

Butler County School District

Financial Statements

June 30, 2013



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Independent Auditor's Report

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

• Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Butler County School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

• Management's Responsibility for the Financial Statements

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

• 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 the *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

- **Emphasis of Matter**

As described in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to these matters.

- **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 8 through 18 and 59 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures

do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

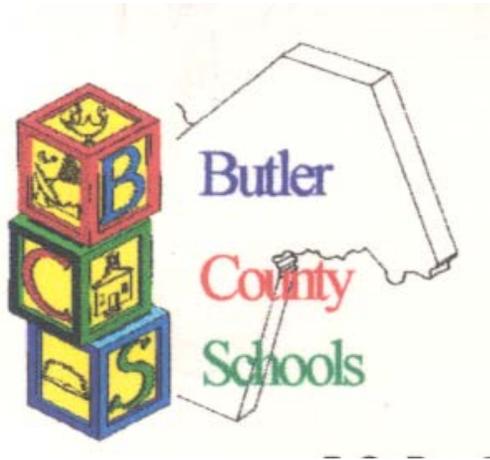
In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013 on our consideration of Butler County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 28, 2013

Required Supplementary Information

Management's Discussion and Analysis



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

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

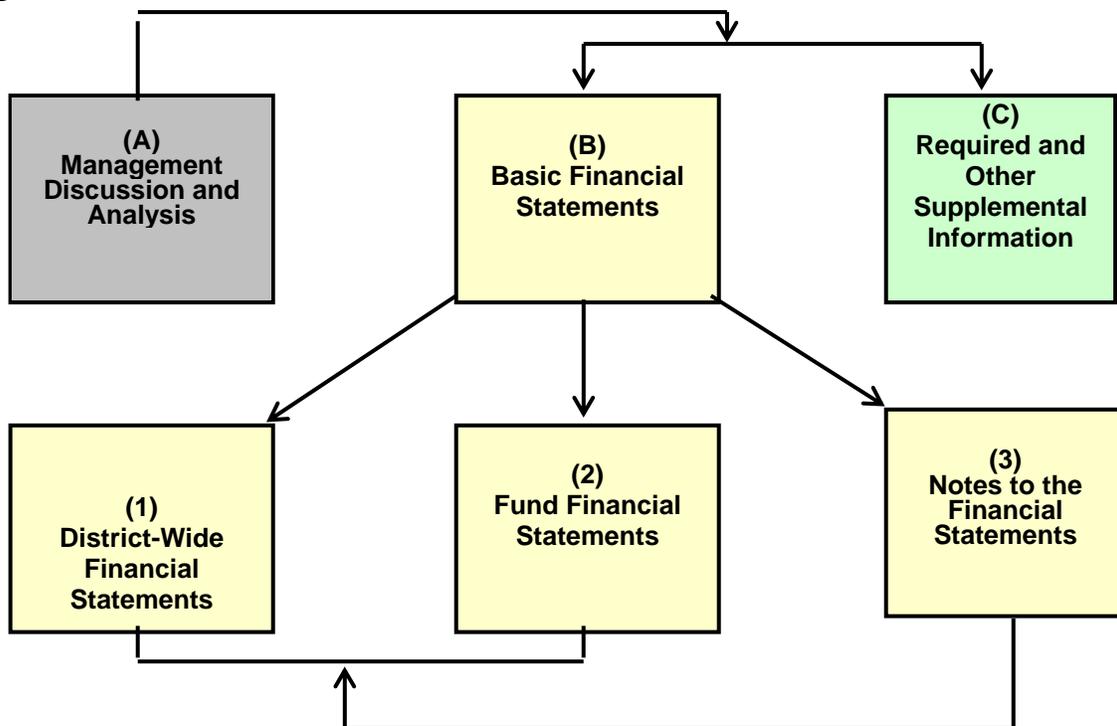
FINANCIAL HIGHLIGHTS

- The beginning General Fund balance for the District was \$1,954,373. The ending General Fund balance was \$2,931,060.
- The beginning Special Revenue Fund balance for the District was \$17,322. The ending Special Revenue Fund balance was \$97,467.
- The beginning Debt Service Fund balance for the District was \$1,642. The ending Debt Service Fund balance was \$1,642.
- The beginning balance for Other Governmental Funds was \$90,201. The ending balance for Other Governmental Funds was \$40,135.

Overview of the Annual Financial Report (AFR)

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

Organization of the Annual Financial Report



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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements can be found on pages 35 to 57.

Reporting the School District as a Whole

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

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

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

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

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$19,626,693 as of June 30, 2013. This was an increase of \$575,299 over the previous year.

The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The amount of capital assets, net of related debt was \$17,192,144 (a decrease of \$239,372 over the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The government-wide financial statements can be found on pages 20 to 23.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

Fiduciary Funds – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity fund cash balances at year-end totaled \$177,972 (an increase of \$24,175 from the previous year).

The fund financial statements are on page 24 to 34.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position for the period ending June 30, 2012 & June 30, 2013

	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2012	FY2013	FY 2012	FY 2013	FY 2012	FY 2013
Current and Other Assets	\$2,493,708	\$3,724,401	\$256,745	\$325,292	\$2,750,453	\$4,049,693
Capital Assets	\$35,095,511	\$33,852,696	\$301,917	\$304,250	\$35,397,428	\$34,156,946
Total Assets	\$37,589,219	\$37,577,097	\$558,662	\$629,542	\$38,147,881	\$38,206,639
Deferred Outflows		\$734,370				\$734,370
Long Term Liabilities	\$17,166,546	\$16,588,918	\$0	\$0	\$17,166,546	\$16,588,918
Other Liabilities (current)	\$1,922,143	\$2,553,993	\$7,798	\$68,534	\$1,929,941	\$2,622,527
Total Liabilities	\$19,088,689	\$19,142,911	\$7,798	\$68,534	\$19,096,487	\$19,211,445
Deferred Inflows		\$102,871		\$0		\$102,871
Net Position						
Investment in Capital Assets (net of Debt)	\$17,129,569	\$16,887,864	\$301,917	\$304,250	\$17,431,486	\$17,192,114
Restricted	\$106,505	\$139,244	\$0	\$0	\$106,505	\$139,244
Unrestricted Fund	\$1,264,456	\$2,038,577	\$248,947	\$256,758	\$1,513,403	\$2,295,335
Total Net Position	\$18,500,530	\$19,065,685	\$550,864	\$561,008	\$19,051,394	\$19,626,693

Changes in Net Position for June 30, 2012 and June 30, 2013

Revenues	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013
Program Revenues						
Charges for Services	\$21,349	\$17,678	\$303,771	\$279,145	\$325,120	\$296,823
Operating Grants and Contributions	\$2,755,549	\$2,417,631	\$984,514	\$966,247	\$3,740,063	\$3,383,878
Capital Grants and Contributions	\$1,404,010	\$1,398,589			\$1,404,010	\$1,398,589
General Revenue						
Taxes						
Property Tax	\$1,408,731	\$1,461,537			\$1,408,731	\$1,461,537
Motor Vehicle Tax	\$322,689	\$327,162			\$322,689	\$327,162
Utility Tax	\$762,412	\$798,243			\$762,412	\$798,243
Other Tax	\$251,956	\$250,021			\$251,956	\$250,021
State Aid	\$12,603,656	\$12,482,742			\$12,603,656	\$12,482,742
Investment Earnings	\$40,411	\$37,971	\$391	\$257	\$40,802	\$38,228
Other Revenue	\$128,204	\$212,482		-\$57,713	\$128,204	\$154,769
Gain on Sale of Assets	\$0	\$29,394			\$0	\$29,394
Total Revenues	\$19,698,967	\$19,433,450	\$1,288,676	\$1,187,936	\$20,987,643	\$20,621,386

Expenses	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013
Instruction	\$11,373,876	\$11,105,359			\$11,373,876	\$11,105,359
Support Services						
Student Support Services	\$707,501	\$666,422			\$707,501	\$666,422
Instructional Staff	\$860,213	\$740,900			\$860,213	\$740,900
District Administration	\$951,710	\$650,668			\$951,710	\$650,668
School Administration	\$867,477	\$833,269			\$867,477	\$833,269
Business Administration	\$352,399	\$367,877			\$352,399	\$367,877
Plant Operations & Maintenance	\$2,246,213	\$2,085,360			\$2,246,213	\$2,085,360
Student Transportation	\$1,484,655	\$1,375,777			\$1,484,655	\$1,375,777
Other	\$225,126	\$188,030			\$225,126	\$188,030
Food Service Operations			\$ 1,307,126	\$ 1,177,792	\$1,307,126	\$1,177,792
Interest on Long-Term Debt	\$810,367	\$715,209			\$810,367	\$715,209
Total Expenses	\$19,879,537	\$18,728,871	\$1,307,126	\$1,177,792	\$21,186,663	\$19,906,663



- The District's total revenues were \$20,621,386 and the total expenses were \$19,906,663. Revenues exceeded expenses by \$714,723.
- State revenues accounted for 61% and local taxes accounted for 14% of the revenue.
- Instruction was the major expense category and accounted for 56% of the expense.
- Food service revenue exceeded expense by \$10,144.

Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances	FY 2012	FY 2013	Amount of Change	% Change
General Fund	\$1,954,373	\$2,931,060	\$976,687	50%
Special Revenue Fund	\$17,322	\$97,467	\$80,145	463%
Constuction Fund	\$80,057	\$33,957	(\$46,100)	-58%
Debt Service	\$1,642	\$1,642	\$0	0%
Other Governmental Fund	\$10,144	\$6,178	(\$3,966)	-39%
School Food Fund	\$550,864	\$561,008	\$10,144	2%
Total	\$2,614,402	\$3,631,312	\$1,016,910	39%

- The General Fund’s fund balance showed a positive change of \$976,687. This was primarily the result of budgeting for mid-year funding cuts that did not occur. Payroll expenditures were also reduced form the previous year.
- The Special Revenue fund had a positive change of \$80,145. The principal reason for the difference is that in FY 2002 the technology fund was transferred to the special revenue fund. This fund balance will vary from year to year depending on how much state money is received for technology and the time of year received. This is because all other Fund 2 projects must be zero’d out at end-of-year. The only fund left in the Special Revenue fund is technology at year end.
- Construction fund, Debt Service fund and Other Governmental funds show a decrease of \$50,066.
- The School Food Fund’s fund balance had a \$10,144 increase. This was primarily due to cutting expenditures.

Comments on General Fund and Special Revenue Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2013, net of interfund transfers, were \$12,538,884. This is \$742,984 more than was budgeted in the final working budget. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner and a mid-year cut was budgeted based on the previous year that did not occur.
- Expenditures were less than budgeted, primarily because of unspent contingency funds of \$1,796,130.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$976,687 more than the prior year. This was primarily the result of budgeting for a mid-year State cut that did not occur in the current fiscal year.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2013, the district had invested \$34,156,946 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total initial cost of assets was \$52,934,434 with accumulated depreciation of \$18,777,488.

SUMMARY OF CAPITAL ASSETS

CAPITAL ASSETS (net of depreciation)	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	2012-2013
Land and improvements	\$545,435	\$524,804	\$0	\$0	\$545,435	\$524,804	-3.8%
Construction in Progress	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
Buildings	\$32,688,547	\$31,650,488	\$0	\$0	\$32,688,547	\$31,650,488	-3.2%
Equipment & Furniture	1,861,529	1,677,404	\$301,917	\$304,250	\$2,163,446	\$1,981,654	-8.4%
Total Assets	\$35,095,511	\$33,852,696	\$301,917	\$304,250	\$35,397,428	\$34,156,946	-3.5%

Long-Term Debt

At year-end the district had \$17.74 million in general obligation bonds outstanding. This was a decrease of 6% over last year. The decrease was due to the normal repayment of bonds.

BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The district receives approximate 61% of its new general fund revenue each year through the state funding formula (SEEK). On occasions, there have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 14% of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$2,931,060 as a beginning balance for next year.

By law, the budget must have a minimum 2 % contingency. The beginning fund balance for beginning the fiscal year is \$2,931,060 well above the minimum state requirement. Significant Board action that impacts finances includes additional spending on proposed construction projects and general fund matching dollars for other grants. Many other grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. At year-end, the District's General Fund was due \$260,424 from the special revenue grant fund. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

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

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

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

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

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

Basic Financial Statements

Butler County School District
Statement of Net Position

June 30, 2013	Governmental Activities	Business- Type Activities	Total
Assets			
Cash	\$ 1,516,011	\$ 152,831	\$ 1,668,842
Investments	1,666,783	-	1,666,783
Accounts receivable:			
Taxes	145,988	-	145,988
Interest	5,032	-	5,032
Intergovernmental	390,587	96,009	486,596
Inventory	-	76,452	76,452
Non-depreciable capital assets	389,106	-	389,106
Depreciable capital assets	51,794,872	750,456	52,545,328
Less: accumulated depreciation	(18,331,282)	(446,206)	(18,777,488)
Total assets	37,577,097	629,542	38,206,639
Deferred Outflows of Resources			
Deferred amount on debt refundings	734,370	-	734,370
Total deferred outflows of resources	734,370	-	734,370
Liabilities			
Accounts payable	81,461	68,534	149,995
Accrued liabilities	554,383	-	554,383
Unearned revenue	18,253	-	18,253
Accrued interest	197,374	-	197,374
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,415,129	-	1,415,129
Other	19,584	-	19,584
Compensated absences	267,809	-	267,809
Due beyond one year:			
Outstanding bonds	16,146,449	-	16,146,449
Other	15,169	-	15,169
Compensated absences	427,300	-	427,300
Total liabilities	19,142,911	68,534	19,211,445
Deferred Inflows of Resources			
Deferred gain on bonds	102,871	-	102,871
Total deferred inflows of resources	102,871	-	102,871

June 30, 2013	Governmental Activities	Business- Type Activities	Total
Net Position			
Invested in capital assets, net of related debt	16,887,864	304,250	17,192,114
Restricted for:			
Capital projects	40,135	-	40,135
Grant programs	97,467	-	97,467
Debt service	1,642	-	1,642
Unrestricted	2,038,577	256,758	2,295,335
Total Net Position	\$ 19,065,685	\$ 561,008	\$ 19,626,693

See accompanying notes to the financial statements.

Butler County School District
Statement of Activities

Year Ended June 30, 2013	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
Instruction	\$ 11,105,359	\$ 17,118	\$ 1,549,922	\$ 45,709	\$ (9,492,610)	\$ -	\$ (9,492,610)
Support Services:							
Student	666,422	-	301,435	-	(364,987)	-	(364,987)
Instructional staff	740,900	-	369,123	-	(371,777)	-	(371,777)
District administration	650,668	-	19,082	-	(631,586)	-	(631,586)
School administration	833,269	-	-	-	(833,269)	-	(833,269)
Business	367,877	-	20,000	-	(347,877)	-	(347,877)
Plant operations and maintenance	2,085,360	560	-	-	(2,084,800)	-	(2,084,800)
Student transportation	1,375,777	-	794	-	(1,374,983)	-	(1,374,983)
Other	180,238	-	157,275	-	(22,963)	-	(22,963)
Interest on long-term debt	715,209	-	-	1,352,880	637,671	-	637,671
Bond issuance cost	7,792	-	-	-	(7,792)	-	(7,792)
Total governmental activities	18,728,871	17,678	2,417,631	1,398,589	(14,894,973)	-	(14,894,973)
Business-Type Activities:							
Food services	1,177,792	279,145	966,247	-	-	67,600	67,600
Total business-type activities	1,177,792	279,145	966,247	-	-	67,600	67,600
Total School District	\$ 19,906,663	\$ 296,823	\$ 3,383,878	\$ 1,398,589	(14,894,973)	67,600	(14,827,373)

General Revenues			
Taxes:			
Property	1,461,537	-	1,461,537
Motor vehicle	327,162	-	327,162
Utilities	798,243	-	798,243
Unmined minerals	6,045	-	6,045
Other	243,976	-	243,976
State aid	12,482,742	-	12,482,742
Investment earnings	37,971	257	38,228
Other	154,769	-	154,769
Gain on Sale of Assets	29,394	-	29,394
Transfers	57,713	(57,713)	-
<hr/>			
Total general revenues and transfers	15,599,552	(57,456)	15,542,096
<hr/>			
Change in Net Position	704,579	10,144	714,723
Net Position - Beginning of Year	18,500,530	550,864	19,051,394
Effect of Adoption of GASB 65	(139,424)	-	(139,424)
<hr/>			
Net Position - Beginning of Year, as restated	18,361,106	550,864	18,911,970
<hr/>			
Net Position - End of Year	\$ 19,065,685	\$ 561,008	\$ 19,626,693
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Butler County School District
Balance Sheet
Governmental Funds

June 30, 2013	General Fund	Special Revenue Funds	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 1,474,234	\$ -	\$ 1,642	\$ 40,135	\$ 1,516,011
Investments	1,666,783	-	-	-	1,666,783
Accounts receivable:					
Taxes	145,988	-	-	-	145,988
Interest	5,032	-	-	-	5,032
Intergovernmental	3,193	387,394	-	-	390,587
Due from other funds	260,424	-	-	-	260,424
Total Assets	\$ 3,555,654	\$ 387,394	\$ 1,642	\$ 40,135	\$ 3,984,825

Liabilities and Fund Balances

Liabilities					
Accounts payable	\$ 70,211	\$ 11,250	\$ -	\$ -	\$ 81,461
Accrued liabilities	554,383	-	-	-	554,383
Due to other funds	-	260,424	-	-	260,424
Unearned revenue	-	18,253	-	-	18,253
Total liabilities	624,594	289,927	-	-	914,521
Fund Balances					
Restricted	-	97,467	1,642	40,135	139,244
Committed	345,000	-	-	-	345,000
Unassigned	2,586,060	-	-	-	2,586,060
Total fund balances	2,931,060	97,467	1,642	40,135	3,070,304
Total Liabilities and Fund Balances	\$ 3,555,654	\$ 387,394	\$ 1,642	\$ 40,135	\$ 3,984,825

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

June 30,	2013
Total Fund Balances – Governmental Funds	\$ 3,070,304
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$52,183,978 and the accumulated depreciation is \$18,331,282.	33,852,696
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow of resources.	734,370
Governmental funds record gains on debt refundings as other financing uses when the issues are refunded. Unamortized gains on refundings are included on the government-wide financial statements as a deferred inflow of resources.	(102,871)
Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:	
Bonds payable	(17,561,578)
Other debt	(34,753)
Accrued interest on the bonds	(197,374)
Compensated absences	(695,109)
Total Net Position – Governmental Activities	\$ 19,065,685

See accompanying notes to the financial statements.

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

Year Ended June 30, 2013	General Fund	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 1,229,247	\$ -	\$ -	\$ 232,290	\$ 1,461,537
Motor vehicle	327,162	-	-	-	327,162
Utilities	798,243	-	-	-	798,243
Unmined minerals	6,045	-	-	-	6,045
Other	243,976	-	-	-	243,976
Tuition and fees	17,118	-	-	-	17,118
Earnings on investments	37,971	70	-	-	38,041
Other local revenue	193,520	19,326	-	-	212,846
Intergovernmental - state	12,482,742	706,198	659,176	661,593	14,509,709
Intergovernmental - federal	9,137	1,737,746	32,111	-	1,778,994
Total revenues	15,345,161	2,463,340	691,287	893,883	19,393,671
Expenditures					
Current:					
Instruction	8,747,667	1,561,195	-	-	10,308,862
Support services:					
Student	354,228	301,435	-	-	655,663
Instructional staff	371,602	369,123	-	-	740,725
District administration	559,635	19,082	-	-	578,717

School administration	808,017	-	-	-	808,017
Business	347,497	20,000	-	-	367,497
Plant operations and maintenance	1,652,092	-	-	-	1,652,092
Student transportation	1,435,309	794	-	-	1,436,103
Other	-	157,275	-	-	157,275
Debt service:					
Principal	-	-	1,340,799	-	1,340,799
Interest	-	-	610,852	-	610,852
Bond issuance costs	-	-	7,792	-	7,792
Facilities acquisition and construction	-	-	-	46,100	46,100
Total expenditures	14,276,047	2,428,904	1,959,443	46,100	18,710,494
Excess (Deficiency) of Revenues over Expenditures	1,069,114	34,436	(1,268,156)	847,783	683,177
Other Financing Sources (Uses)					
Proceeds of advance refunded bonds - net of discount	-	-	289,080	-	289,080
Bond proceeds	257,353	-	-	-	257,353
Payment to advance refunded bond escrow agent	-	-	(280,557)	-	(280,557)
Operating transfers in	57,713	45,709	1,259,633	-	1,363,055
Operating transfers out	(407,493)	-	-	(897,849)	(1,305,342)
Total other financing sources (uses)	(92,427)	45,709	1,268,156	(897,849)	323,589
Net Change in Fund Balances	976,687	80,145	-	(50,066)	1,006,766
Fund Balances - Beginning of Year	1,954,373	17,322	1,642	90,201	2,063,538
Fund Balances - End of Year	\$ 2,931,060	\$ 97,467	\$ 1,642	\$ 40,135	\$ 3,070,304

See accompanying notes to the financial statements.

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

Year Ended June 30,	2013
Total Net Change in Fund Balances - Governmental Funds	\$ 1,006,766
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense, \$1,530,896, exceeds capital outlays, \$306,015, in the period.	(1,224,881)
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual loss from the sale net to this amount for the year.	(17,934)
Repayment of bond principal and capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,372,683
The issuance of a bond and other debt service is shown as an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position. Correspondingly, the transfer to an escrow agent for the refunding of bonds is shown as an other financing use in the governmental funds, but the transfer reduces long-term liabilities in the statement of net position. The net of these other financing sources and uses is shown here for the period	(265,876)
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	(166,179)
Change in Net Position - Governmental Activities	\$ 704,579

See accompanying notes to the financial statements.

Butler County School District
Statement of Net Position
Proprietary Funds

June 30, 2013	Enterprise Fund Food Service
Assets	
Current Assets	
Cash	\$ 152,831
Accounts receivable:	
Intergovernmental	96,009
Inventory	76,452
Total current assets	325,292
Noncurrent Assets	
Fixed assets - net	304,250
Total assets	629,542
 Liabilities	
Current Liabilities	
Accounts payable	68,534
Total liabilities	68,534
 Net Position	
Invested in capital assets	304,250
Unrestricted	256,758
Total Net Position	\$ 561,008

See accompanying notes to the financial statements.

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

Year Ended June 30, 2013	Enterprise Fund Food Service
Operating Revenues	
Lunchroom sales	\$ 279,145
Total operating revenues	279,145
Operating Expenses	
Salaries and wages	587,221
Contract services	86,189
Materials and supplies	464,416
Other operating expenses	750
Depreciation expense	39,216
Total operating expenses	1,177,792
Operating loss	(898,647)
Non-Operating Revenues	
State operating grants	103,686
Federal operating grants	797,567
Donated commodities	64,994
Interest revenue	257
Total non-operating revenues	966,504
Income before transfers	67,857
Transfers	(57,713)
Change in Net Position	10,144
Net Position - Beginning of Year	550,864
Net Position - End of Year	\$ 561,008

See accompanying notes to the financial statements.

Butler County School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2013	Enterprise Fund Food Service
Cash Flows from Operating Activities	
Cash received from user charges	\$ 202,175
Cash payments to employees for services	(495,899)
Cash payments for contract services	(86,189)
Cash payments to suppliers for goods and services	(387,755)
Cash payments for other operating expenses	(750)
Net cash used in operating activities	(768,418)
 Cash Flows from Noncapital Financing Activities	
Indirect cost transfer to general fund	(57,713)
Non-operating grants received	809,932
Net cash provided by noncapital financing activities	752,219
 Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(41,550)
Net cash used by capital and related financing activities	(41,550)
 Cash Flows from Investing Activities	
Interest on investments	257
Net cash provided by investing activities	257
Net Decrease in Cash	(57,492)
Cash - Beginning of Year	210,323
Cash - End of Year	\$ 152,831

Year Ended June 30, 2013	Enterprise Fund Food Service
Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
Operating loss	\$ (898,647)
Adjustments to reconcile operating income loss to net cash used in operating activities:	
Depreciation	39,216
Commodities received	64,994
On-behalf payments received	91,322
Changes in assets and liabilities:	
Receivables	(76,970)
Inventories	(49,069)
Accounts payable	60,736
Net Cash Used In Operating Activities	\$ (768,418)

Non-Cash Activities

The school food service fund received \$64,994 of donated commodities from the federal government.

The school food service fund recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$91,322 from the state government.

See accompanying notes to the financial statements.

Butler County School District
Statement of Assets and Liabilities
Fiduciary Funds

June 30, 2013	Agency Funds
Assets	
Cash	\$ 177,972
Total Assets	\$ 177,972
Liabilities	
Accounts payable	\$ 22,875
Due to student groups	155,097
Total Liabilities	\$ 177,972

See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

• ***Reporting Entity***

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

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

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units," the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization and there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete.

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

Butler County School District Finance Corporation — The Butler County Board of Education resolved to authorize the establishment of the Butler County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and

Note 1: Summary of Significant Accounting Policies
(Continued)

KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Butler County Board of Education also comprise the Corporation's Board of Directors.

• ***Basis of Presentation***

Government-Wide Financial Statements — The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the District, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than

Note 1: Summary of Significant Accounting Policies
(Continued)

reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

The District has the following funds:

▶ **Governmental Fund Types**

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

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

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

▶ **Proprietary Fund Types**

Enterprise Fund

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

Agency Funds

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

● ***Basis of Accounting***

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

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

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

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

The financial statements of the governmental fund types are prepared on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability

Note 1: Summary of Significant Accounting Policies
(Continued)

is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

• ***Estimates***

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

• ***Investments***

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

• ***Inventory***

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

• ***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

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

• **Unearned Revenue**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

• **Compensated Absences**

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

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

• ***Net Position***

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

Invested in capital assets - This represents the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

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

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

• ***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is

Note 1: Summary of Significant Accounting Policies
(Continued)

normally set during the September board meeting. Assuming property tax bills are mailed timely, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

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

Revenues resulting from exchange transactions are those where each party receives equal value. On the modified accrual basis of accounting, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

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

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

• ***Interfund Activity***

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

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Interfund Balances***

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

• ***Contributions of Capital***

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

• ***Operating Revenues and Expenses***

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

• ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through October 28, 2013, which was the date the financial statements were made available.

• ***New Accounting Pronouncements***

Recently Issued and Adopted Accounting Pronouncements

GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee

Note 1: Summary of Significant Accounting Policies
(Continued)

on Accounting Procedure, which do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the District's financial statements was the renaming of "Net Assets" to "Net Position," including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position."

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The District has early implemented the new requirements of this statement for the fiscal year ended June 30, 2013. The implementation of GASB 65 resulted in the write-off of bond issuance costs and the effect of the adoption of GASB 65 is the reduction of beginning net position by \$139,424.

Recently Issued Accounting Pronouncements

GASB Statement No. 66, *Technical Corrections—2012: an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District plans to implement the new requirements for the fiscal year 2013–2014 financial statements.

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluation the impact of the adoption of this statement on the District's financial statements.

Note 2: Cash and Investments

• **Deposits**

At June 30, 2013, the carrying amounts of the District's deposits were \$3,513,597 and the bank balances were \$4,528,781 which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

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

<u>June 30,</u>	<u>2013</u>
Governmental funds	\$ 3,182,794
Proprietary funds	152,831
Fiduciary funds	177,972
	<u>\$ 3,513,597</u>

▶ *Custodial Credit Risk Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$4,528,781 was not exposed to custodial credit risk as of June 30, 2013.

• **Investments**

The District's investments, which are stated at cost, at June 30, 2013 are as follow:

<u>June 30, 2013</u>			
<u>General Fund Investments</u>	<u>Rating</u>	<u>Maturities</u>	<u>Cost</u>
Certificate of Deposit	N/R	2/13/2016	\$ 531,579
Certificate of Deposit	N/R	2/13/2016	531,579
Certificate of Deposit	N/R	2/13/2016	531,579
Certificate of Deposit	N/R	2/15/2016	72,046
			<u>\$ 1,666,783</u>

Note 2: Cash and Investments *(Continued)*

▶ *Interest Rate Risk*

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

▶ *Credit Risk*

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

Note 3: Interfund Receivables and Payables

Interfund balances at June 30, 2013 consist of the following:

June 30, 2013		
Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue	\$ 260,424

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

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

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

June 30, 2013	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 389,106	\$ -	\$ -	\$ 389,106
Construction in progress	-	46,099	46,099	-
Total non-depreciable historical cost	389,106	46,099	46,099	389,106
Capital assets that are depreciated:				
Land improvements	638,447	-	-	638,447
Buildings and improvements	44,958,877	46,099	51,238	44,953,738
Technology Equipment	2,801,059	-	556,902	2,244,157
Vehicles	2,431,901	250,026	-	2,681,927
General	1,266,713	9,890	-	1,276,603
Total depreciable historical cost	52,096,997	306,015	608,140	51,794,872
Less accumulated depreciation for:				
Land improvements	482,118	20,631	-	502,749
Buildings and improvements	12,270,330	1,066,224	33,304	13,303,250
Technology Equipment	2,243,027	174,839	556,902	1,860,964
Vehicles	1,698,246	189,498	-	1,887,744
General	696,871	79,704	-	776,575
Total accumulated depreciation	17,390,592	1,530,896	590,206	18,331,282
Total depreciable historical cost, net	34,706,405	(1,224,881)	17,934	33,463,590
Governmental Activities, Capital Assets, Net	\$ 35,095,511	\$ (1,178,782)	\$ 64,033	\$ 33,852,696

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

Note 4: Capital Assets (Continued)

June 30, 2013	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Business-Type Activities:				
General	\$ 718,151	\$ 41,550	\$ 9,245	\$ 750,456
Less accumulated depreciation	416,234	39,217	9,245	446,206
Business-Type Activities, Capital Assets, Net				
	\$ 301,917	\$ 2,333	\$ -	\$ 304,250

Depreciation expense was charged to governmental functions as follows:

Year ended June 30,	2013
Instruction	\$ 757,415
Support services:	
Student	10,759
Instructional staff	175
District administration	81,095
School administration	25,252
Business	380
Facilities operations	443,157
Student transportation	189,700
Other	22,963
Total Depreciation Expense	
	\$ 1,530,896

Note 5: Long-Term Obligations

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

Issue Date	Proceeds	Rates
2003	835,000	2.00% - 4.10%
2004 KISTA	539,750	1.00% - 3.50%
2004-B	4,150,000	2.00% - 3.76%
2004-C	7,720,000	3.00% - 5.00%
2005 KISTA	321,366	3.00% - 3.625%
2006	2,440,000	3.75% - 4.00%
2006 KISTA	338,162	3.50% - 3.875%
2008	3,690,000	3.00% - 3.87%

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

Issue Date	Proceeds	Rates
2008 KISTA	387,782	3.00% - 3.75%
2009 KISTA	316,907	2.00% - 3.80%
2010	1,880,000	4.60% - 5.85%
2010	760,000	1.00% - 2.85%
2011	5,640,000	1.00% - 2.75%
2012	292,000	1.125%
2013 KISTA	257,353	2.000%

On March 1, 2013, the District issued \$257,353 in KISTA Bonds with interest rates of 2%. The District used the bonds to purchase 3 buses maturing March 1, 2023.

On December 1, 2012, the District issued \$292,000 in Revenue Refunding Bonds with interest rates 1.125%. The District issued the bonds to advance refund \$270,000 of outstanding 2003 Series bonds with an average interest rate of 3.50%. The net proceeds of \$280,557 (after payment of \$11,443 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments on the 2003 Series bonds. As a result, the advance refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,557. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2020 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 6 years by \$13,840 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$13,399.

In 2011, the District defeased \$4,940,000 of the 2004C bonds by placing new bond proceeds in an irrevocable trust to provide for future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2013, \$4,940,000 of the defeased bonds are still outstanding.

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

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

Note 5: Long-Term Obligations (Continued)

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amounts to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. In addition, the District has outstanding Build America General Obligation Bonds in which the U.S. Treasury will subsidize the District for 35% of the interest cost relating to the outstanding debt which is shown in the schedule below.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission and U.S. Treasury, at June 30, 2013 for debt service (principal and interest) are as follow:

Year	Butler County School District		School Facility Construction Commission		US Treasury Build America Bonds	Total Debt Service
	Interest	Principal	Interest	Principal	Interest	
2013—2014	\$ 393,907	\$ 899,989	\$ 142,210	\$ 515,140	\$ 31,950	\$ 1,983,196
2014—2015	364,846	871,766	123,384	533,967	31,789	1,925,752
2015—2016	336,070	863,096	113,260	544,090	31,547	1,888,063
2016—2017	307,339	879,475	102,338	535,521	31,306	1,855,979
2017—2018	280,840	874,578	90,568	504,050	31,145	1,781,181
2018—2019	252,073	862,204	79,306	515,312	30,903	1,739,798
2019—2020	225,849	779,110	67,256	527,365	30,662	1,630,242
2020—2021	199,711	801,756	54,348	520,358	30,501	1,606,674
2021—2022	182,963	728,318	42,010	498,505	29,937	1,481,733
2022—2023	160,472	751,410	29,644	501,870	25,268	1,468,664
2023—2024	135,266	769,831	16,343	515,169	20,333	1,456,942
2024—2025	107,942	812,477	2,057	12,523	14,996	949,995
2025—2026	78,490	836,992	1,572	13,008	9,308	939,370
2026—2027	47,666	636,488	1,067	13,512	3,393	702,126
2027—2028	23,385	555,964	544	14,036	1,409	595,338
2028—2029	1,869	25,000	-	-	1,006	27,875
2029—2030	934	25,000	-	-	503	26,437
	\$ 3,099,622	\$ 11,973,454	\$ 865,907	\$ 5,764,426	\$ 355,956	\$ 22,059,365

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

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

Maturities of other debt are as follow for the fiscal year ending:

<u>Years Ending June 30,</u>		
2014	\$	19,584
2015		6,729
2016		5,064
2017		3,376
2018		-
	\$	34,753

Changes in long-term obligation are as follows:

<u>June 30, 2013</u>	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Bonds and notes payable:					
Bonds	\$ 18,799,326	\$ 549,353	\$ (1,610,799)	\$ 17,737,880	\$ 1,415,129
Less discounts and premiums	(194,779)	(2,920)	21,397	(176,302)	-
Total bonds and notes payable	18,604,547	546,433	(1,589,402)	17,561,578	1,415,129
Other Liabilities:					
Compensated absences	633,287	97,864	(36,042)	695,109	267,809
Other	66,637	-	(31,884)	34,753	19,584
Total other liabilities	699,924	97,864	(67,926)	729,862	287,393
Total Long-Term Liabilities	\$ 19,304,471	\$ 644,297	\$ (1,657,328)	\$ 18,291,440	\$ 1,702,522

Note 6: Fund Balances

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

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

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had \$97,467 restricted in the special revenue fund for local grants, \$1,642 restricted in the debt service fund for debt service and \$40,135 restricted in the nonmajor funds (\$33,957 restricted for capital projects, \$1,676 for prior SFCC offer and \$4,502 for current SFCC offer).

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments at June 30, 2013: \$100,000 for future construction, \$175,000 for compensated absences and \$70,000 for SBDM allocation.

Assigned fund balances are amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2013 was \$0. Assigned fund balances also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

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

Note 6: Fund Balances *(Continued)*

year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013 in the governmental funds balance sheet.

Note 7: Pension Plans

• ***Plan Descriptions***

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

• ***Funding Policy***

KTRS plan members are required to contribute 10.855% of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and KTRS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 14.105% for the Commonwealth and 1.000% for the District of annual covered payroll. The rate for CERS is 19.55%, 18.96% and 16.93% for the years ended June 30, 2013, 2012 and 2011, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012, and 2011 were \$435,277, \$450,930, and \$409,462 respectively, equal to the required contributions for each year.

For the year ended June 30, 2013 the Commonwealth contributed \$ 936,930 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2013 were \$143,087.

Note 7: Pension Plans *(Continued)*

• **Medical Insurance Plan**

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

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

Funding Policy — In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2012–2013 fiscal year.

• **Deferred Compensation Plans**

The District offers its employees to defer compensation in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permit them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities in the financial statements.

Note 8: Contingencies

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not

Note 8: Contingencies *(Continued)*

been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Note 9: Risk Management

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

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

Note 10: Litigation

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

Note 11: Excess Expenditures over Appropriations

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

Year ended June 30, 2013	
Fund	Amount
SEEK	\$ 3,966
Construction	46,100

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

Note 12: Fund Transfers

Fund transfers for the year ended June 30, 2013 consist of the following:

From Fund	To Fund	Purpose	Amount
General	Special revenue	Matching	\$ 45,709
General	Debt service	Debt service	361,784
Capital Outlay	Debt service	Debt service	197,238
FSPK	Debt service	Debt service	700,611
Food Service	General	Indirect costs	57,713

Note 13: On-behalf Payments

The District receives on-behalf payments from the State of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amount received for the fiscal year ended June 30, 2013, was 3,588,886 . These payments were recorded as follows:

Year ended June 30, 2013	
Fund	Amount
General Fund	\$ 2,806,277
Food Service Fund	91,322
Debt Service Fund	691,287
Total	\$ 3,588,886

Required Supplementary Information

Butler County School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2013	Budgeted Amounts		Actual (Budgetary Basis)	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Local and intermediate sources	\$ 2,553,200	\$ 2,553,200	\$ 2,853,282	\$ 300,082
State programs	9,222,700	9,222,700	9,676,465	453,765
Federal programs	20,000	20,000	9,137	(10,863)
Total revenues	11,795,900	11,795,900	12,538,884	742,984
Expenditures				
Current:				
Instruction	6,520,127	6,519,834	6,675,686	(155,852)
Support services:				
Student	265,936	265,936	266,902	(966)
Instructional staff	318,224	318,224	284,295	33,929
District administration	2,520,184	2,520,477	505,907	2,014,570
School administration	708,735	708,735	604,965	103,770
Business	250,184	250,184	274,219	(24,035)
Plant operations and maintenance	1,539,382	1,539,382	1,552,117	(12,735)
Student transportation	1,143,128	1,143,128	1,305,679	(162,551)
Total expenditures	13,265,900	13,265,900	11,469,770	1,796,130
Excess (Deficiency) of Revenues over Expenditures	(1,470,000)	(1,470,000)	1,069,114	2,539,114

Other Financing Sources (Uses)				
Bond proceeds	-	-	257,353	257,353
Operating transfers- net	(530,000)	(530,000)	(349,780)	180,220
Total other financing sources (uses)	(530,000)	(530,000)	(92,427)	437,573
Net Change in Fund Balance	(2,000,000)	(2,000,000)	976,687	2,976,687
Fund Balance - Beginning of Year	2,000,000	2,000,000	1,954,373	(45,627)
Fund Balance - End of Year	\$ -	\$ -	2,931,060	\$ 2,931,060

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

Inflows/revenues:		
Actual amounts (budgetary basis)	\$	12,538,884
Differences - budget to GAAP:		
On-behalf payments recorded under GAAP basis not included in budgeted amounts		2,806,277

**Total Revenues as Reported on Statement of Revenues,
Expenditures and Changes in Fund Balances -
Governmental Funds** **\$ 15,345,161**

Outflows/expenditures:		
Actual amounts (budgetary basis)	\$	11,469,770
Differences - budget to GAAP:		
On-behalf payments recorded under GAAP basis not included in budgeted amounts		2,806,277

**Total Expenditures as Reported on the
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds** **\$ 14,276,047**

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

Year Ended June 30, 2013	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ -	\$ -	\$ 19,396	\$ 19,396
State programs	700,460	714,157	706,198	(7,959)
Federal programs	1,820,301	1,612,508	1,737,746	125,238
Total revenues	2,520,761	2,326,665	2,463,340	136,675
Expenditures				
Current:				
Instruction	1,720,753	1,515,923	1,561,195	(45,272)
Support services:				
Student	300,794	300,794	301,435	(641)
Instructional staff	347,723	356,846	369,123	(12,277)
District administration	18,651	20,005	19,082	923
Business	24,300	24,300	20,000	4,300
Student transportation	1,265	1,522	794	728
Other	157,275	157,275	157,275	-
Total expenditures	2,570,761	2,376,665	2,428,904	(52,239)
Deficiency of Revenues over Expenditures	(50,000)	(50,000)	34,436	84,436

Other Financing Sources (Uses)				
Operating transfers- net	50,000	50,000	45,709	(4,291)
Total other financing sources (uses)	50,000	50,000	45,709	(4,291)
Net Change in Fund Balance	-	-	80,145	80,145
Fund Balance-Beginning of Year	-	-	17,322	17,322
Fund Balance-End of Year	\$ -	\$ -	\$ 97,467	\$ 97,467

Supplementary Information

Butler County School District
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2013	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Total Other Governmental Funds
Assets				
Cash	\$ 6,178	\$ -	\$ 33,957	\$ 40,135
Total Assets	\$ 6,178	\$ -	\$ 33,957	\$ 40,135
Fund Balances				
Fund Balances				
Restricted				
SFCC Prior offer	1,676	-	-	1,676
SFCC Current offer	4,502	-	-	4,502
Capital projects	-	-	33,957	33,957
Total fund balances	6,178	-	33,957	40,135
Total Fund Balances	\$ 6,178	\$ -	\$ 33,957	\$ 40,135

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

Year Ended June 30, 2013	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Total Other Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 232,290	\$ -	\$ 232,290
Intergovernmental - state	193,272	468,321	-	661,593
Total revenues	193,272	700,611	-	893,883
Expenditures				
Current:				
Facilities acquisition and construction	-	-	46,100	46,100
Total expenditures	-	-	46,100	46,100
Excess (Deficiency) of Revenues over Expenditures	193,272	700,611	(46,100)	847,783
Other Financing Sources (Uses)				
Operating transfers-out	(197,238)	(700,611)	-	(897,849)
Total other financing sources (uses)	(197,238)	(700,611)	-	(897,849)
Net Change in Fund Balances	(3,966)	-	(46,100)	(50,066)
Fund Balances - Beginning of Year	10,144	-	80,057	90,201
Fund Balances - End of Year	\$ 6,178	\$ -	\$ 33,957	\$ 40,135

Butler County School District
Combining Statement of Assets and Liabilities
All School Activity Funds
All Agency Funds

Year Ended June 30, 2013	Cash			Cash	Accounts	Accounts	Due to Student
	July 1, 2012	Receipts	Disbursements	June 30, 2013	Receivable	Payable	Groups June 30, 2013
Butler County High School	\$ 60,690	\$ 325,280	\$ 310,421	\$ 75,549	\$ -	\$ 17,771	\$ 57,778
Butler County Middle School	18,599	153,067	144,710	26,956	-	5,104	21,852
North Butler Elementary School	15,408	25,940	25,081	16,267	-	-	16,267
Morgantown Elementary School	59,100	45,402	45,302	59,200	-	-	59,200
Total	\$ 153,797	\$ 549,689	\$ 525,514	\$ 177,972	\$ -	\$ 22,875	\$ 155,097

Butler County School District
Statement of Assets and Liabilities
School Activity Funds
Butler County High School

Year Ended June 30, 2013	Cash			Cash		Accounts	Accounts	Due To Student
	July 1, 2012	Receipts	Disbursements	June 30, 2013	Receivable	Payable	Groups	
							June 30, 2013	
General	\$ 753	\$ 5,810	\$ 3,777	\$ 2,786	\$ -	\$ -	\$ 2,786	
Student Fund	7,311	676	4,406	3,581	-	-	3,581	
Faculty Fund	810	1,533	2,024	319	-	-	319	
School Safety	-	360	35	325	-	-	325	
ROTC	8,775	19,972	18,451	10,296	-	1,061	9,235	
Cheerleaders	3,528	17,879	17,132	4,275	-	1,555	2,720	
Tree Scape Fund	426	-	-	426	-	-	426	
Science Club	4,770	5,060	5,681	4,149	-	116	4,033	
Athletics	3,546	100,124	94,329	9,341	-	2,664	6,677	
Football Jr. Pro	177	2,186	1,954	409	-	-	409	
Girls BK Jr. Pro	7	-	-	7	-	-	7	
Jr. Pro Cheerleading	197	-	-	197	-	-	197	
Boys BK/Donation	1,106	-	-	1,106	-	-	1,106	
Soccer Jr. Pro	2,490	5,655	7,713	432	-	-	432	
Band	1,087	38,636	39,719	4	-	-	4	
Choir	80	992	864	208	-	-	208	
Library Supplies	465	371	513	323	-	-	323	
FCS	1,019	8,058	8,192	885	-	-	885	
Brick Fundraiser	-	6,500	5,487	1,013	-	-	1,013	
Calculators	1,389	1,742	2,738	393	-	-	393	
Business & Office	3,717	30	237	3,510	-	30	3,480	
Yearbook	1,877	24,864	11,959	14,782	-	11,479	3,303	
Class of 2012	107	-	107	-	-	-	-	
Class of 2013	2,965	-	1,812	1,153	-	558	595	
Class of 2014	-	10,999	9,020	1,979	-	-	1,979	

FFA	231	18,358	18,565	24	-	261	(237)
FCCLA	1,942	17,768	15,947	3,763	-	47	3,716
Beta Club	1,808	1,480	1,805	1,483	-	-	1,483
SUPA	1,130	1,216	1,126	1,220	-	-	1,220
NAC	160	-	-	160	-	-	160
Foreign Language	260	120	180	200	-	-	200
TSA	342	5,997	5,273	1,066	-	-	1,066
PRIDE	33	130	117	46	-	-	46
FBLA	272	429	484	217	-	-	217
Literary Club	129	-	129	-	-	-	-
FCA	151	-	-	151	-	-	151
Leadership	694	-	694	-	-	-	-
Student Council	768	-	-	768	-	-	768
Rental	279	85	307	57	-	-	57
Project Prom	2,113	24,955	24,520	2,548	-	-	2,548
Region 4 KATFACS	1,703	940	890	1,753	-	-	1,753
Pep Club	275	-	128	147	-	-	147
Renaissance Leadership	154	-	152	2	-	-	2
Region 4 FCCLA	1,644	2,242	3,886	-	-	-	-
Art Club	-	113	68	45	-	-	45
	\$ 60,690	\$ 325,280	\$ 310,421	\$ 75,549	\$ -	\$ 17,771	\$ 57,778

Butler County School District
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster			
Food Distribution Program - non-cash	10.555	-	\$ 64,994
Passed-Through State Department of Education:			
School Breakfast Program	10.553	7760005 12	206,939
National School Lunch Program	10.555	7750002 12	563,879
National School Summer Meals Program	10.559	7740023 12	26,749
Total U.S. Department of Agriculture			862,561
U.S. Department of Defense			
NJROTC - 2012	12.000	-	(10,574)
NJROTC - 2013	12.000	-	71,413
Total U.S. Department of Defense			60,839
U.S. Department of Education			
Passed-Through State Department of Education:			
Title I, Part A Cluster			
Title I to Local Educational Agencies - 2013	84.010	3100002 12	593,493
Title I to Local Educational Agencies - 2012	84.010	3100002 11	28,794
Title I to Local Educational Agencies - 2012	84.100	3100002 11	45,925
Title I to Local Educational Agencies - 2012	84.010	3100002 11	2,617
Title I to Local Educational Agencies - 2013	84.010	3100002 12	1,470
Title I School Improvements	84.010	3100202 11	<u>24,515</u>
Subtotal			696,814
Special Education Cluster			
Special Education - 2013	84.027	3810002 12	468,475
Special Education - Preschool - 2013	84.173	3800002 12	<u>28,937</u>
Subtotal			497,412
Title VI - Rural/Low Income	84.358	3140002 12	32,856
Title VI - Rural/Low Income	84.358	3140002 11	<u>3,351</u>
Subtotal			36,207
Vocational Education - 2013	84.048	4621232 12	13,967
Improving Teacher Quality - 2012	84.367	3230002 11	9,032
Improving Teacher Quality - 2013	84.367	3230002 12	<u>129,084</u>
Subtotal			138,116

Year Ended June 30, 2013

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Education Jobs	84.410	EJOB00 10	3,676
Race to the Top	84.413	3960002 11	18,257
Fund for the Improvement of Education	84.215F	5173	99,046
Fund for the Improvement of Education	84.215F	5172	<u>83,233</u>
Subtotal			182,279
Passed-Through State Department for Social Services:			
Title I Neglected & Delinquent - 2013	84.013	3133	19,324
Title I Neglected & Delinquent - 2011	84.013	3131	(55)
Title I Transition Services	84.013	3133T	<u>1,933</u>
Subtotal			21,202
Passed-Through State Workforce Cabinet:			
Community Based Work Transition- 2013	84.126A	3733	50,671
Adult Education - Professional Development	84.002	3733S	1,230
Community Based Work Transition- 2012	84.126A	3733	174
Community Based Work Transition- 2013	84.126A	3713	22,086
Community Based Work Transition- 2012	84.126A	3712	(10,304)
Federal Retention	84.002	3653	4,979
Federal Retention	84.002	3652	407
Federal Retention	84.002	3652	<u>(266)</u>
Subtotal			68,977
Total U.S. Department of Education			<u>1,676,907</u>
Total Expenditures of Federal Awards			\$ 2,600,307

See accompanying notes to the schedule of federal awards.

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of Butler County School District (the “District”) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Non-monetary assistance is reported in the schedule of fair value of the goods received.

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

Butler County School District
Summary Schedule of Prior Year Audit Findings

None



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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
Butler County School District
Morgantown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits as defined in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Butler County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Butler County School District's basic financial statements and have issued our report thereon dated October 28, 2013.

• Internal Control over Financial Reporting

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

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

misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

- **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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 non-compliance of specific state statutes or regulations identified in *Independent Auditor's Contract—State Audit Requirements*.

- **Purpose of this Report**

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

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 28, 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
Butler County School District
Morgantown, Kentucky

● Report on Compliance for Each Major Federal Program

We have audited Butler County School District's (the "District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

● 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 District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

- **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

- **Report on Internal Control over Compliance**

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

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

internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor's report issued on compliance for major programs: unqualified

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

Butler County School District
Schedule of Findings and Questioned Costs (Continued)

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I - Part A Cluster
84.367	Improving Teacher Quality

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

Auditee qualified as low-risk auditee? Yes No

Section II — Financial Statement Findings

None reported.

Section III — Federal Award Findings and Questioned Costs

None reported.



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Management Letter

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

In planning and performing our audit of the financial statements of Butler County School District (the "District") for the year ended June 30, 2013, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated October 28, 2013 contains our report on the District's internal control. This letter does not affect our report dated October 28, 2013 on the financial statements of the District.

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

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 28, 2013

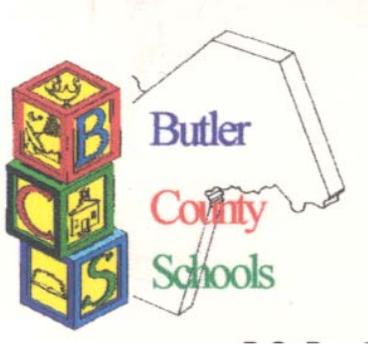
Current Year Comments

- **Butler County Middle School**

- During our procedures over ticket sales, we noted that ticket sales sheets are being completed by the school treasurer and the principal is signing as person in charge of sales. The person that sales the tickets should complete the form and it should be verified and signed by school treasurer. It also appears that the sheet is being completed and dated the day it is turned in and does not indicate the actual date of the event. The sheet should be completed the day of the event.
- During our procedures over bank reconciliation, we noted old outstanding checks that need to be voided and investigate the reason for them not clearing the bank account. These checks were several years old. All old outstanding checks need to be periodically reviewed and addressed accordingly.

- **Butler County High School**

- In our procedures over activity funds, we noted one account on the annual report after accounts payable was added with deficit balances at year end. Appropriate transfers should be made to cover deficit balances.
- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.



Management Letter Responses Current Year Comments

Butler County Middle School

During our procedures over ticket sales, we noted that ticket sales sheets are being completed by the school treasurer and the principal is signing as person in charge of sales. The person that sales the tickets should complete the form and it should be verified and signed by school treasurer. It also appears that the sheet is being completed and dated the day it is turned in and does not indicate the actual date of the event. The sheet should be completed the day of the event.

Response: In the future the person that sales the tickets will complete the form the day of the event and it will be verified and signed by the school treasurer.

During our procedures over bank reconciliation, we noted old outstanding checks that need to be voided and investigate the reason for them not clearing the bank account. These checks were several years old. All old outstanding checks need to be periodically reviewed and addressed accordingly.

Response: In the future all old outstanding checks will be periodically reviewed and addressed accordingly.

Butler County High School

In our procedures over activity funds, we noted one account on the annual report after accounts payable was added with deficit balances at year end. Appropriate transfers should be made to cover deficit balances.

Response: In the future appropriate transfers will be made to cover the deficit balance.

During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.

Response: In the future all student generated funds will be used to benefit the students.