or discounts are reported as other financing sources/uses.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserves for revolving fund, inventory, prepaid expenditures, and legally restricted balances reflect the portions of fund balance represented by each respective account. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposed for which both restricted and unrestricted net assets are available.

Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing.

Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. The assessed value of the certified roll, upon which the levy for the 2011 fiscal year was based upon, was in excess of $634.5 million.

Taxes are due on November 1 and become delinquent by February 1 following the October 1 levy date.

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were $.448 per $100 valuation for real property, $.448 per $100 valuation for business personal property, and $.566 per $100 valuation for motor vehicles.

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

Risk Management

The district is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District purchases insurance coverage, from a private insurance agent, through a cooperative on a competitive bidding basis.

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

There were no significant reductions in insurance coverage in the current fiscal year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivable and payable, as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

On-Behalf Payments for Fringe Benefits

The District receives on-behalf payments from the State of Kentucky to be used for Kentucky Teacher Retirement contributions, vocational education, health insurance, administrative fees, flexible spending and federal reimbursement. On-behalf payments to the District totaled $5.6 million for the fiscal year ended June 30, 2012. Such payments are recorded as intergovernmental revenue and employee benefit expenses/expenditures in the GAAP basis government-wide and general fund and proprietary financial statements, but are not budgeted and therefore are not included in the general fund budgetary basis financial statements.

Operating and Non-Operating Revenues and Expenses

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

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

Note B – Cash and Investments

The District maintains their cash and investments with various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value. Federal depository insurance and pledged securities covers all account balances as shown below.

Cash and cash equivalents consist of demand deposit accounts that are interest bearing at a rate determined by the bid of the depository.

Investments are time deposits with various maturity dates that consist of certificates of deposits with the various local banks. Federal depository insurance and pledged securities cover these deposits as shown below.

	First State Financial
Cash Balances - interest bearing	$ 2,262,427.59
Cash Balances - non intrest bearing	-
Less: FDIC Coverage	(250,000.00)
Unsecured Cash Balances	$ 2,012,427.59
Less: Pledged Security Coverage (C-8)	2,830,680.45
(Over) Under Secured Balance	$ (818,252.86)

Custodial credit risk Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service, as determined by a rating of C minus or above by independent rating agencies. Collateral agreements must be approved prior to deposit of funds as provided by law. The District council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of an evaluation committee or the District treasurer, or both.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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. The district does not retain any long-term investments.

Concentration of Credit Risk. The Board places no limit on the amount the District may invest in any one issuer. All of the organization's cash is held at a local financial institution.

For discussion of adopted deposit and investment policy and other related information, see Note A.

Note C – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Governmental Activities	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Land	$ 169,422	$ -	$ -	$ 169,422
Land Improvements	917,593	-	-	917,593
Buildings and improvements	34,231,645	10,642,314	-	44,873,959
Technology Equipment	2,355,495	-	-	2,355,495
Vehicles	3,224,930	-	243,875	2,981,055
General equipment	831,392	-	-	831,392
Construction in progress	10,642,314	-	10,642,314	-
Totals at historical cost	$ 52,372,791	$ 10,642,314	$ 10,886,189	$ 52,128,916
Less: accumulated depreciation				
Land Improvements	781,401	26,662	-	808,063
Buildings and improvements	11,513,879	1,044,756	-	12,558,635
Technology Equipment	2,110,645	136,732	-	2,247,377
Vehicles	2,834,162	127,946	-	2,962,108
General equipment	788,295	43,097	-	831,392
Total accumulated depreciation	18,028,382	1,379,193	-	19,407,575
Governmental Activities				
Capital Assets - Net	$ 34,344,409	$ 9,263,121	$ 10,886,189	$ 32,721,341
Business-Type Activities				
Food service and equipment	$ 633,867	$ -	$ -	$ 633,867
Totals at historical cost	$ 633,867	$ -	$ -	$ 633,867
Less: accumulated depreciation				
Food service and equipment	596,596	37,271	-	633,867
Total accumulated depreciation	596,596	37,271	-	633,867
Business-Type Activities				
Capital Assets - Net	$ 37,271	$ (37,271)	$ -	$ -

Depreciation expense was charged to governmental activities as follows:

Governmental Activities Depreciation Expense by Function

	June 30, 2012
Instruction	$ 1,002,181
Support services	
Student	13,324
Instruction staff	14,628
District administration	22,998
School administration	320
Business	6,623
Plant operation and maintenance	185,209
Student transportation	133,910
Total	$ 1,379,193

Note D – Capital Lease Payable

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

Description	Maturity	Interest Rates	Original Issue	Principal Balance 7/1/2011	Debt Issued	Debt Paid	Principal Balance 6/30/2012	Due Within One Year
2005 KISTA Bond	Mar-15	3.00% to 3.625%	$ 435,000	$ 170,430	$ -	$ 44,397	$ 126,033	$ 45,963
2011 KISTA Bond	Mar-21	1.00% to 4.00%	243,875	243,875	-	26,375	217,500	26,875
Total			$ 678,875	$ 414,305	$ -	$ 70,772	$ 343,533	$ 72,838

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

Fiscal Year Ending June 30,	District Interest	District Principal	Total
2013	$ 10,398	$ 72,838	$ 83,236
2014	8,440	62,364	70,804
2015	6,659	64,206	70,865
2016	4,690	23,875	28,565
2017	4,093	24,500	28,593
2018 to 2022	8,705	95,750	104,455
Total	$ 42,985	$ 343,533	$ 386,518

Total minimum lease payments	$ 386,518
Less: Amount representing interes	42,985
Present Value of Net Minimum Lease Payments	$ 343,533

Note E – Long-Term Obligations

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District's future obligations to make payments relating to the bonds issued by the Bell County School District Finance Corporation aggregating $17,450,000 and $1,215,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued to construct and repair school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The long-term obligation activity including the original amount of each issue, the issue date, and interest rates and summary of changes are summarized below:

Description	Maturity	Interest Rates	Original Issue	Principal Balance 7/1/2011	Debt Issued	Debt Paid	Principal Balance 6/30/2012	Due Within One Year
1998 Issue	Sep-11	4.15% to 4.65%	$ 3,350,000	$ 710,000		$ 710,000	$ -	$ -
2003 Issue (Refunded)	Mar-23	1.85% to 4.20%	2,175,000	1,735,000	-	1,735,000	-	-
2006 CKEC New Market	Nov-11	-	322,544	32,254		32,254	-	-
2007 Issue	Nov-22	4.00%	975,000	865,000		40,000	825,000	50,000
2008A Issue	Feb-28	3.55%	7,810,000	7,220,000		185,000	7,035,000	330,000
2008B Issue	Apr-29	3.75% to 4.80%	945,000	930,000		5,000	925,000	30,000
2009 Refunding Issue	Nov-20	1.00% to 3.40%	6,780,000	6,540,000		305,000	6,235,000	635,000
2011 Issue	Nov-30	2.875% to 3.875%	670,000	670,000		20,000	650,000	25,000
2012 Issue	Nov-30	1.00% to 2.125%	1,800,000	-	1,800,000	20,000	1,780,000	145,000
Total			$ 24,827,544	$ 18,702,254	$ 1,800,000	$ 3,052,254	$ 17,450,000	$ 1,215,000

Payments on the General Obligation Bonds are made from the Debt Service Fund using local revenues and SFCC Contributions. Compensated absences are paid by the general fund.

In connection with the school revenue bonds issued after May 1, 1989 the District entered into "participation agreements" with the School Facility Construction Commission. 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 amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, to 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 obligation of the District, including amounts to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are as follows:

Fiscal Year Ending June 30,	SFCC		District		
	Interest	Principal	Interest	Principal	Total
2013	$ 207,497	$ 384,940	$ 367,333	$ 810,060	$ 1,769,830
2014	196,741	395,697	346,732	824,303	1,763,473
2015	185,069	407,369	323,458	857,631	1,773,527
2016	172,508	419,930	297,847	880,070	1,770,355
2017	159,006	433,432	269,509	916,568	1,778,515
2018 to 2022	572,369	2,144,207	864,414	4,530,793	8,111,783
2023 to 2027	256,371	1,618,651	278,598	1,846,349	3,999,969
2028 to 2032	21,328	453,106	20,097	466,894	961,425
2033 to 2037	-	-	-	-	-
Total	$ 1,770,889	$ 6,257,332	$ 2,767,988	$ 11,132,668	$ 21,928,877

Note F – Commitments under Noncapitalized Leases

As of June 30, 2012 the District had not entered into any material operating lease agreements.

Note G – Retirement Plans

Kentucky Teachers Retirement System:

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

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

Funding Policy – Contribution rates are established by KRS. For members who have established an account in the retirement system administered by the Commonwealth prior to July 1, 2008, are required to contribute 9.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 13.105% of salaries. For members hired after July 1, 2008, they are required to contribute 10.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

The Bell County School System's total payroll for the year was $17.6 million. The payroll for employees covered under KTRS was $14.2 million. For the year ended June 30, 2012, the Commonwealth contributed $1,844,007 in matching to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2012, were $236,182, which represents those employees covered by federal programs.

County Employees Retirement System

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System of Kentucky (CERS) which is a cost sharing, multiple-employer public employees retirement system created by and operating under Kentucky law. The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601.

Funding for the plan is provided through payroll withholdings of 5.00% and a district contribution of 16.17% of the employee's total compensation subject to contributions. Total payroll for employees covered under CERS was $3.4 million.

The contribution requirement for CERS for the year ended June 30, 2012, was $926,887 which consisted of $733,365 from the District and $193,222 from the employees.

The following is a summary of contributions paid on-behalf of the employees for the past three years:

Year Ended	KTRS		
June 30,	District	State	CERS
2012	$ 236,182	$ 1,844,007	$ 733,365
2011	$ 234,926	$ 1,545,376	$ 656,193
2010	$ 295,072	$ 1,564,952	$ 619,818

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

The "pension benefits obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicates:

	KTRS	CERS
	as of June 30, 2011	as of June 30, 2011
	(in 1,000's of dollars)	
Actuarial accrued liabilities	$ 25,968,692	$ 8,918,085,025
Actuarial value of assets	14,908,138	5,629,611,183
Unfunded (overfunded) actuarial accrued liabilities	$ 11,060,554	$ 3,288,473,842

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011 comprehensive annual financial reports.

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

Note H - Medical Insurance Plan

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

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

Funding Policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriations. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Note I – Deferred Compensation

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

Note J – Deficit Operating / Fund Balances

There are no funds that currently have a deficit fund balance. However, the following fund(s) have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Fund	Reduction in Fund Balance
General Fund	$ (488,008)
Special Revenue Fund	$ (5,019)
Food Service Fund	$ (136,366)

Note K – Transfer of Funds

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

For	From Fund	Amount	To Fund	Amount
	General Fund	$ 460,369		
Matching			Special Revenue Fund	$ 208,649
Debt Service Payments			Debt Service Fund	251,720
	Debt Service Fund	1,753,296		
Debt Service Payments			Debt Service Fund	1,753,296
	Non-Major Fund	1,097,363		
Equipment Purchase			General Fund	
Construction			Non-Major Fund	60,113
Debt Service Payments			Debt Service Fund	1,037,250

Note L – Commitments and Contingencies

Grant Programs

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. Continuation of the Districts 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.

Litigation

The District is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

Future Construction

No further construction is ongoing at this time.

COBRA

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

Note M – On-Behalf Payments

The State of Kentucky makes certain health insurance, life insurance, flexible spending, administrative fees and pension plan payments on behalf of the District for its employees. The District records these payments as both a revenue and expenditure in the General Fund and Food Service Fund based upon percentage of payroll. The total of the on-behalf payments for the fiscal year ended June 30, 2012 was $4.55 million for the General Fund and $136,413for the Food Service Fund. The District is not legally responsible for these contributions.

Note N – Annual Financial Report Differences

All adjustments were made to the District's accounting system and all difference between the audited financial statement and the District's Annual Financial Report are attributed to rounding.

Note O – Subsequent Events

The District has evaluated subsequent events through January 7, 2013, the date which the financial statements were available to be issued. During that review the following was discovered and determined should be disclosed.

Kentucky School Board Insurance Trust was founded in the late 1970's to provide liability insurance and workers compensation insurance to local governments. Since its inception it has not been self-sufficient. As a result it can no longer pay its liabilities. To ensure it viability it has decided to rebill all its current and former clients to recoup losses attributed to each by recalculating premiums and claims. As of the date of this report the amount that will be associated with the District has yet to be determined. This amount could have an impact the financial statements.

Required Supplemental Information

Bell County School District

Budgetary Comparison Schedules

Required Supplementary Information

For the year ended June 30, 2012

	General Fund					
	Budgeted Amounts		Actual	Adjustments	Actual	Variance with Final Budget
Revenues			GAAP	Budget	Budget	Favorable
From local sources	Original	Final	Basis	Basis	Basis	(Unfavorable)
Ad valorem tax	$ 2,428,714	$ 2,428,714	$ 2,444,450	$ -	$ 2,444,450	$ 15,736
Sales & use tax	739,640	739,640	826,669	-	826,669	87,029
Penalties & interest on tax	4,431	4,431	4,431	-	4,431	-
Other tax	219,848	219,848	219,848	-	219,848	-
Revenue in lieu of tax	69,133	69,133	55,383	-	55,383	(13,750)
Tuition	3,000	3,000	4,100	-	4,100	1,100
Transportation	1,002	1,002	310	-	310	(692)
Earnings on investments	29,756	29,756	30,735	-	30,735	979
Other local revenues	193,444	193,444	247,794	-	247,794	54,350
State sources						
SEEK	13,558,802	13,558,802	13,558,802	-	13,558,802	-
Other	85,293	85,293	87,285	-	87,285	1,992
Expenditure Reimbursements	(10)	(10)	122,980	-	122,980	122,990
Revenue in lieu of tax	20,000	20,000	18,847	-	18,847	(1,153)
On behalf payments	-	-	4,554,079	(4,554,079)	-	-
Federal sources						
Reimbursements	72,796	72,796	73,759	-	73,759	963
Total revenues	$17,425,849	$17,425,849	$22,249,472	$ (4,554,079)	$17,695,393	$ 269,544
Expenditures						
Instruction	9,638,417	9,638,417	12,560,619	(3,115,537)	9,445,082	193,335
Support services						
Student	1,024,636	1,024,636	1,350,677	(325,094)	1,025,583	(947)
Instruction staff	703,210	703,210	937,091	(214,545)	722,546	(19,336)
District administration	1,651,282	1,651,282	1,034,655	(5,086)	1,029,569	621,713
School administration	1,202,439	1,202,439	1,476,923	(364,137)	1,112,786	89,653
Business	228,447	228,447	315,702	(30,611)	285,091	(56,644)
Plant operation and maintenance	2,508,959	2,508,959	2,759,395	(249,902)	2,509,493	(534)
Student transportation	1,397,593	1,397,593	1,842,210	(249,167)	1,593,043	(195,450)
Debt Service	189,279	189,279	-	-	-	189,279
Total expenditures	18,544,262	18,544,262	22,277,272	(4,554,079)	17,723,193	821,069
Excess (deficit) of revenues over expenditures	(1,118,413)	(1,118,413)	(27,800)	-	(27,800)	1,090,613
Other Financing Sources (Uses)						
Gain (Loss) on sale of equipment	-	-	161	-	161	161
Operating transfers out	(101,786)	(101,786)	(460,369)	-	(460,369)	(358,583)
Total other financing sources (uses)	(101,786)	(101,786)	(460,208)	-	(460,208)	(358,422)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(1,220,199)	(1,220,199)	(488,008)	-	(488,008)	732,191
Fund balance, beginning	1,219,069	1,219,069	1,245,893	-	1,245,893	26,824
Fund balance, ending	$ (1,130)	$ (1,130)	$ 757,885	$ -	$ 757,885	$ 759,015

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Bell County School District

Budgetary Comparison Schedules

Required Supplementary Information

For the year ended June 30, 2012

	Special Revenue Fund					
	Budgeted Amounts		Actual	Adjustments	Actual	Variance with Final Budget
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Favorable (Unfavorable)
Revenues						
From local sources						
Other local revenues	$ 174	$ 174	$ -	$ -	$ -	$ (174)
State sources						
Other	1,332,690	1,332,690	580,481	-	580,481	(752,209)
Federal sources						
Restricted direct	47,428	47,428	150,150	-	150,150	102,722
Ristricted through state	2,912,751	2,912,751	4,382,649	-	4,382,649	1,469,898
Total revenues	$ 4,293,043	$ 4,293,043	$ 5,113,280	$ -	$ 5,113,280	$ 820,237
Expenditures						
Instruction	2,513,981	2,513,981	3,487,021	-	3,487,021	(973,040)
Support services						
Student	184,988	184,988	176,596	-	176,596	8,392
Instruction staff	1,086,914	1,086,914	1,067,773	-	1,067,773	19,141
School administration	31,051	31,051	11,445	-	11,445	19,606
Business	-	-	44,322	-	44,322	(44,322)
Plant operation and maintenance	-	-	3,155	-	3,155	(3,155)
Student transportation	83,219	83,219	145,221	-	145,221	(62,002)
Community service activities	472,623	472,623	391,415	-	391,415	81,208
Total expenditures	4,372,776	4,372,776	5,326,948	-	5,326,948	(954,172)
Excess (deficit) of revenues over expenditures	(79,733)	(79,733)	(213,668)	-	(213,668)	(133,935)
Other Financing Sources (Uses)						
Gain (Loss) on sale of equipment	(10,643)	(10,643)	-	-	-	10,643
Operating transfers in	-	-	208,649	-	208,649	208,649
Total other financing sources (uses)	(10,643)	(10,643)	208,649	-	208,649	219,292
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(90,376)	(90,376)	(5,019)	-	(5,019)	85,357
Fund balance, beginning	331,824	331,824	5,019	-	5,019	(326,805)
Fund balance, ending	$ 241,448	$ 241,448	$ -	$ -	$ -	$ (241,448)

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Note A – Budgets and Budgetary Accounting

Budget Policy and Practice

The district's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting. The budget is presented to the District board for review. In June, the District council adopts the annual fiscal year budgets for District operating funds. Once approved, the District council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Special Revenue funds are budgeted on a project-length basis and are also subjected to the council review and approval process. By state law, the District's board must adopt a final budget no later than July 1. The District's board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and Special Revenue Fund are presented as Required Supplementary Information.

Basis of Budgeting

Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: Instruction, Support Services, Community Service Activities, Facilities Acquisition and Construction and Debt Service. Budget revisions at this level are managed administratively and reported to the District board. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made throughout the year.

The budgets for the operating funds and proprietary fund operations are prepared on a basis consistent with generally accepted accounting principles for all government funds, except for the Debt Service Fund. A legally adopted budget is not required for this fund. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Note B – Excess of Expenditures over Appropriations

The District did not budget appropriations, in the General Fund, for on-behalf payments provided by the Kentucky Department of Education because they were not measurable at the time of budgeting. Therefore, these expenditures were adjusted out of the actual basis to mirror actual budget basis for review.

As of June 30, 2012, expenditures exceeded appropriation in individual funds as follows:

General Fund:	
Support services	
Student	$ 947
Instruction Staff	19,336
Business	56,644
Plant operation and maintenance	534
Student transportation	195,450
Transfers out	358,583
Special Revenue Fund:	
Instruction	$ 973,040
Business	44,322
Plant operation and maintenance	3,155
Student transportation	62,002

The budget overages for the General Fund Support Services, Student transportation is due the purchase of school buses. It was covered by revenues generated by a KISTA bond issue. All the other excess expenditures were covered by greater than anticipated revenues or available fund balance in the funds.

Other Supplemental Information

Bell County School District

Combining Balance Sheet - Nonmajor Governmental Funds

For the year ended June 30, 2012

	Capital Outlay Fund	Building	Construction Fund	Total Non-Major Funds
ASSETS				
Cash and cash equivalents	$ 1,189	$ -	$ -	$ 1,189
Total assets	$ 1,189	$ -	$ -	$ 1,189
LIABILITIES AND FUND BALANCES				
Liabilities				
Total liabilities	-	-	-	-
Fund Balances				
Non-spendable	-	-	-	-
Restricted	1,189	-	-	1,189
Assigned	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	1,189	-	-	1,189
Total liabilities and fund balances	$ 1,189	$ -	$ -	$ 1,189

Bell County School District

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds

For the year ended June 30, 2012

	Capital Outlay Fund	Building Fund	Construction Fund	Total Nonmajor Funds
Revenues				
From local sources				
Ad valorem tax	$ -	$ 308,823	$ -	$ 308,823
State sources				
Other	258,908	605,960	-	864,868
Total revenues	$ 258,908	$ 914,783	$ -	$ 1,173,691
Expenditures				
Support services				
Plant operation and maintenance	(34,985)	-	-	(34,985)
Facilities acquisition and construction	-	-	253,737	253,737
Total expenditures	(34,985)	-	253,737	218,752
Excess (deficit) of revenues over expenditures	293,893	914,783	(253,737)	954,939
Other Financing Sources (Uses)				
Proceeds of long-term capital-related debt	-	-	193,624	193,624
Operating transfers in	-	-	60,113	60,113
Operating transfers out	(182,580)	(914,783)	-	(1,097,363)
Total other financing sources (uses)	(182,580)	(914,783)	253,737	(843,626)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	111,313	-	-	111,313
Fund balance, beginning	(110,124)	-	-	(110,124)
Fund balance, ending	$ 1,189	$ -	$ -	$ 1,189

Bell County School District

Statement of Revenues, Expenditures and Changes in Fund Balance - Bell County School

For the year ended June 30, 2012

	Fund Balance Beginning	Receipts	Expenditures	Transfer In	Transfer Out	Fund Balance Ending
Bell Central School Center	$ 30,867	$ 121,360	$ 113,007	$ -	$ -	$ 39,220
Frakes School Center	38,887	53,545	59,421	-	-	33,011
Lone Jack School Center	19,755	43,404	47,212	-	-	15,947
Page School Center	23,659	129,106	139,875	-	-	12,890
Right Fork School Center	12,365	39,971	39,278	-	-	13,058
Yellow Creek School Center	34,366	91,162	78,686	-	-	46,842
Bell Co. High School	41,128	460,536	431,250	54,154	54,154	70,414
Total	$ 201,027	$ 939,084	$ 908,729	$ 54,154	$ 54,154	$ 231,382

Bell County School District

Statement of Revenues, Expenditures and Changes in Fund Balance -Bell County High School

For the year ended June 30, 2012

	Fund Balance Beginning	Receipts	Expenditures	Transfer In	Transfer Out	Fund Balance Ending
Academic Team	$ 1,160	$ -	$ 944	$ -	-	$ 216
AFJROTC	-	-	-	-	-	-
Agribus - FFA	-	13,497	15,176	2,185	506	-
Annual	1,375	12,926	6,569	-	-	7,732
Art Club	53	-	-	-	-	53
Athletics	2,039	23,407	15,535	228	6,294	3,845
Band	-	593	895	500	143	55
Baseball	-	-	2,765	2,765	-	-
Baseball Boosters	2,466	19,577	14,631	1,500	-	8,912
Beta Club	223	698	763	-	-	158
Boys Basketball	25	18,622	30,472	11,825	-	-
Cheerleaders	1,824	41,516	40,472	4,500	-	7,368
Choir	171	13,990	13,866	-	98	197
City / County Bowl	-	12,000	10,595	-	396	1,009
Cross Country	-	4,086	3,084	1,530	2,432	100
Cross Country Boosters	-	4,375	4,500	2,388	1,690	573
District Baseball	-	1,535	1,042	-	493	-
District Bball	-	10,583	2,262	-	8,321	-
District Tourn Program	-	7,720	1,825	-	5,895	-
Drama Club	139	-	120	-	-	19
Fastpitch Softball	63	-	1,895	2,500	-	668
FBLA	-	1,051	359	1,049	1,348	393
FCCLA (FHA)	1,119	7,816	6,117	98	-	2,916
Football	5,376	65,218	70,579	3,909	100	3,824
General Concessions	2,153	13,846	14,805	1,094	-	2,288
Girls Basketball	25	6,055	4,693	4,221	3,909	1,699
Girls Boosters	791	10,240	9,733	-	-	1,298
Golf	225	150	539	164	-	-
Guidance Office	687	4,604	4,283	-	-	1,008
Guitar Club	80	-	-	-	80	-
Hoops Boosters	770	15,037	14,952	-	758	97
Instructional	169	4,298	3,106	1,314	2,557	118
JAGS	606	723	989	208	-	548
Key Club	412	740	614	-	-	538
Ladycat Boosters	6,322	6,052	4,978	-	-	7,396
Movie & Film App	40	35	-	-	75	-
National Honor Society	241	275	364	-	-	152
Pep Club	79	1,937	1,886	-	-	130
Project Grad 2009	782	19,088	18,577	550	220	1,623
Reserve Fund	50	18,015	13,893	-	3,273	899
Science in Action	-	-	-	-	-	-

Bell County School District

Statement of Revenues, Expenditures and Changes in Fund Balance -Bell County High School

For the year ended June 30, 2012

	Fund Balance Beginning	Receipts	Expenditures	Transfer In	Transfer Out	Fund Balance Ending
Seniors	28	53,920	55,453	2,013	250	258
Skills USA	11	-	-	-	11	-
Soccer	-	4,378	4,316	1,145	1,207	-
Soccer Boosters	-	-	1,108	1,184	76	-
Sports General	3,745	16,894	5,656	2,099	10,702	6,380
STLP	701	125	37	-	-	789
Student Council	6,175	8,208	9,015	-	925	4,443
Teachers Lounge	936	3,105	2,514	-	-	1,527
Tennis	-	-	3,066	3,066	-	-
Track	-	800	993	1,255	1,062	-
Track Boosters	-	1,092	304	304	1,092	-
UK Sports Club	-	400	100	-	-	300
Vball Boosters	67	4,909	4,755	-	166	55
Volleyball	-	2,192	2,752	560	-	-
Youth Service Center	-	4,208	3,303	-	75	830
Total	$ 41,128	$ 460,536	$ 431,250	$ 54,154	$ 54,154	$ 70,414

Bell County School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements	Total per CFDA / Cluster	Total Per Department
U.S. Department of Agriculture:					
Passed through State Department of Education:					
School Breakfast Program	10.553	7760005-11	$ 126,654		
School Breakfast Program	10.553	7760005-12	412,711		
National School Lunch Program	10.555	7750002-11	232,189		
National School Lunch Program	10.555	7750002-12	745,329		
Summer Food Service Program for Children	10.559	7690024-11	4,917		
Summer Food Service Program for Children	10.559	7690024-12	1,636		
Summer Food Service Program for Children	10.559	7740023-11	47,293		
Summer Food Service Program for Children	10.559	7740023-12	15,882		
Total Child Nutrition Cluster				1,586,611	
Child and Adult Care Food Program (CACFP)	10.558	7790021-11	2,523		
Child and Adult Care Food Program (CACFP)	10.558	7790021-12	8,218		
Total Child and Adult Care Food Program (CACFP)				10,741	
Fresh Fruit and Vegetable Program	10.582	7720012-11	28,685		
Fresh Fruit and Vegetable Program	10.582	7720012-12	86,039		
Total Fresh Fruit and Vegtable Program				114,725	
Commodity Supplemental Food Program	10.565	Fund51	92,007		
Total Commodities Supplemental Food Program				92,007	
Total U.S. Department of Agriculture					$ 1,804,084
U.S. Department of Commerce					
Passed Through State Department of Education:					
Coastal Zone Management Estuarine Research Reserves	11.420	2701	464		
Coastal Zone Management Estuarine Research Reserves	11.420	2702	3,276		
Coastal Zone Management Estuarine Research Reserves	11.420	2709	6,003		
Total Coastal Zone Management Estuarine Research Reserves				9,743	
Total U.S. Department of Commerce					9,743

The accompanying notes to the schedule of expenditures of federal awards are an integral part of these financial statements.

Bell County School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements	Total per CFDA / Cluster	Total Per Department
U.S. Department of Defense					
Passed Through State Department of Education:					
ROTC	12.000	5042	54,218		
Total ROTC				54,218	
Total U.S. Department of Defense					54,218
U.S. Department of Justice					
Passed Through State Department of Education:					
Edward Bryne Memorial State and Local Law Enforcement Assistance Discretionary Grant Program	16.580	3001	3,221		
Total Edward Bryne Memorial State and Local Law Enforcement				3,221	
Total U.S. Department of Justice					3,221
Appalachian Regional Commission					
Passed Through State Department of Education:					
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	6881	3,549		
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	6882	3,549		
Total Appalachian Research, Technical Assistance, and Demonstration Projects				7,098	
Total Environmental Protection Agency					7,098
U.S. Department of Education					
Passed Through State Department of Education:					
Title I Grant to Local Educational Agencies	84.010	3100002-10	441,770		
Title I Grant to Local Educational Agencies	84.010	3100002-11	1,125,741		
Title I Grant to Local Educational Agencies	84.010	3101D	63,304		
Title I Grant to Local Educational Agencies	84.010	3101M	65,233		
Title I Grant to Local Educational Agencies	84.010	3101T	13,000		
Title I Grant to Local Educational Agencies	84.010	3102D	158,441		
Title I Grant to Local Educational Agencies	84.010	3102M	106,009		
Title I Grant to Local Educational Agencies	84.010	3100202-11	14,342		
Total Title I , Part A Cluster				1,987,840	

The accompanying notes to the schedule of expenditures of federal awards are an integral part of these financial statements.

Bell County School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements	Total per CFDA / Cluster	Total Per Department
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	3130	7		
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	3131T	1,059		
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	3132	8,598		
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	3131T	72		
Total Title I State Agency Program for Neglected and Delinquent Children & Youth				9,737	
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-09	60		
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-10	64,279		
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-11	595,801		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-11	27,642		
Special Education Grants to States (IDEA, Part B) ARRA	84.391	4810002-09	18,841		
Total Special Education Cluster (IDEA)				706,623	
Career and Technical Education - Basic Grants to States	84.048	4621232-10	1,866		
Career and Technical Education - Basic Grants to States	84.048	4621232-11	25,007		
Career and Technical Education - Basic Grants to States	84.048		28,050		
Total Career and Technical Education - Basic Grants to States				54,922	
Education for Homeless Children and Youth	84.196	3990002-11	35,873		
Total Education for Homeless Children and Youth				35,873	
Fund for the Improvement of Education	84.215	5320	3,439		
Fund for the Improvement of Education	84.215	5329	6,618		
Total Fund for the Improvement of Education				10,057	
Educational Technology State Grants - ARRA	84.386	4210002-09	21,841		
Total Educational Technology State Grants				21,841	
Rural Education	84.358	3140002-11	62,637		
Total Rural Education				62,637	
Improving Teacher Quality State Grants	84.367	3230002-09	1,267		
Improving Teacher Quality State Grants	84.367	3230002-11	291,288		
Total Improving Teacher Quality State Grants	84.367			292,555	
Education Jobs Fund		EJOB00	761,992		
Total Education Jobs Fund	84.410			761,992	

The accompanying notes to the schedule of expenditures of federal awards are an integral part of these financial statements.

Bell County School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements	Total per CFDA / Cluster	Total Per Department
Gaining Early Awareness and Readiness for Undergraduate Programs		6972	239,974		
Total Gear Up	84.334			239,974	
Total U.S. Department of Education					4,184,051
Corporation for National and Community Service					
Passed Through State Department of Education:					
Learn and Serve America School and Community Based Programs	94.004	1000001-09	2,617		
Learn and Serve America School and Community Based Programs	94.004	1000001-10	2,699		
Learn and Serve America School and Community Based Programs	94.004	1000001-11	4,856		
Total Learn and Serve America School and Community Based Programs				10,172	
Total Corporation for National and Community Service					10,172
Total Expenditures of Federal Awards					$ 6,072,587

The accompanying notes to the schedule of expenditures of federal awards are an integral part of these financial statements.

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Note A –Basis of Presentation

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

Note B – Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, the District had received food commodities totaling $92,007 in inventory. Since the district no longer tracks commodities individually, all commodities received are considered expended.

Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Education
Bell County School District

We have audited the financial statements of the Bell County School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated January 7, 2013. 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirement, Appendix III to the Independent Auditor's Contract –Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*.

Internal Control Over Financial Reporting

Management of Bell County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Bell County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bell County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bell County School District's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weakness, as defined previously.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bell County School District's financial statements are free of 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 *Appendix II of the Independent Auditor's Contract – State Audit Requirements.*

We noted certain matters that we reported to management of Bell County School District in a separate letter dated January 7, 2013.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

January 7, 2013

Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Independent Auditor's Report

To the Board of Education
Bell County School District

Compliance

We have audited the Bell County School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Bell County School District's major federal programs for the year ended June 30, 2012. Bell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bell County School District's management. Our responsibility is to express an opinion on Bell County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirement, Appendix III to the Independent Auditor's Contract –Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bell County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bell County School District's compliance with those requirements.

In our opinion, Bell County School 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, 2012.

Internal Control Over Compliance

Management of Bell County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bell County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Bell County School District's internal control over compliance.

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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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Bell County School District's responses to the findings identified in our audit, if any, are described in the accompanying schedule of findings and questioned costs. We did not audit Bell County School District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Troy A. Gaw

Troy A. Gaw, CPA
Partner

Gaw, & Associates, PLLC
Harlan, Kentucky

January 7, 2013

Bell County School District

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness identified?	No
Significant deficiencies identified?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

Child Nutrition Cluster	10.553, 10.555 & 10.559	
Title I, Part A Cluster	84.010	
Special Education Cluster	84.027, 84.173 & 84.391	
Education Jobs Fund	84.410	

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

There were no findings that related to the financial statements.
.

Section III – Federal Award Findings and Questioned Costs

There were no findings that related to the federal awards.

Bell County School District

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2012

11-01 Bank Reconciliations

Condition: Monthly bank reconciliations should be completed monthly and timely.

Recommendation: It is recommended that bank reconciliation be completed monthly, and as soon as possible after receipt of the bank information to ensure that the reasonable possibility of a material misstatement be reduce.

Response: This has been satisfactorily taken care of.

11-02 District accounting personnel

Condition: The District does not have accounting personnel that are adequately trained to prepare the financial statements and notes to the financial statements in the Governmental Accounting Standards Board (GASB) reporting format.

Recommendation: It is recommended that the District continue to use the services of a CPA firm to compile the financial statements in the GASB format. Management staff members are highly capable of making all management decisions and are able to perform all management functions. The District has also designated an individual who possess suitable skill and knowledge to oversee the financial statements prepared in GASB format.

Response: This has been satisfactorily taken care of.

11-03 Purchase Order Use

Condition: Purchase orders are not properly being used.

Recommendation: It is recommended that procedures be followed and that all purchases properly use purchase orders.

Response: This has been satisfactorily taken care of.

Bell County School District

Corrective Action Plan

For the Year Ended June 30, 2012

The corrective actions of each individual finding was included as a response from management on each finding, if any. The corrective action completion date is to be within 30 days of receiving audit report.

Gaw & Associates, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Management Points Letter

To the Board of Education
Bell County School District

In planning and performing our audit of the financial statements of Bell County School District for the year ended June 30, 2012, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated January 7, 2013. This letter does not affect our report dated January 7, 2013, on the financial statements of the Bell County School District. The conditions observed are as follows:

Board Offices

None

Bell County High School

None

Bell Central School Center

None

Frakes School Center

None

Lone Jack School Center

None

Page School Center

None

Right Fork School Center

None

Yellow Creek School Center

None

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

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Bell County School District's responses to the findings identified in our audit as management points, if any, are described above. We did not audit Bell County School District's responses and, accordingly, we express no opinion on the responses.

There are no repeat conditions from the previous year. All prior year conditions have been implemented and corrected. Mrs. Yvonne Gilliam, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

Troy A. Gaw

Troy A. Gaw, CPA
Partner

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Harlan, Kentucky

January 7, 2013

REPORT OF EXAMINATION

BELL COUNTY
SCHOOL DISTRICT

FOR THE SCHOOL YEAR
ENDED JUNE 30, 2012

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Bell County School District

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