

Bourbon County School District

**Audited Financial Statements
and Other Financial Information**

June 30, 2012

**BOURBON COUNTY SCHOOL DISTRICT
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SUMMERS, MCCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee of School District Audits
Members of the Board of Education
Bourbon County School District
Paris, Kentucky 40361

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 Bourbon 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 the 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 and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, *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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position, and, where applicable cash flows, thereof and the respective budgetary comparison for the general fund and the special revenue fund 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 September 30, 2012, on our consideration of Bourbon County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying supplemental schedules on pages 41 through 45 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on pages 46-47 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been 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 States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
September 30, 2012

**BOURBON COUNTY SCHOOL DISTRICT – PARIS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

As management of the Bourbon County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

The beginning General Fund balance for the District was \$3,780,790. The ending General Fund balance was \$4,271,594.

Average Daily Attendance (ADA), used to calculate base SEEK funding, increased by 80.37 students. It is important to remember that kindergarten still receives a 50% ADA reduction for the SEEK calculation (funded at the ½ day level).

Property assessments certified by the Commissioner of Education showed a total real estate and personal property valuation of \$969,647,099. At the real estate and personal property rate of 55.5 cents per \$100 of assessed property, less exonerations of \$9,162, the calculated collection should yield \$5,372,379. The actual collections were \$5,221,060.

The district was concerned about the state funding due to the economy so only a 1% raise was applied to all salary tables.

The General Fund had \$20,465,819 in revenue, which primarily consisted of the state program (SEEK), property, utility, and motor vehicle taxes. Excluding inter-fund transfers, there was \$19,759,874 in General Fund expenditures.

The District completed the local facility plan in 2006, and in line with this approval, the District completed improvements to the Bourbon County High Schools in two construction phases with funding derived from the sale of bonds. Our rating in the bond market remains at AA3, with the District having a total of \$509,000 in bonding potential as of September 21, 2012 at 90% of Capital Outlay funding. The Districts outstanding debt increased to \$18,886,000 at June 30, 2012.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 7-8 of this report.

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

The basic governmental fund financial statements can be found on pages 9-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14.1 million as of June 30, 2012 as compared to \$13.5 million in the prior year.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Net Assets for the periods ending June 30, 2011 and 2012

	June 30, 2011	June 30, 2012
Current Assets	\$7,644,861	\$7,293,098
Noncurrent Assets	25,456,852	28,418,452
Total Assets	\$ 33,101,713	\$35,711,550
Current Liabilities	\$ 2,416,544	\$2,573,157
Noncurrent Liabilities	17,162,844	18,245,293
Total Liabilities	\$19,579,388	\$20,818,450
Net Assets		
Investment in capital assets (net of Restricted)	\$7,480,393	\$8,983,277
Unreserved Fund Balance	2,084,978	620,722
Total Net Assets	\$ 3,956,954	5,289,101
	\$ 13,522,325	\$14,893,100

Comments on Budget Comparisons

The District's total general fund revenues for the fiscal year ended June 30, 2012 net of inter-fund transfers, were \$20,465,819 an increase of \$1,117,695 from the total revenues of \$19,348,124 for 2011.

General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual revenues being \$1,154,329 more than budget (excluding on-behalf). Revenues for 2011 exceeded budget by \$1,325,385. General fund budget compared to actual expenditures varied slightly from line item to line item with the ending actual expenditures being \$1,928,733 less than budget (excluding on-behalf). The tentative budget revenues increased in the area of Property Taxes due to the increase in the property tax rates and a conservative prior year budget number and also in the Earning on Investment budget due to an understatement from the prior year. The actual Earnings on Investment did not increase to numbers that were projected. The tentative budget expenditures were increased through out all line items to estimate the increase cost of services provided.

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2011 and 2012.

Summary of Revenue and Expenditures

	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Local revenue sources	\$7,750,450	\$7,162,410	\$551,368	\$523,845	\$8,294,384	\$7,677,170
State revenue sources	15,606,595	15,366,522	158,473	197,933	15,765,068	15,564,455
Federal revenue sources	5,052,137	5,653,037	1,085,578	961,295	6,137,715	6,614,332
Investments	135,926	109,711	7,474	4,984	143,400	114,695
Total revenue	28,545,108	28,291,680	1,802,893	1,688,057	30,340,567	29,970,652
Expenses:						
Instruction	16,698,993	17,202,129			16,699,209	17,202,129
Student support services	1,317,815	1,251,874			1,317,815	1,251,874
Instructional support	1,050,392	1,400,713			1,050,392	1,400,713
District administration	904,179	623,959			904,179	623,959
School administration	1,404,099	1,483,930			1,404,099	1,483,930
Business Support	548,102	485,352			548,102	485,352
Plant operations	2,360,366	2,083,986			2,360,366	2,083,986
Student transportation	2,036,960	1,875,452			2,036,960	1,875,452
Community Service	294,541	259,674			294,541	259,674
Facility Acquisition	62,758	633,080			62,758	633,080
Interest on long-term debt	707,058	634,847			695,258	634,847
Food Service			1,380,095	1,317,269	1,380,095	1,317,268
Child Care			200,366	212,870	200,336	212,870
Total expenses	27,385,263	27,934,996	1,580,431	1,530,138	28,808,596	29,465,134
Change in net assets	1,171,645	347,599	199,130	157,919	1,370,559	505,518
Beginning net assets	12,973,275	12,625,676	549,050	391,132	13,522,325	13,016,808
Ending net assets	\$14,144,920	\$12,973,275	\$748,180	\$549,050	\$14,892,884	\$13,522,326

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. Significant Board actions that impacted the finances included the Section 7 allocation of all day Kindergarten, expenditures for an alternative school setting, paraprofessional educators not required by KRS and additional staff to reduce class size below the KRS requirement.

Questions regarding this report should be directed to Andrea A. Kiser, Finance Officer (859) 987-2180 or by mail at the Bourbon County Board of Education, 3343 Lexington Rd., Paris, KY 40361.

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 5,287,877	\$ 607,602	\$ 5,895,479
Accounts receivable			
Taxes	189,407	0	189,407
Accounts	8,285	22,989	31,274
Intergovernmental - Federal	1,135,099	0	1,135,099
Inventory	0	41,839	41,839
Total Current Assets	<u>6,620,668</u>	<u>672,430</u>	<u>7,293,098</u>
Noncurrent Assets			
Bond discounts and issue costs net of accumulated amortization of \$105,684	467,426	0	467,426
Non-depreciated capital assets	3,950,006	0	3,950,006
Net depreciated capital assets	<u>23,906,296</u>	<u>94,724</u>	<u>24,001,020</u>
Total Noncurrent Assets	<u>28,323,728</u>	<u>94,724</u>	<u>28,418,452</u>
TOTAL ASSETS	\$ <u>34,944,396</u>	\$ <u>767,154</u>	\$ <u>35,711,550</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	\$ 650,537	\$ 18,974	\$ 669,511
Current portion of bond obligations	853,000	0	853,000
Current portion of lease obligations	59,147	0	59,147
Current portion of accrued sick leave	80,404	0	80,404
Accrued interest payable	240,450	0	240,450
Deferred revenue	<u>670,645</u>	<u>0</u>	<u>670,645</u>
Total Current Liabilities	<u>2,554,183</u>	<u>18,974</u>	<u>2,573,157</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	18,033,000	0	18,033,000
Noncurrent portion of lease obligations	22,602	0	22,602
Noncurrent portion of accrued sick leave	<u>189,691</u>	<u>0</u>	<u>189,691</u>
Total Noncurrent Liabilities	<u>18,245,293</u>	<u>0</u>	<u>18,245,293</u>
TOTAL LIABILITIES	<u>20,799,476</u>	<u>18,974</u>	<u>20,818,450</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,888,553	94,724	8,983,277
Restricted			
Capital projects (expendable)	620,722	0	620,722
Unrestricted	<u>4,635,645</u>	<u>653,456</u>	<u>5,289,101</u>
TOTAL NET ASSETS	<u>14,144,920</u>	<u>748,180</u>	<u>14,893,100</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>34,944,396</u>	\$ <u>767,154</u>	\$ <u>35,711,550</u>

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS PRIMARY GOVERNMENT		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary Government							
Governmental Activities:							
Instructional	\$ 16,698,993	\$ 11,059	\$ 9,640,180	\$ 0	\$ (7,047,754)	\$ 0	\$ (7,047,754)
Support Services:							
Student	1,317,815	0	135,670	0	(1,182,145)	0	(1,182,145)
Instructional staff	1,050,392	0	135,688	0	(914,704)	0	(914,704)
District administration	904,179	0	65,140	0	(839,039)	0	(839,039)
School administration	1,404,099	0	281,519	0	(1,122,580)	0	(1,122,580)
Business	548,102	0	136,332	0	(411,770)	0	(411,770)
Plant operations and maintainance	2,360,366	0	112,135	0	(2,248,231)	0	(2,248,231)
Student transportation	2,036,960	118,019	124,479	0	(1,794,462)	0	(1,794,462)
Community services	294,541	69,529	0	0	(225,012)	0	(225,012)
Facilities acquisition and construction	62,758	0	0	0	(62,758)	0	(62,758)
Interest on long-term debt	707,058	0	0	310,196	(396,862)	0	(396,862)
Total Governmental Activities	<u>27,385,263</u>	<u>198,607</u>	<u>10,631,143</u>	<u>310,196</u>	<u>(16,245,317)</u>	<u>0</u>	<u>(16,245,317)</u>
Business Type Activities:							
Food Service	1,380,095	360,427	1,183,557	0	0	163,889	163,889
Child Care	200,336	190,941	60,494	0	0	51,099	51,099
Total Business Type Activities	<u>1,580,431</u>	<u>551,368</u>	<u>1,244,051</u>	<u>0</u>	<u>0</u>	<u>214,988</u>	<u>214,988</u>
Total Primary Government	<u>\$ 28,965,694</u>	<u>\$ 749,975</u>	<u>\$ 11,875,194</u>	<u>\$ 310,196</u>	<u>\$ (16,245,317)</u>	<u>\$ 214,988</u>	<u>\$ (16,030,329)</u>
General Revenues:							
Taxes:							
Property					\$ 5,622,124	\$ 0	\$ 5,622,124
Motor vehicle					591,637	0	591,637
Utilities					1,102,475	0	1,102,475
State and formula grants					9,725,393	0	9,725,393
Interest and investment earnings					135,926	7,474	143,400
Miscellaneous					216,075	0	216,075
Transfers					23,332	(23,332)	0
Total General Revenues and Transfers					<u>17,416,962</u>	<u>(15,858)</u>	<u>17,401,104</u>
Change in Net Assets					1,171,645	199,130	1,370,775
Net Assets - beginning of year					<u>12,973,275</u>	<u>549,050</u>	<u>13,522,325</u>
Net Assets - end of year					<u>\$ 14,144,920</u>	<u>\$ 748,180</u>	<u>\$ 14,893,100</u>

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	CONSTRUCTION FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 4,032,424	\$ 0	\$ 1,085,288	\$ 170,165	\$ 5,287,877
Accounts receivable					
Taxes	189,407	0	0	0	189,407
Accounts	8,285	0	0	0	8,285
Intergovernmental - Federal	0	1,135,099	0	0	1,135,099
Due from other funds	443,117	0	0	0	443,117
TOTAL ASSETS	\$ 4,673,233	\$ 1,135,099	\$ 1,085,288	\$ 170,165	\$ 7,063,785
 LIABILITIES:					
Accounts payable	\$ 401,639	\$ 21,337	\$ 227,561	\$ 0	\$ 650,537
Due to other funds	0	443,117	0	0	443,117
Deferred revenue	0	670,645	0	0	670,645
TOTAL LIABILITIES	401,639	1,135,099	227,561	0	1,764,299
 FUND BALANCES:					
Restricted					
Sick leave	135,048	0	0	0	135,048
Debt Service	0	0	0	98,071	98,071
Capital projects	0	0	548,628	72,094	620,722
Assigned	99,629	0	309,099	0	408,728
Unassigned	4,036,917	0	0	0	4,036,917
TOTAL FUND BALANCES	4,271,594	0	857,727	170,165	5,299,486
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,673,233	\$ 1,135,099	\$ 1,085,288	\$ 170,165	\$ 7,063,785

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Governmental Fund Balances	\$	5,299,486
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.</p>		
Bond discounts and issue costs		467,426
Capital assets		27,856,302
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in the fund financial statement because they are not due and payable, but are presented in the statement of net assets.</p>		
Bond obligations		(18,886,000)
Capital lease obligations		(81,749)
Accrued interest		(240,450)
Accrued sick leave		<u>(270,095)</u>
Net Assets of Governmental Activities	\$	<u><u>14,144,920</u></u>

BOURBON 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 (GRANT) FUNDS	CONSTRUCTION FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ 5,077,123	\$ 0	\$ 0	\$ 545,000	\$ 5,622,123
Motor vehicle	591,637	0	0	0	591,637
Utilities	1,102,475	0	0	0	1,102,475
Earnings on investments	135,926	0	0	0	135,926
Other local revenues	30,976	387,805	8,000	0	426,781
Intergovernmental - State	13,527,682	1,178,965	0	899,948	15,606,595
Intergovernmental - Indirect federal	0	5,052,137	0	0	5,052,137
TOTAL REVENUES	<u>20,465,819</u>	<u>6,618,907</u>	<u>8,000</u>	<u>1,444,948</u>	<u>28,537,674</u>
EXPENDITURES:					
Current:					
Instruction:	12,087,476	4,235,603	0	0	16,323,079
Support Services:					
Student	703,332	602,707	0	0	1,306,039
Instructional staff	534,799	532,271	0	0	1,067,070
District administration	890,724	0	0	0	890,724
School administration	1,276,864	133,572	0	0	1,410,436
Business	545,659	0	0	0	545,659
Plant operations and maintainance	2,012,235	345,356	0	0	2,357,591
Student transportation	1,651,024	444,742	0	0	2,095,766
Community services	0	294,117	0	0	294,117
Facilities acquisition and construction	0	0	3,455,997	0	3,455,997
Debt service	57,761	77,679	0	3,185,370	3,320,810
TOTAL EXPENDITURES	<u>19,759,874</u>	<u>6,666,047</u>	<u>3,455,997</u>	<u>3,185,370</u>	<u>33,067,288</u>
Excess (Deficit) of Revenues over Expenditures	<u>705,945</u>	<u>(47,140)</u>	<u>(3,447,997)</u>	<u>(1,740,422)</u>	<u>(4,529,614)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	23,332	47,140	231,333	98,071	399,876
Operating transfers out	(238,473)	0	0	(138,071)	(376,544)
Bond/Lease issue proceeds	0	0	3,940,000	0	3,940,000
TOTAL OTHER FINANCING SOURCES (USES):	<u>(215,141)</u>	<u>47,140</u>	<u>4,171,333</u>	<u>(40,000)</u>	<u>3,963,332</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	490,804	0	723,336	(1,780,422)	(566,282)
Fund balance - beginning of year	<u>3,780,790</u>	<u>0</u>	<u>134,391</u>	<u>1,950,587</u>	<u>5,865,768</u>
Fund balance - end of year	<u>\$ 4,271,594</u>	<u>\$ 0</u>	<u>\$ 857,727</u>	<u>\$ 170,165</u>	<u>\$ 5,299,486</u>

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Total Governmental Funds	\$ (566,282)
Amounts reported for governmental activities in the statement of activities are different because:	
Bond issue costs are expensed as incurred in the fund financial statement, but are amortized over the life of the bond in the statement of activities:	
Amortization expense	(35,623)
Bond issuance costs	114,466
The proceeds from the disposal of capital assets provide current financial resources and are reported in the fund financial statements. However, for governmental activities the proceeds are reported net of the cost less any accumulated depreciation.	
	(2,868)
Bond proceeds are recognized in this fund financial statement as resources available for use as current financial resources, but bond proceeds are not recognized in the statement of activities.	
Bond proceeds	(3,940,000)
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	
Capital outlays	4,114,809
Depreciation expense	(1,234,927)
Generally, expenditures recognized in the fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	
Change in accrued interest	(26,762)
Change in sick leave	187,161
Bond and lease payments are recognized as expenditures of current financial resources in the fund financial statement, but are reductions of liabilities in the statement of net assets.	
	<u>2,561,671</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,171,645</u>

**BOURBON COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 4,105,000	\$ 4,310,000	\$ 5,077,123	\$ 767,123
Motor vehicle	400,000	500,000	591,637	91,637
Utilities	900,000	900,000	1,102,475	202,475
Tuition and fees	6,000	6,000	0	(6,000)
Earnings on investments	50,000	80,000	135,926	55,926
Other local revenues	0	0	30,976	30,976
Intergovernmental - State	8,699,138	9,713,201	13,527,682	3,814,481
TOTAL REVENUES	<u>14,160,138</u>	<u>15,509,201</u>	<u>20,465,819</u>	<u>4,956,618</u>
EXPENDITURES:				
Current:				
Instruction:	8,982,305	10,150,031	12,087,476	(1,937,445)
Support Services:				
Student	512,780	588,800	703,332	(114,532)
Instructional staff	448,198	430,698	534,799	(104,101)
District administration	983,368	1,024,414	890,724	133,690
School administration	1,004,539	1,025,172	1,276,864	(251,692)
Business	431,168	460,661	545,659	(84,998)
Plant operations and maintenance	2,697,713	2,429,707	2,012,235	417,472
Student transportation	1,534,934	1,719,074	1,651,024	68,050
Debt service	84,730	57,761	0	57,761
Other	0	0	57,761	(57,761)
TOTAL EXPENDITURES	<u>16,679,735</u>	<u>17,886,318</u>	<u>19,759,874</u>	<u>(1,873,556)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(2,519,597)</u>	<u>(2,377,117)</u>	<u>705,945</u>	<u>3,083,062</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	0	0	23,332	23,332
Operating transfers out	(185,000)	(260,000)	(238,473)	21,527
Contingency	(1,238,627)	(941,564)	0	941,564
TOTAL OTHER FINANCING SOURCES (USES):	<u>(1,423,627)</u>	<u>(1,201,564)</u>	<u>(215,141)</u>	<u>986,423</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(3,943,223)	(3,578,681)	490,804	4,069,485
Fund balance - beginning of year	<u>3,943,223</u>	<u>3,578,681</u>	<u>3,780,790</u>	<u>202,109</u>
Fund balance - end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,271,594</u>	<u>\$ 4,271,594</u>
Adjustments to Generally Accepted Accounting Principles:				
Intergovernmental State Revenue - On-behalf Payments			\$ 3,802,289	
Corresponding Expenses for On-behalf Payments:				
Instruction			(2,811,326)	
Support Services:				
Student			(135,670)	
Instructional staff			(135,688)	
District administration			(65,140)	
School administration			(281,519)	
Business			(136,332)	
Plant operations and maintenance			(112,135)	
Student transportation			(124,479)	
Fund balance - end of year (GAAP Basis)			<u>\$ 4,271,594</u>	

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	SPECIAL REVENUE FUND			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Other local revenues	\$ 3,000	\$ 20,235	\$ 387,805	\$ 367,570
Intergovernmental - State	1,020,775	1,160,763	1,178,965	18,202
Intergovernmental - Indirect federal	5,034,314	4,537,883	5,052,137	514,254
TOTAL REVENUES	<u>6,058,089</u>	<u>5,718,881</u>	<u>6,618,907</u>	<u>900,026</u>
EXPENDITURES:				
Current:				
Instruction:	3,979,998	3,062,947	4,235,603	(1,172,656)
Support Services:				
Student	542,711	612,480	602,707	9,773
Instructional staff	586,813	719,699	532,271	187,428
School administration	94,089	155,186	133,572	21,614
Plant operations and maintenance	336,264	396,011	345,356	50,655
Student transportation	217,601	545,590	444,742	100,848
Community services	274,574	286,041	294,117	(8,076)
Debt Service	86,039	0	77,679	(77,679)
TOTAL EXPENDITURES	<u>6,118,089</u>	<u>5,777,954</u>	<u>6,666,047</u>	<u>(888,093)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(60,000)</u>	<u>(59,073)</u>	<u>(47,140)</u>	<u>11,933</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	60,000	59,073	47,140	(11,933)
TOTAL OTHER FINANCING SOURCES (USES):	<u>60,000</u>	<u>59,073</u>	<u>47,140</u>	<u>(11,933)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	0	0	0	0
Fund balance - beginning of year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balance - end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	FOOD SERVICE FUND	NON-MAJOR PROPRIETARY FUNDS	TOTAL PROPRIETARY FUNDS
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 462,054	\$ 145,548	\$ 607,602
Accounts receivable	21,383	1,606	22,989
Inventory	41,839	0	41,839
Total Current Assets	525,276	147,154	672,430
Noncurrent Assets			
Machinery & equipment	440,271	0	440,271
Accumulated depreciation	(345,547)	0	(345,547)
Total Noncurrent Assets	94,724	0	94,724
TOTAL ASSETS	\$ 620,000	\$ 147,154	\$ 767,154
LIABILITIES:			
Current Liabilities			
Accounts payable	\$ 18,837	\$ 137	\$ 18,974
Noncurrent Liabilities			
	0	0	0
TOTAL LIABILITIES	18,837	137	18,974
NET ASSETS:			
Invested in capital assets, net of related debt	94,724	0	94,724
Unrestricted	506,439	147,017	653,456
TOTAL NET ASSETS	601,163	147,017	748,180
TOTAL LIABILITIES AND NET ASSETS	\$ 620,000	\$ 147,154	\$ 767,154

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>FOOD SERVICE FUND</u>	<u>NON-MAJOR PROPRIETARY FUNDS</u>	<u>TOTAL PROPRIETARY FUNDS</u>
OPERATING REVENUES:			
Lunchroom sales	\$ 360,097	\$ 0	\$ 360,097
Other operating revenues	330	190,941	191,271
TOTAL OPERATING REVENUES	<u>360,427</u>	<u>190,941</u>	<u>551,368</u>
OPERATING EXPENSES:			
Salaries and wages	449,221	113,151	562,372
Employee benefits	206,956	51,773	258,729
Contract services	38,261	112	38,373
Materials and supplies	644,761	35,300	680,061
Property	17,902	0	17,902
Miscellaneous	3,460	0	3,460
Depreciation	19,534	0	19,534
TOTAL OPERATING EXPENSES	<u>1,380,095</u>	<u>200,336</u>	<u>1,580,431</u>
Operating income (loss)	(1,019,668)	(9,395)	(1,029,063)
NON-OPERATING REVENUES (EXPENSES)			
Federal grants	995,916	5,565	1,001,481
Federal commodities	84,097	0	84,097
State grants	103,544	54,929	158,473
Interest income	7,474	0	7,474
NON-OPERATING REVENUES (EXPENSES)	<u>1,191,031</u>	<u>60,494</u>	<u>1,251,525</u>
Net income (loss) before operating transfers	171,363	51,099	222,462
Operating transfers	<u>(23,332)</u>	<u>0</u>	<u>(23,332)</u>
Change in net assets	148,031	51,099	199,130
Total net assets - beginning of year	<u>453,132</u>	<u>95,918</u>	<u>549,050</u>
Total net assets - end of year	<u>\$ 601,163</u>	<u>\$ 147,017</u>	<u>\$ 748,180</u>

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	FOOD SERVICE FUND	NON-MAJOR PROPRIETARY FUNDS	TOTAL PROPRIETARY FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 360,427	\$ 193,682	\$ 554,109
Cash paid to suppliers	(608,943)	(36,715)	(645,658)
Cash paid to employees	(567,716)	(142,642)	(710,358)
Net Cash Provided (Used) by Operating Activities	(816,232)	14,325	(801,907)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers	(23,332)	0	(23,332)
Governmental grants	1,009,461	38,212	1,047,673
Net Cash Provided (Used) by Noncapital Activities	986,129	38,212	1,024,341
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Capital Assets	(25,274)	0	(25,274)
Net Cash Provided (Used) by Financing Activities	(25,274)	0	(25,274)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	7,474	0	7,474
Net Cash Provided (Used) by Investing Activities	7,474	0	7,474
Net Increase (Decrease) in Cash and Cash Equivalents	152,097	52,537	204,634
Cash and cash equivalents - beginning of year	309,957	93,011	402,968
Cash and cash equivalents - end of year	\$ 462,054	\$ 145,548	\$ 607,602
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (1,019,668)	\$ (9,395)	\$ (1,029,063)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Federal commodities	84,097	0	84,097
On-behalf payments	88,461	22,282	110,743
Depreciation	19,534	0	19,534
Changes in Assets and Liabilities:			
Accounts Receivable	0	2,739	2,739
Inventory	(4,748)	0	(4,748)
Accounts payable	16,092	(1,301)	14,791
Net Cash Provided (Used) by Operating Activities	\$ (816,232)	\$ 14,325	\$ (801,907)
Schedule of non-cash transactions:			
Donated commodities received from federal government	\$ 84,097	\$ 0	\$ 84,097
On-behalf payments	\$ 88,461	\$ 22,282	\$ 110,743

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	<u>SPECIAL PURPOSE TRUST FUNDS</u>	<u>AGENCY FUNDS</u>
ASSETS:		
Cash and cash equivalents	\$ 0	\$ 237,022
Accounts receivable	<u>0</u>	<u>250</u>
TOTAL ASSETS	\$ <u><u>0</u></u>	\$ <u><u>237,272</u></u>
LIABILITIES:		
Accounts payable	\$ 0	\$ 13,732
Due to student groups	<u>0</u>	<u>223,539</u>
TOTAL LIABILITIES	\$ <u><u>0</u></u>	\$ <u><u>237,272</u></u>

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>SPECIAL PURPOSE TRUST FUNDS</u>
ADDITIONS	
Contributions	\$ 750
DEDUCTIONS	
Scholarships awarded	<u>750</u>
Change in Net Assets	0
Total net assets - beginning of year	<u>0</u>
Total net assets - end of year	<u><u>\$ 0</u></u>

See Auditor's Report and Accompanying Notes

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – REPORTING ENTITY

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

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

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

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

Blended Component Unit

Bourbon County Board of Education Finance Corporation - In a prior year, the Board resolved to authorize the establishment of the Bourbon County School District Finance Corporation (a non-stock, non-profit corporation organized under Section 162.385 of the School Bond Act and Chapter 273 and KRS 58.180) (the Corporation) as an agency of the District for financing the costs of school building improvements. The Board members of the Bourbon County Board of Education also comprise the corporation's Board of Directors.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

BASIS OF PRESENTATION

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activity of the reporting entity, except for fiduciary funds. The statements distinguish between governmental and business-type activities. The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

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

Fund Financial Statements

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

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

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Financial Statements (Cont'd)

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

The District has the following funds:

I. Governmental Fund Types

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

(B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. The Special Revenue Fund is a major fund.

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

- 1) The Support Education Excellence in Kentucky (SEEK) Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing capital acquisitions. This is a non-major fund of the District.
- 2) The Facility Support Program of Kentucky accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a non-major fund of the District.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Financial Statements (Cont'd)

- 3) The Construction Fund accounts for funds from two sources. First, funds generated by sales of bonds issues are used for various construction and renovation projects. Second, proceeds from the sale of properties and equipment owned by the District are to be used at the discretion of the Board for construction projects in future years. This is a major fund of the District.

(D) The Debt Service Fund accounts for financial resources used for payment of principal and interest and other debt related costs. This is a non-major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

(A) The Food Service Fund accounts 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.

(B) The Day Care Fund is used to account for child care revenue. The Day Care Fund is a non-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.

III. Fiduciary Fund Type

(A) The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform program of Accounting for School Activity Funds*.

(B) The Special Purpose Trust Fund accounts for funds donated to the District for special purposes.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

BASIS OF ACCOUNTING

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

In the Government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Revenues from local sources consist primarily of property taxes. Property taxes collected are recorded as revenues in the fund for which they were levied. Revenue is recognized when susceptible to accrual. Miscellaneous revenues are recorded on the same basis, if measurable. Investment earnings are recorded as earned since they are measurable and available.

Grant funds which are recorded in the special revenue fund as restricted funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Budgetary Process

The District's budgetary process accounts for certain transactions on a basis of accounting other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note 15 for these amounts which were not known by the District at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per District policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law.

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

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

Cash and Cash Equivalents

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

Inventory

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities assigned values are based on information provided by the USDA.

Prepaid Assets

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

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1 for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes received after December 31, are considered delinquent and the County Attorney can file a lien against the property.

Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund; and then, transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2011 to finance the General Fund operations were \$.555 per \$100 valuation for real property, \$.555 per \$100 valuation for business personal property and \$.547 per \$100 valuation for motor vehicles.

The District levies a 3% utility tax on all businesses and households within the County.

Capital Assets

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

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

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

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

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

Bond issue costs

Costs associated with the issuance of bond obligations, including fiscal and rating agency fees, paying agent fees, and attorney fees, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of the 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 amount "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net assets.

Deferred Revenue

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

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

The District adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) for fiscal year 2011 for its governmental funds. Fund balances for each of the District's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned fund balance*—amounts the government intends to use for specific purposes; intent can be expressed by the Board or by an official or body to which the Board delegates the authority.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets, invested in capital assets, net related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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 School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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 various schools. All other revenues are non-operating. Operating expenses can be tied directly to the production of the goods and services, such as the materials and labor and direct overhead. Other expenses are non-operating.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

Contributions of Capital

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

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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 - CASH AND CASH EQUIVALENTS

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At year end, the District's bank balances were collateralized by securities held by the pledging bank's trust department in the District's name and FDIC Insurance. At year end, the carrying amount of the District's cash and cash equivalents was \$6,132,501. The bank balance for the same time was \$7,199,771.

Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

NOTE 4 - CAPITAL ASSETS

Depreciation expense was charged to functions of the governmental activities of the District as follows:

Governmental Activities:

Instruction	\$783,793
Support Services:	
Student	11,776
Instructional staff	1,651
District administration	20,499
School administration	6,859
Business	2,442
Plant operations & maintenance	26,683
Student transportation	380,800
Non-instructional	424
Total depreciation expense, governmental activities	<u>\$1,234,927</u>

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - CAPITAL ASSETS (Cont'd)

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$66,520	\$0	\$0	\$66,520
Construction in progress	385,774	3,497,712	0	3,883,486
Total capital assets not being depreciated	452,294	3,497,712	0	3,950,006
Other capital assets				
Land Improvements	1,309,566	0	0	1,309,566
Buildings & Improvements	31,033,254	16,829	0	31,050,083
Technological Equipment	1,097,985	119,837	(135,577)	1,082,246
Vehicles	3,110,049	463,514	(297,877)	3,275,686
General Equipment	702,635	16,917	(3,110)	716,442
Total other assets	37,253,489	617,097	(436,564)	37,434,023
Less accumulated depreciation for:				
Land Improvements	(998,268)	(47,357)	0	(1,045,625)
Buildings & Improvements	(8,539,986)	(603,107)	0	(9,143,093)
Technological Equipment	(709,442)	(157,973)	131,166	(736,249)
Vehicles	(2,005,991)	(391,563)	297,877	(2,099,678)
General Equipment	(471,266)	(34,927)	3,110	(503,082)
Total accumulated depreciation	(12,724,953)	(1,234,927)	432,153	(13,527,727)
Other capital assets, net	24,528,536	(617,830)	(4,411)	23,906,296
Governmental Activities, net	\$24,980,830	\$2,879,882	(\$4,411)	\$27,856,302
Business Activities:				
Technological Equipment	\$18,565	\$0	(\$6,540)	\$12,026
General Equipment	417,846	25,274	(14,876)	428,244
Total	436,411	25,274	(21,416)	440,270
Less accumulated depreciation for:				
Technological Equipment	(13,597)	(1,628)	6,540	(8,685)
General Equipment	(333,831)	(17,906)	14,876	(336,861)
Total accumulated depreciation	(347,428)	(19,534)	21,416	(345,546)
Business Activities, net	\$88,983	\$5,740	\$0	\$94,724

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS

Bonds

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

In connection with the school revenue bonds issued after May 1, 1996, 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, the total principal outstanding has been recorded in the financial statements.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Balance June 30, 2012</u>
2002B	2,495,000	1.35-3.75%	6/1/2014	645,000
2005	3,230,000	2.80-3.80%	3/1/2020	2,815,000
2006	2,720,000	4.00-4.20%	7/1/2026	2,390,000
2009	5,940,000	3.25-4.15%	2/1/2029	5,835,000
2010	1,280,000	1.00-2.70%	7/1/2021	1,250,000
2010	229,000	2.25%	6/1/2018	171,000
2011	1,865,000	1.00-2.40%	4/1/2022	1,840,000
2012	3,940,000	0.75-3.625%	10/1/2031	3,940,000
	<u>\$21,699,000</u>			<u>\$18,886,000</u>

The bonds which may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are as follows:

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS (cont'd)

YEAR	Bourbon County School District		Kentucky School Construction Commission		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2013	\$619,253	\$661,421	\$233,747	\$103,346	\$1,617,767
2014	635,172	616,449	241,828	95,520	1,588,969
2015	652,385	595,263	213,615	87,250	1,548,513
2016	670,288	574,073	220,712	80,008	1,545,081
2017	691,691	550,930	228,309	70,805	1,543,342
2018-2022	3,790,088	2,329,875	928,912	239,820	7,288,695
2023-2027	4,027,328	1,413,701	657,672	91,958	6,190,659
2028-2032	4,935,650	499,312	139,350	11,528	5,585,840
	<u>\$16,021,855</u>	<u>\$7,241,024</u>	<u>\$2,864,145</u>	<u>\$781,842</u>	<u>\$26,908,666</u>

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2012:

	06/30/11 Beginning Balance	Additions	Payments	06/30/12 Ending Balance	Amounts Due Within One Year
Bonds	\$17,434,000	\$3,940,000	\$2,488,000	\$18,886,000	\$853,000
Capital Leases	\$155,420	\$0	\$73,671	\$81,749	\$59,147
Sick Leave	\$510,294	\$0	\$240,199	\$270,095	\$80,404

Capital Leases

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

Class of Property	
Buses	\$264,048
Copiers	104,380
Less: Accumulated Depreciation	(302,783)
	<u>\$65,645</u>

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS (cont'd)

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

<u>Year Ending June 30,</u>	<u>Capital lease payable</u>
2013	\$61,704
2014	<u>23,393</u>
Total minimum lease payments	\$85,097
Less: Amount of interest	<u>(3,348)</u>
Present value of net minimum Lease payments	<u><u>\$81,749</u></u>

NOTE 6 - COMMITMENTS UNDER NON-CAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provided for the minimum future rental payments as of June 30, 2012 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$2,305
2014	<u>2,305</u>
	<u><u>\$4,610</u></u>

Rent expense for the year ended June 30, 2012 was \$2,305.

NOTE 7 - RETIREMENT PLAN

Kentucky Teacher's Retirement System

The District contributes to the Kentucky Teachers' Retirement System (KTRS), a cost-sharing, multiple-employer, defined benefit pension plan, for the District's certified employees. 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 members of KTRS to occupy a position requiring either a four year degree or certification by the KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 - RETIREMENT PLAN (Cont'd)

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 the financial statements and required supplementary information for the defined benefit plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 2008 contribute an additional 0.5%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

The District's total payroll for the year was \$16,989,962. The payroll for employees covered under KTRS was \$12,753,444. For the year ended June 30, 2012, the Commonwealth contributed \$1,375,856 for the benefit of the District's participating employees. The District's contributions to KTRS for the year ending June 30, 2012, were \$368,841, which represented those employees covered by federal programs.

County Employees' Retirement System

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death and disability benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State Legislature. Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. The current rate is 18.96% of the employee's total compensation. The contribution requirement for CERS for the year ended June 30, 2012 was \$822,526, which consisted of \$634,981 from the District and \$187,545 from the employees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. A copy of the annual report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by calling (502) 564-4646.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 - RETIREMENT PLAN (Cont'd)

Retirement Plans

The District also offers employees the option to participate in defined contribution plans under Sections 403(B) and 401(K) of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law.

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 their 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 report these assets and liabilities on its financial statements.

Employee contributions made to the plans during the year totaled \$306,149. The District does not contribute to these plans.

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011-2012 fiscal year.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 – ACCUMULATED UNPAID SICK LEAVE BENEFITS

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. At June 30, 2012, this amount totaled \$270,095. The District follows a policy of funding up to one-half of the total amount accrued as a reservation of the General Fund balance.

NOTE 9- INSURANCE AND RELATED ACTIVITIES

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

NOTE 10 - CONTINGENCIES

Funding for the District's Grant Funds is provided by federal, state and local government agencies. These funds are to be used for designated purposes only. If, based upon the grantor's review, the funds are considered not to have been used for the intended purpose the grantor may request a refund of monies advanced, or to refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 11- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such a fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage, and for any reason, by giving ninety days notice. In the event the Trust terminated coverage, any amount remaining in the Fund would be returned to the member on a pro rata 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past several fiscal years.

NOTE 12 - DEFICIT OPERATING/ FUND BALANCES

There were no funds operating at a deficit fund balance at June 30, 2012. However, the following fund had operations that resulted in a current year deficit of revenues over expenditures resulting in the following reductions of fund balance:

Building Fund	\$1,909,020
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NOTE 13 - 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).

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 14 – INTERFUND TRANSACTIONS

At June 30, 2012, the interfund status of payables and receivables (all current) of the various funds of the district are in the following table. All balances are expected to be settled within the next fiscal year.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	Advance	\$443,117

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Rev.	Tech. Match	\$47,140
Construction	General	Construction	Construction	\$191,333
Construction	Capital Outlay	Construction	Construction	\$40,000
Debt Service	Capital Outlay	Debt Service	Debt Service	\$98,071

NOTE 15 - ON-BEHALF PAYMENTS

During the year, the Commonwealth of Kentucky contributed estimated payments on behalf of the District. These payments were recorded in the appropriate revenue and expense accounts on the statement of revenue, expenses, and changes in fund balance. These revenues and expenditures are not budgeted by the District. As a result, the actual expenditures for the General and Special Revenue funds exceeded budgeted amounts, as presented on pages 13 and 14.

For the fiscal year ended June 30, 2012, The Commonwealth of Kentucky contributed payments on behalf of the District as follows:

Kentucky Teachers Retirement System	\$1,375,856
Health & Life Insurance Plan	2,455,167
Kentucky Technology	64,137
Kentucky Vocational Education Schools	17,872
KSFCC	<u>321,996</u>
Total	<u><u>\$4,235,028</u></u>

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 16– LITIGATION

The District is subject to several legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

BOURBON COUNTY SCHOOL DISTRICT
SUPPLEMENTAL SCHEDULES

**BOURBON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS:				
Cash and cash equivalents	\$ 30,527	\$ 41,567	\$ 98,071	\$ 170,165
TOTAL ASSETS	\$ 30,527	\$ 41,567	\$ 98,071	\$ 170,165
LIABILITIES:				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	0	0	0	0
FUND BALANCES:				
Restricted	30,527	41,567	98,071	170,165
TOTAL FUND BALANCES	30,527	41,567	98,071	170,165
TOTAL LIABILITIES AND FUND BALANCES	\$ 30,527	\$ 41,567	\$ 98,071	\$ 170,165

**BOURBON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012**

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 0	\$ 545,000	\$ 0	\$ 545,000
Intergovernmental - State	243,429	334,523	321,996	899,948
TOTAL REVENUES	243,429	879,523	321,996	1,444,948
EXPENDITURES:				
Current:				
Support Services:				
Debt service	172,902	2,690,472	321,996	3,185,370
TOTAL EXPENDITURES	172,902	2,690,472	321,996	3,185,370
Excess (Deficit) of Revenues over Expenditures	70,527	(1,810,949)	0	(1,740,422)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	0	0	98,071	98,071
Operating transfers out	(40,000)	(98,071)	0	(138,071)
TOTAL OTHER FINANCING SOURCES (USES):	(40,000)	(98,071)	98,071	(40,000)
Excess (Deficit) of revenues and Other financing sources over expenditures and other financing uses	30,527	(1,909,020)	98,071	(1,780,422)
Fund balance - beginning of year	0	1,950,587	0	1,950,587
Fund balance - end of year	\$ 30,527	\$ 41,567	\$ 98,071	\$ 170,165

**BOURBON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
 AND FUND BALANCES
 SCHOOL ACTIVITY FUNDS
 For The Year Ended June 30, 2012**

	Cash Balances June 30, 2011	Receipts	Disbursements	Cash Balances June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012
Bourbon Co. High School	\$ 121,497	\$ 543,683	\$ 557,227	\$ 107,953	\$ -	\$ 10,417	\$ 97,536
Bourbon Co. Middle	52,225	324,021	311,779	64,467	250	2,775	61,942
Cane Ridge Elementary	12,956	49,602	54,351	8,207	-	-	8,207
North Middletown Elementary	4,710	17,754	17,467	4,997	-	534	4,463
Bourbon Central Elementary	<u>36,547</u>	<u>79,430</u>	<u>64,579</u>	<u>51,398</u>	<u>-</u>	<u>-</u>	<u>51,398</u>
	<u>\$ 227,935</u>	<u>\$ 1,014,490</u>	<u>\$ 1,005,403</u>	<u>\$ 237,022</u>	<u>\$ 250</u>	<u>\$ 13,726</u>	<u>\$ 223,546</u>

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
BOURBON COUNTY COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

ACCOUNTS:	Cash Balances June 30, 2011	Receipts	Disbursements	Cash Balances June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012
Advanced Placement	\$ 2,069	\$ 13,978	\$ 14,035	\$ 2,012	-	-	\$ 2,012
Academic Team	-	324	324	-	-	-	-
Art Club	501	2,203	1,218	1,486	-	-	1,486
Baseball	16,379	26,461	21,593	21,247	-	1,100	20,147
Boys Basketball	4,684	15,697	20,031	350	-	-	350
Girls Basketball	11,590	24,152	30,799	4,943	-	-	4,943
Cheerleading	4,817	20,251	23,516	1,552	-	108	1,444
Athletic Promotion	451	7,666	7,821	296	-	-	296
Concessions	-	9,902	9,902	-	-	-	-
Football	3,000	37,706	40,506	200	-	-	200
Track	-	7,927	7,927	-	-	-	-
Golf	337	1,450	1,767	20	-	-	20
Boys Soccer	1,160	11,327	12,487	-	-	-	-
Boys Tennis	192	949	1,070	71	-	-	71
Girls Softball	-	17,104	15,080	2,024	-	2,024	-
Softdrink Account	-	1,987	1,987	-	-	-	-
Girls Soccer	1,198	12,559	13,707	50	-	-	50
District	-	7,316	7,316	-	-	-	-
Regional	-	7,364	7,364	-	-	-	-
Cross Country	208	2,730	2,738	200	-	-	200
Parking	-	2,240	2,240	-	-	-	-
Science Honorary	119	-	-	119	-	-	119
Fees	-	18,040	18,019	21	-	8	13
Dance	1,409	19,121	15,273	5,257	-	4,625	632
SADD	397	56	64	389	-	-	389
Beta	-	738	738	-	-	-	-
Office	504	4,131	4,501	134	-	-	134
WBBA	130	406	-	536	-	-	536
Small Engines	642	10	274	378	-	-	378
Foods	-	10,344	9,960	384	-	-	384
Volleyball	1,484	9,914	11,398	-	-	-	-
Drama Club	360	-	90	270	-	-	270
English	33	-	-	33	-	-	33
FBLA	-	987	987	-	-	-	-
FFA	8,766	31,574	29,228	11,112	-	23	11,089
FFA Seed Corn	302	-	-	302	-	-	302
FFA Book Project	6,839	-	2,150	4,689	-	-	4,689
FFA Tractor	-	2,280	2,278	2	-	-	2
FFA Investment	3,289	4	-	3,293	-	-	3,293
FCCLA/FHA	-	13,966	13,966	-	-	-	-
Homecoming	-	683	683	-	-	-	-
Horticulture	9,767	12,720	12,186	10,301	-	-	10,301
Journalism	56	1,640	1,500	196	-	-	196
Library	2,520	847	1,200	2,167	-	-	2,167
NAHS	9	69	-	78	-	-	78
National Honor Society	454	753	1,128	79	-	-	79
Office Interest	1,529	18,269	16,079	3,719	-	-	3,719
PSAT	-	350	350	-	-	-	-
PE	129	4,834	4,943	20	-	-	20
Prom	893	5,578	5,941	530	-	515	15
School Play	5,204	7,012	5,511	6,705	-	21	6,684
School Pictures	-	4,585	4,585	-	-	-	-
Humanities	310	400	710	-	-	-	-
SHH/Spanish Club	844	340	1,011	173	-	-	173
STL	-	-	-	-	-	-	-
2014	216	-	-	216	-	-	216
GBB Christmas Tourney	-	-	-	-	-	-	-
Girls Golf	-	344	264	80	-	-	80
Seacamp	-	-	-	-	-	-	-
WLC	4,683	2,917	5,820	1,780	-	-	1,780
BCHS Preschool	198	302	83	417	-	-	417
Rise	376	16,054	16,075	355	-	-	355
Colonial Staples	-	-	-	-	-	-	-
Student Needs	1,050	-	874	176	-	-	176
Seniors/Games/Trip	-	745	745	-	-	-	-
SUBTOTALS	\$ 99,098	\$ 421,306	\$ 432,042	\$ 88,362	\$ -	\$ 8,424	\$ 79,938

**BOURBON COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
BOURBON COUNTY COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

ACCOUNTS:	Cash	Receipts	Disbursements	Cash	Accounts	Accounts	Fund
	Balances			Balances	Receivable	Payable	Balances
	June 30,			June 30,	June 30,	June 30,	June 30,
	2011			2012	2012	2012	2012
SUBTOTALS	\$ 99,098	\$ 421,306	\$ 432,042	\$ 88,362	\$ -	\$ 8,424	\$ 79,938
Student Government	83	-	-	83	-	-	83
Vo Ag Mechanics	-	7,526	5,441	2,085	-	-	2,085
Library Student	1,068	-	1,068	-	-	-	-
TMH Fund	333	9	256	86	-	-	86
Speech Team	-	-	-	-	-	-	-
Drug Testing	-	-	-	-	-	-	-
Anatomy	1,179	921	1,246	854	-	-	854
Science Classes Trips	-	-	-	-	-	-	-
KYA Club	-	9,646	9,462	184	-	-	184
Special Ed Class Trips	-	-	-	-	-	-	-
Fashion Design	176	345	521	-	-	-	-
Floral Design	251	-	-	251	-	-	251
Faculty Club Social	197	1,150	997	350	-	-	350
Reading Component	-	-	-	-	-	-	-
Pep Club	1,667	476	1,627	516	-	-	516
Yearbook Account	-	10,829	10,679	150	-	-	150
FCA	1,359	40	474	925	-	-	925
Wrestling	1,641	9,049	6,101	4,589	-	-	4,589
Smoke & Pay	465	135	-	600	-	-	600
Future Educators Assoc	150	-	-	150	-	-	150
Math Batteries	2,187	664	2,491	360	-	-	360
Spray Painting	105	-	-	105	-	-	105
KJHS	171	1,219	1,390	-	-	-	-
Swimming	87	596	683	-	-	-	-
Assessment Committee	128	-	-	128	-	-	128
Science & Environment	249	-	-	249	-	-	249
Pennies for Patients	-	-	-	-	-	-	-
CATS - Student Rewards	251	-	-	251	-	-	251
DECA	177	-	-	177	-	-	177
2012/All God's Children	287	-	287	-	-	-	-
2011/Wesley's Place	-	-	-	-	-	-	-
Chorus	230	370	533	67	-	-	67
Colonel Staples	758	2,460	3,195	23	-	-	23
2010/Soldiers	-	-	-	-	-	-	-
Jeff Collins Golf	-	-	-	-	-	-	-
2013/Male A Wish	451	-	-	451	-	-	451
Key Club	222	240	325	137	-	-	137
German Trip	168	-	-	168	-	-	168
Bowling	-	9,297	9,297	-	-	-	-
Timmy Case Memorial	379	-	-	379	-	-	379
AP Calculus Trip	-	-	-	-	-	-	-
Friends of Rachel	15	174	125	64	-	-	64
KY Bank Shootout	-	7,512	7,512	-	-	-	-
KY Bank Shootout Con.	-	-	-	-	-	-	-
GBB/BBB Programs	-	-	-	-	-	-	-
Athletic Physicals	-	-	-	-	-	-	-
John Sosby Memorial	-	3,460	498	2,962	-	1,965	997
Girls Tennis	-	4,014	4,014	-	-	-	-
10th Regional	-	-	-	-	-	-	-
District Concessions	-	2,742	2,742	-	-	-	-
Soccer Regional	-	-	-	-	-	-	-
Textbooks	6,492	8,326	13,008	1,810	-	28	1,782
Colenelette	355	-	-	355	-	-	355
Michael Hickerson Fund	316	-	-	316	-	-	316
BCHS Band	204	-	100	104	-	-	104
YSC	-	-	-	-	-	-	-
Women in AG	542	120	-	662	-	-	662
Child Dev	56	105	161	-	-	-	-
Seniors	-	40,952	40,952	-	-	-	-
TOTALS	\$ 121,497	\$ 543,683	\$ 557,227	\$ 107,953	\$ -	\$ 10,417	\$ 97,536

BOURBON COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2012

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures (\$)</i>
<i>U.S. Department of Agriculture</i>			
Passed Through State Department of Education			
Child Nutrition Cluster:			
Summer Feed Program	10.559	7690024-11	1,208
Summer Feed Program	10.559	7690024-12	399
Summer Feed Program	10.559	7740023-11	11,701
Summer Feed Program	10.559	7740023-12	25,255
Federal Receipts	10.555	7750002-11	142,639
Federal Receipts	10.555	7750001-12	587,592
Breakfast Program	10.553	7760005-11	42,631
Breakfast Program	10.553	7760005-12	184,491
After School Program	10.558	7790021-11	1,292
After School Program	10.558	7790021-12	4,012
After School Program	10.558	7800016-11	73
After School Program	10.558	7800016-12	188
Passed Through State Dept. of Agriculture:			
Fed Donated Commodities	10.555		84,097
<i>Total United States Department of Agriculture</i>			<u>1,085,578</u>
<i>U.S. Department of Education</i>			
Passed Through State Department of Education			
Education Technology State Grants - ARRA	84.386	4210002-09	2,454
Educational Technology State Grants			
TECHNOLOGY LITERACY (TLC)	84.318	3210002-11	1,705
TECHNOLOGY LITERACY (TLC)	84.318	3210002-10	1,382
TECHNOLOGY LITERACY (TLC)	84.318	3210002-09	532
<i>Program Total</i>			<u>6,073</u>
Special Education (IDEA) Cluster			
IDEA-B PRESCHOOL - ARRA	84.392	4800002-09	2,010
IDEA-B PRIV PRES - ARRA	84.392	4800002-09	1,128
IDEA-B - ARRA	84.391	4810002-09	730
IDEA-B PRIVATE SCHOOL- ARRA	84.391	4810002-09	21,826
IDEA -B	84.027	3810002-11	564,532
IDEA-B PRESCHOOL	84.173	3800002-11	30,381
IDEA-B PRESCHOOL	84.173	3800002-10	5,207
<i>Program Total</i>			<u>600,120</u>
Title I Grants to Local Educational Agencies			
PROF DEV FOR DIST IMP	84.010	3100002-11	58,501
PROF DEV FOR DIST IMP	84.010	3100002-10	11,826
TIER 3 DEFERRED AMOUNT	84.010	3100002-11	14,997
TIER 3 DEFERRED AMOUNT	84.010	3100002-10	27,859
TITLE I	84.010	3100002-11	271,890
TITLE I	84.010	3100002-10	135,097
TITLE I PARENT INVOLVEMENT	84.010	3100002-11	4,299
TITLE I PARENT INVOLVEMENT	84.010	3100002-10	2,988
TITLE I- ARRA	84.389	4100002-09	2,023
TITLE I- ARRA	84.389	4100002-09	21,278
<i>Program Total</i>			<u>550,758</u>

BOURBON COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2012

Adult Education - Basic Grants to States			
ADULT ED BASIC FED	84.002	3732	41,061
ADULT ED CORRECTIONS	84.002	3802	3,500
ADULT ED CORRECTIONS	84.002	3801	425
AE PD STAFF DEVELOPMENT	84.002	3732S	2,185
AE STUDENT SUCCESS	84.002	3651	9,910
AE STUDENT SUCCESS	84.002	3652	11,907
<i>Program Total</i>			<u>68,988</u>
Career and Technical Education - Basic Grants to States			
PERKINS TITL I PARTC VOCATIONAL	84.048	4621132-10	924
VOCATIONAL EDUCATION BASIC GRANT	84.048	4621232-11	14,571
VOCATIONAL EDUCATION BASIC GRANT	84.048	4621132-10	4,441
<i>Program Total</i>			<u>19,936</u>
Education for Homeless Children and Youth-, ARRA	84.387	4990002-09	7,370
Education Jobs Fund	84.410	EJOB00-11	414,700
English Language Acquisition Grants			
IMMIGRANT	84.365	3300002-10	18,663
IMMIGRANT	84.365	3300002-09	13,990
TITLE III, LEP CON	84.365	3300002-10	18,924
TITLE III, LEP CON	84.365	3300002-11	14,811
<i>Program Total</i>			<u>66,388</u>
Improving Teacher Quality State Grants			
TITLE II TEACHER QUALITY	84.367	3230002-10	89,262
TITLE II TEACHER QUALITY	84.367	3230002-11	28,633
<i>Program Total</i>			<u>117,895</u>
Mathematics and Science Partnerships			
M/S PARTNERSHIP MATH PORTION	84.366	3200101-12	972
M/S PARTNERSHIP SCIENCE PORT	84.366	3200101-12	814
<i>Program Total</i>			<u>1,786</u>
Migrant Education_State Grant Program			
MIGRANT EDUCATION BASIC GRANT	84.011	3110002-11	228,294
MIGRANT EDUCATION BASIC GRANT	84.011	3110002-10	84,959
<i>Program Total</i>			<u>313,253</u>
Safe and Drug-Free Schools and Communities_National Programs			
SS/HS ELEMENTS 1,2,3	84.184	5341L	10,752
SS/HS ELEMENTS 1,2,3	84.184	5342L	509,885
SS/HS GRANT ELEMENT 4,5	84.184	5342H	366,617
SS/HS GRANT ELEMENT 4,5	84.184	5341H	2,873
<i>Program Total</i>			<u>890,127</u>

BOURBON COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2012

Twenty-First Century Community Learning Centers			
21ST CENTURY	84.287	3400002-09	256,781
21ST CENTURY	84.287	3400002-10	423,325
21ST CENTURY	84.287	3400002-11	5,764
<i>Program Total</i>			<u>685,870</u>
<i>Total Department of Education</i>			<u><u>3,768,958</u></u>
<i>Corporation for National and Community Service Programs</i>			
Learn and Serve America School and Community Based Programs	94.004	1000002-11	1,208
<i>Total Corporation for National and Community Service Programs</i>			<u>1,208</u>
<i>United States Department of Justice Programs</i>			
Juvenile Mentoring Program			
SSHS Mentoring Grant	16.726	4342	73,766
SSHS Mentoring Grant	16.726	4341	6,075
<i>Total United States Department of Justice Programs</i>			<u>79,841</u>
<i>United States Department of Health and Human Services</i>			
Direct Programs			
Head Start			
Head Start	93.600	6552	906,986
Head Start	93.600	6551	229,898
<i>Total United States Department of Health and Human Services</i>			<u>1,136,884</u>
<i>Total Expenditures of Federal Awards</i>			<u><u>6,072,469</u></u>

**BOURBON COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Bourbon County School District and is presented on the accrual basis of accounting. The information on 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 2 – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. For the year ended June 30, 2012, the District received food commodities totaling \$84,097.

SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

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OF CERTIFIED PUBLIC ACCOUNTANTS

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1961-1992

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Bourbon County School District
Paris, KY

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Bourbon County School District (District) as of and for the year ended June 30, 2012 which collectively comprise the District's basic financial statements and have issued our report thereon dated September 30, 2012. 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-Profits Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, *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 the Bourbon County School District, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Bourbon County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bourbon County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bourbon County School Districts'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 *Appendices II – State Audit Requirements, of the Independent Auditor's Contract*.

We noted certain matters that we reported to management of the District in a separate letter dated September 30, 2012.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Bourbon County Board of Education, the Kentucky Department of Education, management, 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.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
September 30, 2012

SUMMERS, MCCRARY & SPARKS, P.S.C.

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1961-1992

INDEPENDENT AUDITORS' 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

Kentucky State Committee For School District Audits
Members of the Board of Education
Bourbon County School District
Paris, Kentucky

Compliance

We have audited the Bourbon County School District (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the 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, Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Bourbon County Board of Education, the Kentucky Department of Education, management, 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.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
September 30, 2012

**BOURBON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section II – Financial Statement Findings

There were no findings this year.

Section III – Federal Award Findings and Questioned Costs

There were no findings this year.

**BOURBON COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Finding 2011-01: Material adjustments were required during the audit. This finding was not repeated during the current year.

SUMMERS, MCCRARY & SPARKS, P.S.C.

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Members of the Board of Education
Bourbon County School District
Paris, Kentucky

In planning and performing our audit of the financial statements of Bourbon County School District for the year ended June 30, 2012, we considered the District's internal control structure 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 structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 30, 2012 on the financial statements of the Bourbon County School District

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

Respectfully,

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
September 30, 2012

**BOURBON COUNTY SCHOOL DISTRICT
MANAGEMENT POINTS
JUNE 30, 2012**

BOURBON COUNTY HIGH SCHOOL

Comment: During our review of accounts payable, we found five invoices that were not included on the accounts payable listing at year end, which should have been. The Bookkeeper should review the "Financial Reports" policy section, item no. 1, and the "Definitions" section of the "Redbook," which states a listing of accounts payable (Form F-SA-15B) shall accompany the report. An accounts payable is when merchandise or services are received but not paid for at the end of the reporting period.

Response: Have reviewed the Redbook and will try to include all outstanding accounts payable on Form F-Sa-15B.

Comment: During our review of the school activity support organizations, we found the reports that are required to be submitted by the organizations, were not submitted properly. Per the "Redbook", all support organizations need to turn in a budget and a list of officers at the beginning of the school year, and an annual report at the end of the school year.

Response: We have met with the Booster parents and instructed them of the Redbook policy. We will try to have all necessary paperwork on file for auditors.

Comment: During our review of Ticket Sales, we found multiple "Requisition and Report of Ticket Sales" (Form F-SA-1) that were not completed correctly. The Bookkeeper and Athletic Director need to review the form to ensure they are aware of all components of the form.

Response: We are instructing all people involved with ticket sales the correct procedures in completing the tick sale form.

Comment: During our review of cash disbursements we found one instance of a purchase order being completed after the purchase was made, and one instance of a purchase made greater than the approved purchase order amount. The Bookkeeper should review the "Purchasing" procedures section, items no. 1 and 5, of the "Redbook," which states a Purchase Order shall be prepared and approved before the payment is obligated, and the school treasurer shall match up the purchase order and the vendor invoice to verify all amounts agree.

Response: I have reviewed the Redbook regarding purchasing and will try to make sure all purchases have an approved purchase order and amounts agree.

**BOURBON COUNTY SCHOOL DISTRICT
MANAGEMENT POINTS
JUNE 30, 2012**

BOURBON COUNTY MIDDLE SCHOOL

Comment: During our review of the "Inventory Control Worksheet" (Form F-SA-5) and the "Requisition and Report of Ticket Sales" (Form F-SA-1) forms, we found multiple forms that did not have an explanation of differences noted. The Bookkeeper should review the "Inventory Control Worksheet" to ensure they are aware of all components of the form. Any differences need to be explained at the bottom of the form. The Bookkeeper should the "Ticket Sales" procedures section, item no. 6, of the "Redbook", which states reconciliation, explanation of shortages/overages, and signatures are recorded using Form (F-SA-1).

Response: This has been reviewed with the Athletic Director and the process has been adjusted to ensure that overages/shortages have explanations noted.

Comment: During our review of cash disbursements, we found multiple "Standard Invoices" (Form F-SA-8) that were not approved by the Principal. The Bookkeeper and Principal need to review the "Standard Invoice" to ensure they are aware of all the components of the form. The Principal must sign the Approval for Purchase line at the top of the form.

Response: This has been reviewed with the Principal and the process has been adjusted to insure that the approval for purchase line at the TOP of the form is signed properly.

CANE RIDGE ELEMENTARY

Comment: During our review of the "Inventory Control Worksheet" (Form F-SA-5) we found multiple forms that did not have an explanation of differences noted. The Bookkeeper should review the "Inventory Control Worksheet" to ensure they are aware of all components of the form. Any differences need to be explained at the bottom of the form.

Response: The bookkeeper will make sure that there are comments entered at the bottom of the Inventory Control Sheet if there are differences noted on the form.

**BOURBON COUNTY SCHOOL DISTRICT
MANAGEMENT POINTS
JUNE 30, 2012**

NORTH MIDDLETOWN ELEMENTARY

Comment: During our review of accounts payable, we found two invoices that were not included on the accounts payable listing at year end, which should have been. The Bookkeeper should review the "Financial Reports" policy section, item no. 1, and the "Definitions" section of the "Redbook," which states a listing of accounts payable (Form F-SA-15B0) shall accompany the report. An accounts payable is when merchandise or services are received but not paid for at the end of the reporting period.

Response: I will review accounts payable listing to ensure that it is complete and all invoices are listed before submitting.

BOURBON CENTRAL ELEMENTARY

Any exceptions noted in testing appeared to be isolated incidents only and were communicated to management.

STATUS OF PRIOR YEAR COMMENTS

BOARD

- Previously, we noted deficiencies in internal controls at the childcare centers. The Board has implemented procedures to strengthen the internal controls at the childcare centers.
- Previously, during testing of the Migrant Education cash disbursements we found one check did not have an invoice; a purchase order was dated after the services were performed; an invoice was overpaid; invoice was paid for items not included on the purchase order. No similar findings were noted in the current year.

BOURBON COUNTY HIGH SCHOOL

- Previously, we found one invoice that was not included on the accounts payable listing at year end, which should have been. We recommended the Bookkeeper review the "Financial Reports" policy section, item no. 1, and the "Definitions" section of the "Redbook," which states a listing of accounts payable (Form F-SA-15B0) shall accompany the report. Similar finding occurred in the current year.
- Previously, we found the required reports that are to be submitted by the school activity support organizations, were not submitted properly. Per the "Redbook", all support organizations need to turn in a budget and a list of officers at the beginning of the school year, and an annual report at the end of the school year. Similar finding occurred in the current year.

**BOURBON COUNTY SCHOOL DISTRICT
MANAGEMENT POINTS
JUNE 30, 2012**

BOURBON COUNTY MIDDLE SCHOOL

- Previously, we found one expense reimbursement that was completed without using the proper form, Expense Report (Form F-SA-9). We recommended the Bookkeeper review the “Cash Advances, Travel Reimbursement, and Pay for Services” policy section, item no. 1, which states Expense reimbursement shall be supported by the Expense Report (Form FA-SA-9). This procedure was put into place.
- Previously, we found three invoices that were not included on the accounts payable listing at year end, which should have been. We recommended the Bookkeeper review the “Financial Reports” policy section, item no. 1, and the “Definitions” section of the “Redbook,” to better understand what defines an Accounts Payable. No similar findings occurred in the current year.

CANE RIDGE ELEMENTARY

- Previously, we found multiple transactions that were ordered prior to the approval of the purchase order. We recommended the Bookkeeper review the “Purchasing” procedures section, items no. 1, of the “Redbook,” which states the a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before payment is obligated. No similar findings occurred in the current year.

NORTH MIDDLETOWN ELEMENTARY

- Previously, we found invoices that did not include the confirmation signature of the person receiving the goods or services, were not being marked “paid”, nor included the check number and date paid. We recommended the Bookkeeper review the “Purchasing” procedures section, items no. 4 and 6, of the “Redbook,” which states the vendor invoice or the standard invoice must have a confirmation signature of the person receiving the goods or services before the payment process can be continued, and the check number and date paid shall be noted on the invoice and the invoice shall be clearly marked “paid”. These procedures were put into place.