

**EAST BERNSTADT INDEPENDENT
SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013
with
REPORT OF INDEPENDENT AUDITORS**

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
East Bernstadt Independent School District
East Bernstadt, 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 East Bernstadt Independent School 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Bernstadt Independent School 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Bernstadt Independent School District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The management's discussion and analysis and budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 11, 2013, on our consideration of East Bernstadt Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Bernstadt Independent School District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2013

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013

The management of East Bernstadt Independent School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2013. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$3,503,399 in 2013 and \$6,152,555 in 2012. In 2013 and 2012, cash of \$2,831,209 and \$680,531 respectively, was reserved for capital projects.
- The General Fund had \$3,623,106 in revenue, excluding interfund transfers and proceeds from the sale of assets, which primarily consisted of the state program (SEEK) and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$3,491,865 in General Fund expenditures.
- Governmental Capital Assets had a net increase of \$3,214,396 during the current fiscal year. Business-Type Activities Capital Assets had a net increase of \$348,568 during the current fiscal year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with the community input and keeping with the Kentucky Department of Education stringent compliance regulations. The total debt increased by \$1,670,907 during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on the table of contents of this report.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED
 Year ended June 30, 2013

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There 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, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements can be found on pages 8 to 18 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending.

Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2013

Fiscal year 2013 government-wide net position compared to 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 3,581,071	\$ 6,393,587
Capital assets	9,621,408	5,905,748
Total Assets	<u>\$ 13,202,479</u>	<u>\$ 12,299,335</u>
Current liabilities	\$ 976,754	\$ 2,236,183
Noncurrent liabilities	10,079,284	8,375,859
Total Liabilities	<u>\$ 11,056,038</u>	<u>\$ 10,612,042</u>
Net investment in capital assets, net of debt	\$ 1,941,758	\$ (3,370,985)
Restricted net position	26,303	5,013,443
Unrestricted net position	178,380	44,835
Total Net Position	<u>\$ 2,146,441</u>	<u>\$ 1,687,293</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$1,744,083; proprietary assets exceeded liabilities by \$402,358 and total assets exceeded liabilities by \$2,146,441 at June 30, 2013.

The District had an overall increase in unrestricted net position of \$133,545, comprised of an increase in governmental activities unrestricted net position of \$133,545.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED
Year ended June 30, 2013

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Revenues and other financing sources		
Local revenue sources	\$ 471,739	\$ 414,663
State revenue sources	4,060,875	3,819,688
Federal revenue	<u>627,046</u>	<u>465,280</u>
Total Revenue	<u>5,159,660</u>	<u>4,699,630</u>
Expenditures and other financing uses		
Instruction	2,380,121	2,589,124
Student	146,825	152,984
Instructional support	302,903	304,315
District administration	452,208	471,489
School administration	125,957	140,349
Business operations	183,706	123,320
Plant operations and maintenance	308,838	288,452
Student transportation	146,873	135,120
Building acquisition and construction	3,713,046	3,889,601
Community services	61,662	64,935
Debt service	<u>904,611</u>	<u>474,200</u>
Total expenditures	<u>8,726,750</u>	<u>8,633,889</u>
Excess revenues (expenditures)	<u>\$ (3,567,090)</u>	<u>\$ (3,934,259)</u>
Other financing sources (uses)		
Bond proceeds	\$ 2,135,000	\$ 8,196,000
Transfers in	716,208	361,124
Transfers out	(717,442)	(362,599)
Sale of Equipment	<u>-</u>	<u>545</u>
Total other financing sources (uses)	<u>\$ 2,133,766</u>	<u>\$ 8,195,070</u>
Net change in fund balance	<u>\$ (1,433,324)</u>	<u>\$ 4,260,811</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

BUDGETARY IMPLICATION

In Kentucky, the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$49,223 in contingency. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2013 were \$3,623,106 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$905,116 more than budget or 33.30% more than budget. This is due primarily to recording on-behalf payments made by the State of Kentucky of \$739,671 that were not budgeted. When these are eliminated, revenues compared to budget were \$165,445 or 6.09% more than anticipated.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2013 was \$3,491,865.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$632,875 or 22.14% more than budget. This is primarily due to recording on-behalf payments made by the State of Kentucky of \$739,671 that were not budgeted. When these are eliminated, expenditures compared to budget were \$106,796 or 3.74% less than anticipated.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent or the Director of Financial Services at 606-843-7373, or by mail at 296 E. Hwy. 3094, East Bernstadt, KY 40729.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,501,539	\$ 1,860	\$ 3,503,399
Accounts receivable:			
Taxes	4,183	-	4,183
Other	-	-	-
Intergovernmental - State	53,185	-	53,185
Intergovernmental - Federal	-	20,304	20,304
Bond issue costs, net	152,696	-	152,696
Capital Assets, net			
Nondepreciable	7,537,370	-	7,537,370
Depreciable	1,550,907	380,435	1,931,342
Total assets	<u>12,799,880</u>	<u>402,599</u>	<u>13,202,479</u>
LIABILITIES			
Accounts payable	356,172	241	356,413
Accrued expenses	46,007	-	46,007
Deferred revenue	5,504	-	5,504
Current maturities of bond obligations	453,219	-	453,219
Current portion of accumulated sick leave	61,268	-	61,268
Interest payable	54,343	-	54,343
Noncurrent maturities of bond obligations	10,057,640	-	10,057,640
Noncurrent portion of accumulated sick leave	21,644	-	21,644
Total liabilities	<u>11,055,797</u>	<u>241</u>	<u>11,056,038</u>
NET POSITION			
Net investment in capital assets	1,561,323	380,435	1,941,758
Restricted for:			
Capital expenditures	-	-	-
Other	4,380	21,923	26,303
Unrestricted	178,380	-	178,380
Total net position	<u>\$ 1,744,083</u>	<u>\$ 402,358</u>	<u>\$ 2,146,441</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental activities							
Instruction	\$ 2,700,849	\$ -	\$ 740,847	\$ -	\$ (1,960,002)	\$ -	\$ (1,960,002)
Student	151,208	-	51,093	-	(100,115)	-	(100,115)
Instructional support	303,223	-	166,052	-	(137,171)	-	(137,171)
District administration	463,059	-	83,026	-	(380,033)	-	(380,033)
School administration	127,220	-	25,546	-	(101,674)	-	(101,674)
Business operations	183,838	-	31,933	-	(151,905)	-	(151,905)
Plant operations and maintenance	407,270	-	51,093	-	(356,177)	-	(356,177)
Student transportation	157,015	-	44,706	-	(112,309)	-	(112,309)
Other instructional	-	-	-	-	-	-	-
Community services	61,742	-	83,026	-	21,284	-	21,284
Building acquisition and construction	-	-	-	-	-	-	-
Interest on long-term debt	491,728	-	-	951,696	459,968	-	459,968
Total governmental activities	5,047,152	-	1,277,322	951,696	(2,818,134)	-	(2,818,134)
Business-type activities							
Food service	321,382	49,382	242,683	377,426	-	348,109	348,109
Community service operations	10,103	8,608	-	-	-	(1,495)	(1,495)
Total business-type activities	331,485	57,990	242,683	377,426	-	346,614	346,614
Total primary government	\$ 5,378,637	\$ 57,990	\$ 1,520,005	\$ 1,329,122	(2,818,134)	346,614	(2,471,520)
General revenues							
Taxes:							
Property					213,904	-	213,904
Motor vehicle					66,096	-	66,096
Utility					129,159	-	129,159
Earnings on investments					9,799	26	9,825
State grants					2,458,902	-	2,458,902
Other local amounts					52,781	-	52,781
Transfers					(1,234)	1,234	-
Gain/(loss) on disposal of assets					-	-	-
Total general revenues					2,929,407	1,260	2,930,667
Change in net position					111,274	347,874	459,147
Net position as of June 30, 2012					1,632,809	54,484	1,687,293
Net position as of June 30, 2013	\$	\$	\$	\$	1,744,083	402,358	2,146,441

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET -
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 354,301	\$ -	\$ 3,174,805	\$ -	\$ 3,529,106
Accounts receivable:					
Taxes	4,183	-	-	-	4,183
Intergovernmental - State	18,576	34,609	-	-	53,185
Total assets	\$ 377,060	\$ 34,609	\$ 3,174,805	\$ -	\$ 3,586,474
LIABILITIES AND FUND BALANCES					
Liabilities					
Checks written in excess of account balance	\$ -	\$ 27,567	\$ -	\$ -	\$ 27,567
Accounts payable	11,038	1,538	343,596	-	356,172
Accrued liabilities	45,006	-	-	-	45,006
Deferred revenue	-	5,504	-	-	5,504
Current portion of accumulated sick leave	61,268	-	-	-	61,268
Total liabilities	117,312	34,609	343,596	-	495,517
Fund balances					
Restricted	-	-	2,831,209	-	2,831,209
Assigned	4,380	-	-	-	4,380
Unassigned	255,368	-	-	-	255,368
Total fund balances	259,748	-	2,831,209	-	3,090,957
Total liabilities and fund balances	\$ 377,060	\$ 34,609	\$ 3,174,805	\$ -	\$ 3,586,474

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
 Year ended June 30, 2013

Total fund balances - governmental funds	\$ 3,090,957
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	9,088,277
Capitalized the bond issue costs for the sale/refunding of bonds less amortization over the life of the bonds.	152,696
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(10,510,859)
Accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(22,645)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(54,343)</u>
Total net position - governmental activities	<u>\$ 1,744,083</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2013

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 213,904	\$ -	\$ -	\$ -	\$ 213,904
Motor vehicle	15,590	-	-	50,506	66,096
Utility	129,159	-	-	-	129,159
Earnings on investments	2,561	-	7,238	-	9,799
Other local	52,781	-	-	-	52,781
Intergovernmental - State	3,201,539	283,935	-	575,401	4,060,875
Intergovernmental - Federal	7,572	243,179	-	376,295	627,046
Total revenues	3,623,106	527,114	7,238	1,002,202	5,159,660
Expenditures					
Current:					
Instruction	2,078,983	301,138	-	-	2,380,121
Student	124,260	22,565	-	-	146,825
Instructional support	189,478	113,425	-	-	302,903
District administration	452,208	-	-	-	452,208
School administration	125,957	-	-	-	125,957
Business operations	183,706	-	-	-	183,706
Plant operations and maintenance	199,347	11,864	-	97,627	308,838
Student transportation	123,003	23,870	-	-	146,873
Other instructional	-	-	-	-	-
Community services	-	61,662	-	-	61,662
Building acquisition and construction	-	-	3,713,046	-	3,713,046
Site improvement	-	-	-	-	-
Debt service	14,923	-	-	889,688	904,611
Total expenditures	3,491,865	534,524	3,713,046	987,315	8,726,750
Excess (deficit) of revenues over (under) expenditures	131,241	(7,410)	(3,705,808)	14,887	(3,567,090)
Other financing sources (uses)					
Bond principal proceeds	-	-	2,135,000	-	2,135,000
Transfers in	65,329	7,410	210,503	432,966	716,208
Transfers out	(73,973)	-	-	(643,469)	(717,442)
Total other financing sources (uses)	(8,644)	7,410	2,345,503	(210,503)	2,133,766
Net change in fund balance	122,597	-	(1,360,305)	(195,616)	(1,433,324)
Fund balance as of June 30, 2012	137,151	-	4,191,514	195,616	4,524,281
Fund balance as of June 30, 2013	\$ 259,748	\$ -	\$ 2,831,209	\$ -	\$ 3,090,957

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2013

Net change in total fund balances - governmental funds	\$ (1,433,324)
Amounts reported for governmental activities in the statement of revenues, expenses, and changes in net position are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of revenues, expenses, and changes in net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year.	3,214,396
Bond issuance costs are reported as expenditures in the fund financial statements because they use current resources, but they are presented as assets in the statement of revenues, expenses, and changes in net position and amortized over the life of the bond	(10,523)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position.	(1,670,907)
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of revenues, expenses, and changes in net position.	(51,210)
Accumulated sick leave is recognized by the amount earned in the statement of revenues, expenses, and changes in net position, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>62,842</u>
Change in net position - governmental activities	<u>\$ 111,274</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF NET POSITION -
 PROPRIETARY FUNDS
 June 30, 2013

	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,860	\$ -	\$ 1,860
Accounts receivable	20,304	-	20,304
Total current assets	<u>22,164</u>	<u>-</u>	<u>22,164</u>
Noncurrent assets			
Capital assets	444,766	-	444,766
Less accumulated depreciation	(64,331)	-	(64,331)
Total noncurrent assets	<u>380,435</u>	<u>-</u>	<u>380,435</u>
Total assets	<u>402,599</u>	<u>-</u>	<u>402,599</u>
LIABILITIES			
Checks written in excess of account balance	-	-	-
Accounts payable	241	-	241
Total liabilities	<u>241</u>	<u>-</u>	<u>241</u>
NET POSITION			
Net investment in capital assets	380,435	-	380,435
Restricted for:			
Other	21,923	-	21,923
Unrestricted	-	-	-
Total net position	<u>\$ 402,358</u>	<u>\$ -</u>	<u>\$ 402,358</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
Year ended June 30, 2013

	Food Service Fund	Other Enterprise Funds	Total
Operating revenues			
Lunchroom sales	\$ 49,382	\$ -	\$ 49,382
Tuition and fees	-	8,608	8,608
Total operating revenues	<u>49,382</u>	<u>8,608</u>	<u>57,990</u>
Operating expenses			
Salaries and wages	111,059	8,003	119,062
Employee benefits	48,879	2,100	50,979
Materials and supplies	132,585	-	132,585
Depreciation	28,859	-	28,859
Total operating expenses	<u>321,382</u>	<u>10,103</u>	<u>331,485</u>
Operating loss	<u>(272,000)</u>	<u>(1,495)</u>	<u>(273,495)</u>
Nonoperating revenues			
Federal grants	203,108	-	203,108
State grants	23,221	-	23,221
Donated commodities	16,354	-	16,354
Interest income	26	-	26
Capital contributions	377,426	-	377,426
Total nonoperating revenues/(expenses)	<u>620,135</u>	<u>-</u>	<u>620,135</u>
Income before contributions			
Transfers and special items	348,135	(1,495)	346,640
Transfers in	-	1,234	1,234
Change in net position	<u>348,135</u>	<u>(261)</u>	<u>347,874</u>
Net position as of June 30, 2012	<u>54,223</u>	<u>261</u>	<u>54,484</u>
Net position as of June 30, 2013	<u>\$ 402,358</u>	<u>\$ -</u>	<u>\$ 402,358</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
Year ended June 30, 2013

	Food Service Fund	Other Enterprise Funds	Total
Cash flows from operating activities			
Cash received from:			
Lunchroom sales	\$ 49,382	\$ -	\$ 49,382
Other activities	-	8,608	8,608
Cash paid to/for:			
Employees	(159,938)	(9,842)	(169,780)
Supplies	(132,463)	-	(132,463)
Net cash used in operating activities	(243,019)	(1,234)	(244,253)
Cash flows from non-capital financing activities			
Grants received	222,378	-	222,378
Transfer in From General Fund	-	1,234	1,234
Net cash used in non-capital financing activities	222,378	1,234	223,612
Cash flows from investing activities			
Purchase of fixed assets	-	-	-
Interest received on investments	26	-	26
Net cash used in capital and related activities	26	-	26
Net increase in cash and cash equivalents	(20,615)	-	(20,615)
Cash and cash equivalents as of June 30, 2012	22,475	-	22,475
Cash and cash equivalents as of June 30, 2013	\$ 1,860	\$ -	\$ 1,860
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income/ (loss)	\$ (272,000)	\$ (1,495)	\$ (273,495)
Adjustments to reconcile change in net position to net cash used in operating activities:			
(Increase) Decrease in Accounts receivable	-	-	-
Increase (Decrease) in Accounts payable	122	-	122
Increase (Decrease) in Checks written in excess of account balance	-	261	261
Depreciation	28,859	-	28,859
Net cash used in operating activities	\$ (243,019)	\$ (1,234)	\$ (244,253)
Schedule of non-cash transactions:			
Capital contributions of fixed assts	\$ 377,426	\$ -	\$ 377,426
Depreciation	28,859	-	28,859
Donated commodities	16,354	-	16,354
Total non-cash transactions	\$ 422,639	\$ -	\$ 422,639

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
 June 30, 2013

	<u>Agency Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Total Fiduciary Funds</u>
ASSETS			
Cash	\$ 54,286	\$ 3,696	\$ 57,982
Accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>54,286</u>	<u>3,696</u>	<u>57,982</u>
LIABILITIES			
Accounts payable	-	-	-
Due to student groups	<u>54,286</u>	<u>-</u>	<u>54,286</u>
Total liabilities	<u>54,286</u>	<u>-</u>	<u>54,286</u>
Total net position	<u>\$ -</u>	<u>\$ 3,696</u>	<u>\$ 3,696</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the year ended June 30, 2013

	<u>Private Purpose Trust Funds</u>
Additions	
Employer	\$ 15,770
Plan members	<u>7,138</u>
Total Contributions	<u>22,908</u>
Investment income	
Interest	<u>3</u>
Total investment income	<u>3</u>
Total Additions	<u>22,911</u>
Deductions	
Benefits paid	<u>20,895</u>
Total Deductions	<u>20,895</u>
Net increase in plan assets	2,016
Net position held in trust, June 30, 2012	<u>1,680</u>
Net Position Held In Trust, June 30, 2013	<u>\$ 3,696</u>

1. REPORTING ENTITY

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

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the East Bernstadt Independent Board of Education. The basic 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. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

East Bernstadt Independent School District Finance Corporation – In a prior year, the East Bernstadt Independent Board of Education resolved to authorize the establishment of the East Bernstadt Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the "Corporation") to act as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the 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 primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

I. Government Fund Types - continued

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Funds)

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

The After School Child Care Fund accounts for the funds raised at schools providing after school care for children.

The Dental Plan Fund accounts for funds contributed for dental insurance (see disclosure note below).

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

III. Fiduciary Fund Type (Agency Funds)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Accounting Procedures for Kentucky 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Revenues, Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the 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. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. The District reports deferred revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as deferred revenue. In subsequent periods, the liability for deferred revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of activities as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

Property taxes are levied by September 30 on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates (including exonerations) assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.402 per \$100 valuation for real property, \$.402 per \$100 valuation for business personal property and \$.304 per \$100 valuation for motor vehicles.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Prepaid Assets

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

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.

All reported capital assets, except land and construction-in-progress, 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

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.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

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

Budgetary Process

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

- Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

Cash and Cash Equivalents

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

Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method; the general fund inventory is stated at cost and uses the first-in, first-out method.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

Fund balances are separated into five categories, as required by GASB 54, as follows:

Nonspendable fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

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

Committed fund balances are those amounts that can only be used for specific purposes 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.

Assigned fund balances are those 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. Assigned fund balance 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 nonspendable 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, then unassigned funds.

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013, in the governmental funds balance sheet.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating and Non-Operating Revenues and Expenses

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

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

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.

Interfund Activity

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, 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.

3. 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. As of June 30, 2013, none of the District's bank balances were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

3. CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Cumberland Valley National Bank	\$ 3,662,984	\$ 3,561,381
	<u>-</u>	<u>-</u>
	<u>\$ 3,662,984</u>	<u>\$ 3,561,381</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 3,501,539
Proprietary funds	1,860
Private Purpose Trust Fund	3,696
Agency funds	<u>54,286</u>
	<u>\$ 3,561,381</u>

Cash is commingled in various bank accounts and short-term certificates of deposit. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash account within the following funds is considered to be restricted:

- Special Revenue Funds
- SEEK Capital Outlay Fund
- Facility Support Program (FSPK) Fund
- School Construction Fund
- School Food Service Fund
- Agency Funds

4. INVESTMENTS

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2013, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2013

5. CAPITAL ASSETS

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

	June 30, 2012			June 30, 2013
	Balance	Additions	Retirements	Balance
Governmental Activities				
Land & land improvements	\$ 175,738	\$ -	\$ -	\$ 175,738
Buildings	2,387,429	-	-	2,387,429
Technology equipment	336,388	-	-	336,388
Vehicles	336,630	-	-	336,630
General equipment	173,124	25,465	-	198,589
Construction work in progress	4,051,479	3,310,153	-	7,361,632
Total historical cost	7,460,788	3,335,618	-	10,796,406
Less accumulated depreciation	1,586,907	121,222	-	1,708,129
Governmental capital assets, net	<u>\$ 5,873,881</u>	<u>\$ 3,214,396</u>	<u>\$ -</u>	<u>\$ 9,088,277</u>
Business-type Activities				
Buildings	\$ 50,176	\$ -	\$ -	\$ 50,176
Technology equipment	-	-	-	-
General equipment	17,164	377,426	-	394,590
Total historical cost	67,340	377,426	-	444,766
Less accumulated depreciation	35,471	28,859	-	64,330
Business-type capital assets, net	<u>\$ 31,869</u>	<u>\$ 348,567</u>	<u>\$ -</u>	<u>\$ 380,436</u>

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 6,142
Student	4,383
Instruction staff	320
District administrative	10,851
School administrative	1,263
Business	132
Plant operation and maintenance	87,910
Student transportation	141
Community Services	80
	<u>\$ 111,222</u>

6. LONG-TERM OBLIGATIONS

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the East Bernstadt Independent School District Finance Corporation.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2002	\$ 460,000	2.10% - 4.00%
2003	64,326	2.00% - 3.90%
2008	72,145	3.00% - 3.75%
2009	200,000	3.50% - 4.50%
2009R	421,920	1.00% - 3.50%
2011	8,196,000	4.84%
2012	2,135,000	1.1% - 2.650%

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 East Bernstadt Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008, the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

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 at June 30, 2013 for debt service (principal and interest) are as follows:

See table on next page

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2013

Year	East Bernstadt Independent School District		Kentucky School Facility Construction Commission		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2013-14	\$ 216,770	\$ 61,938	\$ 236,449	\$ 7,450	\$ 453,219	\$ 69,388
2014-15	217,720	60,177	236,799	7,100	454,519	67,277
2015-16	219,731	58,193	237,149	6,750	456,880	64,943
2016-17	219,350	55,977	237,499	6,400	456,849	62,377
2017-18	221,227	53,673	237,849	6,050	459,076	59,723
2018-19	214,838	50,895	238,199	5,700	453,037	56,595
2019-20	220,554	48,031	238,549	5,350	459,103	53,381
2020-21	220,154	45,249	238,949	4,950	459,103	50,199
2021-22	224,704	42,400	239,399	4,500	464,103	46,900
2022-23	229,254	39,419	239,849	4,050	469,103	43,469
2023-24	228,804	36,371	240,299	3,600	469,103	39,971
2024-25	233,354	33,258	240,749	3,150	474,103	36,408
2025-26	237,904	30,011	241,199	2,700	479,103	32,711
2026-27	242,454	26,633	241,649	2,250	484,103	28,883
2027-28	246,891	23,188	242,212	1,688	489,103	24,876
2028-29	251,216	19,676	242,887	1,012	494,103	20,688
2029-30	253,847	16,098	240,256	338	494,103	16,436
2030-31	1,916,309	12,388	230,837	-	2,147,146	12,388
2031-32	195,000	7,883	-	-	195,000	7,883
2032-33	200,000	2,650	-	-	200,000	2,650
	<u>\$ 6,210,081</u>	<u>\$ 724,108</u>	<u>\$ 4,300,778</u>	<u>\$ 73,038</u>	<u>\$ 10,510,859</u>	<u>\$ 797,146</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2013 is as follows:

School Building Revenue Bonds	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
2002	\$ 60,000	\$ -	\$ 60,000	\$ -
2003 KISTA	6,081	-	6,081	-
2008 KISTA	43,470	-	7,066	36,404
2009R KISTA	344,401	-	41,843	302,558
2009 Revenue	190,000	-	5,000	185,000
2011 Building 2012	8,196,000	2,135,000	344,103	7,851,897
	-	-	-	-
	<u>\$ 8,839,952</u>	<u>\$ 2,135,000</u>	<u>\$ 464,093</u>	<u>\$ 10,510,859</u>

7. RETIREMENT PLANS

Kentucky Teachers' Retirement System

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. Certified employees are covered under KTRS. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four year college degree or certification by Kentucky Department of Education (KDE).

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

Funding policy – Contribution rates are established by KTRS. Members contribute 10.855% of their salaries to KTRS. Employer's contributions for federally funded employees were 14.105% and employer contributions for non-federally funded employees were 1.0%. The Commonwealth of Kentucky, on behalf of the District's certified employees, is required to contribute a portion of the state retirement (see *On-Behalf Payments*). The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members or 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-retirement healthcare benefit, active member contributions are matched by the state at .75% of member's gross salaries. Those who became members before July 1, 2008 contribute 1.25 of their salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.00% of members' salary for the 2012-2013 fiscal year.

County Employees Retirement System

Substantially all other employees (full time classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple employers, and public employer's retirement system. The plan provides for retirement, disability, and death benefits. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The CERS issues a publicly available financial report which may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

7. RETIREMENT PLANS-CONTINUED

Funding Policy - Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5% and a District contribution of 19.55% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$2,659,012. The payroll for employees covered under KTRS was \$2,275,335 and for CERS was \$424,064.

The District's contribution (both withholding and match) KTRS for the years ended June 30, 2013, 2012 and 2011 was \$283,288, \$309,161, and \$257,836, respectively. The District's contributions (both withholding and match) CERS for the years ended June 30, 2013, 2012, and 2011 were \$102,769, \$108,133, and \$105,360, respectively. The District met their contribution requirements.

8. LEASES

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2013, aggregate cost for equipment and copier rentals was \$2,520.

9. CONTINGENCIES

Grants - The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2013 may be impaired. 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.

Kentucky School Boards Insurance Trust (KSBIT)-The Kentucky School Boards Insurance Trust was created in 1978 to provide insurance through nonprofit self-insured pools authorized under Kentucky law. These pools allow school districts, colleges and universities to combine their resources while sharing risks. Due to various economic factors, the Pools have incurred significant deficits. KSBIT has taken a number of steps to address the Pools' deficits: however, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the Pools due to competitive pressures.

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to confirm the Pools' deficits. As a result of these reviews and after consultation with the Kentucky Department of Insurance, KSBIT will be considering the following actions as part of a corrective action plan required by law.

- An assessment under a fair methodology to be approved by the Kentucky Department of Insurance of current and past participating members to fund the deficit.
- As applicable, a financing option that will give participating districts the choice of paying their portion, if any, of the assessment over a twenty-year period.
- The KSBIT self-insurance Pools will no longer accept new or renewal business after January 2013.

9. CONTINGENCIES-CONTINUED

- While these are still viable considerations, on November 7, 2013 the Kentucky Department of Insurance (DOI) filed petitions in Franklin Circuit Court asking that two of the Kentucky School Boards Insurance Trust's self-insured funds be placed in rehabilitation, which means DOI will directly manage the funds.

As of the date of this report, KSBIT has proffered several estimate methodologies over a broad range. Neither methodology has been accepted by the Kentucky Department of Insurance and a reasonable estimate of each districts' liability is not known nor has a payment amount been mandated to the school districts. In addition, the management of the East Bernstadt Independent School District cannot reasonably estimate the outcome of this issue

Based on the current information available, there is a reasonable possibility that the East Bernstadt Independent School District will be required to pay some part of the deficit. However, at this time, no reasonable or acceptable estimate is available; therefore no liability is recorded in the financial statements regarding this issue. The management of the District does believe it will not incur significant adverse effects whatever the disposition of this issue.

10. LITIGATION

The District is subject to legal actions in various states 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 financial statements as a result of the cases presently in progress.

11. IMPLEMENTATION OF GASB STATEMENT NO. 63

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. This standard established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position.

The noticeable changes to this audit include the use of the new wording, "net position," instead of the previously used wording of "net assets" and resulted in only a formatting change in the current year.

12. RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

13. DEFICIT FUND BALANCES

The District did not have any funds with deficit balances at June 30, 2013. However, there may be funds with deficit operating balances.

14. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss. There were no instances of noncompliance noted.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2013

15. TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	Building Fund	Debt Service	Debt Service	\$ 269,494
Operating	Building Fund	Capital Outlay	Operating	\$ 163,472
Operating	Building Fund	Construction	Construction	\$ 210,503
Operating	General	Special Revenue	Matching	\$ 7,410
Operating	General	After School Day Care	Operating	\$ 1,234
Operating	General	FSPK	Operating	\$ 65,329

16. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2013, there were no interfund balances outstanding that are reflected in the financial statements.

17. ON-BEHALF PAYMENTS

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of activities:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$ 282,218
Health and Life insurance	401,076
Other	34,348
Technology	42,077
Debt Service	243,900
	<u>\$ 1,003,619</u>

18. PRIVATE PURPOSE TRUST FUND – DENTAL FUND

The District maintained a dental fund in order to provide dental benefits for its employees. The total District contributions to the fund for the year ended June 30, 2013 amounted to \$15,770, and employee contributions amounted to \$7,138. Total benefits paid for the year amounted to \$20,895. The District terminated the plan as of June 30, 2013 and now offers a Delta Dental plan and the Board contributes 50% of individual plan costs which is approximately \$10 per month. The Board is not obligated to maintain the plan, and can terminate it at will.

19. SHORT TERM LOAN

During the prior year, the district obtained a short term loan to pay construction costs and to avoid certificate of deposit penalties. The details of the loan are summarized below:

Balance, 6/30/12	\$600,000
Payments	<u>600,000</u>
Balance, 6/30/13	<u>\$ -</u>

20. FUND BALANCE DESIGNATIONS

The following funds had restricted fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 2,831,209	Future Construction

21. SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through the date of the audit report. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes:				
Property	\$ 191,100	\$ 191,100	\$ 213,904	\$ 22,804
Motor vehicle	15,000	15,000	15,590	590
Utility	101,000	101,000	129,159	28,159
Earnings on investments	3,000	3,000	2,561	(439)
Other local	4,000	4,000	52,781	48,781
Intergovernmental - State	2,403,890	2,403,890	3,201,539	797,649
Intergovernmental - Federal	-	-	7,572	7,572
Total revenues	<u>2,717,990</u>	<u>2,717,990</u>	<u>3,623,106</u>	<u>905,116</u> *
Expenditures				
Current:				
Instruction	1,630,940	1,630,940	2,078,983	(448,043)
Student	109,771	109,771	124,260	(14,489)
Instructional staff	161,572	161,572	189,478	(27,906)
District administration	345,388	345,388	452,208	(106,820)
Contingency	49,223	49,223	-	49,223
School administration	93,332	93,332	125,957	(32,625)
Business operations	108,149	108,149	183,706	(75,557)
Plant operations and maintenance	242,477	242,477	199,347	43,130
Student transportation	101,137	101,137	123,003	(21,866)
Debt service	17,000	17,000	14,923	2,077.00
Total expenditures	<u>2,858,990</u>	<u>2,858,990</u>	<u>3,491,865</u>	<u>(632,875)</u> *
Excess (deficit) of revenues over (under) expenditures	(141,000)	(141,000)	131,241	272,241
Other financing sources (uses)				
Transfers in	12,000	12,000	65,329	53,329
Transfers out	(8,000)	(8,000)	(73,973)	(65,973)
Total other financing sources (uses)	<u>4,000</u>	<u>4,000</u>	<u>(8,644)</u>	<u>(12,644)</u>
Net change in fund balance	<u>(137,000)</u>	<u>(137,000)</u>	<u>122,597</u>	<u>259,597</u>
Fund balance as of June 30, 2012	<u>137,000</u>	<u>137,000</u>	<u>137,151</u>	<u>151</u>
Fund balance as of June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 259,748</u>	<u>\$ 259,748</u>

* For the year ended June 30, 2013, actual revenues and expenditures exceeded appropriations in various categories primarily due to on-behalf payments made by the Commonwealth of Kentucky for the East Bernstadt Independent School District. These amounts are included in the actual revenues and expenditures, but are not included in the budgeted amounts.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Other local	\$ -	\$ -	\$ -	\$ -
Intergovernmental - State	266,881	266,881	283,935	17,054
Intergovernmental - Federal	250,012	250,012	243,179	(6,833)
Total revenues	<u>516,893</u>	<u>516,893</u>	<u>527,114</u>	<u>10,221</u>
Expenditures				
Current:				
Instruction	300,920	300,920	301,138	(218)
Student	17,867	17,867	22,565	(4,698)
Instructional support	108,069	108,069	113,425	(5,356)
Plant operations and maintenance	11,852	11,852	11,864	(12)
Student transportation	21,180	21,180	23,870	(2,690)
Community service	61,337	61,337	61,662	(325)
Total expenditures	<u>521,225</u>	<u>521,225</u>	<u>534,524</u>	<u>(13,299)</u>
Deficit of revenues under expenditures	<u>(4,332)</u>	<u>(4,332)</u>	<u>(7,410)</u>	<u>(3,078)</u>
Other financing sources				
Operating transfers in	<u>4,000</u>	<u>4,000</u>	<u>7,410</u>	<u>3,410</u>
Total other financing sources	<u>4,000</u>	<u>4,000</u>	<u>7,410</u>	<u>3,410</u>
Net change in fund balance	<u>(332)</u>	<u>(332)</u>	<u>-</u>	<u>(332)</u>
Fund balance as of June 30, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2013	<u>\$ (332)</u>	<u>\$ (332)</u>	<u>\$ -</u>	<u>\$ (332)</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2013

Because of the nature of certain transactions allocated to the general fund, specific revenue, expenditures, and other financing sources and uses were not budgeted in the General Fund by the District during the year ending June 30, 2013. A schedule of non-budgeted transactions is presented below.

Non-budgeted revenues

Intergovernmental state revenue - on-behalf payments	<u>\$ 739,671</u>
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Non- budgeted expenditures

On-behalf expenditures

Instruction	\$ 473,533
Student	23,347
Instructional staff support	40,483
District administration	65,591
School administration	28,179
Business support services	71,765
Plant operations and maintenance	22,852
Student transportation	<u>13,921</u>

Total non-budgeted on-behalf expenditures	<u>\$ 739,671</u>
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The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget. The working budget was amended during the year.

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2013

	SEEK Capital Outlay Fund	Building Fund	Debt Service Fund	Total Non-major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES				
Fund Balances:				
Restricted	\$ -	\$ -	\$ -	\$ -
Nonspendable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EAST BERNSTADT INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
 Year ended June 30, 2013

	SEEK Capital Outlay Fund	Building Fund	Debt Service Fund	Total Non-major Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 50,506	\$ -	\$ 50,506
Earnings on investments	-	-	-	-
Intergovernmental - State	46,304	285,198	243,899	575,401
Intergovernmental - Federal	-	-	376,295	376,295
	<u>46,304</u>	<u>335,704</u>	<u>620,194</u>	<u>1,002,202</u>
Total revenues				
Expenditures				
Plant operations & maintenance	97,627	-	-	97,627
Debt service	-	-	889,688	889,688
	<u>97,627</u>	<u>-</u>	<u>889,688</u>	<u>987,315</u>
Total expenditures				
Excess (deficit) of revenues over (under) expenditures	<u>(51,323)</u>	<u>335,704</u>	<u>(269,494)</u>	<u>14,887</u>
Other financing sources (uses)				
Transfers in	163,472	-	269,494	432,966
Transfers out	<u>(144,293)</u>	<u>(499,176)</u>	<u>-</u>	<u>(643,469)</u>
Total other financing sources (uses)	<u>19,179</u>	<u>(499,176)</u>	<u>269,494</u>	<u>(210,503)</u>
Net change in fund balance	(32,144)	(163,472)	-	(195,616)
Fund balance as of June 30, 2012	<u>32,144</u>	<u>163,472</u>	<u>-</u>	<u>195,616</u>
Fund balance as of June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EAST BERNSTADT INDEPENDENT BOARD OF EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
 Year ended June 30, 2013

School/ Activity Fund	Cash and Equivalents June 30, 2012	Receipts	Disbursements	Cash and Cash Equivalents June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
East Bernstadt Elementary	\$ 49,527	\$ 174,766	\$ 170,007	\$ 54,286	\$ -	\$ -	\$ 54,286
Totals	\$ 49,527	\$ 174,766	\$ 170,007	\$ 54,286	\$ -	\$ -	\$ 54,286

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

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
East Bernstadt Independent School District
East Bernstadt, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of East Bernstadt Independent School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise East Bernstadt Independent School District's basic financial statements, and have issued our report thereon dated November 11, 2013.

Internal Control over Financial Reporting

Management of East Bernstadt Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered East Bernstadt Independent School 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 East Bernstadt Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Bernstadt Independent School 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2013

MANAGEMENT LETTER COMMENTS

Members of the Board of Education
East Bernstadt Independent School District
East Bernstadt, Kentucky

In planning and performing our audit of the basic financial statements of East Bernstadt Independent School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 11, 2013, on the basic financial statements of East Bernstadt Independent School District.

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

Respectfully,

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2013

Prior Year Comments – School Activity Funds

There were no prior year comments.

Current Year Comments –School Activity Funds

During testing of school activity funds, we noted the following general deficiencies in internal control. The individual schools where these issues were noted are listed:

1. Noted instances of purchase orders being improperly executed. The Redbook states that “to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated.” Instances of purchase orders being approved after the obligation of funds or purchase being made.

Management response: It appears the instances of purchase orders being improperly executed that were discovered were the result of oversight. Since July, we have a new Principal in charge of the activity fund procedures. She has attended Redbook training and is aware of the proper procedures required to initiate a purchase.