

**BOYLE COUNTY SCHOOL DISTRICT  
AUDIT REPORT  
YEAR ENDED JUNE 30, 2012**

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October 19, 2012

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Boyle County School District  
352 North Danville By-Pass  
Danville, KY 40422

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Boyle 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 Boyle County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Boyle County School 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 a report dated October 19, 2012, on our consideration of Boyle 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 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 and budgetary comparison information on Pages 3 through 8 and 15 and 16 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 Boyle County School District's financial statements taken as a whole. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule 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 taken as a whole.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**BOYLE COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**Year Ended June 30, 2012**

As management of the Boyle 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 financial statements.

**FINANCIAL HIGHLIGHTS**

- The beginning general fund balance for the District was \$2,054,154. The June 30, 2012 general fund balance for the District was \$2,861,374.
- The General Fund had \$20,641,530 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$19,674,313 in General Fund expenditures for programs and \$48,880 in transfers to the Special Revenue Fund for technology match. Our General Fund balance increased by \$807,220.
- Total taxes collected were \$7,391,931 including property, vehicles and utility taxes. The levied equivalent of \$.05 cents was allocated to the building funds resulting in revenues of \$549,310. These funds are used for retirement of debt service on facilities and/or capital construction projects as set forth by the long range district facility plan.

**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) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-wide financial statements.** The District-wide financial statements are designed to provide readers with a broad overview of the 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 district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The district-wide financial statements can be found on pages 9-10 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the district are included in the governmental funds. The basic governmental fund financial statements can be found on pages 11-21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 22-37 of this report.

## DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$7,197,899 as of June 30, 2012.

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 period ending June 30, 2012 and June 30, 2011

A comparison of June 30, 2012 and June 30, 2011 government wide net assets is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 4,004,157	\$ 4,937,162	\$ 447,513	\$ 445,912	\$ 4,451,670	\$ 5,383,074
Capital Assets	<u>21,431,833</u>	<u>21,157,178</u>	<u>240,077</u>	<u>268,169</u>	<u>21,671,910</u>	<u>21,425,347</u>
Total Assets	<u>25,435,990</u>	<u>26,094,340</u>	<u>687,590</u>	<u>714,081</u>	<u>26,123,580</u>	<u>26,808,421</u>
Current Liabilities	1,752,829	1,939,290	3,735	290	1,756,564	1,939,580
Non-Current Liabilities	<u>17,169,117</u>	<u>18,308,069</u>	-	-	<u>17,169,117</u>	<u>18,308,069</u>
Total Liabilities	<u>18,921,946</u>	<u>20,247,359</u>	<u>3,735</u>	<u>290</u>	<u>18,925,681</u>	<u>20,247,649</u>
<b>Net Assets</b>						
Investment in capital assets						
(net of related debt)	3,697,904	2,338,862	240,077	268,169	3,937,981	2,607,031
Restricted	294,750	1,828,793	443,778	445,622	738,528	2,274,415
Unrestricted	<u>2,521,390</u>	<u>1,679,326</u>	-	-	<u>2,521,390</u>	<u>1,679,326</u>
<b>Total Net Assets</b>	<u>\$ 6,514,044</u>	<u>\$ 5,846,981</u>	<u>\$ 683,855</u>	<u>\$ 713,791</u>	<u>\$ 7,197,899</u>	<u>\$ 6,560,772</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets. Current assets decreased \$933,005 due to the decrease in cash related to the payment of bond principal.

The table on the following page presents a comparison of District wide revenues and expenses for the fiscal years ended June 30, 2012 and June 30, 2011.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 27,265	\$ 8,655	\$ 580,370	\$ 619,996	\$ 607,635	\$ 628,651
Operating grants and contributions	2,480,912	3,787,632	843,006	791,585	3,323,918	4,579,217
Capital grants	573,832	574,689			573,832	574,689
General revenues						
Property taxes	5,885,933	4,861,798			5,885,933	4,861,798
Motor vehicle taxes	543,494	538,621			543,494	538,621
Utility Taxes	947,053	1,065,975			947,053	1,065,975
Other taxes	15,451	124,424			15,451	124,424
Investment earnings	46,205	31,994	2,922	1,989	49,127	33,983
State and formula grants	14,119,854	13,173,368			14,119,854	13,173,368
Miscellaneous	163,852	440,512			163,852	440,512
<b>Total revenues</b>	<u>24,803,851</u>	<u>24,607,668</u>	<u>1,426,298</u>	<u>1,413,570</u>	<u>26,230,149</u>	<u>26,021,238</u>
<b>EXPENSES</b>						
Program Activities						
Instructional	13,085,774	12,948,195			13,085,774	12,948,195
Student support	1,315,957	1,063,008			1,315,957	1,063,008
Instructional staff Support	2,371,007	2,427,567			2,371,007	2,427,567
District administrative support	784,226	717,627			784,226	717,627
School administrative support	1,041,161	1,072,396			1,041,161	1,072,396
Business support	811,718	859,619			811,718	859,619
Plant operations and maintenance	1,435,556	1,656,764			1,435,556	1,656,764
Student transportation	1,383,650	1,475,172			1,383,650	1,475,172
Community service activities	1,191,992	1,050,745			1,191,992	1,050,745
Other	25,448	28,788			25,448	28,788
Interest costs	690,299	809,057			690,299	809,057
Business-type Activities						
Food service			1,424,536	1,370,293	1,424,536	1,370,293
Adult education			31,698	36,510	31,698	36,510
<b>Total expenses</b>	<u>24,136,788</u>	<u>24,108,938</u>	<u>1,456,234</u>	<u>1,406,803</u>	<u>25,593,022</u>	<u>25,515,741</u>
<b>Increase (decrease) in net assets</b>	<u>\$ 667,063</u>	<u>\$ 498,730</u>	<u>\$ (29,936)</u>	<u>\$ 6,767</u>	<u>\$ 637,127</u>	<u>\$ 505,497</u>

On-behalf amounts totaling \$3,729,681 for 2011 and \$4,462,698 for 2012 are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service.

## Governmental Activities

For the governmental program expenses instructional expenses comprise 54% of total expenses, support services equate to 38%, and interest and other expenses make up the remaining 8% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Instructional	\$ 13,085,774	\$ 12,948,195	\$ 11,233,161	\$ 9,896,132
Support Services	9,168,723	9,297,541	8,703,545	8,755,712
Other	1,191,992	1,054,145	1,001,606	848,350
Interest Costs	<u>690,299</u>	<u>809,057</u>	<u>690,299</u>	<u>809,057</u>
Total Expenses	<u>\$ 24,136,788</u>	<u>\$ 24,108,938</u>	<u>\$ 21,628,611</u>	<u>\$ 20,309,251</u>

## Business-Type Activities

The business type activities at the District are food service and adult education. These programs had total revenues of \$1,426,298 and expenses of \$1,456,234 for fiscal year 2012. These revenues were made up of \$580,730 charges for services \$843,006 federal and state operating grants and \$2,922 earnings on investments. These business-type activities receive no support from tax revenues and as such the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

## The School District's Funds

The information relative to the School District's Funds starts on page 11. These funds use the modified accrual basis of accounting to account for each funds revenues and expenses. The combined revenue for all governmental funds for 2012 was \$24,803,851 and expenditures were \$25,530,674. The most significance net changes in fund balances were the General Fund with an increase of \$967,217, which is primarily due to increase in tax revenues along with an increase in the intergovernmental state revenue, and the Construction Fund, with a net decrease of \$1,592,156 due to ongoing construction projects.

## General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$16,433,453 with actual results being \$20,641,530. Budgeted expenditures were \$17,906,617 compared to actual expenditures of \$19,834,310. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$3,830,124 which are not budgeted.

## **Future Budgetary Implications**

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for 2012-2013 with an approximate 9% contingency (\$2,199,447).

The Kentucky Department of Education and General Assembly continue to mandate unfunded expenditures and further reduce the state revenues to school districts in an effort to balance the budget for the Commonwealth of Kentucky. In times of declining revenues and increased expenditures, the district continues to monitor staffing and operational expenditures to maintain a balanced budget.

For the 2012/2013 school year the district has the following plans for building improvements:

Boyle County Middle School Renovation - The district currently anticipates utilizing the QZAB bond to fund the middle school building renovation project. The approximate cost of the project is between 3.7 and 3.9 million dollars. The bonding potential is strictly related to funds available in Capital Outlay and Building Funds and in no way minimizes funds that are designated for direct instructional services.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of the 2012 fiscal year, the District had \$21,671,910, net of depreciation, invested in a broad range of capital assets, including equipment, buses, buildings, and land. Depreciation expense for the year was \$1,562,682 and net capital additions were \$1,810,217.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 169,950	\$ 169,950	\$ -	\$ -	\$ 169,950	\$ 169,950
Construction in Progress	1,712,865	121,328			1,712,865	121,328
Land Improvements	1,437,213	1,484,708	-	-	1,437,213	1,484,708
Buildings and Improvements	17,042,155	18,167,337	-	-	17,042,155	18,167,337
Technology	301,355	425,650	16,163	20,710	317,518	446,360
Vehicles	675,921	664,832	-	-	675,921	664,832
General Equipment	92,374	123,373	223,914	247,459	316,288	370,832
<b>Total</b>	<b>\$ 21,431,833</b>	<b>\$ 21,157,178</b>	<b>\$ 240,077</b>	<b>\$ 268,169</b>	<b>\$ 21,671,910</b>	<b>\$ 21,425,347</b>

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 21,157,178	\$ 20,501,536	\$ 268,169	\$ 298,600	\$ 21,425,347	\$ 20,800,136
Additions	1,789,858	2,094,065	20,359	15,870	1,810,217	2,109,935
Retirements	-	-	(974)	-	(974)	-
Depreciation	(1,515,203)	(1,438,423)	(47,477)	(46,301)	(1,562,680)	(1,484,724)
<b>Ending Balance</b>	<b>\$ 21,431,833</b>	<b>\$ 21,157,178</b>	<b>\$ 240,077</b>	<b>\$ 268,169</b>	<b>\$ 21,671,910</b>	<b>\$ 21,425,347</b>

### Long-Term Debt

At year-end the District had \$17,420,000 in bonds outstanding and \$313,929 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2012 was \$995,000 and capital lease obligation principal paid was \$89,387. A total of \$1,063,989 is due within one year.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

BOYLE COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS:</b>			
Cash & Cash Equivalents - Note C	3,486,883	365,579	3,852,462
Accounts Receivable:			
Taxes - Current	113,052		113,052
Taxes - Delinquent	17,129		17,129
Accounts	7,527		7,527
Intergovernmental - State	69,897		69,897
Intergovernmental - Federal	31,474	19,288	50,762
Bond Issue Costs	278,195		278,195
Inventories for Consumption		62,646	62,646
<b>Total Current Assets</b>	<b>4,004,157</b>	<b>447,513</b>	<b>4,451,670</b>
<b>Noncurrent Assets - Note G</b>			
Land	169,950		169,950
Construction In Progress	1,712,865		1,712,865
Buildings & Improvements	34,789,483		34,789,483
Furniture & Equipment	7,787,201	905,737	8,692,938
Less: Accumulated Depreciation	(23,027,666)	(665,660)	(23,693,326)
<b>Total Noncurrent Assets</b>	<b>21,431,833</b>	<b>240,077</b>	<b>21,671,910</b>
<b>TOTAL ASSETS</b>	<b>25,435,990</b>	<b>687,590</b>	<b>26,123,580</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	40,350	3,735	44,085
Accrued Salaries & Sick Leave - Note A	259,959		259,959
Deferred Revenues	269,529		269,529
Bond Obligations - Note E	980,000		980,000
Capital Lease Obligation - Note F	83,989		83,989
Accrued Interest Payable	119,002		119,002
<b>Total Current Liabilities</b>	<b>1,752,829</b>	<b>3,735</b>	<b>1,756,564</b>
<b>Noncurrent Liabilities:</b>			
Bond Obligations - Note E	16,440,000		16,440,000
Capital Lease Obligation - Note F	229,940		229,940
Accrued Sick Leave - Note A	499,177		499,177
<b>Total Noncurrent Liabilities</b>	<b>17,169,117</b>		<b>17,169,117</b>
<b>TOTAL LIABILITIES</b>	<b>18,921,946</b>	<b>3,735</b>	<b>18,925,681</b>
<b>NET ASSETS:</b>			
Invested in Net Assets, Net of Related Debt	3,697,904	240,077	3,937,981
Restricted for:			
Capital Projects	292,017		292,017
Debt Service	2,733		2,733
Other Purposes		443,778	443,778
Unrestricted	2,521,390		2,521,390
<b>TOTAL NET ASSETS</b>	<b>6,514,044</b>	<b>683,855</b>	<b>7,197,899</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>25,435,990</b>	<b>687,590</b>	<b>26,123,580</b>

See independent auditor's report and accompanying notes to financial statements.

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

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instructional	13,085,774	27,265	1,825,348		(11,233,161)		(11,233,161)
Support Services:							
Student Support Services	1,315,957		92,576		(1,223,381)		(1,223,381)
Staff Support Services	2,371,007		292,947		(2,078,060)		(2,078,060)
District Administration	784,226				(784,226)		(784,226)
School Administration	1,041,161				(1,041,161)		(1,041,161)
Business Support Services	811,718				(811,718)		(811,718)
Plant Operation & Maintenance	1,435,556		6,053		(1,429,503)		(1,429,503)
Student Transportation	1,383,650		73,602		(1,310,048)		(1,310,048)
Central Office	25,448				(25,448)		(25,448)
Community Service Operations	1,191,992		190,386		(1,001,606)		(1,001,606)
Facilities Acquisition & Construction				573,832	573,832		573,832
Interest on Long-Term Debt	690,299				(690,299)		(690,299)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>24,136,788</b>	<b>27,265</b>	<b>2,480,912</b>	<b>573,832</b>	<b>(21,054,779)</b>		<b>(21,054,779)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Food Service	1,423,562	548,166	843,006			(32,390)	(32,390)
Adult Education	31,698	32,204				506	506
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,455,260</b>	<b>580,370</b>	<b>843,006</b>	<b>0</b>	<b>0</b>	<b>(31,884)</b>	<b>(31,884)</b>
<b>TOTAL SCHOOL DISTRICT</b>	<b>25,592,048</b>	<b>607,635</b>	<b>3,323,918</b>	<b>573,832</b>	<b>(21,054,779)</b>	<b>(31,884)</b>	<b>(21,086,663)</b>
<b>GENERAL REVENUES:</b>							
Taxes					7,391,931		7,391,931
State Aid - Formula Grants					14,119,854		14,119,854
Investment Earnings					46,205	2,922	49,127
Miscellaneous					163,852		163,852
<b>SPECIAL ITEMS:</b>							0
Gain(Loss) Sale of Assets						(974)	(974)
Loss Compensation							0
<b>TOTAL GENERAL &amp; SPECIAL</b>					<b>21,721,842</b>	<b>1,948</b>	<b>21,723,790</b>
<b>CHANGE IN NET ASSETS</b>					<b>667,063</b>	<b>(29,936)</b>	<b>637,127</b>
<b>NET ASSETS - BEGINNING - Restated - Note R</b>					<b>5,846,981</b>	<b>713,791</b>	<b>6,560,772</b>
<b>NET ASSETS - ENDING</b>					<b>6,514,044</b>	<b>683,855</b>	<b>7,197,899</b>

See independent auditor's report and accompanying notes to financial statements.

BOYLE COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>					
Cash & Cash Equivalents	2,992,505	168,158	224,943	101,277	3,486,883
Accounts Receivable:					
Taxes - Current	113,052				113,052
Taxes - Delinquent	17,129				17,129
Accounts	7,527				7,527
Intergovernmental - State		69,897			69,897
Intergovernmental - Federal		31,474			31,474
<b>TOTAL ASSETS</b>	<u>3,130,213</u>	<u>269,529</u>	<u>224,943</u>	<u>101,277</u>	<u>3,725,962</u>
<b>LIABILITIES AND FUND BALANCE:</b>					
<b>Liabilities:</b>					
Accounts Payable	8,880		31,470		40,350
Accrued Salaries & Sick Leave	259,959				259,959
Deferred Revenues		269,529			269,529
<b>Total Liabilities</b>	<u>268,839</u>	<u>269,529</u>	<u>31,470</u>	<u>0</u>	<u>569,838</u>
<b>Fund Balance:</b>					
<b>Restricted for:</b>					
Capital Projects			193,473	98,544	292,017
Debt Service				2,733	2,733
<b>Committed for:</b>					
Accrued Sick Leave	499,177				499,177
<b>Assigned:</b>					
Purchase Obligations					0
Unassigned	2,362,197				2,362,197
<b>Total Fund Balance</b>	<u>2,861,374</u>	<u>0</u>	<u>193,473</u>	<u>101,277</u>	<u>3,156,124</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>3,130,213</u>	<u>269,529</u>	<u>224,943</u>	<u>101,277</u>	<u>3,725,962</u>

See independent auditor's report and accompanying notes to financial statements.

BOYLE COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

Amounts reported for governmental activities in the statement of net assets are different because:

TOTAL GOVERNMENTAL FUND BALANCE		3,156,124
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
Cost of Capital Assets	44,459,499	
Accumulated Depreciation	<u>(23,027,666)</u>	21,431,833
Bond Issuance Costs		278,195
<p>Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>		
<p>Long-term liabilities at year end consist of:</p>		
Bonds Payable	(17,420,000)	
Capital Lease Obligation	(313,929)	
Accrued Interest on Bonds	(119,002)	
Accrued Sick Leave	<u>(499,177)</u>	<u>(18,352,108)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u><u>6,514,044</u></u>

See independent auditor's report and accompanying notes to financial statements.

BOYLE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>					
Taxes	6,842,621			549,310	7,391,931
Earnings on Investments	38,600	926	6,679		46,205
Intergovernmental - State	13,672,175	1,156,203		1,125,382	15,953,760
Intergovernmental - Federal	3,846	1,216,992			1,220,838
Other Sources	84,288	106,791	38		191,117
<b>TOTAL REVENUES</b>	<b>20,641,530</b>	<b>2,480,912</b>	<b>6,717</b>	<b>1,674,692</b>	<b>24,803,851</b>
<b>EXPENDITURES:</b>					
Instructional	10,367,603	1,874,228			12,241,831
Support Services:					
Student Support Services	891,965	92,576			984,541
Staff Support Services	2,072,421	292,947			2,365,368
District Administration	777,981				777,981
School Administration	1,039,974				1,039,974
Business Support Services	783,199				783,199
Plant Operation & Maintenance	1,420,059	6,053			1,426,112
Student Transportation	1,319,580	73,602			1,393,182
Central Office					0
Community Service Operations	1,001,531	190,386			1,191,917
Adult Education Operations					0
Facilities Acquisition & Construction			1,598,873		1,598,873
Debt Service:					
Principal				1,084,367	1,084,367
Interest				643,329	643,329
<b>TOTAL EXPENDITURES</b>	<b>19,674,313</b>	<b>2,529,792</b>	<b>1,598,873</b>	<b>1,727,696</b>	<b>25,530,674</b>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>967,217</b>	<b>(48,880)</b>	<b>(1,592,156)</b>	<b>(53,004)</b>	<b>(726,823)</b>
<b>OTHER FINANCING SOURCES(USES):</b>					
Proceeds from Sale of Bonds					0
Proceeds from Sale of Assets					0
Operating Transfers In - Note O		48,880		1,135,715	1,184,595
Operating Transfers Out - Note O	(159,997)			(1,024,598)	(1,184,595)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>(159,997)</b>	<b>48,880</b>	<b>0</b>	<b>111,117</b>	<b>0</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>807,220</b>	<b>0</b>	<b>(1,592,156)</b>	<b>58,113</b>	<b>(726,823)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>2,054,154</b>	<b>0</b>	<b>1,785,629</b>	<b>43,164</b>	<b>3,882,947</b>
<b>FUND BALANCES - ENDING</b>	<b>2,861,374</b>	<b>0</b>	<b>193,473</b>	<b>101,277</b>	<b>3,156,124</b>

See independent auditor's report and accompanying notes to financial statements.

BOYLE 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

Amounts reported for governmental activities in the statement of net assets are different because:

NET CHANGES - GOVERNMENTAL FUNDS		(726,823)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,515,204)	
Capital Outlays	<u>1,789,858</u>	274,654
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
Principal Paid	1,084,367	
Bond Proceeds	<u>0</u>	1,084,367
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Bond Issuance Costs	(24,941)	
Bond Issuance Cost On New Bond Issue		
Accrued Interest Payable	(22,029)	
Accrued Sick Leave	<u>81,835</u>	34,865
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.</p>		
Loss on Sale of Assets		
CHANGES - NET ASSETS GOVERNMENTAL FUNDS		<u><u>667,063</u></u>

See independent auditor's report and accompanying notes to financial statements.

BOYLE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Taxes	6,537,438	6,537,438	6,842,621	305,183
Other Local Sources	20,000	20,000	38,600	18,600
State Sources	9,838,955	9,838,955	13,672,175	3,833,220
Federal Sources			3,846	3,846
Other Sources	37,060	37,060	84,288	47,228
<b>TOTAL REVENUES</b>	<b>16,433,453</b>	<b>16,433,453</b>	<b>20,641,530</b>	<b>4,208,077</b>
<b>EXPENDITURES:</b>				
Instructional	7,885,091	7,885,091	10,367,603	(2,482,512)
Student Support Services	848,441	848,441	891,965	(43,524)
Staff Support Services	1,723,499	1,723,499	2,072,421	(348,922)
District Administration	641,282	641,382	777,981	(136,599)
School Administration	857,605	857,605	1,039,974	(182,369)
Business Support Services	724,268	724,268	783,199	(58,931)
Plant Operation & Maintenance	1,471,787	1,471,787	1,420,059	51,728
Student Transportation	1,367,907	1,367,907	1,319,580	48,327
Central Office	1,377	1,377		1,377
Community Service Operations	883,946	883,946	1,001,531	(117,585)
Facility Acquisition & Construction				0
Other	1,501,414	1,501,314	159,997	1,341,317
<b>TOTAL EXPENDITURES</b>	<b>17,906,617</b>	<b>17,906,617</b>	<b>19,834,310</b>	<b>(1,927,693)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,473,164)</b>	<b>(1,473,164)</b>	<b>807,220</b>	<b>2,280,384</b>
<b>FUND BALANCES - BEGINNING</b>	<b>1,473,164</b>	<b>1,473,164</b>	<b>2,054,154</b>	<b>0</b>
<b>FUND BALANCES - ENDING</b>	<b>0</b>	<b>0</b>	<b>2,861,374</b>	<b>2,280,384</b>

On-behalf payments totaling \$3,830,124 are not budgeted by the Boyle County School District.

See independent auditor's report and accompanying notes to financial statements.

BOYLE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Taxes				
Other Local Sources	47,500	53,880	49,806	(4,074)
State Sources	1,046,648	805,786	1,156,203	350,417
Federal Sources	1,332,846	1,323,845	1,216,992	(106,853)
Other Sources	191,743	143,230	106,791	(36,439)
<b>TOTAL REVENUES</b>	<b>2,618,737</b>	<b>2,326,741</b>	<b>2,529,792</b>	<b>203,051</b>
<b>EXPENDITURES:</b>				
Instructional	1,926,103	1,704,591	1,874,228	(169,637)
Student Support Services	72,977	72,977	92,576	(19,599)
Staff Support Services	403,100	403,100	292,947	110,153
District Administration			0	0
School Administration			0	0
Business Support Services			0	0
Plant Operation & Maintenance	18,000	9,000	6,053	2,947
Student Transportation	17,374	17,374	73,602	(56,228)
Central Office			0	0
Community Service Operations	181,183	119,699	190,386	(70,687)
Facility Acquisition & Construction			0	0
Other			0	0
<b>TOTAL EXPENDITURES</b>	<b>2,618,737</b>	<b>2,326,741</b>	<b>2,529,792</b>	<b>(203,051)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES - BEGINNING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES - ENDING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

See accompanying auditor's report and accompanying notes to financial statements.

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION	TOTAL
<b>ASSETS:</b>			
Current Assets:			
Cash & Cash Equivalents	365,579		365,579
Accounts Receivable	19,288		19,288
Inventories for Consumption	62,646		62,646
Total Current Assets	447,513	0	447,513
Noncurrent Assets:			
Furniture & Equipment	891,484	14,253	905,737
Less: Accumulated Depreciation	(651,876)	(13,784)	(665,660)
Total Noncurrent Assets	239,608	469	240,077
<b>TOTAL ASSETS</b>	<b>687,121</b>	<b>469</b>	<b>687,590</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Account Payable		3,735	3,735
Total Current Liabilities	0	3,735	3,735
Net Assets:			
Invested in Assets, Net of Debt	239,608	469	240,077
Restricted	447,513	(3,735)	443,778
Total Net Assets	687,121	(3,266)	683,855
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>687,121</b>	<b>469</b>	<b>687,590</b>

See independent auditor's report and accompanying notes to financial statements.

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	544,984		544,984
Other Operating Revenues	3,182	32,204	35,386
TOTAL OPERATING REVENUES	548,166	32,204	580,370
OPERATING EXPENSES:			
Salaries & Benefits	614,207	31,271	645,478
Contract Services	54,345		54,345
Materials & Supplies	696,459		696,459
Depreciation - Note G	47,050	427	47,477
Other Operating Expenses	11,501		11,501
TOTAL OPERATING EXPENSES	1,423,562	31,698	1,455,260
OPERATING INCOME(LOSS)	(875,396)	506	(874,890)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	664,152		664,152
State Grants	95,446		95,446
Donated Commodities	83,408		83,408
Interest Income	2,922		2,922
Gain (Loss) Sale of Assets	(974)		(974)
Miscellaneous Income	0		0
TOTAL NONOPERATING REVENUE	844,954	0	844,954
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(30,442)	506	(29,936)
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET ASSETS	(30,442)	506	(29,936)
TOTAL NET ASSETS - BEGINNING	717,563	(3,772)	713,791
TOTAL NET ASSETS - ENDING	687,121	(3,266)	683,855

See independent auditor's report and accompanying notes to financial statements.

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

	<u>FOOD SERVICE</u>	<u>ADULT EDUCATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from:		
Lunchroom Sales	548,166	
Other Activities		32,204
Cash Paid to/for:		
Employees	(531,595)	(31,271)
Supplies	(621,339)	
Other Activities	(65,846)	
	<u>(670,614)</u>	<u>933</u>
<b>Net Cash Used by Operating Activities</b>		
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Transfer from General Fund		
Federal Grants	665,161	
State Grants	12,834	
	<u>677,995</u>	<u>0</u>
<b>Net Cash Provided by Non-Capital and Related Financing Activities</b>		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases of Capital Assets		
	(20,359)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipt of Interest Income		
	2,922	
	<u>(10,056)</u>	<u>933</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
Balances, Beginning of Year	<u>375,635</u>	<u>(4,378)</u>
Balances, End of Year	<u><u>365,579</u></u>	<u><u>(3,445)</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating Income (Loss)	(875,396)	506
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	47,050	427
State On-Behalf Payments	82,612	
Donated Commodities	83,408	
Change in Assets and Liabilities:		
Accounts Receivable		
Inventory	(8,288)	
Accounts Payable		
	<u>(670,614)</u>	<u>933</u>
<b>Net Cash Used by Operating Activities</b>		
Schedule of Non-Cash Transactions:		
Donated Commodities	83,408	0
State On-Behalf Payments	82,612	0

See independent auditor's report and accompanying notes to financial statements.

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

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUND</u>
<b>ASSETS:</b>		
Cash and Cash Equivalents	12,847	391,779
Accounts Receivable	94	31,262
Investment Income Receivable		
Loans Receivable		
Investments - Note D		
<b>TOTAL ASSETS</b>	<u>12,941</u>	<u>423,041</u>
<b>LIABILITIES:</b>		
Accounts Payable		
Due to Student Groups		349,244
<b>TOTAL LIABILITIES</b>	<u>0</u>	<u>349,244</u>
<b>NET ASSETS HELD IN TRUST</b>	<u><u>12,941</u></u>	<u><u>73,797</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Contributions and Donations	22,055
DEDUCTIONS:	
Benefits Paid	<u>17,372</u>
Changes in Net Assets	4,683
NET ASSETS - BEGINNING OF YEAR	<u>8,258</u>
NET ASSETS - END OF YEAR	<u><u>12,941</u></u>

See independent auditor's report and accompanying notes to financial statements.

BOYLE COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Boyle 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 Boyle County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Boyle 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 Band Boosters, Parent-Teacher Associations, etc.

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

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

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

Basis of Presentation

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. 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 (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified on Pages 42 and 43 in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

### II. Proprietary Fund Types (Enterprise Fund)

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

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

### III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

### Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. 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, 2012, to finance the General Fund operations were \$0.586 per \$100 valuation for real property, \$0.586 per \$100 valuation for business personal property, and \$0.539 per \$100 valuation for motor vehicles.

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

### 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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:

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

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net 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 received from the District an amount equal to 30% of the value of accumulated sick leave.

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

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

**Budgetary Basis of Accounting:** The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

### Cash and Cash Equivalents

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

### Inventories

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

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

The food service fund uses the specific identification method.

### Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

### 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 noncurrent 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 Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	\$499,177	Long-Term Sick Leave Commitment

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the 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 the various schools.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE B – ESTIMATES**

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

**NOTE C – CASH AND CASH EQUIVALENTS**

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$4,257,088. Of the total cash balance, \$252,733 was covered by Federal Depository Insurance, \$4,004,355 was covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2012, consisted of the following:

	<b>Bank Balance</b>	<b>Book Balance</b>
Bank of New York	2,733	2,733
Farmers National Bank	<u>4,966,987</u>	<u>4,254,355</u>
	<u>4,969,720</u>	<u>4,257,088</u>

Breakdown per financial statements:

Governmental Funds	3,486,883
Proprietary Funds	<u>365,579</u>
Subtotal	3,852,462
Private Purpose Trust Funds	12,847
Agency Funds	<u>391,779</u>
Total Cash and Cash Equivalents All Funds	<u>4,257,088</u>

**NOTE D – INVESTMENTS**

The District held no investments on June 30, 2012.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE E – LONG TERM OBLIGATIONS**

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make payments relating to the bonds issued by the Boyle County School District Finance Corporation aggregating \$17,420,000.

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

1994	250,000	3.75% - 6.00%
1997	2,115,000	4.375% - 5.00%
2001	8,715,000	4.459% - 4.55%
2004	515,000	3.00% - 5.00%
2005	4,760,000	2.44% - 4.44%
2007	1,490,000	3.60% - 4.00%
2008	1,095,000	2.50% - 3.25%
2010	2,765,000	4.50%
2010 Refunding	5,395,000	1.00% - 3.00%
2011	2,095,000	1.00% - 4.25%

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

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the 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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2012-13	980,000	589,639	524,904	1,044,735
2013-14	1,020,000	577,830	550,164	1,047,665
2014-15	1,030,000	552,214	540,746	1,041,468
2015-16	1,055,000	525,589	533,382	1,047,207
2016-17	1,080,000	497,311	533,660	1,043,652
2017-18	1,090,000	466,292	518,191	1,038,100
2018-19	1,090,000	425,394	472,553	1,042,841
2019-20	1,130,000	398,353	487,587	1,040,766
2020-21	1,660,000	359,575	487,823	1,531,752
2021-22	1,045,000	299,741	347,557	997,183
2022-23	1,085,000	256,952	352,926	989,025
2023-24	1,130,000	211,330	352,190	989,140
2024-25	1,120,000	163,315	295,146	988,169
2025-26	400,000	116,325	247,131	269,194
2026-27	610,000	100,650	247,131	463,519
2027-28	555,000	76,588	168,063	463,525
2028-29	575,000	54,388	168,063	461,325
2029-30	605,000	31,388	168,062	468,325
2030-31	<u>160,000</u>	<u>6,800</u>	<u>112,051</u>	<u>54,749</u>
	<u>17,420,000</u>	<u>5,709,672</u>	<u>7,107,331</u>	<u>16,022,341</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bonds Payable	18,415,000	0	995,000	17,420,000	980,000
Capital Lease Obligations	403,316	0	89,387	313,929	83,989
Accrued Sick Leave	<u>877,880</u>	<u>113,908</u>	<u>233,170</u>	<u>758,618</u>	<u>259,441</u>
Governmental Activities					
Long-Term Liabilities	<u>19,696,196</u>	<u>113,908</u>	<u>1,317,557</u>	<u>18,492,547</u>	<u>1,323,430</u>

**NOTE F - CAPITAL LEASE PAYABLE**

The District is the lessee of buses and technology equipment under capital leases expiring in various years through 2018. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2012.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2012</u>
Buses	612,076
Technology Equipment	163,730
Accumulated Amortization	(371,531)
	<u>404,275</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2013	95,416
2014	83,305
2015	67,096
2016	50,422
Thereafter	<u>49,239</u>
Net minimum lease payments	345,478
Amount representing interest	<u>(31,549)</u>
Present value of net minimum lease payments	<u>313,929</u>

Interest rates on capitalized leases vary from 1.00% to 3.625%. The capital leases provide for the buses and technology equipment to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE G - CAPITAL ASSETS**

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

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
Non-Depreciable Assets:				
Land	169,950			169,950
Construction In Progress	121,328	1,591,537		1,712,865
Depreciable Assets:				
Land Improvements	1,522,505			1,522,505
Buildings & Building Improvements	33,266,978			33,266,978
Technology Equipment	2,631,188	27,152	8,512	2,649,828
Vehicles	3,062,299	167,534		3,229,833
General Equipment	1,903,905	3,635		1,907,540
<b>TOTAL AT HISTORICAL COST</b>	<u>42,678,153</u>	<u>1,789,858</u>	<u>8,512</u>	<u>44,459,499</u>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Land Improvements	37,797	47,495		85,292
Buildings & Building Improvements	15,099,641	1,125,182		16,224,823
Technology Equipment	2,205,538	151,447	8,512	2,348,473
Vehicles	2,397,467	156,445		2,553,912
General Equipment	1,780,532	34,634		1,815,166
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>21,520,975</u>	<u>1,515,203</u>	<u>8,512</u>	<u>23,027,666</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<u>21,157,178</u>	<u>274,655</u>	<u>-0-</u>	<u>21,431,833</u>
<b>PROPRIETARY ACTIVITIES:</b>				
Depreciable Assets:				
Technology Equipment	48,134			48,134
General Equipment	843,366	20,359	6,123	857,602
<b>TOTALS AT HISTORICAL COST</b>	<u>891,500</u>	<u>20,359</u>	<u>6,123</u>	<u>905,736</u>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Technology Equipment	27,424	4,547		31,971
General Equipment	595,907	42,930	5,149	633,688
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>623,331</u>	<u>47,477</u>	<u>5,149</u>	<u>665,659</u>
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<u>268,169</u>	<u>(27,118)</u>	<u>(974)</u>	<u>240,077</u>
<b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b>				
Instructional				944,541
Student Support Services				331,416
Staff Support Services				6,128
District Administration				9,944
School Administration				1,187
Business Support Services				28,519
Plant Operation & Maintenance				9,444
Student Transportation				158,002
Central Office				25,448
Community Service Operations				574
<b>TOTAL</b>				<u>1,515,203</u>

**NOTE H – RETIREMENT PLANS**

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

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

Contribution rates are established by KRS. Members hired before July 1, 2008, are required to contribute 10.355% of their salaries and for members hired after July 1, 2008, to contribute 10.855% to KTRS. The Commonwealth of Kentucky is required to contribute 13.605% and 14.105% of salaries respectively. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 18.96% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$14,549,702. The payroll for employees covered under KTRS was \$11,527,919 and for CERS was \$3,021,783.

For the year ended June 30, 2012, the Commonwealth contributed \$1,396,917 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2012, were \$122,502 which represents those employees covered by federal programs.

The contribution requirements for CERS for the year ended June 30, 2012, was \$724,373, which consisted of \$573,168 from the Board and \$151,204 from the employees.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

	<b>KTRS</b> <b>June 30, 2011</b>	<b>CERS</b> <b>June 30, 2011</b>
Assets available for benefits, at fair value	14,908,138,000	5,629,611,183
Pension benefit obligation	<u>(25,968,692,000)</u>	<u>(8,918,085,025)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(11,060,554,000)</u>	<u>(3,288,473,842)</u>

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

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

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

**NOTE I – COMMITMENTS**

Extensive renovation of Boyle County High School is ongoing as of the audit date. It is anticipated that the completion of this project will cost an additional \$375,286.

**NOTE J – CONTINGENCIES**

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE K – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE L – RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through Ohio Casualty Insurance Company.

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 three fiscal years.

**NOTE M – DEFICIT OPERATING BALANCES**

The adult education fund had a deficit balance of \$3,266 at the end of the fiscal year. In addition, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Construction Fund	1,592,156
Debt Service	1,176,146

**NOTE N – COBRA**

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

**NOTE O – TRANSFER OF FUNDS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	48,880
Operating	General	Debt Service	Debt Service	111,117
Operating	SEEK	Debt Service	Debt Service	182,593
Operating	FSPK	Debt Service	Debt Service	<u>842,005</u>
				<u>1,184,595</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE P – INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund balances at June 30, 2012.

**NOTE Q – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through October 19, 2012. There are no material subsequent events to disclose.

**NOTE R – ON-BEHALF PAYMENT**

For the year ended June 30, 2012, \$4,462,698 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 3,830,124
Food Service Fund	82,612
Debt Service Fund	<u>549,962</u>
Total	<u>\$ 4,462,698</u>

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

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
<b>ASSETS:</b>				
Cash & Cash Equivalents	61,809	36,735	2,733	101,277
Accounts Receivable:				
Taxes				
Accounts				
<b>TOTAL ASSETS</b>	<b>61,809</b>	<b>36,735</b>	<b>2,733</b>	<b>101,277</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts Payable				
Accrued Sick Leave				
Deferred Revenues				
<b>Total Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Restricted for:				
Capital Projects	61,809	36,735		98,544
Debt Service			2,733	2,733
Committed for:				
Accrued Sick Leave				
Assigned:				
Purchase Obligations				
Unassigned				
<b>Total Fund Balances</b>	<b>61,809</b>	<b>36,735</b>	<b>2,733</b>	<b>101,277</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>61,809</b>	<b>36,735</b>	<b>2,733</b>	<b>101,277</b>

See independent auditor's report and accompanying notes to financial statements.

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

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
<b>REVENUES:</b>				
Taxes		549,310		549,310
Earnings from Investments				0
Intergovernmental - State	244,402	329,430	551,550	1,125,382
Intergovernmental - Federal				0
Other Sources				0
<b>TOTAL REVENUES</b>	<u>244,402</u>	<u>878,740</u>	<u>551,550</u>	<u>1,674,692</u>
<b>EXPENDITURES:</b>				
Instructional				0
Student Support Services				0
Staff Support Services				0
District Administration				0
School Administration				0
Business Support Services				0
Plant Operations & Maintenance				0
Student Transportation				0
Central Office				0
Community Service Operations				0
Facilities Acquisition & Construction				0
Debt Service:				0
Principal			1,084,367	1,084,367
Interest			643,329	643,329
<b>TOTAL EXPENDITURES</b>	<u>0</u>	<u>0</u>	<u>1,727,696</u>	<u>1,727,696</u>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	244,402	878,740	(1,176,146)	(53,004)
<b>OTHER FINANCING SOURCES(USES):</b>				
Proceeds from Sale of Bonds				0
Proceeds from Sale of Assets				0
Operating Transfers In			1,135,715	1,135,715
Operating Transfers Out	(182,593)	(842,005)		(1,024,598)
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<u>(182,593)</u>	<u>(842,005)</u>	<u>1,135,715</u>	<u>111,117</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>61,809</u>	<u>36,735</u>	<u>(40,431)</u>	<u>58,113</u>
<b>FUND BALANCES - BEGINNING</b>	<u>0</u>	<u>0</u>	<u>43,164</u>	<u>43,164</u>
<b>FUND BALANCES - ENDING</b>	<u><u>61,809</u></u>	<u><u>36,735</u></u>	<u><u>2,733</u></u>	<u><u>101,277</u></u>

See independent auditor's report and accompanying notes to financial statements.

BOYLE COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

	FUND BALANCE JULY 1, 2011	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2012
Boyle County High School	123,364	460,387	410,207	173,544
Boyle County Middle School	37,427	164,871	164,390	37,908
Junction City Elementary School	39,200	68,950	89,025	19,125
Perryville Elementary School	45,288	74,032	71,404	47,916
Woodlawn Elementary	68,927	133,344	131,520	70,751
Due to Student Groups	314,206	901,584	866,546	349,244
Fiscal Agent Fund	55,796	73,671	55,670	73,797
Total Activity Funds	<u>370,002</u>	<u>975,255</u>	<u>922,216</u>	<u>423,041</u>

See independent accountant's report and accompanying notes to financial statements.

BOYLE COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	CASH BALANCE JULY 1, 2011	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2012	ACCOUNTS RECEIVABLE JUNE 30, 2012	ACCOUNTS PAYABLE JUNE 30, 2012	FUND BALANCE JUNE 30, 2012
School Store	246	0	-	246			246
Administrative	112	421	344	189			189
Parking Permits	3,025	4,020	3,700	3,345			3,345
Activity Fees	19,355	23,702	14,121	28,936			28,936
General	7,199	5,238	9,196	3,241			3,241
Vending	6,197	4,415	3,054	7,558			7,558
Guidance Office	3,606	8,770	8,608	3,768			3,768
Project Graduation	609	15,053	14,978	684			684
Athletics	350	146,957	140,199	7,108			7,108
Athletic Trainer	3,202	3,072	2,634	3,640			3,640
Baseball	191	4,690	1,297	3,584			3,584
Boys Basketball	0	1,759	1,483	276			276
Girls Basketball	1,412	3,678	2,018	3,072			3,072
Cheerleaders	417	6,219	5,903	733			733
Dance Team	2,707	250	2,956	1			1
Cross Country	79	1,430	1,328	181			181
Football	449	216	216	449			449
Volleyball	507	0	337	170			170
Boys Golf	60	0	0	60			60
Boys Soccer	32	0	0	32			32
Girls Soccer	500	0	422	78			78
Softball	0	5,912	5,911	1			1
Swim Team	326	1,423	1,635	114			114
Track	383	7,630	8,013	0			0
District Tournament	10,282		(100)	10,382			10,382
Regional Tournament	3,042	0	3,042	0			0
A.R.T.S. Club	372	1,885	1,988	269			269
Beta Club	1,236	731	969	998			998
FBLA	607	102	231	478			478
DECA	8	3,435	2,966	477			477
I.T. Lab	604	871	1,023	452			452
FCA	503	500	247	756			756
Tech Student	617	4,400	4,921	96			96
FFA	1,067	23,998	25,065	0			0
FCCLA	327	59,212	59,539	0			0
HOSA	196	1,260	1,456	0			0
Allied Health	226	2,256	2,186	296			296
Drama Club	858	160	770	248			248
Forensics	1,681	715	2,176	220			220
Pep Club	35	1,460	1,420	75			75

Book Club	14	0	0	14			14
Spanish Club	156	80	150	86			86
Student Council	235	0	235	0			0
Change of Heart	386	0	132	254			254
Y Club	621	5,204	5,335	490			490
Rebel Zone	1,852	3,210	2,433	2,629			2,629
FMD Class Project	307	566	664	209			209
Ag. Mech.	5	1,288	682	611			611
Art	100	2,275	2,182	193			193
Band	1,207	10,207	11,370	44			44
Computers	70	0	0	70			70
Teacher Grant	250	0	(50)	300			300
Horticulture	4,908	11,929	9,816	7,021			7,021
Language Arts	287	35	14	308			308
Foreign Language	1	0	0	1			1
Library	280	3,154	3,094	340			340
Math	11	0	0	11			11
Music	0	737	0	737			737
Science	409	3,771	4,180	0			0
Environmental Club	694	60	216	538			538
Class of 2014	385	0	385	0			0
Class of 2012	2,299	13,141	15,135	305			305
Class of 2013	99	9,590	7,740	1,949			1,949
Gibson's Classroom	0	1,747	1,731	16			16
Arts & Humanities	0	1,680	1,649	31			31
Driver's Ed	0	1,170	1,130	40			40
Agriculture	0	1,650	334	1,316			1,316
School Play	0	2,783	1,016	1,767			1,767
Rebel Textiles	0	2,151	1,150	1,001			1,001
Nutgrass Teach	0	1,000	226	774			774
Zoology	0	450	450	0			0
Lumberjack Club	120	0	0	120			120
Mass Media	9,322	8,501	11,748	6,075			6,075
Textbook Rental	17,712	31,045	563	48,194			48,194
Credit Recovery	8,287	7,430	350	15,367			15,367
Field Trips	581	0	61	520			520
Key West Trip	140	0	140	0			0
Total All Funds	<u>123,363</u>	<u>470,694</u>	<u>420,513</u>	<u>173,544</u>	<u>0</u>	<u>0</u>	<u>173,544</u>
Interfund Transfers	<u>0</u>	<u>(10,307)</u>	<u>(10,307)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u><u>123,363</u></u>	<u><u>460,387</u></u>	<u><u>410,206</u></u>	<u><u>173,544</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>173,544</u></u>

BOYLE COUNTY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3101	137
Title I - Grants to Local Educational Agencies	84.010	3102	492,157
Title I - Grants to Local Education Agencies Total			492,294
Title I - Part D - Neglected and Delinquent Children	84.013	3131T	82
Title I - Part D - Neglected and Delinquent Children	84.013	3132	11,379
Title I - Part D - Neglected and Delinquent Children	84.013	3132T	1,138
Title I - Part D Total			12,599
Title II, Part A -Teacher Quality Enhancement Grants	84.367	4011	35,157
Title II, Part A -Teacher Quality Enhancement Grants	84.367	4012	73,789
Title II, Part A Total			108,946
Federal Ed Tech - Basic	84.318	4250	1,387
Federal Ed Tech - Basic	84.318	4251	1,282
Federal Ed Tech - ARRA	84.386A	4850	1,267
Federal Ed Tech Total			3,936
IDEA - Special Education - Grants to State	84.027	3371	13,019
IDEA - Special Education - Grants to State	84.027	3372	484,433
IDEA - Special Education - Grants to State	84.027	3379	1,996
IDEA - Special Education - Preschool Grants	84.173	3431	14
IDEA - Special Education - Preschool Grants	84.173	3432	59,256
Special Education Cluster			558,718
Exploring Elk in Eastern Kentucky	10.226	3038	197
21st CCLC - Summer School	84.287	4093T	18,242
21st CCLC - Tuition	84.287	4093Z	1,497
21st CCLC Total			19,739
Education Jobs Funding- ARRA	84.410	4411	8,848
Perkins	84.048	3480B	674
Perkins Carryforward	84.048	3481A	1,011
Perkins	84.048	3482	22,249
Perkins Total			23,934
Total U.S. Department of Education			1,229,211
 <u>U.S. Department of Justice</u>			
Passed-Through State Department of Juvenile Justice			
Enforcing Underage Drinking Laws	16.727	4262	6,053
 <u>U.S. Department of Agriculture</u>			
National School Lunchroom	10.555	7750002-11	107,292
National School Lunchroom	10.555	7750002-12	394,788
School Breakfast Program	10.553	7760005-11	28,600
School Breakfast Program	10.553	7760005-12	115,903
Summer Meal Program	10.559	7740023-11	16,826
Summer Meal Program	10.559	7690024-11	1,752
Child Nutrition Cluster			665,161
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-11	83,408
Total U.S. Department of Agriculture			748,569
Total Federal Financial Assistance			1,983,833

\* Tested as major program

BOYLE COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

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

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of audit issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs?

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Type of auditor’s report issued on compliance for major programs (unqualified):

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster

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

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement of Findings**

No matters were reported.

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

No matters were reported.

BOYLE COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2012

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
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Charles M. White, CPA

Email [cmwcpa@windstream.net](mailto:cmwcpa@windstream.net)

October 19, 2012

**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**

Members of the Board of Education  
Boyle County School District  
352 North Danville By-Pass  
Danville, KY 40422

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Boyle County School District, as of and for the year ended June 30, 2012, which collectively comprise the Boyle County School District's basic financial statements and have issued our report thereon dated October 19, 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, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing 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 to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.*

Internal Control over Financial Reporting

Management of Boyle County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Boyle 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 the Boyle County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Boyle County School District's internal control over financial reporting.

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boyle County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Boyle County School District in a separate letter dated October 19, 2012.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Boyle County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**

**Certified Public Accountants  
219 South Proctor Knott Avenue  
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Charles M. White, CPA

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October 19, 2012

**INDEPENDENT AUDITOR'S 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**

Members of the Board of Education  
Boyle County School District  
352 North Danville By-Pass  
Danville, KY 40422

Compliance

We have audited the Boyle County School 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 Boyle County School District's major federal programs for the year ended June 30, 2012. Boyle County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Boyle County School District's management. Our responsibility is to express an opinion on Boyle County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to 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 Boyle County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Boyle County School District's compliance with those requirements.

In our opinion, Boyle County School District complied, in all material respects, with the 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 Boyle County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Boyle County School District's internal control over compliance with the 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 Boyle County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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, members of the Board of Education of Boyle County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**

**Certified Public Accountants  
219 South Proctor Knott Avenue  
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Charles M. White, CPA

Email [cmwcpa@windstream.net](mailto:cmwcpa@windstream.net)

October 19, 2012

**MANAGEMENT LETTER**

Members of the Board of Education  
Boyle County School District  
352 North Danville By-Pass  
Danville, KY 40422

In planning and performing our audit of the financial statements of Boyle County School District for the year ended June 30, 2012, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2011, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

The District did not have employee dishonesty bond coverage for the years ended June 30, 2010 and June 30, 2011. Other school districts usually have a policy for \$25,000 per employee per instance. We recommend that Boyle County obtain similar coverage.

Current Year Finding:

The District properly obtained employee dishonesty bonding coverage for fiscal year 2012.

Prior Year Recommendation:

It was noted during the course of the audit that the payroll bank account was not being reconciled properly by the payroll clerk. It was noted that the procedures employed by the clerk entailed only checking cleared items but not reconciling to the book balance by taking uncleared items into account. We recommend that the payroll clerk be trained in the proper procedures for reconciling the payroll bank account to the book balance.

Current Year Finding and Recommendation:

Steps were taken by the payroll clerk to reconcile the payroll bank account. However, during the audit, we discovered that a few checks written out of the payroll account had been voided. Those voids were not properly handled. Because of this, the district had difficulty reconciling its primary bank account with the general ledger. We recommend that if a check is voided from the payroll account, the replacement check should be issued from the payroll account or the funds for voided checks be returned to the primary bank account to avoid problems reconciling the primary account. These issues should be evaluated and resolved at least on a monthly basis.

Management Response:

We will take measures to properly handle voided checks written from the payroll account and will address reconciling issues, if any, for both the primary and payroll bank accounts at least on a monthly basis.

Current Year Recommendation:

During the audit, many disbursements were examined. It was noted that general ledger codes on the purchase order did not always agree with the actual codes posted to the general ledger. The posted general ledger coding was acceptable for the disbursement made. However, to strengthen internal controls, we recommend that all general ledger coding changes be reviewed and approved by an appropriate level of management such as the finance officer or program coordinator prior to payment.

Management Response:

We will have an appropriate level of management review and approve coding changes prior to payment.

Current Year Recommendation:

During the audit, activity funds accounts for the schools were reviewed. Two disbursements from Junction City Elementary to the Boyle County Board of Education were made without supporting documentation. Upon further investigation, these disbursements were found to be appropriate. However, to properly comply with Redbook procedures, the school should have at least completed a standard invoice with the proper approvals prior to the disbursement of funds. We recommend that all activity fund disbursements be documented and approved prior to payment.

Management Response:

We will take measures to ensure that all activity fund disbursements are supported by appropriate documentation and approved prior to disbursement.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 19, 2012

Members of the Board of Education  
Boyle County School District  
352 North Danville By-Pass  
Danville, KY 40422

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Boyle County School District for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 23, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Boyle County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 19, 2012.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Boyle County School District and management of Boyle County School District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants