

**BALLARD COUNTY
BOARD OF EDUCATION**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
With Independent Auditor's Reports**

YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	2-3
MANAGEMENT’S DISCUSSION AND ANALYSIS	4-7
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position – Government Wide	8
Statement of Activities – Government Wide.....	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	13
Statement of Net Position – Proprietary Funds	14
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	15
Statement of Cash Flows –Proprietary Funds	16
Statement of Net Position – Fiduciary Funds.....	17
Statement of Changes in Net Position – Fiduciary Funds	18
Notes to Basic Financial Statements	19-35
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund.....	36
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – Special Revenue Fund.....	37
Other Supplementary Information	
Combining Schedule of Receipts, Disbursements, and Amounts Due to Students and Others – School Activity Funds	38
Combining Schedule of Receipts, Disbursements, and Amounts Due to Students and Others – Ballard Memorial High School Activity Funds	39
Schedule of Expenditures of Federal Awards	40-41
Notes to Schedule of Expenditures of Federal Awards.....	42
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43-44
Independent Auditor’s Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	45-46
Schedule of Findings and Questioned Costs	47-48
Summary Schedule of Prior Audit Findings.....	49

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School
District Audits
Members of the Board of Education
Ballard County Board of Education
Paducah, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ballard County Board of Education as of and for the year ended June 30, 2013, which collectively comprise the Ballard County Board of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ballard County Board of Education as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 36 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ballard County Board of Education's basic financial statements. The combining activity fund financial information and the combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

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



Certified Public Accountants and Consultants
Paducah, Kentucky
November 7, 2013

BALLARD COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

As management of the Ballard County School District, we offer readers of the District's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning government wide net position for the District on July 1, 2012 was \$11,584,699. The ending government wide net position for the District on June 30, 2013 was \$11,983,511. This total incorporates all funds, including governmental and proprietary.
- Earnings on investments in governmental funds totaled \$4,187 which is a \$3,924 increase from the prior year.
- The General Fund had \$8,464,720 in revenue, excluding on-behalf payments, primarily from the state program (SEEK), and taxes. Excluding interfund transfers and on-behalf payments, there were \$8,190,159 in General Fund expenditures.
- The state did not mandate a salary increase for certified and classified employees.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information.

Government-wide financial statements: The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, the changes in net position, both increases and decreases, may serve as an indicator of the District's financial position. Increases in net position indicate an improving financial position and decreases indicate a deteriorating position. However, the reader must understand that the District's goal is to provide quality services to our students, not to generate profits as commercial entities strive to do. Many non-financial factors must be considered when looking at the position of the District, such as the property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs, and other factors.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. The District uses an accrual basis of accounting, commonly used by private-sector businesses. This accounting practice takes into account all of the current year's revenues and expenses, regardless of when cash is received and paid.

(Continued)

The government-wide financial statements outline functions of the District normally 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 government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements: A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to guarantee and exhibit compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Our only proprietary funds are food service operations and child care operations. Fiduciary funds are held as trust funds established by benefactors to aide in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 18 of this report.

Notes to the financial statements: The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 19 through 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11.9 million as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any related debt still outstanding necessary to acquire those assets. The District uses these capital assets to provide services to its students; as a result, 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 cannot be used to liquidate these liabilities.

The District's financial position is the result 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 Position for the Years Ended June 30

	<u>2012</u>	<u>2013</u>
Current assets	\$ 3,521,620	\$ 4,298,327
Noncurrent assets	<u>25,725,603</u>	<u>24,828,328</u>
TOTAL ASSETS	<u>\$29,247,223</u>	<u>\$29,126,655</u>
Current liabilities	\$ 1,480,538	\$ 2,069,900
Noncurrent liabilities	<u>16,181,986</u>	<u>15,073,244</u>
TOTAL LIABILITIES	<u>\$17,662,524</u>	<u>\$17,143,144</u>
Investment in capital assets (net of debt)	\$ 8,541,908	\$ 8,738,129
Restricted	1,523,175	1,841,208
Unrestricted	<u>1,519,616</u>	<u>1,404,174</u>
TOTAL NET POSITION	<u>\$11,584,699</u>	<u>\$11,983,511</u>

(Continued)

The following are significant current year transactions that have had an impact on the statement of net position:

- Technology purchases continued by replacing outdated systems.

The following table presents a summary of revenues and expenses for the fiscal year ended June 30:

Revenues:	<u>2012</u>	<u>2013</u>
Charges for services	\$ 383,723	\$ 315,812
Operating grants and contributions	2,870,551	2,588,550
Capital grants and contributions	1,580,481	1,536,047
Taxes	3,819,644	4,216,013
State aid	7,261,945	6,734,662
Investment earnings	263	4,187
Gain on sale of equipment/loss compensation	4,343	4,322
Other	<u>73,554</u>	<u>27,585</u>
Total revenues	<u>15,994,504</u>	<u>15,427,178</u>
Expenses:		
Instruction	8,036,578	7,124,021
Student support services	456,590	486,856
Instructional support	457,968	436,341
District administration	807,755	774,334
School administration	933,707	901,609
Business support	620,952	659,170
Plant operations	1,309,132	1,839,716
Student transportation	735,826	831,417
Central office support	-	-
Community support	90,440	93,884
Facility acquisition and construction	99,536	6,750
Interest on long-term debt	629,599	727,646
Food service operations	910,414	1,031,903
Day care operations	<u>110,019</u>	<u>114,719</u>
Total expenses	<u>15,198,516</u>	<u>15,028,366</u>
CHANGE IN NET POSITION	<u>\$ 795,988</u>	<u>\$ 398,812</u>

The majority of revenue was derived from state funding at 44%, taxes at 27%, and operating and capital grants and contributions at 27%. All other funding sources accounted for 2% percent of total governmental and business activity revenue.

OVERVIEW OF FUND ACTIVITIES AND BUDGET

Comments on Budget Comparisons

- During the fiscal year ended June 30, 2013, the District did not amend its General Fund budget.
- The District's total General Fund revenues for the fiscal year ended June 30, 2013, net of on-behalf payments, were \$8,464,720.
- General Fund budget, compared to actual revenue, excluding on-behalf payments, varied slightly from line item to line item; with the ending actual balance \$555,505 more than budget. This is due primarily to actual tax revenues greater than expected.
- The total cost of all programs and services for the General Fund was \$8.2 million, net of interfund transfers and on-behalf payments.
- General Fund actual expenditures were \$1,284,899 less than budgeted expenses. Contingencies of \$930,753 were budgeted for which there were no actual expenditures.

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013, the District had \$24,828,328 invested in land, buildings, and equipment net of depreciation. Of that amount, \$24,784,790 is in governmental activities.

See note D for a breakdown of additions by class on page 28.

Debt Administration

The District had \$16,242,351 in net long-term liabilities outstanding on June 30, 2013. A total of \$1,169,107 is due within one year.

See notes F and G on pages 29 through 31 for a detailed listing.

BUDGETARY IMPLICATIONS

In Kentucky, the fiscal year for public schools runs from July 1 through June 30; other programs, e.g., federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget.

By law, the District must maintain a 2% contingency reserve. The District ended the year with a 17.9% contingency reserve. The District has developed a budget for the next fiscal year that contains a 11% contingency. Significant District actions may impact this budget during the year.

Questions regarding this report should be directed to Casey Allen, Superintendent (270-665-8400), or Kim Bailey, Finance Officer (270-665-8400 Ext. 2007), or by mail to Ballard County School District, 3465 Paducah Road, Barlow, KY 42024.

BALLARD COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
GOVERNMENT WIDE
As of June 30, 2013

ASSETS	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 3,814,925	\$ 140,619	\$ 3,955,544
Receivables	267,592	40,108	307,700
Investments	-	-	-
Inventory	-	35,083	35,083
Total current assets	<u>4,082,517</u>	<u>215,810</u>	<u>4,298,327</u>
Noncurrent Assets			
Capital assets	35,860,096	259,303	36,119,399
Less: Accumulated depreciation	<u>(11,075,306)</u>	<u>(215,765)</u>	<u>(11,291,071)</u>
Total noncurrent assets	<u>24,784,790</u>	<u>43,538</u>	<u>24,828,328</u>
Total assets	<u>28,867,307</u>	<u>259,348</u>	<u>29,126,655</u>
LIABILITIES			
Current Liabilities			
Accounts payable	636,947	-	636,947
Accrued interest payable	77,310	-	77,310
Current portion of accrued sick leave	49,134	-	49,134
Current portion of bond obligations	1,093,162	-	1,093,162
Current portion of capital leases	26,811	-	26,811
Deferred revenue	186,536	-	186,536
Total current liabilities	<u>2,069,900</u>	<u>-</u>	<u>2,069,900</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	14,865,502	-	14,865,502
Noncurrent portion of capital leases	104,724	-	104,724
Noncurrent portion of accrued sick leave	103,018	-	103,018
Total noncurrent liabilities	<u>15,073,244</u>	<u>-</u>	<u>15,073,244</u>
Total liabilities	<u>17,143,144</u>	<u>-</u>	<u>17,143,144</u>
NET POSITION			
Invested in capital assets, net of related debt	8,694,591	43,538	8,738,129
Restricted for:			
SFCC - Debt Service	1,790,318	-	1,790,318
Capital projects	20,390	-	20,390
Other purposes	30,500	-	30,500
Unrestricted	<u>1,188,364</u>	<u>215,810</u>	<u>1,404,174</u>
Total net position	<u>\$ 11,724,163</u>	<u>\$ 259,348</u>	<u>\$ 11,983,511</u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
GOVERNMENT WIDE
For the Year Ended June 30, 2013**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction	\$ 7,124,021	\$ -	\$ 966,659	\$ -	\$ (6,157,362)	\$ -	\$ (6,157,362)
Support services:							
Student	486,856	-	125,354	-	(361,502)	-	(361,502)
Instruction staff	436,341	-	259,807	-	(176,534)	-	(176,534)
District administrative	774,334	-	-	-	(774,334)	-	(774,334)
School administrative	901,609	-	111,559	-	(790,050)	-	(790,050)
Business and central office	659,170	-	109,301	-	(549,869)	-	(549,869)
Plant operation and maintenance	1,839,716	-	55,186	-	(1,784,530)	-	(1,784,530)
Student transportation	831,417	-	54,733	-	(776,684)	-	(776,684)
Facilities acquisition and construction	6,750	-	-	447,175	440,425	-	440,425
Community service activities	93,884	-	97,478	-	3,594	-	3,594
Interest on long-term debt	727,646	-	-	1,088,872	361,226	-	361,226
Total governmental activities	<u>13,881,744</u>	<u>-</u>	<u>1,780,077</u>	<u>1,536,047</u>	<u>(10,565,620)</u>	<u>-</u>	<u>(10,565,620)</u>
Business-type Activities							
Food service	1,031,903	214,665	787,519	-	-	(29,719)	(29,719)
Day care	114,719	101,147	20,954	-	-	7,382	7,382
Total business-type activities	<u>1,146,622</u>	<u>315,812</u>	<u>808,473</u>	<u>-</u>	<u>-</u>	<u>(22,337)</u>	<u>(22,337)</u>
Total school district	<u>\$ 15,028,366</u>	<u>\$ 315,812</u>	<u>\$ 2,588,550</u>	<u>\$ 1,536,047</u>	<u>\$ (10,565,620)</u>	<u>\$ (22,337)</u>	<u>\$ (10,587,957)</u>
			General Revenues				
			Property taxes		\$ 2,428,854	\$ -	\$ 2,428,854
			Delinquent property tax		38,312	-	38,312
			Motor vehicle taxes		467,135	-	467,135
			Utility taxes		1,222,963	-	1,222,963
			Other taxes		12,365	-	12,365
			Revenue in lieu of taxes		46,384	-	46,384
			Investment earnings		4,187	-	4,187
			State aid formula and other grants		6,734,662	-	6,734,662
			Gains (loss) on disposition of fixed assets		4,322	-	4,322
			Miscellaneous		27,585	-	27,585
			Transfers		-	-	-
			Total general revenues		<u>10,986,769</u>	<u>-</u>	<u>10,986,769</u>
			Change in net position		421,149	(22,337)	398,812
			Net position - beginning		11,303,014	281,685	11,584,699
			Net position - ending		<u>\$ 11,724,163</u>	<u>\$ 259,348</u>	<u>\$ 11,983,511</u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2013**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Outlay Fund</u>
ASSETS			
Cash and cash equivalents	\$ 1,927,556	\$ 76,661	\$ 762,289
Other receivables	156,596	110,996	-
Investments	-	-	-
Total assets	<u>\$ 2,084,152</u>	<u>\$ 187,657</u>	<u>\$ 762,289</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 208,003	\$ 1,121	\$ -
Deferred revenue	-	186,536	-
Total liabilities	<u>208,003</u>	<u>187,657</u>	<u>-</u>
Fund Balances			
Assigned	13,365	-	-
Committed:			
Site based carry forward	17,307	-	-
Restricted:			
Sick leave payable	30,500	-	-
SFCC Debt Service	-	-	762,289
Capital Projects	-	-	-
Unassigned	1,814,977	-	-
Total fund balances	<u>1,876,149</u>	<u>-</u>	<u>762,289</u>
Total liabilities and fund balances	<u>\$ 2,084,152</u>	<u>\$ 187,657</u>	<u>\$ 762,289</u>

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Construction Fund	Building Fund	Total Governmental Funds
\$ -	\$ 20,390	\$ 1,028,029	\$ 3,814,925
-	-	-	267,592
-	-	-	-
<u>-</u>	<u>20,390</u>	<u>\$ 1,028,029</u>	<u>\$ 4,082,517</u>
\$ -	\$ -	\$ -	\$ 209,124
-	-	-	186,536
<u>-</u>	<u>-</u>	<u>-</u>	<u>395,660</u>
-	-	-	13,365
-	-	-	17,307
-	-	-	30,500
-	-	1,028,029	1,790,318
-	20,390	-	20,390
-	-	-	1,814,977
<u>-</u>	<u>20,390</u>	<u>1,028,029</u>	<u>3,686,857</u>
<u>\$ -</u>	<u>\$ 20,390</u>	<u>\$ 1,028,029</u>	<u>\$ 4,082,517</u>

**BALLARD COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
As of June 30, 2013**

Total fund balances per fund financial statements	\$ 3,686,857
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	24,784,790
Certain liabilities (such as bonds and leases payable, accrued payables, sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable with current resources, but they are presented in the statement of net position.	<u>(16,747,484)</u>
Net position for governmental activities	<u><u>\$ 11,724,163</u></u>

The notes to the financial statements are an integral part of this statement.

BALLARD COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

Revenues	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Outlay Fund</u>
From local sources			
Property taxes	\$ 1,895,658	\$ -	\$ -
Motor vehicle taxes	467,135	-	-
Utility taxes	1,222,963	-	-
Other taxes	12,365	-	-
Earnings on investments	4,187	-	-
Other local revenues	-	193	-
State sources			
SEEK	4,768,282	-	-
On-behalf payments	1,950,348	-	-
Other	5,296	826,145	123,477
Federal - indirect	10,736	953,931	-
Revenue in lieu of taxes	46,384	-	-
Other revenues	31,714	-	-
Total revenues	<u>10,415,068</u>	<u>1,780,269</u>	<u>123,477</u>
Expenditures			
Instruction	5,403,635	939,098	-
Support services			
Student	366,124	120,732	-
Instruction staff	186,113	250,228	-
District administration	770,793	-	-
School administration	794,163	107,446	-
Business and central office	501,184	52,715	-
Plant operation and maintenance	1,347,391	53,151	-
Student transportation	727,936	105,271	-
Facilities acquisition and construction	-	-	-
Community service activities	-	93,884	-
Debt service	43,168	-	-
Total expenditures	<u>10,140,507</u>	<u>1,722,525</u>	<u>-</u>
Excess (deficit) of revenues over expenditures	<u>274,561</u>	<u>57,744</u>	<u>123,477</u>
Other Financing Sources (Uses)			
Operating transfers in	82,500	24,756	-
Operating transfers out	(24,756)	(82,500)	-
Total other financing sources (uses)	<u>57,744</u>	<u>(57,744)</u>	<u>-</u>
Net change in fund balances	332,305	-	123,477
Fund balance, July 1, 2012	<u>1,543,844</u>	<u>-</u>	<u>638,812</u>
Fund balance, June 30, 2013	<u>\$ 1,876,149</u>	<u>\$ -</u>	<u>\$ 762,289</u>

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Construction Fund	Building Fund	Total Governmental Funds
\$ -	\$ -	\$ 571,508	\$ 2,467,166
-	-	-	467,135
-	-	-	1,222,963
-	-	-	12,365
-	-	-	4,187
-	-	-	193
-	-	-	4,768,282
1,043,476	-	-	2,993,824
-	-	323,698	1,278,616
45,396	-	-	1,010,063
-	-	-	46,384
-	-	-	31,714
<u>1,088,872</u>	<u>-</u>	<u>895,206</u>	<u>14,302,892</u>
-	-	-	6,342,733
-	-	-	486,856
-	-	-	436,341
-	-	-	770,793
-	-	-	901,609
-	-	-	553,899
-	-	-	1,400,542
-	-	-	833,207
-	6,750	-	6,750
-	-	-	93,884
<u>1,782,772</u>	<u>-</u>	<u>-</u>	<u>1,825,940</u>
<u>1,782,772</u>	<u>6,750</u>	<u>-</u>	<u>13,652,554</u>
<u>(693,900)</u>	<u>(6,750)</u>	<u>895,206</u>	<u>650,338</u>
693,900	-	-	801,156
-	-	(693,900)	(801,156)
<u>693,900</u>	<u>-</u>	<u>(693,900)</u>	<u>-</u>
-	(6,750)	201,306	650,338
-	27,140	826,723	3,036,519
<u>\$ -</u>	<u>\$ 20,390</u>	<u>\$ 1,028,029</u>	<u>\$ 3,686,857</u>

BALLARD COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2013

ASSETS	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 106,710	\$ 33,909	\$ 140,619
Other receivables	40,108	-	40,108
Inventory	35,083	-	35,083
Total current assets	<u>181,901</u>	<u>33,909</u>	<u>215,810</u>
Noncurrent Assets			
Furniture and equipment	259,303	-	259,303
Less: Accumulated depreciation	<u>(215,765)</u>	<u>-</u>	<u>(215,765)</u>
Total noncurrent assets	<u>43,538</u>	<u>-</u>	<u>43,538</u>
Total assets	<u>225,439</u>	<u>33,909</u>	<u>259,348</u>
LIABILITIES			
Current Liabilities			
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Invested in capital assets, net of related debt	43,538	-	43,538
Unrestricted	<u>181,901</u>	<u>33,909</u>	<u>215,810</u>
Total net position	<u>\$ 225,439</u>	<u>\$ 33,909</u>	<u>\$ 259,348</u>

The notes to the financial statements are an integral part of this statement.

BALLARD COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Food Service Fund	Day Care Fund	Total
Operating Revenues			
Food service sales	\$ 199,983	\$ -	\$ 199,983
Community service activities	-	101,148	101,148
Other operating revenues	14,682	-	14,682
Total operating revenues	<u>214,665</u>	<u>101,148</u>	<u>315,813</u>
Operating Expenses			
Salaries and wages	497,822	100,961	598,783
Professional and contract services	28,446	317	28,763
Supplies and materials	474,479	10,075	484,554
Depreciation	7,552	-	7,552
Other operating expenses	23,605	3,367	26,972
Total operating expenses	<u>1,031,904</u>	<u>114,720</u>	<u>1,146,624</u>
Operating income (loss)	<u>(817,239)</u>	<u>(13,572)</u>	<u>(830,811)</u>
Nonoperating revenues (expenses)			
Federal grants	546,461	-	546,461
Donated commodities	47,905	-	47,905
State grants	8,755	-	8,755
On-behalf state contributions	184,399	20,954	205,353
Interest income	-	-	-
Total nonoperating revenues (expenses)	<u>787,520</u>	<u>20,954</u>	<u>808,474</u>
Net income (loss)	<u>(29,719)</u>	<u>7,382</u>	<u>(22,337)</u>
Total net position, July 1, 2012	<u>255,158</u>	<u>26,527</u>	<u>281,685</u>
Total net position, June 30, 2013	<u>\$ 225,439</u>	<u>\$ 33,909</u>	<u>\$ 259,348</u>

The notes to the financial statements are an integral part of this statement.

BALLARD COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Food Service Fund	Day Care Fund	Total
Cash Flows from Operating Activities			
Cash received from lunchroom sales	\$ 159,875	\$ -	\$ 159,875
Cash received from user charges	-	101,148	101,148
Cash received from other activities	14,682	-	14,682
Cash payments to employees for services	(313,423)	(80,007)	(393,430)
Cash payments to suppliers for goods and services	(460,356)	(10,392)	(470,748)
Cash payments for other operating activities	(23,605)	(3,367)	(26,972)
Net cash from operating activities	<u>(622,827)</u>	<u>7,382</u>	<u>(615,445)</u>
Cash Flows from Capital Financing Activities			
Acquisition of capital assets	-	-	-
Net cash from capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities			
Cash received from government grants	555,216	-	555,216
Net cash from noncapital financing activities	<u>555,216</u>	<u>-</u>	<u>555,216</u>
Net increase in cash and cash equivalents	(67,611)	7,382	(60,229)
Cash and cash equivalents - beginning	174,321	26,527	200,848
Cash and cash equivalents - ending	<u>\$ 106,710</u>	<u>\$ 33,909</u>	<u>\$ 140,619</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (817,239)	\$ (13,572)	\$ (830,811)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	7,552	-	7,552
Donated commodities & on-behalf state contributions	232,304	20,954	253,258
Changes in assets and liabilities:			
Receivables	(40,108)	-	(40,108)
Inventory	(4,217)	-	(4,217)
Accounts payable	(1,119)	-	(1,119)
Net Cash Provided by Operating Activities	<u>\$ (622,827)</u>	<u>\$ 7,382</u>	<u>\$ (615,445)</u>
Schedule of non-cash transactions:			
Donated commodities and on-behalf state contributions	\$ 232,304	\$ 20,954	\$ 253,258
	<u>\$ 232,304</u>	<u>\$ 20,954</u>	<u>\$ 253,258</u>

The notes to the financial statements are an integral part of this statement.

BALLARD COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
As of June 30, 2013

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 139,011	\$ 185,089
Investments	207,638	
Accounts receivable	-	629
Total current assets	<u>346,649</u>	<u>185,718</u>
LIABILITIES		
Accounts payable	-	2,042
Amounts due to student groups and others	-	183,676
Total liabilities	<u>-</u>	<u>185,718</u>
NET POSITION		
Net position held in trust	<u><u>\$ 346,649</u></u>	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2013**

	Private Purpose Trust Fund
Additions	
Net interest and investment gains (losses)	\$ 572
Private donations	6,770
Other additions	-
Total additions	7,342
Deductions	
Benefits paid and other deductions	5,035
Total deductions	5,035
Change in net position	2,307
Net position - beginning	344,342
Net position - ending	\$ 346,649

The notes to the financial statements are an integral part of this statement.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE A - ENTITY

Reporting Entity

The Ballard 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 Ballard County, Kentucky. The Board receives funding from local, state, and federal government sources and must comply with the commitment requirement of these funding source entities.

The accompanying financial statements present the Board's primary government and the component unit discussed below for which the Board exercises significant influence or financial accountability. Significant influence or financial accountability is based primarily on financial relationships with the Board (as distinct from legal relationships). Therefore, the financial statements presented herein do not include funds of certain legally separate groups and organizations associated with the school system, such as Booster Clubs, over which the Board does not exercise significant influence or financial accountability.

Blended Component Unit:

Ballard County School Board Finance Corporation – In 1991, the Ballard County, Kentucky, Board of Education resolved to authorize the establishment of the Ballard County School Board 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) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Ballard County Board of Education also comprise the Corporation's Board of Directors. The financial transactions of this entity are included in the accounts and records of the Ballard County Board of Education.

There are no audited financial statements issued separately for this component unit.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ballard County Board of Education substantially comply with the rules prescribed by the Kentucky Department of Education for local school boards. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

The Board applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless FASB pronouncements conflict with or contradict GASB pronouncements.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the Board 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 Board 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (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 Board and for each function or program of the Board's governmental activities. Direct expenses are those 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 restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Board, 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 Board.

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are 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 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 Board finances and meets the cash flow needs of its proprietary activities.

Fund Accounting

The Board maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description for each class of funds, along with the associated restrictions, follows:

a. **Major Governmental Fund Types**

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

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

The Support Education Excellence in Kentucky (SEEK) *Capital Outlay Fund* receives those funds designated by the State as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the Board's facility plan.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting (continued)

The Facility Support Program of Kentucky (FSPK) *Building Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the Board's facility plan. In addition, the fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

1. The *Construction Fund* is a Capital Project Fund that accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

b. Non-major Governmental Fund Types

All of the District's governmental funds are major funds.

c. Proprietary Funds (Enterprise Funds)

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

Other enterprise funds consist of Day Care and similar operations used to account for before and after school day care services.

d. Fiduciary Fund Types

Fiduciary Funds account for assets held by the Board in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Board under terms of a formal trust agreement.

The *Private Purpose Trust Fund* is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The trust fund of the Board accounts for donations made for future scholarships where only corpus earnings may be spent.

The *Agency Funds* account for activities of student groups, family resource centers, and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

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

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues – Exchange and Non-exchange 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 Board, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the Board 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 resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility and expenditure 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 position as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

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 due date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they are levied. All taxes collected are initially recorded in the General Fund and then transferred to the appropriate fund.

The property tax rates assessed to finance General Fund operations for the year ended June 30, 2013 were \$.509 per \$100 valuation for real property, \$.509 per \$100 valuation for business personal property and \$.479 per \$100 valuation for motor vehicles.

The Board also levies a gross receipts license tax in the amount of 3% of the gross receipts derived from provision within the county of various telephonic, telegraphic, and satellite communications services, electric power, water, and natural, artificial and mixed gases.

Board property tax revenues are recognized when levied to the extent that they result in current receivables.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year end is provided at June 30, 2013.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

Investments

Investments consist of certificates of deposits with maturities less than one year and are reported at cost which approximates fair market value.

Accounts Receivable

Accounts receivable consist of various taxes, grants and other sources of revenues that are measurable and receipt is certain. Accounts receivable as of June 30, 2013 consist of the following:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Food Service</u>	<u>Total</u>
Taxes:				
Property – current	\$ 28,577	\$ -	\$ -	\$ 28,577
Property– delinquent	1,094	-	-	1,094
Utilities	117,243	-	-	117,243
State grants	-	-	-	-
Federal grants	2,597	110,996	40,108	153,701
Interfund Receivables	-	-	-	-
Other	<u>7,085</u>	<u>-</u>	<u>-</u>	<u>7,085</u>
Total	<u>\$ 156,596</u>	<u>\$ 110,996</u>	<u>\$ 40,108</u>	<u>\$ 307,700</u>

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary fund which records inventory using the accrual basis of accounting. On the government wide and fund financial statements, inventory is stated at cost.

Capital Assets

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

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Capital assets donated are recorded at their fair market values at the date received. The Board currently follows the guidelines regarding capital assets as established by the Kentucky Department of Education. Assets with an economic life greater than one year and cost threshold of five thousand dollars are capitalized except for real property for which there is no threshold. The Board does not possess any infrastructure. Improvements adding value and economical life to an asset are capitalized. Normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

Capital assets are depreciated using the straight-line method over the following useful lives for both governmental and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Building and improvements	25-50 years
Land improvements	20 years
Technology equipment	5-15 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other general assets	10 years

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated vested 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 Board's past experience of making termination payments.

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

For governmental fund financial statements, the accrued sick leave payable is the amount earned by retired employees unpaid as of year-end expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund.

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

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Reserves

The Districts' Fund Balance Reserves are reported under the requirements of GASB Statement 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", which defines how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

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

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes (such as future construction projects) pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purpose (such as encumbrances), but are neither restricted nor committed. Assigned fund balance also includes 1) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted or committed and 2) amounts in the general fund that are intended to be used for a specific purpose.

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

Net Position

Net position represents the difference between assets and liabilities. Net position 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 position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Proprietary Fund Revenues and Expenses

Operating revenues are those revenues generated directly from the primary activity of the proprietary funds. For the Board, operating revenues, within the School Food Service Fund, are primarily charges for student lunches and non-operating revenues are primarily reimbursements from federal and state agencies for meals provided by the various schools while the other enterprise fund's operating revenues are primarily charges for daycare services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

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

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Activity

Each fund is a fiscal and accounting entity. 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 non-operating revenues/expenses in proprietary funds.

Interfund receivables and payables for the Board arise generally when payments are made from a fund that does not have the legal liability for the expenditure. For the year ended June 30, 2013, there were no interfund receivables/payables.

Budgetary Process

Budgetary Basis of Accounting: The budgetary process accounts for transactions on the same basis as the fund financial statements.

The budgetary process begins in October for the next fiscal year. As of May 30, a tentative working budget is submitted to each Board member for discussion and amendment. The Board must adopt a final budget and submit to the Kentucky Department of Education by September 30 of each fiscal year. 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.

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.

NOTE C – DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits and investments is the risk that in the event of a failure of the counterparty, the Board's deposits and investments may not be returned or the Board will not be able to recover collateral securities in the possession of an outside party. The Board's investment policy requires all investments be made in accordance with applicable legal requirements with consideration of investment safety. Accordingly, the Board entered into collateral and repurchase agreements with its main financial institution. Deposits in excess of FDIC insurance coverage are secured with collateral valued at market or par, whichever is lower. However, some of the Board's accounts are maintained at other financial institutions, and at times, demand deposits and investments may exceed depository insurance at these locations. The Board has incurred no losses in the past as a result of bank balances in excess of FDIC insurance coverage.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Board's investing activities are managed under the custody of the Board's Finance Director. Investing is performed in accordance with investment policies adopted by the Board of Directors.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

In accordance with State statutes and the Board’s investment policy, the Board may invest funds temporarily in excess of operating needs in the following:

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements.
2. Obligations of any corporation of the United States government.
3. Certificates of deposit or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.241(4).
4. Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities.
5. Uncollateralized certificates of deposits issued by any bank or savings and loan institution, bankers’ acceptances for banks, or securities issued by a state or local government or any instrumentality of agency thereof, in the United States rated in one of the three highest categories by a nationally recognized rating agency.
6. Commercial paper rated in the highest category by a nationally recognized rating agency.
7. Shares of mutual funds as permitted by KRS 66.480.

It is the Board’s policy not to purchase any investment on a margin basis or through the use of any similar leveraging technique. In addition, the amount of funds the Board may invest at any time in categories 4, 5, 6, and 7 shall not exceed twenty percent (20%) of the total funds invested.

During the year ended June 30, 2013, the Board’s cash and investments were demand deposits and certificates of deposits. At year end, the carrying amount and the bank balance of the Board’s cash and cash equivalents and investments were \$4,279,644 and \$4,733,886, respectively. As of June 30, 2013, the Board’s bank balance was as follows:

<i>Governmental & Proprietary Funds</i>	
Balance covered by FDIC insurance	\$ 250,000
Collateral held by pledging financial institutions’ trust department not in the Board’s name	3,219,527
Repurchase agreement investment held by financial institutions’ trust department	795,000
Uncollateralized	-
<i>Fiduciary Funds</i>	
Balance covered by FDIC insurance	208,623
Collateral held by pledging financial institutions’ trust department not in the Board’s name	260,736
Uncollateralized	-
Total	<u>\$ 4,733,886</u>

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE D – CAPITAL ASSETS

A summary of the capital asset activity for the fiscal year ended at June 30, 2013, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 283,628	\$ -	\$ -	\$ 283,628
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated:	<u>283,628</u>	<u>-</u>	<u>-</u>	<u>283,628</u>
<u>Capital assets, being depreciated:</u>				
Land improvements	1,808,187	-	-	1,808,187
Buildings and improvements	29,992,194	-	-	29,992,194
Technology equipment	1,588,857	-	-	1,588,857
Vehicles	1,837,171	-	-	1,837,171
General Equipment	<u>350,059</u>	<u>-</u>	<u>-</u>	<u>350,059</u>
Totals at historical cost	<u>35,576,468</u>	<u>-</u>	<u>-</u>	<u>35,576,468</u>
Less: Accumulated depreciation				
Land improvements	992,342	58,470	-	1,050,812
Buildings and improvements	6,103,514	654,734	-	6,758,248
Technology equipment	1,444,440	61,557	-	1,505,997
Vehicles	1,320,923	109,291	-	1,430,214
General Equipment	<u>324,364</u>	<u>5,671</u>	<u>-</u>	<u>330,035</u>
Total accumulated depreciation	<u>10,185,583</u>	<u>889,723</u>	<u>-</u>	<u>11,075,306</u>
Total capital assets, being depreciated, net:	<u>25,390,885</u>	<u>(889,723)</u>	<u>\$ -</u>	<u>24,501,162</u>
Governmental Activities Capital Assets – Net	<u>\$ 25,674,513</u>	<u>\$ (889,723)</u>	<u>\$ -</u>	<u>\$ 24,784,790</u>
<u>Business-Type Activities</u>				
Food Service:				
Food service and equipment	\$ 256,018	\$ -	\$ -	\$ 256,018
Technology equipment	<u>3,285</u>	<u>-</u>	<u>-</u>	<u>3,285</u>
Totals at historical cost	<u>259,303</u>	<u>-</u>	<u>-</u>	<u>259,303</u>
Less: Accumulated depreciation				
Food Service:				
Food service and equipment	204,927	7,553	-	212,480
Technology equipment	<u>3,285</u>	<u>-</u>	<u>-</u>	<u>3,285</u>
Total accumulated depreciation	<u>208,212</u>	<u>7,553</u>	<u>-</u>	<u>215,765</u>
Business-Type Activities Capital Assets – Net	<u>\$ 51,091</u>	<u>\$ (7,553)</u>	<u>\$ -</u>	<u>\$ 43,538</u>

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE E – DEPRECIATION AND AMORTIZATION

Depreciation expense, by function, was as follows:

Instructional	\$	771,349
Student		-
Instructional staff		-
District administration		3,541
School administration		-
Business and central office		-
Plant operation and maintenance		11,352
Student transportation		103,481
Community service activities		-
	\$	889,723
Food Service	\$	7,552
Daycare Service		-
	\$	7,552

For the year ended June 30, 2013, amortization expense of bond issue costs, discounts and call premiums reflected in facility acquisitions and construction was \$159,874.

NOTE F – BOND OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the Board's future obligations to make payments relating to the bonds issued by the Ballard County School Board Finance Corporation.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Outstanding Balance</u>	<u>Rates</u>
October, 2002	475,000	-	2.200% - 3.800%
June, 2004	18,490,000	960,000	2.000% - 5.000%
December, 2009	182,284	101,575	1.000% - 3.250%
March, 2010	2,850,000	2,610,000	1.000% - 5.600%
March, 2012	13,785,000	13,415,000	2.000% - 3.125%

Bonds

The Board, through the General Fund, the SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Ballard County School Board Finance corporation to construct school facilities.

The bond issues provide for a statutory mortgage lien on the school buildings and appurtenances in favor of the holders of the bonds and coupons.

Call Provision

All bonds may be called prior to maturity at dates and subject to redemption premiums specified in each bond issue.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE F – BOND OBLIGATIONS (continued)

Premiums, Discounts, Issuance and Advance Refunding Costs

In the government-wide financial statements bond premiums, discounts, issuance and advanced refunding cost are deferred and amortized over the life of the bonds using the effective interest method as a component of interest expense. Bonds payable are reported net of the applicable deferred charges as a component of interest expense. Bond issuance and advance refunding costs are reported as deferred charges and amortized over the life of the related debt.

Schedule of Maturities of Obligations

During the fiscal years ended June 30, 1999, 2003, 2004, 2010 and 2012 the Board entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the Board and Commission for each year until maturity of all related bond issues. The liability for the total bond amount remains with the Board and, as such, the total principal outstanding has been recorded in the financial statements. For the year June 30, 2013, the Commission provided principal and interest payments of \$755,310 and \$288,166, respectively.

Assuming no issues are called prior to schedule maturity, the minimum obligation of the Board including amounts to be paid by the Commission, at June 30, 2013, for debt service (principal and interest) are as follows:

Fiscal Year	Ballard County Board of Education			Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Federal Subsidy	Principal	Interest	
2013-2014	\$ 475,500	\$ 263,716	\$ (44,808)	\$ 775,240	\$ 261,605	\$ 1,731,253
2014-2015	493,916	246,300	(44,064)	802,495	234,350	1,732,997
2015-2016	503,429	235,603	(43,172)	818,668	218,178	1,732,706
2016-2017	511,552	224,318	(42,101)	835,224	201,620	1,730,613
2017-2018	520,277	212,697	(41,000)	852,163	184,683	1,728,820
2018-2023	2,843,797	817,225	(184,089)	4,494,314	561,099	8,532,346
2023-2028	1,638,273	368,609	(125,193)	946,727	34,398	2,862,814
2028-2033	<u>565,583</u>	<u>47,322</u>	<u>(16,853)</u>	<u>9,417</u>	<u>835</u>	<u>606,304</u>
TOTALS	<u>\$ 7,552,327</u>	<u>\$ 2,415,790</u>	<u>\$ (541,280)</u>	<u>\$ 9,534,248</u>	<u>\$1,696,768</u>	<u>\$ 20,657,853</u>

Defeasance of Debt

On March 20, 2012, the Board issued revenue refunding bonds of \$13,390,000 with interest rates varying from 2.000% to 3.125% to advance refund June 2004 series bonds with interest rates varying from 2.000% to 5.000%. The net proceeds of the new issue were deposited into an irrevocable trust with an escrow agent to redeem outstanding June 2004 series bonds maturing after June 1, 2014 in the principle amount of \$12,300,000 at the redemption price of 100%. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$1,548,998. This amount was netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce future total debt service payments over the next 10 years by \$994,564 with a resulting net economic loss of \$434,555. As of June 30, 2013, \$12,300,000 of these defeased bonds were still outstanding with applicable assets held in trust for actual future payoff in fiscal year ending June 30, 2014.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE G – CAPITAL LEASE PAYABLE

The Board leases transportation and technology equipment (primarily busses) with a historical cost and accumulated amortization of \$385,983 and \$240,247, respectively, under capital lease agreements. Future minimum lease payments at June 30, 2013, are as follows:

<u>Fiscal Year Ending June 30</u>	
2013	\$ 30,535
2014	19,032
2015	18,828
2016	19,016
2017	18,954
2018-2021	<u>41,441</u>
Total minimum lease payments	147,806
Less: deferred interest	<u>(16,271)</u>
Present value minimum lease payments	<u>\$ 131,535</u>

NOTE H – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Revenue bonds	\$ 18,301,508	\$ -	\$ (1,214,933)	\$ 17,086,575	\$ 1,250,740
Less deferred charges:					
Premium, discounts, issue and advance refunding	<u>(1,287,786)</u>	<u>-</u>	<u>159,875</u>	<u>(1,127,911)</u>	<u>(157,578)</u>
Total bonds payable	17,013,722	-	(1,055,058)	15,958,664	1,093,162
Capital leases	169,973	-	(38,438)	131,535	26,811
Accumulated sick leave	<u>142,215</u>	<u>26,087</u>	<u>(16,150)</u>	<u>152,152</u>	<u>49,134</u>
Governmental activity					
Long-term liabilities	<u>\$ 17,325,910</u>	<u>\$ 26,087</u>	<u>\$ (1,109,646)</u>	<u>\$ 16,242,351</u>	<u>\$ 1,169,107</u>

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RETIREMENT PLANS

The Ballard County Board of Education participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employees' Retirement System (CERS), both cost-sharing multiple-employer defined benefit plans. KTRS and CERS administer 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 and CERS were created by the General Assembly and are governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS and CERS issues publicly available financial reports that include financial statements and required supplementary information for the defined benefit pension plans. Those reports can be obtained by writing to:

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800

(502) 573-3266

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601-6124

(502) 564-4646

The Kentucky Revised Statutes provides for the establishment of both systems and benefit amendments are authorized by the State legislature. Plan members of KTRS are required to contribute 10.855% of their annual covered salary. The Commonwealth of Kentucky is required to contribute 13.105% of salaries and 14.105% for members hired after June 30, 2008. The federal programs for any salaries paid by those programs pay the matching contribution. Plan members of CERS are required to contribute 5.00% of their annual covered salary and 6.00% for all new members hired after August 31, 2008. The Ballard County Board of Education provides a matching contribution of 19.55% of those members' salaries. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE).

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

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

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of members' salary for the 2012-2013 fiscal year.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RETIREMENT PLANS (continued)

The Ballard County School System's total payrolls for the years ending June 30, 2013, 2012 and 2011 were \$7,711,804, \$8,352,253 and \$8,393,860 respectively. For the years ending June 30, 2013, 2012 and 2011, the payrolls for employees covered under KTRS were \$5,739,767, \$6,169,986 and \$6,284,004, respectively. For the years ended June 30, 2013, 2012 and 2011, the Commonwealth contributed \$671,906, \$718,381 and \$723,559, respectively, to KTRS for the benefit of participating employees, which equaled the required contributions for each year. The matching contributions for covered salaries of federal programs are paid by that program. For the years ended June 30, 2013, 2012 and 2011, the Board paid \$81,585, \$99,756 and \$104,010, respectively, from federal grant monies to KTRS in matching contributions for federally funded employees, which equaled the required contributions for each year. For the years ending June 30, 2013, 2012 and 2011, the Board contributed \$303,633, \$314,831, and \$335,021 for employees covered under CERS, which equaled the required contributions for each year.

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

NOTE J – DEFERRED COMPENSATION

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

NOTE K – CONTINGENCIES

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

NOTE L – INTEREST EXPENSE

For the year ended June 30, 2013, cash expenditures for interest was \$234,277. Expenditures consist of interest expenditures on capital leases of \$4,730 and interest expenditures on bond issues of \$239,007.

NOTE M – RISK MANAGEMENT

The Ballard County Board of Education is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. In addition, the Board is exposed to various risks of loss related to torts; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensations, errors and omissions, and general liability coverage, the Board participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school boards and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The Board pays an annual premium to each fund for coverage. Contributions to the Workers' compensation Fund are based on premium rates established by such fund in conjunction with excess insurance carrier, subject to claims, experience modifications and a group discount amount.

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE M – RISK MANAGEMENT (continued)

During fiscal year, the Board received notification from KSBIT of underfunded risk pools and KSBIT has proposed a plan to the Kentucky Department of Insurance for assessment of current and former member participants. Under the proposed plan, the Board portion of the assessment is estimated at \$427,823. Accordingly, the Board has recorded a liability in the government-wide statements for the estimated liability.

The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reasons by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The Board 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 Board 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 N - LITIGATION

The District is not aware of any pending litigation, claims, or assessments or unasserted claims or assessments, and the District has not consulted legal counsel concerning litigation, claims, or assessments during the fiscal year ended June 30, 2013, and through the date these financial statements were made available for issuance.

NOTE O – ON-BEHALF PAYMENTS AND SIMILAR NON-CASH FUNDING

Payments are made by the Kentucky Department of Education for the benefits of the Board’s students and employees. On-behalf payments include employee fringe benefits for health insurance and flex spending accounts of \$1,423,535, KTRS retirement contributions of \$671,906 and technology contributions of \$60,260. Donated commodities totaled \$47,905 in fiscal year ended June 30, 2013. These non-monetary amounts are reflected within the general fund, special fund, and the business-type activities in the statements as on-behalf payment state revenues and instructional/support expenses. These revenues and expenditures are not budgeted by the District.

Debt service payments are made by the Kentucky School Facility Construction Commission for school construction related bond issues for part of the District’s bond principal and interest debt service. Non-monetary principal and interest payments of \$1,043,476 are reflected within the debt service fund as on-behalf payment state revenues and debt service expenses. In March 2010, the District issued \$2,850,000 in School Building Revenue Bonds, Taxable Series of 2010 known as “Build America Bonds under the American Recovery and Reinvestment Act of 2009” for construction of the facility additions. The District receives on-behalf subsidy payments from the federal government equal to 35% of the amount of each interest payment on these taxable bonds. Non-monetary on-behalf interest subsidy payments of \$45,396 are reflected in the building fund as federal revenues and debt service expenses. These revenues and expenditures are not budgeted by the District.

NOTE P – TRANSFER OF FUNDS

The following inter-fund transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General Fund	Special Fund	KETS Project	\$ 24,756
Operating	Special Fund	General Fund	Headstart	\$ 82,500
Operating	Building Fund	Debt Service	Debt Service	\$ 693,900

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE Q – RECENTLY ISSUED ACCOUNTING STANDARDS

During the year ended June 30, 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements that will have a future impact on the District. These statements relate to the recognition of Other Post-Employments Benefits earned by employees whose governmental agency participates in multi-employer, cost-sharing pension plan. The new statements are Statement No. 67, *Financial Reporting for Pension Plans*, effective for years beginning after June 30, 2013, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for years beginning after June 30, 2014. These GASB statements require the cost-sharing governments to report a net pension liability, pension expense and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. These amounts are not being calculated for the year ended June 30, 2013, but will have a significant impact in the year of implementation.

NOTE R – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 7, 2013 the date which the financial statements were available to be issued.

SUPPLEMENTAL SCHEDULES AND SUPPORTING INFORMATION

BALLARD COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET TO ACTUAL
GENERAL FUND
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues				
From local sources				
Property taxes	\$ 1,730,000	\$ 1,730,000	\$ 1,895,658	\$ 165,658
Motor vehicle taxes	400,000	400,000	467,135	67,135
Utility taxes	875,000	875,000	1,222,963	347,963
Other taxes	45,000	45,000	12,365	(32,635)
Tuition and fees	933	933	-	(933)
Earnings on investments	2,000	2,000	4,187	2,187
Other local revenues	30,000	30,000	-	(30,000)
State sources				
SEEK	4,768,282	4,768,282	4,768,282	-
On-behalf payments	-	-	1,950,348	1,950,348
Other	13,000	13,000	5,296	(7,704)
Federal - indirect	13,000	13,000	10,736	(2,264)
Revenue in lieu of taxes	15,000	15,000	46,384	31,384
Other revenues	17,000	17,000	31,714	14,714
Total revenues	<u>7,909,215</u>	<u>7,909,215</u>	<u>10,415,068</u>	<u>2,505,853</u>
Expenditures				
Instruction	4,580,651	4,580,651	5,403,635	(822,984)
Support services				
Student	352,519	352,519	366,124	(13,605)
Instruction staff	164,407	164,407	186,113	(21,706)
District administration	1,587,985	1,587,985	770,793	817,192
School administration	610,840	610,840	794,163	(183,323)
Business and central office	383,466	383,466	501,184	(117,718)
Plant operation and maintenance	1,157,904	1,157,904	1,347,391	(189,487)
Student transportation	594,118	594,118	727,936	(133,818)
Facilities acquisition and construction	-	-	-	-
Debt service	43,168	43,168	43,168	-
Total expenditures	<u>9,475,058</u>	<u>9,475,058</u>	<u>10,140,507</u>	<u>(665,449)</u>
Excess (deficit) of revenues over expenditures	<u>(1,565,843)</u>	<u>(1,565,843)</u>	<u>274,561</u>	<u>1,840,404</u>
Other Financing Sources (Uses)				
Proceeds from debt issues	-	-	-	-
Operating transfers in	82,500	82,500	82,500	-
Operating transfers out	(30,000)	(30,000)	(24,756)	5,244
Total other financing sources (uses)	<u>52,500</u>	<u>52,500</u>	<u>57,744</u>	<u>5,244</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(1,513,343)</u>	<u>(1,513,343)</u>	<u>332,305</u>	<u>1,845,648</u>
Fund balance, July 1, 2012	<u>1,543,844</u>	<u>1,543,844</u>	<u>1,543,844</u>	<u>-</u>
Fund balance, June 30, 2013	<u>\$ 30,501</u>	<u>\$ 30,501</u>	<u>\$ 1,876,149</u>	<u>\$ 1,845,648</u>

See accompanying independent auditor's report on supplementary financial information.

BALLARD COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET TO ACTUAL
SPECIAL REVENUE FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget Favorable (Unfavorable)
Revenues				
From local sources				
Earnings on investments	\$ -	\$ -	\$ -	\$ -
Other local revenues	16,500	82,500	193	(82,307)
State sources				
Other	126,791	873,494	826,145	(47,349)
Federal - indirect	466,027	1,042,629	953,931	(88,698)
Other revenues	-	-	-	-
Total revenues	<u>609,318</u>	<u>1,998,623</u>	<u>1,780,269</u>	<u>(218,354)</u>
Expenditures				
Instruction	458,398	1,138,162	939,098	199,064
Support services				
Student	14,190	134,922	120,732	14,190
Instruction staff	10,344	226,761	250,228	(23,467)
District administration	-	-	-	-
School administration	447	107,892	107,446	446
Business and central office	60,000	80,000	52,715	27,285
Plant operation and maintenance	3,804	55,039	53,151	1,888
Student transportation	47,013	124,709	105,271	19,438
Community service activities	2,766	78,638	93,884	(15,246)
Total expenditures	<u>596,962</u>	<u>1,946,123</u>	<u>1,722,525</u>	<u>223,598</u>
Excess (deficit) of revenues over expenditures	<u>12,356</u>	<u>52,500</u>	<u>57,744</u>	<u>5,244</u>
Other Financing Sources (Uses)				
Operating transfers in	10,244	30,000	24,756	(5,244)
Operating transfers out	(16,500)	(82,500)	(82,500)	-
Total other financing sources (uses)	<u>(6,256)</u>	<u>(52,500)</u>	<u>(57,744)</u>	<u>(5,244)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>6,100</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2012	-	-	-	-
Fund balance, June 30, 2013	<u>\$ 6,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report on supplementary financial information.

BALLARD COUNTY BOARD OF EDUCATION

**COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND AMOUNTS DUE TO STUDENTS AND OTHERS
SCHOOL ACTIVITY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2013

	Cash Balances 7/1/2012	Receipts	Disburse- ments	(Interfund Transfers)		Cash Balances 6/30/2013	Accounts Receivable 6/30/2013	Accounts Payable 6/30/2013	Amounts Due to Students and Others 6/30/2013
				To	From				
Ballard Memorial High School	\$ 44,088	\$ 215,807	\$ 216,049	\$ 69,262	\$ (69,262)	\$ 43,846	\$ 629	\$ 426	\$ 44,050
BC Middle School	23,779	68,985	64,121	7,599	(7,599)	28,643	-	603	28,040
BC Elementary School	33,127	86,992	79,878	11,887	(11,887)	40,241	-	1,013	39,228
BC Career & Technical School	38,199	52,313	67,917	6,182	(6,182)	22,595	-	-	22,595
BC Preschool	37,947	48,622	37,518	-	-	49,051	-	-	49,051
BMS Foundation	713	-	-	-	-	713	-	-	713
Totals	<u>\$177,853</u>	<u>\$ 472,719</u>	<u>\$ 465,483</u>	<u>\$ 94,930</u>	<u>\$ (94,930)</u>	<u>\$185,089</u>	<u>\$ 629</u>	<u>\$ 2,042</u>	<u>\$ 183,677</u>

See independent auditor's report on supplementary financial information.

BALLARD COUNTY BOARD OF EDUCATION

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND AMOUNTS DUE TO STUDENTS AND OTHERS
BALLARD MEMORIAL HIGH SCHOOL ACTIVITY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2013

	Cash		Disburse- ments	(Interfund Transfers)		Cash	Accounts	Accounts	Amounts
	Balances 7/1/2012	Receipts		To	From	Balances 6/30/2013	Receivable 6/30/2013	Payable 6/30/2013	Due to Students and Others 6/30/2013
Academic Team	\$ 16	\$ -	\$ -	\$ -	\$ (16)	\$ -	\$ -		\$ -
All Test	1,073	3,186	4,180	-	-	79	-	-	79
Art Club	479	400	790	-	-	89	-	-	89
Ath-Baseball	-	-	3,763	3,801	(38)	-	-	-	-
Ath-Boys Basketball	-	-	9,094	9,244	(150)	-	-	-	-
Ath-Cheer	-	-	259	259	-	-	-	-	-
Ath-Dist. Tourn. Softball	-	1,387	1,166	-	(221)	-	-	-	-
Ath-Dist. Tourn. Softball	389	-	173	-	(216)	-	-	-	-
Ath-Football	-	1,093	8,830	7,992	(255)	-	-	-	-
Ath-Gate	-	30,195	482	-	(29,713)	-	-	-	-
Ath-General	914	30,850	31,090	32,383	(32,914)	143	629	132	640
Ath-Girls Basketball	-	-	3,314	3,434	(120)	-	-	-	-
Ath-Golf	-	-	2,034	2,034	-	-	-	-	-
Ath-Lady Bomber Shootout	288	-	-	-	(288)	-	-	-	-
Ath-Softball	-	-	2,245	2,275	(30)	-	-	-	-
Ath-Tennis	-	-	885	915	(30)	-	-	-	-
Ath-Track	-	-	3,390	3,390	-	-	-	-	-
Ath-Volleyball	-	2,251	4,042	1,791	-	-	-	-	-
Beta Club	877	6,356	5,967	-	-	1,266	-	-	1,266
Boys Basketball	1,222	8,659	6,536	-	(2,327)	1,017	-	96	921
Cheerleaders	1,348	10,969	11,702	-	-	615	-	-	615
Chorus	1,457	1,585	1,534	-	-	1,508	-	-	1,508
Counselor	19	-	64	45	-	-	-	-	-
FACS	-	3,132	2,959	-	-	173	-	-	173
FCA	-	18	-	49	(67)	-	-	-	-
FCCLA	353	3,066	3,112	-	-	307	-	-	307
Football	1,264	1,422	1,893	-	(18)	775	-	-	775
General	144	1,436	1,652	125	(54)	-	-	-	-
Girls Basketball	-	3,502	3,031	-	(379)	92	-	83	9
Golf	1,027	2,445	1,491	-	(965)	1,016	-	-	1,016
H.S. Play	1,109	1,654	1,803	-	(51)	909	-	-	909
Instructional Materials	3,603	5,610	4,273	-	-	4,940	-	25	4,915
John Walker Memorial	925	-	-	-	-	925	-	-	925
Junior Class	213	-	-	-	-	213	-	-	213
Library	921	1,116	1,335	216	-	918	-	-	918
Math-Dept	231	210	50	-	-	391	-	-	391
Media-Purcell	5,513	1,140	3,904	860	(61)	3,548	-	-	3,548
Parking Tags	402	110	363	-	-	150	-	-	150
Proj. Graduation	-	56,824	55,478	-	(960)	385	-	-	385
Science Dept-Wedgewood	432	-	-	-	-	432	-	-	432
Science Dept-Prince	14	-	14	-	-	-	-	-	-
Senior Class	-	5,223	4,928	-	(295)	-	-	-	-
Soccer	427	-	427	-	-	-	-	-	-
Spanish Club	281	-	-	-	-	281	-	-	281
Student Council	388	6,791	6,560	-	-	619	-	64	555
Student Fund	207	3,715	2,039	399	(49)	2,233	-	-	2,233
Teacher Fund	421	1,644	1,130	-	(45)	890	-	27	863
Tennis	300	330	364	-	-	266	-	-	266
Track	5,102	3,054	4,697	-	-	3,459	-	-	3,459
Will Mallory Memorial Fund	2,105	250	-	-	-	2,355	-	-	2,355
Yearbook	10,624	16,184	13,006	51	-	13,854	-	-	13,854
Totals	\$ 44,088	\$ 215,807	\$ 216,049	\$ 69,262	\$ (69,262)	\$ 43,846	\$ 629	\$ 426	\$ 44,050

See independent auditor's report on supplementary financial information.

**BALLARD COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Totals</u>
US Department of Education				
Passed through State Department of Education:				
Title I, Part A Cluster:				
Title I-Grants to Local Educational Agencies	84.010	3100002 11	\$ 24,175	
	84.010	3100002 13	<u>281,465</u>	\$ 305,640
Total Title I, Part A Cluster				<u>305,640</u>
Twenty-First Century Community Learning Centers	84.287	3400002 09	233	
	84.287	3400002 10	33,759	
	84.287	3400002 11	87,425	
	84.287	3400002 12	<u>7,257</u>	128,674
Rural Education	84.358	3140002 11	8,628	8,628
Education Jobs Fund	84.410	EJOB00 10	2,081	2,081
Improving Teacher Quality State Grants	84.367	3230002 11	4,289	
	84.367	3230002 12	<u>55,553</u>	59,842
Race to the Top	84.413		4,858	4,858
Education Technology State Grants Cluster:				
Educational Technology State Grants	84.318	3210002 10	56	56
Special Education Cluster (IDEA):				
Special Education-Grants to States	84.027	3370002 11	53,023	
	84.027	3370002 12	<u>240,794</u>	293,817
Special Education-Preschool Grants	84.173	380000011	23,052	
	84.173	380000012	<u>31,937</u>	54,989
Total Special Education Cluster				<u>348,806</u>
Passed-through Workforce Development Cabinet:				
Career and Technical Education-Basic Grants to States	84.048	4621032 11	532	
	84.048	4621232 12	<u>12,314</u>	<u>12,846</u>
Total U.S Department of Education				<u>871,431</u>

Continued

**BALLARD COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Totals</u>
US Department of Agriculture				
Passed through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	7760005 12	27,907	
	10.553	7760005 13	<u>106,173</u>	134,080
National School Lunch Program	10.555	7750002 12	326,852	
	10.555	7750002 13	85,529	
Passed through State Department of Agriculture				
National School Lunch Program-				
Non-monetary Food Distribution (Note B)	10.555	2013	<u>47,905</u>	<u>460,286</u>
Total Child Nutrition Cluster				594,366
Total US Department of Agriculture				<u>594,366</u>
US Department of Health and Human Services				
Pass-through Murray, KY Board of Education:				
Head Start	93.600	6553	82,500	82,500
Total Federal Awards				<u>\$ 1,548,297</u>

**BALLARD COUNTY BOARD OF EDUCATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARD
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Ballard County Board of Education and is presented on the accrual method 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 – COMMODITIES

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and used.

NOTE C – RECONCILIATION OF FEDERAL AWARDS TO THE FINANCIAL STATEMENTS

Total Federal Awards	<u>\$ 1,548,297</u>
Federal Awards by Fund	
Special Revenue Fund	\$ 953,931
Proprietary Fund	<u>594,366</u>
Total Federal Awards	<u>\$ 1,548,297</u>

Federal revenues of \$10,736 reflected in the general fund include reimbursements for Medicaid claims and accordingly, are not included in the Schedule of Expenditures of Federal Awards.

Federal revenues of \$45,396 reflected in the debt service fund include interest subsidy payments on-behalf of the District and accordingly, are not included in the Schedule of Expenditures of Federal Awards.

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

Kentucky State Committee for School
District Audits
Members of the Board of Education
Ballard County Board of Education
Paducah, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's contract – State Audit Requirements, and Appendix III of the Independent Auditor's contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Ballard County Board of Education as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Ballard County Board of Education's basic financial statements and have issued our report thereon dated November 7, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs on Reference number #2013-1 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ballard County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

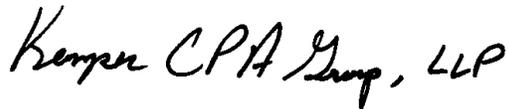
Ballard County Board of Education's Response to Findings

Ballard County Board of Education's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Ballard County Board of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the Ballard County Board of Education in a separate letter dated November 7, 2013.

Purpose of this report

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



Certified Public Accountants and Consultants
Paducah, Kentucky
November 7, 2013



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

Kentucky State Committee for School
District Audits
Members of the Board of Education
Ballard County Board of Education
Paducah, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Ballard County Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Ballard County Board of Education's major federal programs for the year ended June 30, 2013. Ballard County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Ballard County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Ballard County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Ballard County Board of Education, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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



Certified Public Accountants and Consultants
Paducah, Kentucky
November 7, 2013

**BALLARD COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Section I – Summary of Auditor’s Results

1. The auditor’s report expresses an unmodified opinion on the financial statements of the Ballard County Board of Education.
2. There was one material weakness (Reference #2013-1) relative to the audit of the financial statements reported in the 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*. There were no significant deficiencies noted which were required to be reported.
3. No instances of noncompliance material to the financial statements of the Ballard County Board of Education was disclosed during the audit.
4. No instances of significant deficiencies nor material weaknesses were disclosed during the audit of internal control over major federal award programs.
5. The auditor’s report on compliance for the major federal award programs for the Ballard County Board of Education expresses an unmodified opinion on all major federal programs.
6. There are no findings to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

<u>Name</u>	<u>CFDA</u>
Clustered:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Clustered:	
Title I- Grants to Local Educational Agencies	84.010

8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. The Ballard County Board of Education did not qualify to be audited as a low-risk auditee.

Section II – Findings – Financial Statements Audit

Reference # 2013-1

The Board does not have controls in place which would prevent or detect a misstatement during preparation of financial statements and related note disclosures.

Criteria:

A control deficiency exists when an entity does not have controls in place which would prevent or detect misstatements of financial statements and related note disclosures.

Cause:

Board personnel do not currently possess skills and knowledge necessary over preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

**BALLARD COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Section II – Findings – Financial Statements Audit (continued)

Effect:

Misstatements may occur and not be detected in the financial statements, related note disclosures, or underlying records.

Recommendation:

The Board should consider providing additional training to an employee to develop suitable skill, knowledge, and/or experience in preparing and reviewing financial statements for external reporting in accordance with current standards. As an alternative recommendation, the Board could outsource the preparation of the financial statements and related notes to an individual or entity which possesses and maintains the skills, knowledge and experience necessary to prepare financial statements and related notes in accordance with current standards.

Response:

We will consider additional training for our Finance Officer to develop a better understanding in preparing and reviewing financial statements. Due to budget constraints this training may be cost prohibitive. We are a small district with limited staff and we don't feel this effects our day to day operations.

Section III – Findings and Questioned Costs – Major Federal Awards Programs

There are no findings or questioned costs related to the major federal programs which are required to be reported in accordance with *OMB Circular A-133, Section 510(a)*.

**BALLARD COUNTY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

Section II – Findings – Financial Statements Audit

Reference # 2012-1

The Board does not have controls in place which would prevent or detect a misstatement during preparation of financial statements and related note disclosures.

Current Status

This item is still present in fiscal year-end June 30, 2013.

Section III – Findings and Questioned Costs – Major Federal Awards Programs

There were no findings or questioned costs related to the major federal programs which are required to be reported in accordance with *OMB Circular A-133, Section 510(a)*.