

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION

**BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2013

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
TABLE OF CONTENTS (CONTINUED)
June 30, 2013**

| | |
|---|--------------|
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis | 3-9 |
| Basic Financial Statements: | |
| <i>Government-wide Financial Statements:</i> | |
| Statement of Net Position | 10 |
| Statement of Activities | 11-12 |
| <i>Fund Financial Statements:</i> | |
| Balance Sheet – Governmental Funds | 13 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 14 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 15 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 16-17 |
| Statement of Net Position – Proprietary Fund | 18 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund | 19 |
| Statement of Cash Flows – Proprietary Fund | 20 |
| Statement of Fiduciary Net Position | 21 |
| Notes to Basic Financial Statements | 22-41 |
| Required Supplemental Information | |
| Budgetary Comparison Schedule – General Fund | 42 |
| Budgetary Comparison Schedule – Special Revenue Funds | 43 |
| Notes to Budgetary Comparison Schedules | 44-45 |
| Other Supplemental Information | |
| Combining Balance Sheet – Non-Major Governmental Funds | 46 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds | 47 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Debt Service Funds | 48-49 |
| Statement of Receipts, Disbursements and Fund Balances – School Activity Funds | 50 |
| Board Members and Administrative Personnel | 51 |

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
TABLE OF CONTENTS (CONTINUED)
June 30, 2013**

Other Supplemental Information (Continued)

| | |
|--|--------------|
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 52-53 |
| Independent Auditor's Report on Compliance with Each Major Program and on Internal Control Over Compliance required by OMB Circular A-133 | 54-55 |
| Schedule of Expenditures of Federal Awards | 56 |
| Notes to the Schedule of Expenditures of Federal Awards | 57 |
| Schedule of Findings and Questioned Costs | 58-60 |
| Summary Schedule of Prior Audit Findings | 61 |
| Management Letter | 62-64 |
| District Response Letter | 65-67 |

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Kentucky State Committee For School District Audits
Members of the Gallatin County, Kentucky, Board of Education
Warsaw, Kentucky

INDEPENDENT AUDITOR'S REPORT

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 Gallatin County, Kentucky, Board of Education, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. 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 Gallatin County, Kentucky, Board of Education, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note Q to the financial statements, the District's previously issued June 30, 2013, financial statements have been restated to correct a misstatement in the classification of fund equity in the governmental fund financial statement. The auditor's report dated November 8, 2013, on those previously issued statements is to be disregarded and is replaced by this auditor's report on the restated financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 42-45 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 Gallatin County Board of Education's basic financial statements. The combining non-major fund financial statements and other supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining non-major fund financial statements, other supplemental schedules listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 non-major fund financial statements, other supplemental schedules listed in the table of contents and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the Gallatin County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gallatin County Board of Education's internal control over financial reporting and compliance.

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

November 8, 2013, except for Notes L and Q as to which the date is December 5, 2013

**GALLATIN COUNTY SCHOOL DISTRICT – WARSAW, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

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

FINANCIAL HIGHLIGHTS

- Construction began on the new Alternative School/Fieldhouse during Fiscal Year 2013. The project is expected to take approximately 11 months to complete and is estimated to be finished in November, 2013. The total budget for this project is approximately \$4,593,156. As of June 30, 2013, the project was around 50% complete and the remaining balance for that project was around \$1,800,000, including contingency.
- In 2013, the school district issued bonds for the Alternative School/Fieldhouse project in the amount of \$4,479,171. Of this amount, \$4,040,000 was District participation and \$439,171 was SFCC participation. Total interest to be paid on the bonds over twenty years is \$1,443,978, with District participation being \$1,338,713 and SFCC participation of \$105,265. The bonds were issued in February of 2013 and will be paid off on December 1, 2032. The Board also issued KISTA bonds in the amount of \$106,762, with total interest to be paid of \$11,467. This bond issue was for purchase of a school bus and will be paid over ten years. The last payment will be on March 1, 2023.
- The ending cash balance for the District was \$5,315,329 in 2013 and \$2,476,675 in 2012. This represents an increase of approximately \$2,839,000 over 2012. This increase was due to normal fluctuations in the payment cycle and also to the influx of bond money in the Construction fund due to the Alternative School/Fieldhouse project. Cash in the Construction fund totaled \$2,961,000.
- The state requires Gallatin County to record in its financial statements certain payments made by the State of Kentucky on behalf of the employees of the district, such as retirement plan match and insurance payments. These on-behalf payments totaled approximately \$2,342,905 in 2013 and \$2,256,847 in 2012. For comparison purposes, these payments and the associated expenses have been excluded from this analysis.
- Excluding on-behalf payments, General Fund revenues increased by approximately \$193,000 or approximately 1.5 % over fiscal year 2012 income. In other words, Revenues were basically flat. Utilities taxes decreased approximately \$150,000. Additionally, Omitted Property Taxes decreased by approximately \$100,000. Overall, total revenue from Local Sources decreased by \$163,000. These decreases were offset by an increase in SEEK revenue of approximately \$295,000 due to an increase in ADA for the year. Other State revenue decreased by \$8,000 however. Property taxes increased by only \$60,000 over 2012. The omitted property taxes in 2012 appear to be a one-time windfall that was remitted to the district by the state and should not be expected to recur. Overall, the outlook for revenues in the future appears to be flat or decreasing.
- Interest and investment income for all funds overall increased by only \$1,400 during 2013, due to continually dismal interest rates.
- Excluding on-behalf payments, General Fund expenditures increased by approximately \$97,000 or approximately 1% in fiscal year 2013. Expenditures were basically flat compared to last year. There were no comprehensive raises in fiscal year 2013, however salaries and benefits increased by 2% over the prior year due to step increases and increases in the KTRS and CERS match. Other expenditures were decreased in order to maintain a prudent contingency and to ensure that expenditures did not exceed revenues. The district was able to prevent a reduction in personnel during 2013 in spite of revenues being flat compared to last year. There was one bus purchase in 2013.
- 2013 Awards from State Grants decreased by approximately \$223,000 over 2012. The majority of these cuts came in the Preschool Grant. In the event that revenues to this grant continue to be cut, the expenditures in Preschool will have to be supplemented by the General fund in the future in order to maintain the same level of Preschool services provided by this grant. Federal Grant Awards also decreased from 2012, by approximately \$57,000. These deficits will be more severe next year when sequestration cuts go into effect. The majority of the decrease was in Title I – School Improvement funds, which was \$31,429 in 2012 and \$0 in 2013. The school district must find other ways to supplement grant revenues in the future in order to keep from reducing services due to these cuts in Federal and State Grants. General fund revenues will not be sufficient to sustain these programs without additional funding at the Federal and State level.
- The District participated in the Kentucky School Boards Insurance Trust (KSBIT) to obtain Worker’s Compensation, Liability, and Property Insurance coverage over a number of years. The District was notified during 2013 that this trust was

**GALLATIN COUNTY SCHOOL DISTRICT – WARSAW, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

FINANCIAL HIGHLIGHTS (Continued)

in an untenable deficit position and that it would be discontinued. All past and present participants of the fund will be assessed in order to make up for the deficit that had built up over a number of years. At this time, Gallatin County's estimate of their portion of this deficit is around \$200,000. The school district will have the option to pay this amount over a period of up to ten years through a KISTA bond issue.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The statement of net 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 principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10-12 of this report.

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

The basic governmental fund financial statements can be found on pages 13-21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$10,872,142 million as of June 30, 2013.

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

**GALLATIN COUNTY SCHOOL DISTRICT – WARSAW, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

| | Summary of Net Position | | |
|----------------------------------|--------------------------------|----------------------|---------------------|
| | June 30, 2013 | June 30, 2012 | Increase (Decrease) |
| Current Assets | \$ 5,781,708 | \$ 3,050,806 | \$ 2,730,902 |
| Capital Assets | 36,400,333 | 35,444,285 | 956,048 |
| Bond Issuance Costs, Net | 562,025 | 486,073 | 75,952 |
| Total Assets | \$ 42,744,066 | \$ 38,981,164 | \$ 3,762,902 |
| Current Liabilities | \$ 2,738,455 | \$ 2,237,187 | \$ 501,268 |
| Noncurrent Liabilities | 29,133,469 | 26,369,623 | 2,763,846 |
| Total Liabilities | \$ 31,871,924 | \$ 28,606,810 | \$ 3,265,114 |
| Net Position | | | |
| Net Investment in Capital Assets | \$ 8,895,158 | \$ 8,263,461 | \$ 631,697 |
| Restricted | 96,233 | 245,156 | (148,923) |
| Unrestricted | 1,880,751 | 1,865,737 | 15,014 |
| Total Net Position | \$ 10,872,142 | \$ 10,374,354 | \$ 497,788 |

| | Summary of Changes in Net Position | | | | | | |
|--|---|----------------------|--------------------------|---------------------|----------------------|----------------------|--------------------|
| | Governmental Activities | | Business-type Activities | | Total District | | Amount of Change |
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 | |
| REVENUES | | | | | | | |
| Program Revenues: | | | | | | | |
| Charges for Services | \$ 63,653 | \$ 58,061 | \$ 237,303 | \$ 241,693 | \$ 300,956 | \$ 299,754 | \$ 1,202 |
| Federal & State Grants & Contributions | 4,828,016 | 5,058,492 | 816,124 | 817,013 | 5,644,140 | 5,875,505 | (231,365) |
| General Revenues: | | | | | | | |
| Property Taxes | 3,464,547 | 3,413,755 | - | - | 3,464,547 | 3,413,755 | 50,792 |
| Other Taxes | 1,520,554 | 1,756,046 | - | - | 1,520,554 | 1,756,046 | (235,492) |
| State Aid Formula Grants | 7,466,763 | 7,072,951 | - | - | 7,466,763 | 7,072,951 | 393,812 |
| Other General Revenues | 4,659 | 3,291 | 189 | 182 | 4,848 | 3,473 | 1,375 |
| Loss on Retirement of Assets | 934 | (3,022) | - | - | 934 | (3,022) | 3,956 |
| Total Revenue | \$ 17,349,126 | \$ 17,359,574 | \$ 1,053,616 | \$ 1,058,888 | \$ 18,402,742 | \$ 18,418,462 | \$ (15,720) |
| EXPENSES | | | | | | | |
| Program Expenses: | | | | | | | |
| Instruction | \$ 9,064,205 | \$ 9,135,280 | \$ - | \$ - | \$ 9,064,205 | \$ 9,135,280 | \$ (71,075) |
| Support Services: | | | | | | | |
| Student | 679,700 | 658,858 | - | - | 679,700 | 658,858 | 20,842 |
| Instructional Staff | 549,049 | 592,676 | - | - | 549,049 | 592,676 | (43,627) |
| District Administration | 826,257 | 707,607 | - | - | 826,257 | 707,607 | 118,650 |
| School Administration | 974,995 | 962,373 | - | - | 974,995 | 962,373 | 12,622 |
| Business Support Service | 686,607 | 695,238 | - | - | 686,607 | 695,238 | (8,631) |
| Plant Operation & Management | 1,282,526 | 1,277,587 | - | - | 1,282,526 | 1,277,587 | 4,939 |
| Student Transportation | 1,215,621 | 1,305,211 | - | - | 1,215,621 | 1,305,211 | (89,590) |
| Food Service Operation | - | - | 1,145,746 | 1,122,656 | 1,145,746 | 1,122,656 | 23,090 |
| Community Services | 157,655 | 159,564 | - | - | 157,655 | 159,564 | (1,909) |
| Other Instructional | 60,987 | 61,023 | - | - | 60,987 | 61,023 | (36) |
| Interest on Long-term Debt | 1,261,606 | 1,255,726 | - | - | 1,261,606 | 1,255,726 | 5,880 |
| Total Expenses | \$ 16,759,208 | \$ 16,811,143 | \$ 1,145,746 | \$ 1,122,656 | \$ 17,904,954 | \$ 17,933,799 | \$ (28,845) |
| Increase (Decrease) in Net Position Before Transfers | \$ 589,918 | \$ 548,431 | \$ (92,130) | \$ (63,768) | \$ 497,788 | \$ 484,663 | \$ 13,125 |
| Transfers | - | (92,053) | - | 92,053 | - | - | - |
| Increase (Decrease) in Net Position | \$ 589,918 | \$ 456,378 | \$ (92,130) | \$ 28,285 | \$ 497,788 | \$ 484,663 | \$ 13,125 |
| Beginning Net Position | 9,754,484 | 9,298,106 | 619,870 | 591,585 | 10,374,354 | 9,889,691 | 484,663 |
| Ending Net Position | \$ 10,344,402 | \$ 9,754,484 | \$ 527,740 | \$ 619,870 | \$ 10,872,142 | \$ 10,374,354 | \$ 497,788 |

**GALLATIN COUNTY SCHOOL DISTRICT – WARSAW, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following are significant current year transactions that have had an impact on the Statement of Net Position.

Comments on Budget Comparisons

- The District’s total revenues (governmental funds) for the fiscal year ended June 30, 2013, net of Inter-fund transfers and lease bond proceeds and on-behalf payments, were \$14,217,452.
- General fund budget compared to actual revenue varied slightly from line item to line item. Actual ending balance was \$252,705 more than budget.
- The total cost of all programs and services (governmental funds) was \$13,827,868 net of debt service and on-behalf payments.
- General fund budgeted expenditures were greater than actual by around \$2,144,426 excluding on-behalf payments. This resulted from the board establishing a contingency totaling \$1,551,164 and other expenditures being lower than expected.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2013.

Summary of Revenues and Expenditures – Governmental Funds

| | June 30, 2013 | June 30, 2012 | Increase (Decrease) |
|--|-----------------------|----------------------|-----------------------|
| Revenues: | | | |
| Local revenue sources | \$ 5,123,998 | \$ 5,263,874 | \$ (139,876) |
| State revenue sources | 8,040,833 | 7,609,122 | 431,711 |
| Direct Federal Revenue | 121,474 | 122,583 | (1,109) |
| Indirect Federal Revenue | 930,213 | 1,267,330 | (337,117) |
| State on Behalf Payments | 3,144,989 | 3,074,705 | 70,284 |
| Total Revenues | <u>\$ 17,361,507</u> | <u>\$ 17,337,614</u> | <u>\$ 23,893</u> |
| Expenditures: | | | |
| Instruction | \$ 7,920,386 | \$ 7,927,128 | \$ (6,742) |
| Student Support Services | 679,524 | 658,590 | 20,934 |
| Instructional Support | 546,209 | 589,606 | (43,397) |
| District Administration | 587,054 | 577,567 | 9,487 |
| School Administration | 973,665 | 960,713 | 12,952 |
| Business Support | 606,426 | 637,512 | (31,086) |
| Plant Operations | 1,264,860 | 1,263,013 | 1,847 |
| Student Transportation | 1,096,275 | 1,193,765 | (97,490) |
| Community Support | 60,987 | 159,235 | (98,248) |
| Other Instructional | 157,346 | 61,023 | 96,323 |
| Facilities Acquisition & Construction | 2,215,315 | 1,208,851 | 1,006,464 |
| Debt Service | 2,842,916 | 2,676,534 | 166,382 |
| Total Expenditures | <u>\$ 18,950,963</u> | <u>\$ 17,913,537</u> | <u>\$ 1,037,426</u> |
| Excess (Deficit) of Revenues over Expenditures | <u>\$ (1,589,456)</u> | <u>\$ (575,923)</u> | <u>\$ (1,013,533)</u> |
| Other Financing Sources (Uses): | | | |
| Bond Proceeds | \$ 4,146,762 | \$ 110,010 | \$ 4,036,752 |
| Lease Proceeds | 48,105 | - | 48,105 |
| Sale of Fixed Assets | 934 | 4,334 | (3,400) |
| Total Other Financing Sources (Uses): | <u>\$ 4,195,801</u> | <u>\$ 114,344</u> | <u>\$ 4,081,457</u> |
| Excess (Deficit) of Revenues & Other Financing Sources over Expenditures & Other Financing Uses | <u>\$ 2,606,345</u> | <u>\$ (461,579)</u> | <u>\$ 3,067,924</u> |

*The board authorized expenditures of prior year reserve to address renovation and construction needs.

**GALLATIN COUNTY SCHOOL DISTRICT – WARSAW, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some Federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a general fund budget with \$1,551,164 in contingency. The beginning cash balance for the fiscal year was \$2,476,675. 2013 Awards from State Grants decreased approximately \$223,000 from the prior year. Awards from Federal Grants decreased approximately \$57,000 from the prior year.

Gallatin County Public Schools received a federal grant titled Title I Assistance, which was awarded for the period July 1, 2011 through September 30, 2013. This grant was awarded in the amount of \$371,030. Its impact involved the elementary and upper elementary schools and their associated staff. This grant also helped fund Central Office Staff including a Federal Programs coordinator.

Gallatin County Public Schools received a federal grant titled Title I Professional Development, which was awarded for the period July 1, 2011 through September 30, 2013. This grant was awarded in the amount of \$66,516. This grant helped fund training and development programs for teachers.

Gallatin County Public Schools received a federal grant titled IDEA Basic Assistance, which was awarded for the period July 1, 2011 through September 30, 2013. This grant was awarded in the amount of \$315,225. Its impact involved funding for special educational services for all of the district's schools and their associated staff. This grant also helped fund the Director of Special Education and the School Psychologist.

Gallatin County Public Schools received a federal grant titled IDEA Preschool Assistance, which was awarded for the period July 1, 2011 through September 30, 2013. This grant was awarded in the amount of \$11,873. This grant helped fund special education programs and services for preschool children.

Gallatin County Public Schools received a federal grant titled Carl D. Perkins Vocational and Applied Educational Grant, which was awarded for the period July 1, 2012 through June 30, 2013. This grant was awarded in the amount of \$14,804. This grant helped fund career and technical programs at the high school.

Gallatin County Public Schools received a federal grant titled Title II-A Teacher Quality Assistance, which was awarded for the period July 1, 2012 through September 30, 2013. This grant was awarded in the amount of \$77,279. This grant helped fund programs at the elementary school.

Gallatin County Public Schools received a federal grant titled Title III Limited English Proficiency/Immigrant Grant, which was awarded for the period July 1, 2012 through September 30, 2013. This grant was awarded in the amount of \$15,277. Its impact involved all schools with an emphasis on students with limited English Proficiency.

Gallatin County Public Schools received a federal grant titled Rural & Low Income Assistance, which was awarded for the period July 1, 2011 through September 30, 2013. This grant was awarded in the amount of \$30,441. This grant provided funds for all schools to supplement funding for teacher recruitment/retention, education technology, safe and drug-free schools and parent activities.

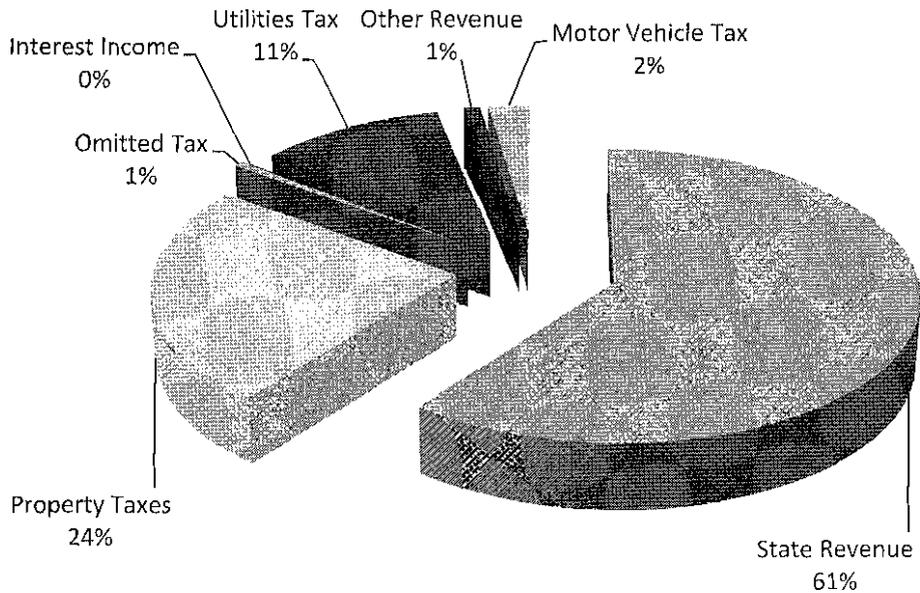
Questions regarding this report should be directed to the Superintendent, (859) 567-2828 or to Connie Wainscott, Finance Officer (859) 567-1825, or by mail at 75 Boardwalk, Warsaw, KY 41095.

GALLATIN COUNTY SCHOOL DISTRICT – WARSAW, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

General Fund Revenue Chart 1

The majority of revenue was derived from state funding (61%) with local property taxes making up 24% of total revenue. Utilities taxes make up the next largest source of General Fund revenue, at 11%. In Fiscal Year 2013, SEEK funding made up approximately 60% of total General Fund Revenue. Decreases in State and Federal funding in Fiscal Year 2013 have put an increasing burden for school funding on Local Communities.

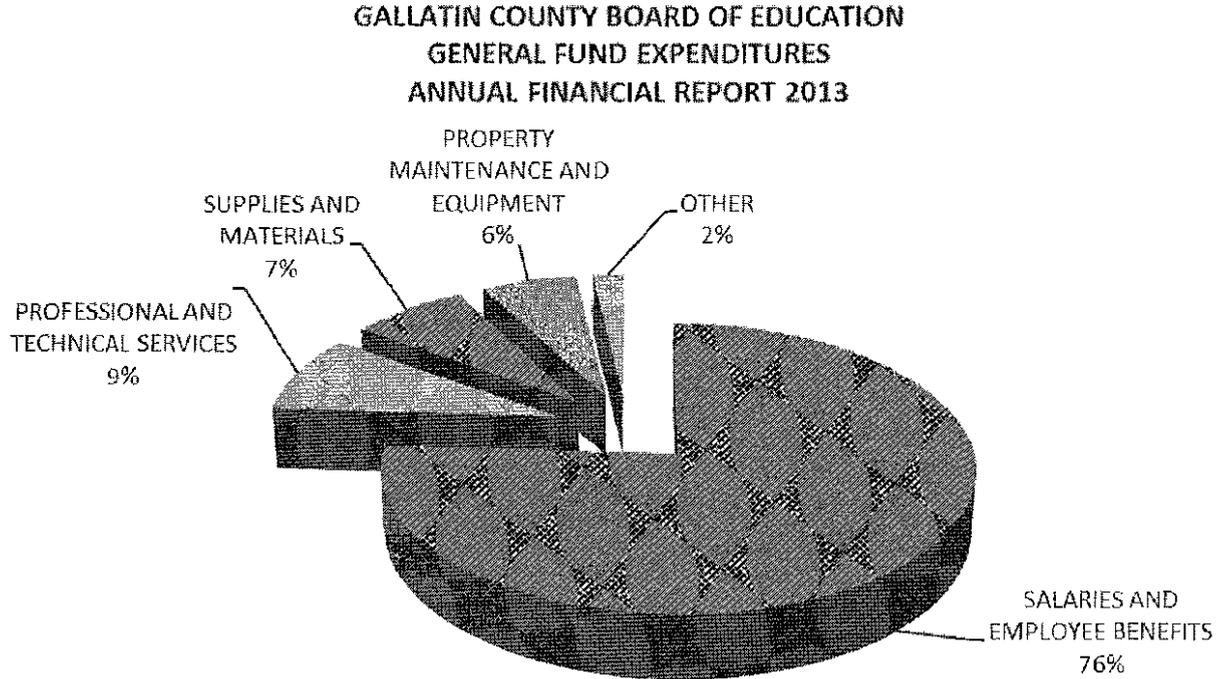
Gallatin Co. Board of Education
General Fund Revenues
Annual Financial Report 2013



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

General Fund Expenditure Allocation Chart 2

Salaries and Employee benefits make up approximately 76% of the General Fund expenditures, while Professional and Technical Services is the next largest expenditure, at 9%. Supplies and Materials make up 7% of expenses.



GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
STATEMENT OF NET POSITION
June 30, 2013

| | Governmental Funds | Business-type Activities | Total |
|---|-----------------------|-----------------------------|----------------------|
| ASSETS: | | | |
| CURRENT ASSETS | | | |
| Cash | \$ 5,294,383 | \$ 20,946 | \$ 5,315,329 |
| Taxes Receivable | 55,991 | - | 55,991 |
| Accounts Receivable | 241,007 | 65,185 | 306,192 |
| Due from Other Governments - State | 7,554 | - | 7,554 |
| Due from Other Governments - Federal | 72,976 | - | 72,976 |
| Inventories | - | 23,666 | 23,666 |
| TOTAL CURRENT ASSETS | \$ 5,671,911 | \$ 109,797 | \$ 5,781,708 |
| NONCURRENT ASSETS | | | |
| Capital Assets (Net of Accumulated Depreciation) | \$ 35,981,051 | \$ 419,282 | \$ 36,400,333 |
| Bond Issuance Costs, Net | 562,025 | - | 562,025 |
| TOTAL NONCURRENT ASSETS | \$ 36,543,076 | \$ 419,282 | \$ 36,962,358 |
| TOTAL ASSETS | \$ 42,214,987 | \$ 529,079 | \$ 42,744,066 |
| LIABILITIES: | | | |
| CURRENT LIABILITIES | | | |
| Accounts Payable | \$ 558,420 | \$ 604 | \$ 559,024 |
| Accrued Salaries & Benefits Payable | 9,251 | - | 9,251 |
| Accrued Compensated Absences | 45,792 | - | 45,792 |
| Deferred Revenue | 146,310 | 735 | 147,045 |
| Construction Retainage Payable | 174,573 | - | 174,573 |
| Accrued Interest | 124,957 | - | 124,957 |
| Accrued Assessment - KSBIT | 19,826 | - | 19,826 |
| Current Portion of Long-term Debt | 1,657,987 | - | 1,657,987 |
| TOTAL CURRENT LIABILITIES | \$ 2,737,116 | \$ 1,339 | \$ 2,738,455 |
| NONCURRENT LIABILITIES | | | |
| Accrued Compensated Absences | \$ 259,489 | \$ - | \$ 259,489 |
| Accrued Assessment - KSBIT | 178,432 | - | 178,432 |
| Obligations Under Capital Leases | 28,845,193 | - | 28,845,193 |
| Deferred Loss - Early Debt Retirement | (149,645) | - | (149,645) |
| TOTAL NONCURRENT LIABILITIES | \$ 29,133,469 | \$ - | \$ 29,133,469 |
| TOTAL LIABILITIES | \$ 31,870,585 | \$ 1,339 | \$ 31,871,924 |
| NET POSITION: | | | |
| Net Investment in Capital Assets | \$ 8,475,876 | \$ 419,282 | \$ 8,895,158 |
| Restricted for: | | | |
| Capital Expenditures/Debt Service | 96,233 | - | 96,233 |
| Unrestricted | 1,772,293 | 108,458 | 1,880,751 |
| TOTAL NET POSITION | \$ 10,344,402 | \$ 527,740 | \$ 10,872,142 |

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | |
|---|----------------------|----------------------|----------------------------------|--------------------------------|
| | | Charges for Services | Operating Grants & Contributions | Capital Grants & Contributions |
| GOVERNMENTAL ACTIVITIES: | | | | |
| Instruction | \$ 9,064,205 | \$ 63,653 | \$ 2,717,114 | \$ 5,180 |
| Support Services: | | | | |
| Student | 679,700 | - | 132,981 | - |
| Instructional Staff | 549,049 | - | 149,832 | - |
| District Administration | 826,257 | - | 36,170 | - |
| School Administration | 974,995 | - | 213,410 | - |
| Business Support Service | 686,607 | - | 86,316 | 34,869 |
| Plant Operation & Management | 1,282,526 | - | 68,255 | - |
| Student Transportation | 1,215,621 | - | 179,272 | - |
| Community Service | 157,655 | - | 157,346 | - |
| Other Instructional | 60,987 | - | 60,987 | - |
| Interest on Long-term Debt and Associated Bond Issuance Cost Amortization | 1,261,606 | - | - | 986,284 |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 16,759,208 | \$ 63,653 | \$ 3,801,683 | \$ 1,026,333 |
| BUSINESS-TYPE ACTIVITIES: | | | | |
| School Food Service | \$ 1,145,746 | \$ 237,303 | \$ 816,124 | \$ - |
| TOTAL BUSINESS-TYPE ACTIVITIES | \$ 1,145,746 | \$ 237,303 | \$ 816,124 | \$ - |
| TOTAL | \$ 17,904,954 | \$ 300,956 | \$ 4,617,807 | \$ 1,026,333 |

General Revenues:

Taxes:

Property Taxes

Motor Vehicle Taxes

Utility Taxes

Omitted Property Taxes

Investment Earnings

Intergovernmental Revenues

State Aid Formula Grants

Gain (Loss) on Retirement of Assets

Total

Change in Net Position

Net Position - July 1

Net Position - June 30

Net (Expense) Revenue and
Changes in Net Assets

| Governmental Activities | Business- type Activities | Total |
|----------------------------|---------------------------------|------------------------|
| \$ (6,278,258) | \$ - | \$ (6,278,258) |
| (546,719) | - | (546,719) |
| (399,217) | - | (399,217) |
| (790,087) | - | (790,087) |
| (761,585) | - | (761,585) |
| (565,422) | - | (565,422) |
| (1,214,271) | - | (1,214,271) |
| (1,036,349) | - | (1,036,349) |
| (309) | - | (309) |
| - | - | - |
| <u>(275,322)</u> | <u>-</u> | <u>(275,322)</u> |
| <u>\$ (11,867,539)</u> | <u>\$ -</u> | <u>\$ (11,867,539)</u> |
| <u>\$ -</u> | <u>\$ (92,319)</u> | <u>\$ (92,319)</u> |
| <u>\$ -</u> | <u>\$ (92,319)</u> | <u>\$ (92,319)</u> |
| <u>\$ (11,867,539)</u> | <u>\$ (92,319)</u> | <u>\$ (11,959,858)</u> |
| | | |
| \$ 3,464,547 | \$ - | \$ 3,464,547 |
| 265,734 | - | 265,734 |
| 1,192,832 | - | 1,192,832 |
| 61,988 | - | 61,988 |
| 4,659 | 189 | 4,848 |
| 7,466,763 | - | 7,466,763 |
| 934 | - | 934 |
| <u>\$ 12,457,457</u> | <u>\$ 189</u> | <u>\$ 12,457,646</u> |
| <u>\$ 589,918</u> | <u>\$ (92,130)</u> | <u>\$ 497,788</u> |
| <u>9,754,484</u> | <u>619,870</u> | <u>10,374,354</u> |
| <u>\$ 10,344,402</u> | <u>\$ 527,740</u> | <u>\$ 10,872,142</u> |

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

| | General Fund | Special Revenue (Grant) Funds | Construction Fund | Debt Service Funds | Other Non-major Governmental Funds | Totals |
|--|---------------------|-------------------------------------|----------------------|--------------------------|---|---------------------|
| ASSETS: | | | | | | |
| Cash and Cash Equivalents | \$ 2,215,997 | \$ 21,063 | \$ 2,961,090 | \$ - | \$ 96,233 | \$ 5,294,383 |
| Accounts Receivable | | | | | | |
| Taxes - Delinquent | 12,744 | - | - | - | - | 12,744 |
| Taxes - Omitted | 23,290 | - | - | - | - | 23,290 |
| Taxes - Motor Vehicle | 19,957 | - | - | - | - | 19,957 |
| Intergovernmental - Federal | - | 72,976 | - | - | - | 72,976 |
| Intergovernmental - State | - | 7,554 | - | - | - | 7,554 |
| Other | 241,007 | - | - | - | - | 241,007 |
| TOTAL ASSETS | \$ 2,512,995 | \$ 101,593 | \$ 2,961,090 | \$ - | \$ 96,233 | \$ 5,671,911 |
| LIABILITIES, AND FUND BALANCES: | | | | | | |
| LIABILITIES | | | | | | |
| Accounts Payable | \$ 56,288 | \$ 1,950 | \$ 500,182 | \$ - | \$ - | \$ 558,420 |
| Accrued Salaries & Benefits Payable | 9,251 | - | - | - | - | 9,251 |
| Deferred Revenues - Federal | - | 1,616 | - | - | - | 1,616 |
| Deferred Revenues - State | - | 98,027 | - | - | - | 98,027 |
| Deferred Revenues - Other | 46,667 | - | - | - | - | 46,667 |
| TOTAL LIABILITIES | \$ 112,206 | \$ 101,593 | \$ 500,182 | \$ - | \$ - | \$ 713,981 |
| FUND BALANCES | | | | | | |
| Restricted for | | | | | | |
| Capital Projects | \$ - | \$ - | \$ 2,460,908 | \$ - | \$ 96,233 | \$ 2,557,141 |
| Committed for: | | | | | | |
| Sick Leave | 20,295 | - | - | - | - | 20,295 |
| Assigned for: | | | | | | |
| Outstanding Purchase Orders | 90,499 | - | - | - | - | 90,499 |
| Unassigned | 2,289,995 | - | - | - | - | 2,289,995 |
| TOTAL FUND BALANCES | \$ 2,400,789 | \$ - | \$ 2,460,908 | \$ - | \$ 96,233 | \$ 4,957,930 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 2,512,995 | \$ 101,593 | \$ 2,961,090 | \$ - | \$ 96,233 | \$ 5,671,911 |

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 June 30, 2013

Total Governmental Fund Balances \$ 4,957,930

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$47,491,844 and the accumulated depreciation is \$11,510,793. 35,981,051

Bond issuance costs of general obligation debt are not financial resources and therefore are not reported in the funds. Bond issuance costs are \$810,242 net of accumulated amortization of \$248,217. 562,025

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

| | | |
|------------------------------------|----------------|--------------|
| Capital leases payable | \$ 30,503,180 | |
| Accrued interest on capital leases | 124,957 | |
| Compensated absences | 305,281 | |
| Construction retainage payable | 174,573 | |
| Accrued Assessment - KSBIT | <u>198,258</u> | |
| | | (31,306,249) |

Net Costs associated with the early retirement of debt are deferred and amortized over the remaining life of the defeased debt. Total costs are \$330,427 net of accumulated amortization of \$180,782. 149,645

Total Net Position - Governmental Activities \$ 10,344,402

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

| | General Fund | Special Revenue (Grant) Funds | Construction Fund | Debt Service Funds | Other Non-major Governmental Funds | Totals |
|--|----------------------|-------------------------------------|-----------------------|--------------------------|---|-----------------------|
| REVENUES: | | | | | | |
| From Local Sources: | | | | | | |
| Taxes: | | | | | | |
| Property | \$ 2,627,052 | \$ - | \$ - | \$ - | \$ 837,495 | \$ 3,464,547 |
| Motor Vehicle | 265,734 | - | - | - | - | 265,734 |
| Utilities | 1,192,832 | - | - | - | - | 1,192,832 |
| Omitted Property Taxes | 61,988 | - | - | - | - | 61,988 |
| Earnings on Investments | 3,927 | - | 478 | - | 254 | 4,659 |
| Other Local Revenues | 96,734 | 37,504 | - | - | - | 134,238 |
| Intergovernmental - State | 6,511,484 | 574,070 | - | - | 955,279 | 8,040,833 |
| Intergovernmental - Direct Federal - Build America Bonds | - | - | - | 121,474 | - | 121,474 |
| Intergovernmental - Indirect Federal | - | 930,213 | - | - | - | 930,213 |
| Intergovernmental - State On Behalf Payments | 2,280,179 | - | - | 864,810 | - | 3,144,989 |
| TOTAL REVENUES | \$ 13,039,930 | \$ 1,541,787 | \$ 478 | \$ 986,284 | \$ 1,793,028 | \$ 17,361,507 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Instruction | \$ 6,687,619 | \$ 1,232,767 | \$ - | \$ - | \$ - | \$ 7,920,386 |
| Support Services | | | | | | |
| Student | 674,662 | 4,862 | - | - | - | 679,524 |
| Instructional Staff | 516,965 | 29,244 | - | - | - | 546,209 |
| District Administration | 587,054 | - | - | - | - | 587,054 |
| School Administration | 971,822 | 1,843 | - | - | - | 973,665 |
| Business Support Services | 592,839 | 13,587 | - | - | - | 606,426 |
| Plant Operations & Maintenance | 1,264,860 | - | - | - | - | 1,264,860 |
| Student Transportation | 1,014,420 | 81,855 | - | - | - | 1,096,275 |
| Other Instructional (Network) | 60,987 | - | - | - | - | 60,987 |
| Community Service | - | 157,346 | - | - | - | 157,346 |
| Facilities Acquisition & Construction/Capital Exp. | 259,747 | 55,152 | 1,900,416 | - | - | 2,215,315 |
| Debt Service | | | | | | |
| Principal Retirement | 114,767 | - | - | 1,425,000 | - | 1,539,767 |
| Interest and Fiscal Charges | 21,010 | - | 118,060 | 1,164,079 | - | 1,303,149 |
| TOTAL EXPENDITURES | \$ 12,766,752 | \$ 1,576,656 | \$ 2,018,476 | \$ 2,589,079 | \$ - | \$ 18,950,963 |
| Excess (Deficit) of Revenues over Expenditures | \$ 273,178 | \$ (34,869) | \$ (2,017,998) | \$ (1,602,795) | \$ 1,793,028 | \$ (1,589,456) |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Transfers In | \$ - | \$ 34,869 | \$ 94,000 | \$ 1,602,795 | \$ - | \$ 1,731,664 |
| Transfers Out | (34,869) | - | - | - | (1,696,795) | (1,731,664) |
| Bond Proceeds | 106,762 | - | 4,040,000 | - | - | 4,146,762 |
| Lease Proceeds | 48,105 | - | - | - | - | 48,105 |
| Proceeds - Sale of Fixed Assets | 934 | - | - | - | - | 934 |
| TOTAL OTHER FINANCING SOURCES (USES): | \$ 120,932 | \$ 34,869 | \$ 4,134,000 | \$ 1,602,795 | \$ (1,696,795) | \$ 4,195,801 |
| Excess (Deficit) of Revenues & Other Financing Sources over Expenditures & Other Financing Uses | \$ 394,110 | \$ - | \$ 2,116,002 | \$ - | \$ 96,233 | \$ 2,606,345 |
| Fund Balance, July 1, 2012 | 2,006,679 | - | 344,906 | - | - | 2,351,585 |
| Fund Balance, June 30, 2013 | \$ 2,400,789 | \$ - | \$ 2,460,908 | \$ - | \$ 96,233 | \$ 4,957,930 |

**GALLATIN COUNTY, KENTUCKY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

Net Change in Fund Balances - Total Governmental Funds \$ 2,606,345

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capitalized Expenditures 2,215,315

Depreciation Expense (1,371,024)

Repayment of bonded debt and lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 1,539,767

Some expenses reported in the Statement of Activities, such as compensated absences and accrued claims, do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. (233,846)

The proceeds of revenue bonds issued to finance the alternative school/field house construction project are reported in the governmental funds as a source of financing. In the Statement of Net Position, such proceeds constitute long-term liabilities. (4,040,000)

The proceeds of capital leases issued to finance technological improvements are reported in the governmental funds as a source of financing. In the Statement of Net Position, such proceeds constitute long-term liabilities. (48,105)

The proceeds of bonds issued to finance the acquisition of school buses through the KISTA bond program are reported in the governmental funds as a source of financing. In the Statement of Net Position, such proceeds constitute long-term liabilities. (106,762)

In the Statement of Activities bond issuance costs are deferred and amortized over the life of the bond issue. In the governmental funds statement, expenditures are measured by the amount of financial resources used (the amounts actually paid). Bond issuance costs of \$121,100 were deferred during the year. Amortization of bond issuance costs during the year was \$45,148. 75,952

Continued

GALLATIN COUNTY, KENTUCKY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES (CONTINUED)
For the Year Ended June 30, 2013

| | |
|--|---------------------------------|
| <p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of amortizing the deferred cost associated with the early refunding of the 1993, 1997, 1999 and 2001 bond issues.</p> | <p>\$ (34,409)</p> |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p> | <p><u>(13,315)</u></p> |
| <p>Change in net position of governmental activities</p> | <p><u><u>\$ 589,918</u></u></p> |

GALLATIN COUNTY, KENTUCKY BOARD OF EDUCATION
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2013

| | <u>Enterprise Fund - School Food Service</u> |
|--|--|
| ASSETS | |
| Current Assets | |
| Cash | \$ 20,946 |
| Accounts Receivable | 65,185 |
| Inventories | 23,666 |
| Total Current Assets | <u>\$ 109,797</u> |
| Noncurrent Assets | |
| Furniture and Equipment - Net of Accumulated Depreciation | <u>\$ 419,282</u> |
| Total Noncurrent Assets | <u>\$ 419,282</u> |
| Total Assets | <u>\$ 529,079</u> |
| LIABILITIES | |
| Current Liabilities | |
| Accounts Payable | \$ 604 |
| Deferred Revenue | 735 |
| Total Current Liabilities | <u>\$ 1,339</u> |
| NET POSITION | |
| Net Investment in Capital Assets | \$ 419,282 |
| Unrestricted | 108,458 |
| Total Net Position | <u>\$ 527,740</u> |

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2013**

| | Enterprise Fund - School Food Service |
|--|--|
| OPERATING REVENUES: | |
| Lunchroom Sales | \$ 237,303 |
| TOTAL OPERATING REVENUES | \$ 237,303 |
| OPERATING EXPENSES: | |
| Salaries and Wages | \$ 330,693 |
| Employee Benefits | 158,861 |
| Materials and Supplies | 542,630 |
| Depreciation | 62,288 |
| Other Operating Expenses | 51,274 |
| TOTAL OPERATING EXPENSES | \$ 1,145,746 |
| OPERATING INCOME (LOSS) | \$ (908,443) |
| NON-OPERATING REVENUES (EXPENSES) | |
| Federal Grants | \$ 686,671 |
| State Matching | 9,878 |
| Interest Income | 189 |
| Commodities Received | 56,849 |
| State on Behalf Payments | 62,726 |
| NON-OPERATING REVENUES (EXPENSES) | \$ 816,313 |
| CHANGE IN NET POSITION | \$ (92,130) |
| Net Position, Beginning of Year | 619,870 |
| Net Position, Ending of Year | \$ 527,740 |

GALLATIN COUNTY, KENTUCKY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
June 30, 2013

| | <u>Enterprise Fund School Food Service</u> |
|--|--|
| CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES | |
| Received from User Charges (Food Sales) | \$ 236,062 |
| Payments to Employees for Services | (330,693) |
| Payments to Suppliers for Goods and Services | (493,615) |
| Payments for Other Operating Expenses | (147,410) |
| Net Cash (Used) by Operating Activities | <u>\$ (735,656)</u> |
| CASH FLOW FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES | |
| Nonoperating Grants Received | <u>\$ 633,340</u> |
| CASH FLOWS FROM (USED BY) CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of Capital Assets | <u>\$ (33,814)</u> |
| CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES | |
| Interest on Investments | <u>\$ 189</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (135,941) |
| Cash and Cash Equivalents, Beginning | <u>156,887</u> |
| Cash and Cash Equivalents, Ending | <u>\$ 20,946</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities: | |
| Operating Income (Loss) | \$ (908,443) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities: | |
| Depreciation | 62,288 |
| Commodities Used | 56,849 |
| Employee Benefits paid through on Behalf Payments | 62,726 |
| Changes in Assets and Liabilities: | |
| Accounts Receivable (Increase) Decrease | (1,976) |
| Inventory (Increase) Decrease | (5,921) |
| Accounts Payable Increase (Decrease) | (1,914) |
| Deferred Revenue | 735 |
| Net Cash Used by Operating Activities | <u>\$ (735,656)</u> |

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District received \$56,849 of food commodities from the U.S. Department of Agriculture. The Kentucky Revenue Cabinet made on behalf payments of \$62,726 for Health and Life Insurance for school food service employees.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

ASSETS

| | |
|---------------------------|--------------------------|
| Cash and Cash Equivalents | \$ 114,233 |
| Restricted Cash | 165,935 |
| Accounts Receivable | <u>1,867</u> |
| Total Assets | <u><u>\$ 282,035</u></u> |

LIABILITIES

| | |
|-----------------------|--------------------------|
| Accounts Payable | \$ 7,621 |
| Due to Student Groups | <u>274,414</u> |
| Total Liabilities | <u><u>\$ 282,035</u></u> |

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The Gallatin County, Kentucky, Board of Education complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent subsections of this Note.

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

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

The financial statements of the Board 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.

Gallatin County School District Finance Corporation – On January 4, 1989, the Gallatin County, Kentucky, Board of Education resolved to authorize the establishment of the Gallatin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Gallatin County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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

The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District. Fund financial statements are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund types.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial assistance programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).
 - 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) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

(D) 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 costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Funds (Enterprise Fund)

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

III. Fiduciary Fund Type (includes agency and trust 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 *Uniform Program of Accounting for School Activity Funds*.

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are 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 as described above.

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, such revenues are 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. Therefore grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. The fair value of donated commodities used during the year is reported in the proprietary fund’s statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are included in the School Food Service Fund’s inventories.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

| | |
|---|---|
| Governmental Funds-By Character: | Current (further classified by function) |
| | Debt Service |
| | Capital Outlay |

Proprietary Fund-By Operating and Nonoperating

The District adheres to the use restrictions established by Kentucky Revised Statutes when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures/Expenses (Continued)

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.

Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are due by December 31. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. Taxes are allocated as collected or transferred to the appropriate fund prior to year end.

The property tax rates assessed for the year ended June 30, 2013, were \$.675 per \$100 for real property, \$.675 per \$100 valuation for business personal property and \$.557 per \$100 valuation for motor vehicles. These rates include the \$.168 per \$100 valuation required to produce the equivalent tax necessary for participation in the Kentucky School Facilities Construction Commission (KSFCC) and FSPK programs and additional tax revenues allocated to the FSPK Building Fund. The remaining property tax revenues are used to finance operations of the District's General Fund.

Utility Tax Revenues

The District levies a utility gross receipts tax in the amount of 3% of the gross receipts derived from the furnishing, within the county, of telephonic and telegraphic communication services, cablevision services, electric power, water, and natural, artificial and mixed gas. The Kentucky Department of Revenue collects this tax and remits to the state's school districts.

On-Behalf Payments

Payments made by the State of Kentucky for Kentucky teacher retirement, fringe benefits and network services (Kentucky Educational Network Services, Munis Financial Software and Services and McAfee Virus Protection), and payments made by the Kentucky School Facilities Construction Commission for debt service are included in the government-wide and governmental fund financial statements. Payments for the year ended June 30, 2013 amount to \$812,591, \$1,469,327, \$60,987 and \$864,810, respectively. \$62,726 of the on-behalf payments were allocated to the School Food Service Fund. All other on-behalf payments were recorded in the general fund.

Cash and Cash Equivalents

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

Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the District has therefore chosen to report these items as expenditures/expenses at the time of purchase with the exception of the proprietary fund.

The school food service fund (proprietary fund) records its inventory at cost or donated value (commodities).

Prepaid Assets

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

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reported at fair value based on quoted market price, except for short-term investments in commercial paper banker's acceptance and U.S. Treasury and agency obligations, which are reported at cost. Any purchase discount or premium associated with investments reported at cost from the investment's face or maturity value is amortized to investment income ratably over the life of the investment.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. 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 five thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. 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. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset are as follows:

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

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of their accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments, (the liability attributable to the District's employees meeting retirement eligibility requirements).

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

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

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists of bonded debt and lease obligations, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a. Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Fund Statements (Continued)

- b. **Restricted** – amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.
- c. **Committed** – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- d. **Assigned** – amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. This is the residual fund balance classification for all governmental funds except the general fund.

The Board of Education is the District's highest level of decision making authority. Formal approval of a motion made at a public meeting of the Board of Education is necessary to establish (and modify or rescind) a fund balance commitment.

The Superintendent, principal or designated administrator may approve purchase orders that establish a fund balance assignment.

- e. **Unassigned** – this is the residual classification for the general fund.

Proprietary fund equity is classified the same as in the government-wide statements.

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. For the purposes of the Statement of Activities, interfund transfers between individual governmental funds have been eliminated.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, 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.

NOTE C - CASH AND CASH EQUIVALENTS AND INVESTMENTS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Kentucky or political subdivision debt obligations, or surety bonds. As required by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, all financial institutions pledging collateral to the Board of Education must have a written collateral agreement approved by the board of directors or loan committee.

Statutes authorize the Board to invest in interest bearing deposits in national or state banks chartered in Kentucky, certificates of deposit, repurchase agreements, other available bank investments, and municipal investment pools provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the Board may invest in direct debt securities of the United States and mutual funds as described in KRS 66.480.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013**

NOTE C - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Gallatin County Kentucky, Board of Education's policies regarding deposits of cash are in accordance with the state statutes. The table presented below is designed to disclose the level of custodial credit risk assumed by the Board based upon how its deposits were insured or secured with collateral at June 30, 2013. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Custody Credit Risk Category</u> | | | <u>Total Carrying Value</u> |
|-------------------------|-------------------------------|-------------------------------------|-------------|-------------|---------------------------------|
| | | <u>1</u> | <u>2</u> | <u>3</u> | |
| Time/Savings Deposits | \$ 3,199,586 | \$ 3,199,586 | \$ - | \$ - | \$ 2,855,285 |
| Cash Equivalents | \$ 2,740,212 | \$ 2,740,212 | - | - | 2,740,212 |
| Total Deposits | \$ 5,939,798 | \$ 5,939,798 | \$ - | \$ - | \$ 5,595,497 |

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

| | <u>Bank Balance</u> | <u>Carrying Balance</u> |
|--|-------------------------|-----------------------------|
| Cash | | |
| U.S. Bank - First American Government Obligation Fund CI Y (Cash Equivalents) | \$ 2,740,212 | \$ 2,740,212 |
| First Farmers Bank - Now Account | 2,885,234 | 2,573,717 |
| Bank of Kentucky - Certificate of Deposit Statement of Net Position - Cash | 1,400 | 1,400 |
| First Farmers Bank - Agency Funds (School Activity Accounts) | \$ 5,626,846 | \$ 5,315,329 |
| First Farmers Bank - Certificate of Deposit - Agency Funds (School Activity Accounts) | 152,952 | 120,168 |
| | 160,000 | 160,000 |
| Total Bank Balance/Carrying Value | \$ 5,939,798 | \$ 5,595,497 |

At June 30, 2013 cash equivalents consisted of the following: Deposits in the U.S. Bank – First American Government Obligation Fund CI Y of \$2,740,212. First American Government Obligation Fund is an open-end fund incorporated in the USA. The fund invests primarily in short-term U.S. government securities and repurchase agreements secured by U.S. government securities.

At June 30, 2013, \$2,215,997 was attributable to the General Fund.

Cash equivalents at June 30, 2013 include certificates of deposit of \$161,400.

NOTE D – RISK MANAGEMENT

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

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. If the Board were to fail to comply with this requirement, the risk of a substantial loss could exist.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013**

NOTE E- CAPITAL ASSETS

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

| <u>Governmental Activities:</u> | Balance at July 1, 2012 | Additions | Disposals | Balance at June 30, 2013 |
|--|-----------------------------|----------------------------|--------------------------|-----------------------------|
| Land | \$ 1,439,392 | \$ - | \$ - | \$ 1,439,392 |
| Land Improvements | 2,279,080 | 18,000 | - | 2,297,080 |
| Buildings | 35,462,390 | 420,945 | - | 35,883,335 |
| Machinery & Equipment | 5,476,537 | 302,344 | 74,239 | 5,704,642 |
| Construction in Process | 539,292 | 2,049,048 | 420,945 | 2,167,395 |
| Totals at Historical Cost | <u>\$ 45,196,691</u> | <u>\$ 2,790,337</u> | <u>\$ 495,184</u> | <u>\$ 47,491,844</u> |
| Less: Accumulated Depreciation | | | | |
| Land Improvements | \$ 721,565 | \$ 109,646 | \$ - | \$ 831,211 |
| Buildings | 5,849,077 | 870,092 | - | 6,719,169 |
| Machinery & Equipment | 3,643,366 | 391,286 | 74,239 | 3,960,413 |
| Total Accumulated Depreciation | <u>\$ 10,214,008</u> | <u>\$ 1,371,024</u> | <u>\$ 74,239</u> | <u>\$ 11,510,793</u> |
| Governmental Activities - Capital Assets, Net | <u>\$ 34,982,683</u> | <u>\$ 1,419,313</u> | <u>\$ 420,945</u> | <u>\$ 35,981,051</u> |

Depreciation Expense of \$1,371,024 was charged to governmental activities as follows:

| | |
|----------------------------|----------------------------|
| Instructional Support | \$ 1,143,819 |
| Student | 176 |
| Instructional Staff | 2,840 |
| District Administration | 5,357 |
| School Administration | 1,330 |
| Business Support | 80,181 |
| Operation & Management | 17,666 |
| Student Transportation | 119,346 |
| Community Service | 309 |
| Total Depreciation Expense | <u><u>\$ 1,371,024</u></u> |

| <u>Business-type Activities:</u> | Balance at July 1, 2012 | Additions | Disposals | Balance at June 30, 2013 |
|--|----------------------------|---------------------------|--------------------|-----------------------------|
| Machinery & Equipment | \$ 918,916 | \$ 19,968 | \$ 1,598 | \$ 937,286 |
| Less: Accumulated Depreciation | 457,314 | 62,288 | 1,598 | 518,004 |
| Business-type Capital Assets, net | <u>\$ 461,602</u> | <u>\$ (42,320)</u> | <u>\$ -</u> | <u>\$ 419,282</u> |

Depreciation Expense was charged to the Proprietary Fund-School Food Service Enterprise Fund in the amount of \$62,288.

\$38,386,634 of assets are recorded under capital lease obligations. Accumulated depreciation of \$8,329,953 associated with these assets is included in the following classifications:

| | |
|--------------------------|----------------------------|
| Land Improvements | \$ 550,980 |
| Buildings | 6,224,055 |
| Machinery & Equipment | |
| Governmental Funds | 1,386,651 |
| Business type Activities | 168,267 |
| | <u><u>\$ 8,329,953</u></u> |

The District has \$2,811,250 fully depreciated assets.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

NOTE F – INTEREST EXPENSE

Interest expense associated with bonded debt and capital lease obligations of the governmental funds was \$1,261,606.

NOTE G – LONG-TERM DEBT

Governmental Activities:

As of June 30, 2013, the governmental long-term debt of the financial reporting entity consisted of the following:

Capital Lease Obligations:

Capital lease obligations for school building improvements and transportation equipment:

| | |
|--|----------------------|
| Current Portion | \$ 1,657,987 |
| Noncurrent Portion | 28,845,193 |
| Total Capital Lease Obligations | \$ 30,503,180 |

Accrued Compensated Absences:

| | |
|---|-------------------|
| Current Portion | \$ 45,792 |
| Noncurrent Portion | 259,489 |
| Total Accrued Compensated Absences | \$ 305,281 |

Accrued Assessment - KSBIT:

| | |
|---|-------------------|
| Current Portion | \$ 19,826 |
| Noncurrent Portion | 178,432 |
| Total Accrued Assessment - KSBIT | \$ 198,258 |

Business-type Activities:

NONE

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2013:

Type of Debt

| Governmental Activities | Balances July 1, 2012 | Additions | Reductions | Balances June 30, 2013 |
|----------------------------------|--------------------------|---------------------|---------------------|---------------------------|
| Obligations Under Capital Leases | \$ 27,848,080 | \$ 4,194,867 | \$ 1,539,767 | \$ 30,503,180 |
| Accrued Assessment - KSBIT | - | 198,258 | - | 198,258 |
| Accrued Compensated Absences | 269,693 | 44,914 | 9,326 | 305,281 |
| Total | \$ 28,117,773 | \$ 4,438,039 | \$ 1,549,093 | \$ 31,006,719 |

Bonded Debt and Lease Obligations

The amount shown in the accompanying financial statements as lease obligations represents the Board's future obligations to make lease payments relating to the bonds issued by the Gallatin County, Kentucky, School District Finance Corporation and the Kentucky Interlocal School Transportation Association (KISTA) and an equipment lease with Dell Financial Services, Inc. aggregating \$29,868,000, \$600,329 and \$34,850, respectively.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013**

NOTE G – LONG-TERM DEBT (Continued)

Bonded Debt and Lease Obligations (Continued)

The Gallatin County Board of Education has entered into agreements with the Kentucky School Facilities Construction Commission (KSFCC) whereby, the KSFCC agreed to participate with the Board in the repayment of Gallatin County, Kentucky, School Building Revenue Bonds. The KSFCC has agreed to contribute up to \$883,891 annually for this assistance. This commitment by the KSFCC is limited to the biennial period of the Commonwealth of Kentucky. By the execution of the participation agreement, the Commission has expressed its present intention to continue to pay the agreed participation in each successive biennial period until the retirement of all the bonds, but such execution does not obligate the Commission to do so. The Gallatin County Board of Education transferred amounts sufficient to redeem its share of the 2012-13 obligation.

In July, 2003, April, 2008, and September, 2008, the District issued bonds to redeem its outstanding 1993, 1997, and 1999 revenue bonds, respectively. In the Statement of Net Assets, the net costs associated with the early debt retirement of these issues are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease (contra liability) to the book value of the new debt issued to finance the refunding. Total deferred costs were \$161,782. Amortization for the year was \$16,203 and is included as a component of interest expense.

On September 16, 2010, the Gallatin County (Kentucky) School District Finance Corporation issued \$3,010,000, Series of 2010 School Building Refunding Revenue Bonds with interest rates of .40%-2.40% to advance refund \$2,800,000 of 2001 Revenue Bonds outstanding. The net costs associated with the early retirement of the 2001 issue are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease (contra-liability) to the book value of the new debt issued to finance the refunding. Total deferred costs were \$168,645. Amortization for the year was \$15,331, and is included as a component of interest expense.

On May 4, 2010, the Gallatin County (Kentucky) School District Finance Corporation issued \$7,150,000 School Building Revenue Bonds, Series of 2010 with interest rates of 1.0% - 5.9%. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 36.9% of each interest payment due. The credit will amount to \$1,863,917 over the life of the issue.

On December 19, 2012 the Gallatin County (Kentucky) School District Finance Corporation issued \$4,040,000 School Building Revenue Bonds, Series of 2012 with net interest cost of 2.53%. These funds are being used to finance the construction of the Alternative School/Field House Project. The bonds are payable on December 1, 2013 to December 1, 2032.

The Gallatin County Board of Education entered into a governmental lease agreement with Dell Financial Services, LLC on December 1, 2012 to lease computer equipment. Under the lease the Board is obligated to make payments of \$13,254 annually for four years.

The General Fund, Facility Support Program (FSPK), and the SEEK Capital Outlay Fund are obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the 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 original amount of the issue, the issue dates, and interest rates are summarized below:

| <u>Issue</u> | <u>Original Amount</u> | <u>Outstanding</u> | <u>Interest Rates</u> |
|--|-----------------------------|-----------------------------|---------------------------|
| Issue of 2003 (Refunding Issue) | 2,730,000 | 920,000 | 2.0 - 3.625% |
| Issue of 2004 | 556,000 | 353,000 | 4.10 - 5.00% |
| Issue of 2006 | 16,660,000 | 12,980,000 | 4.00 - 4.375% |
| Issue of 2008 (Refunding Issue) | 1,240,000 | 970,000 | 2.45 - 3.30% |
| Issue of 2008 2nd Series (Refunding Issue) | 1,755,000 | 1,360,000 | 2.00 - 3.80% |
| Issue of 2010 | 7,150,000 | 6,570,000 | 1.00 - 5.90% |
| Issue of 2010 (Refunding Issue) | 3,010,000 | 2,675,000 | .40 - 2.40% |
| Issue of 2012 | 4,040,000 | 4,040,000 | 1.4 - 2.625% |
| Total | <u>\$ 37,141,000</u> | <u>\$ 29,868,000</u> | |

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013**

NOTE G – LONG-TERM DEBT (Continued)

Bonded Debt and Lease Obligations (Continued)

The outstanding bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues 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:

| Year | Gallatin County Board of Education | | Kentucky School Facilities Construction Commission | | Federal Interest Credit Payment | Total |
|---------|---------------------------------------|---------------------|---|---------------------|------------------------------------|----------------------|
| | Principal | Interest | Principal | Interest | Interest | |
| 2013-14 | \$ 976,276 | \$ 721,327 | \$ 557,724 | \$ 326,167 | \$ 119,944 | \$ 2,701,438 |
| 2014-15 | 1,001,707 | 694,344 | 566,293 | 306,036 | 118,264 | 2,686,644 |
| 2015-16 | 1,031,537 | 664,960 | 584,463 | 285,205 | 115,838 | 2,682,003 |
| 2016-17 | 1,061,622 | 633,633 | 606,378 | 263,422 | 113,174 | 2,678,229 |
| 2017-18 | 1,094,172 | 600,993 | 620,828 | 239,861 | 110,089 | 2,665,943 |
| 2018-19 | 1,127,386 | 566,026 | 613,614 | 215,765 | 106,703 | 2,629,494 |
| 2019-20 | 1,165,123 | 528,650 | 606,877 | 191,317 | 102,879 | 2,594,846 |
| 2020-21 | 1,202,692 | 491,189 | 545,308 | 167,484 | 98,763 | 2,505,436 |
| 2021-22 | 1,896,211 | 449,828 | 568,789 | 144,000 | 94,390 | 3,153,218 |
| 2022-23 | 1,283,509 | 415,050 | 593,491 | 119,298 | 89,838 | 2,501,186 |
| 2023-24 | 1,334,649 | 362,298 | 619,351 | 93,441 | 85,108 | 2,494,847 |
| 2024-25 | 1,393,532 | 307,019 | 606,468 | 66,417 | 79,921 | 2,453,357 |
| 2025-26 | 1,221,560 | 247,587 | 633,440 | 39,445 | 74,251 | 2,216,283 |
| 2026-27 | 882,797 | 192,916 | 52,203 | 11,257 | 72,739 | 1,211,912 |
| 2027-28 | 915,646 | 162,619 | 54,354 | 9,105 | 56,471 | 1,198,195 |
| 2028-29 | 948,299 | 130,359 | 56,701 | 6,760 | 39,014 | 1,181,133 |
| 2029-30 | 980,807 | 96,229 | 59,193 | 4,267 | 20,237 | 1,160,733 |
| 2030-31 | 749,394 | 50,859 | 25,606 | 1,616 | - | 827,475 |
| 2031-32 | 778,728 | 31,271 | 26,272 | 951 | - | 837,222 |
| 2032-33 | 801,910 | 10,526 | 23,090 | 303 | - | 835,829 |
| | <u>\$ 21,847,557</u> | <u>\$ 7,357,683</u> | <u>\$ 8,020,443</u> | <u>\$ 2,492,117</u> | <u>\$ 1,497,623</u> | <u>\$ 41,215,423</u> |

The Board has passed resolutions to participate in the Kentucky Interlocal School Transportation Association (KISTA) to assist it in financing its needs for the acquisition of school buses. KISTA was created to provide for the acquisition of such equipment through utilization of a pooled financing affected by the issuance of KISTA's Equipment Lease Revenue Bonds. KISTA has therefore acted as an issuing agency for the participating Boards of Education (including Gallatin), which after providing for the expenses of the authorization, sale, and issuance of the bonds, the Board "leased" the equipment on a year to year basis at annual rentals sufficient to amortize the pro rata portion of the proceeds of the bonds.

The Board's pro rata portion of the KISTA Equipment Lease Revenue Bonds at original issue and outstanding at June 30, 2013 are as follows:

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013**

NOTE G – LONG-TERM DEBT (Continued)

Bonded Debt and Lease Obligations (Continued)

| | <u>Principal Participation %</u> | <u>At Original Issue</u> | <u>Outstanding</u> | <u>Interest Rate</u> |
|----------------------|--------------------------------------|------------------------------|--------------------|----------------------|
| 2004 - Series | 1.1500 | \$ 136,375 | \$ 12,744 | 3.50 - 4.70% |
| 2005 - Series | 0.3600 | 68,131 | 12,824 | 1.00 - 3.50% |
| 2006 - Series | 1.2100 | 145,508 | 43,502 | 3.00 - 3.625% |
| 2006 - Second Series | 0.4700 | 78,027 | 32,476 | 3.30 - 4.00% |
| 2008 - Series | 1.4500 | 166,094 | 83,809 | 3.50 - 3.875% |
| 2009 - Series | 0.6300 | 86,034 | 51,379 | 3.00 - 3.75% |
| 2010 - Series | 4.8900 | 109,182 | 75,230 | 2.00 - 3.90% |
| 2011 - Series | 1.1000 | 106,899 | 83,558 | 1.00 - 3.30% |
| 2012 - Series | 0.8500 | 110,010 | 98,045 | 2.00 - 2.625% |
| 2013 - Series | 0.7600 | 106,762 | 106,762 | 2.00% |
| | | <u>\$ 1,113,022</u> | <u>\$ 600,329</u> | |

Assuming the payments are made as scheduled, the Board's obligation to repay its pro rata portion of the KISTA Equipment Lease Revenue Bonds outstanding at June 30, 2013, for debt service, (principal and interest) are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Retirement for Year</u> |
|--------------------|-------------------|------------------|--------------------------------------|
| 2013-14 | \$ 113,136 | \$ 17,189 | \$ 130,325 |
| 2014-15 | 98,178 | 13,970 | 112,148 |
| 2015-16 | 90,585 | 11,138 | 101,723 |
| 2016-17 | 75,750 | 8,412 | 84,162 |
| 2017-18 | 68,081 | 6,188 | 74,269 |
| 2018-19 | 51,626 | 4,174 | 55,800 |
| 2019-20 | 42,630 | 2,705 | 45,335 |
| 2020-21 | 31,071 | 1,519 | 32,590 |
| 2021-22 | 19,615 | 649 | 20,264 |
| 2022-23 | 9,657 | 193 | 9,850 |
| | <u>\$ 600,329</u> | <u>\$ 66,137</u> | <u>\$ 666,466</u> |

During the year ended June 30, 2013, the District paid \$119,483 in principal and interest payments on the KISTA bond issues. Such payments are included as debt service in the General Fund.

The Board has entered into a Dell Financial Services, LLC governmental lease for the acquisition of computer equipment. The original principal balance of the lease is \$48,105 and will bear interest at 6.9% per annum. Payments of \$13,254 are due annually for the years 2012-2015. One payment was made during the year. The lease payments are included as debt service in the General Fund. The Board's payment obligation under the Dell Financial Services, LLC equipment lease are as follows:

| <u>Payment Date</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Payment</u> |
|-------------------------|------------------|-----------------|--------------------------|
| 2013-14 | \$ 10,851 | \$ 2,403 | \$ 13,254 |
| 2014-15 | 11,600 | 1,654 | 13,254 |
| 2015-16 | 12,400 | 854 | 13,254 |
| | <u>\$ 34,851</u> | <u>\$ 4,911</u> | <u>\$ 39,762</u> |

Assuming no issues are called prior to scheduled maturity, the minimum obligation of the District at June 30, 2013, (including amounts anticipated to be paid by the Kentucky School Facilities Construction Commission and through Build America Bond Rebates) for debt service (principal and interest) are as follows:

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013**

NOTE J - RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS).

Retirement Plan Description – The Gallatin County, Kentucky, Board of Education contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost sharing, multiple-employer, defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring a four (4) year college degree or certification by Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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 pension plan. That report can be obtained by writing to Kentucky Teachers’ Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by the program pays the matching contributions.

Medical Insurance Plan Description – In addition to the retirement annuity plan described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits for eligible members and dependents. The KTRS medical plan is funded by employer and member contributions. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Funding Policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members’ gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of members’ salary for the 2012-2013 fiscal year.

The District’s total payroll for the year was \$8,779,393. The payroll for employees covered under the KTRS was \$6,614,396. For the year ended June 30, 2013, the Commonwealth contributed \$812,591 to KTRS for the benefit of the District’s participating employees. The School District’s contributions to KTRS for the year ending June 30, 2013 were \$129,239, which represents those employees covered by federal programs of \$125,008 and \$4,231 for medical insurance fund contributions.

The total required contributions for all participating entities to the plan were as follows:

| | Annual Required Contributions | Percentage Contributed |
|---------------|----------------------------------|---------------------------|
| June 30, 2012 | 757,822,190 | 74% |
| June 30, 2011 | 678,741,428 | 84% |
| June 30, 2010 | 633,938,088 | 76% |

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

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE J - RETIREMENT PLANS (Continued)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2012. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will be available to Legislative personnel and state libraries.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty position of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2012, the COLA was not granted.

Contributions – For the fiscal year ended June 30, 2012, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2012, participating employers contributed 18.96%, of each employer's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2012, was 18.96%. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 7, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest, however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

The Board of Education's contributions were based on \$2,121,742 of eligible gross wages for fiscal year ended June 30, 2013. The total pension expense for the year ended June 30, 2013, was \$413,978 and \$105,877 for the employer and employees, respectively. All contributions were made as required during the year ending June 30, 2013. The District's 2012 contributions to CERS represented .11% of the total contributions required of all participating entities.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2013

NOTE J - RETIREMENT PLANS (Continued)

For non-hazardous duty, the required contributions of all participating entities to the plan were as follows:

**County Employees Retirement System (CERS) Non-Hazardous
 Schedule of Contributions From Employers and Other Contributing
 Entities for Pension and Insurance Plans**

| | Annual Required Contributions | Actual Contributions | Retiree Drug Subsidy Contributions | Percentage Contributed |
|---------------|----------------------------------|-------------------------|---------------------------------------|---------------------------|
| June 30, 2012 | 476,185,027 | 447,661,027 | - | 94.0% |
| June 30, 2011 | 432,414,052 | 435,404,150 | - | 100.7% |
| June 30, 2010 | 453,055,709 | 373,682,939 | 9,156,991 | 84.5% |

The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from CERS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance for current beneficiaries.

NOTE K - TRANSFER OF FUNDS

The following transfers were made during the year as recorded in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds:

| From Fund | To Fund | Purpose | Amount |
|--------------------|-----------------|----------------------------|---------------------|
| General Fund | Special Revenue | Matching | \$ 34,869 |
| Capital Outlay | Debt Service | Bond Payments | 150,970 |
| FSPK Building Fund | Debt Service | Bond Payments | 1,451,825 |
| FSPK Building | Construction | Alternative School Project | 94,000 |
| Total | | | <u>\$ 1,731,664</u> |

NOTE L - FUND EQUITY

Restricted Net Position

The following table shows the restricted net position as shown on the Statement of Net Position:

Governmental Activities (other purposes)

| Activity | Restricted By | Amount |
|---|---------------|------------------|
| Construction of approved facility plan projects/ debt service | State Law | \$ 96,233 |
| | | <u>\$ 96,233</u> |
| Business-type Activities | | |
| None | | |

The following classifications of fund balance on the Governmental Fund Balance Sheet (Fund Financial Statement) have been made:

Restricted for:

Other Non-Major Funds (FSPK Fund)

Kentucky School Facilities

Construction Commission

June 30, 2013 Escrow (KSFCC)

\$ 96,233

Construction Fund:

Capital Projects

\$ 2,460,908

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013**

NOTE L – FUND EQUITY (Continued)

Committed for:

| | |
|--------------|-----------|
| General Fund | |
| Sick Leave | \$ 20,295 |

Assigned for outstanding purchase orders approved by District Administrators:

| | |
|--------------|-----------|
| General Fund | \$ 90,499 |
|--------------|-----------|

NOTE M – ECONOMIC DEPENDENCE

As described in Note A, the District receives a 3% tax on certain utilities used in the county. It should be noted that the majority of this revenue is generated by Gallatin Steel.

NOTE N – CONTINGENCIES AND COMMITMENTS

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

Prior to year end the District had the following construction project in process:

- New Alternative School and Field House. Total estimated cost \$4,593,156. At June 30, 2013 the project was approximately fifty (50%) percent complete.

The District has entered into a three year lease for the acquisition of Compass Learning Odyssey Management System and Curriculum CDS Software. The District will pay \$33,333 annually under the lease. The first payment was made in July, 2012.

NOTE O - SUBSEQUENT EVENTS

In August, 2013 the Board of Education approved a policy under which the Board shall compensate classified employees, or their estate, at the time of initial retirement for each unused sick day at the rate of the highest number of accumulated sick leave days attained.

| | |
|--|-------|
| 1-75 days accumulated unused sick leave | 17.5% |
| 76-150 days accumulated unused sick leave | 22.5% |
| 151 or more days accumulated unused sick leave | 30% |

The calculation shall be based on the employee's last annual salary. For personnel who begin employment with a local school district on or after July 1, 2008, unused sick leave days to be recognized in calculating reimbursement under KRS 161.155 shall not exceed 300 days.

At June 30, 2013, the estimated liability for these compensated absences was \$23,825.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013

NOTE P – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 is effective for periods beginning after June 15, 2014. Under this statement governments will be required to report the net pension liability associated with its employee's pensions as a liability in their accrual-based financial statements (for example, the government-wide Statement of Net Position). A government has a present obligation to pay deferred benefits earned by its employees. "Net Pension Liability" represents the government's obligation to pay deferred benefits when the total pension [plan's] liability exceeds the pension plan's net assets. This reporting requirement is an important change that will more clearly depict the government's financial position. While this information will, in some cases give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE Q – REISSUED FINANCIAL STATEMENTS

The financial statements have been reissued to report the reclassification of fund balance for the construction fund as shown on the balance sheet – governmental funds (page 13) from "committed" and "assigned" categories to "restricted". There were no changes to the assets, liabilities, revenues or expenditures for that fund or any other fund. Additionally, there were no changes to the government-wide financial statements.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2013**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|--|-----------------------|-----------------------|----------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| From Local Sources: | | | | |
| Taxes | | | | |
| Property | \$ 2,567,757 | \$ 2,567,757 | \$ 2,627,052 | \$ 59,295 |
| Motor Vehicle | 260,000 | 260,000 | 265,734 | 5,734 |
| Utilities | 1,164,895 | 1,164,895 | 1,192,832 | 27,937 |
| Omitted Property Tax | 10,000 | 10,000 | 61,988 | 51,988 |
| Earnings on Investments | 3,000 | 3,000 | 3,927 | 927 |
| Other Local Revenues | 26,826 | 26,826 | 96,734 | 69,908 |
| Intergovernmental Revenue - State | 6,106,105 | 6,474,568 | 6,511,484 | 36,916 |
| TOTAL REVENUES | \$ 10,138,583 | \$ 10,507,046 | \$ 10,759,751 | \$ 252,705 |
| EXPENDITURES: | | | | |
| Instruction | \$ 5,592,986 | \$ 5,432,352 | \$ 5,221,272 | \$ 211,080 |
| Support Services | | | | |
| Student | 556,532 | 556,572 | 546,544 | 10,028 |
| Instructional Staff | 403,873 | 404,313 | 396,377 | 7,936 |
| District Administration | 673,296 | 680,476 | 550,884 | 129,592 |
| School Administration | 765,236 | 764,038 | 760,254 | 3,784 |
| Business Support Services | 641,987 | 642,405 | 603,474 | 38,931 |
| Plant Operations & Management | 1,308,089 | 1,294,565 | 1,203,161 | 91,404 |
| Student Transportation | 1,040,486 | 1,030,679 | 913,963 | 116,716 |
| Debt Service | 119,568 | 119,568 | 135,777 | (16,209) |
| Contingency | 862,776 | 1,551,164 | - | 1,551,164 |
| TOTAL EXPENDITURES | \$ 11,964,829 | \$ 12,476,132 | \$ 10,331,706 | \$ 2,144,426 |
| Excess (Deficit) of Revenues Over Expenditures | \$ (1,826,246) | \$ (1,969,086) | \$ 428,045 | \$ 2,397,131 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | \$ - | \$ - | \$ - | \$ - |
| Transfers Out | (17,298) | (17,298) | (34,869) | (17,571) |
| Proceeds - Retirement of Fixed Assets | - | - | 934 | 934 |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ (17,298) | \$ (17,298) | \$ (33,935) | \$ (16,637) |
| Excess (Deficit) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses | \$ (1,843,544) | \$ (1,986,384) | \$ 394,110 | \$ 2,380,494 |
| Fund Balance - July 1 | 1,843,544 | 1,986,384 | 1,986,384 | - |
| Fund Balance - June 30 | \$ - | \$ - | \$ 2,380,494 | \$ 2,380,494 |

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2013**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|---|---------------------|---------------------|---------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| From Local Sources: | | | | |
| Other Local Revenues | \$ 5,199 | \$ 46,109 | \$ 37,504 | \$ (8,605) |
| Intergovernmental - State | 383,114 | 425,385 | 574,070 | 148,685 |
| Intergovernmental - Federal through the State | 953,768 | 1,018,704 | 930,213 | (88,491) |
| TOTAL REVENUES | \$ 1,342,081 | \$ 1,490,198 | \$ 1,541,787 | \$ 51,589 |
| EXPENDITURES: | | | | |
| Instruction | \$ 992,295 | \$ 1,199,352 | \$ 1,232,767 | \$ (33,415) |
| Support Services | | | | |
| Student | 2,600 | 4,846 | 4,862 | (16) |
| Instructional Staff | 91,799 | 25,445 | 29,244 | (3,799) |
| School Administration | 1,926 | 1,926 | 1,843 | 83 |
| Business Support Services | 34,596 | 46,674 | 68,739 | (22,065) |
| Student Transportation | 78,888 | 78,888 | 81,855 | (2,967) |
| Community Services | 157,275 | 156,404 | 157,346 | (942) |
| TOTAL EXPENDITURES | \$ 1,359,379 | \$ 1,513,535 | \$ 1,576,656 | \$ (63,121) |
| Excess (Deficit) of Revenues Over Expenditures | \$ (17,298) | \$ (23,337) | \$ (34,869) | \$ (11,532) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | \$ 17,298 | \$ 23,337 | \$ 34,869 | \$ 11,532 |
| Transfers Out | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ 17,298 | \$ 23,337 | \$ 34,869 | \$ 11,532 |
| Excess (Deficit) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses | \$ - | \$ - | \$ - | \$ - |
| Fund Balance - July 1 | - | - | - | - |
| Fund Balance - June 30 | \$ - | \$ - | \$ - | \$ - |

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO BUDGETARY COMPARISON SCHEDULES
June 30, 2013**

NOTE 1

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for its transactions on the modified accrual basis of accounting.

The Board of Education follows these procedures in establishing the budgetary data for the general fund, special revenue, and certain capital projects funds reflected in the financial statements.

1. The superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The Operating Budget includes proposed expenditures and the means of financing them for the upcoming year. Funds reserved at the end of the previous fiscal year due to the District's participation agreements with the Kentucky School Facilities Construction Commission and for its future obligation for sick leave retirement benefits are not budgeted. Revenues and expenditures associated with on-behalf payments made by the state of Kentucky for Teacher Retirement, Fringe Benefits and Network Services are not budgeted. Capital lease obligation transactions involving the acquisition of school buses through the KISTA Bond Program, and technology equipment financed through Dell Financial Services, Inc. are not budgeted. Detailed line item budgets are included for administration control. The level of control for the detailed budgets is at the principal/department head level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to January 31, the school district certifies to the Kentucky Department of Education that it has formally and publicly examined the draft budget.
4. Prior to March 1, the Board of Education makes a tentative allocation to School Councils including amounts for certified and classified staffs, instructional supplies, materials, travel and equipment.
5. Prior to May 1, the Board of Education must provide notice of updated allocations to School Councils.
6. Prior to May 30, the Board adopts a tentative working budget.
7. Prior to September 30, the Board adopts a final working budget and submits it to the Kentucky Board of Education for approval.
8. After the Department of Education has approved the final working budget, amendments to the budget may be made without additional approvals from the Department of Education. The budget was amended during the year.

NOTE 2

Budgetary comparison to actual for the special revenue funds represent the total comparison of all federal and state grant programs therein. Several of the projects have grant periods involving more than one fiscal year. Budget information for prior year projects are not included in the budgetary information presented.

NOTE 3

Actual results shown in the Budget Comparison do not reflect any on behalf payments made by the State of Kentucky for teachers retirement, health insurance, health reimbursement account contributions, life insurance, the administrative fees associated with those benefits, or network service.

NOTE 4

Total expenditures exceeded appropriations in the Special Revenue Fund by \$63,121. The Special Revenue Fund encompasses grant projects of the District. The period of availability for the projects do not all coincide with the fiscal year of the District. Therefore, variances can occur.

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 NOTES TO BUDGETARY COMPARISON SCHEDULES (CONTINUED)
 June 30, 2013

Budget to Actual Reconciliation

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

| | General Fund |
|--|---------------------|
| <u>Sources/inflows of resources:</u> | |
| Actual amounts (budgetary basis) "Total Revenues" from the budgetary comparison schedule | \$10,759,751 |
| Differences – budget to GAAP: | |
| Payments made by the State of Kentucky on behalf of the District for teachers retirement, health insurance, health reimbursement account contributions, life insurance, administrative fees, and network services are not budgeted by the District | 2,280,179 |
| Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund | \$13,039,930 |
| <u>Uses/outflows of resources:</u> | |
| Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule | \$10,331,706 |
| Differences – budget to GAAP: | |
| Payments made by the State of Kentucky on behalf of the District for fringe benefits and network services are not budgeted by the District. | 2,280,179 |
| The purchase of school buses financed with KISTA Bond Proceeds and the associated bond issuance costs are not budgeted by the District. | 106,762 |
| The purchase of technology equipment financed with Dell Financial Services lease proceeds is not budgeted by the District. | 48,105 |
| Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund | \$12,766,752 |
| <u>Other Financing Resources</u> | |
| Actual amounts (budgetary basis) "total other financing sources (uses)" from the budgetary comparison schedule | \$(33,935) |
| Differences – budget to GAAP: | |
| The purchase of school buses financed with KISTA Bond Proceeds are not budgeted. | 106,762 |
| The purchase of technology equipment financed with Dell Financial Services lease proceeds is not budgeted by the District. | 48,105 |
| Total other financing sources (uses) as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund | \$120,932 |
| <u>Fund Balance, July 1, 2012</u> | |
| Actual amounts (budgetary basis) fund balance, July 1, from the budgetary comparison schedule | \$1,986,384 |
| Differences – budget to GAAP: | |
| Amounts reserved for accrued sick leave are not considered available and therefore not budgeted for current expenditures by the District | 20,295 |
| Fund balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund | \$2,006,679 |

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2013

| | Capital Project Funds | | Total Non-major Governmental Funds |
|--|-----------------------|-----------------------------------|---|
| | FSPK Fund | SEEK Capital Outlay Fund | |
| ASSETS: | | | |
| Cash and Cash Equivalents | \$ 96,233 | \$ - | \$ 96,233 |
| TOTAL ASSETS | <u>\$ 96,233</u> | <u>\$ -</u> | <u>\$ 96,233</u> |
| | | | |
| LIABILITIES AND FUND BALANCES: | | | |
| LIABILITIES: | | | |
| None | \$ - | \$ - | \$ - |
| TOTAL LIABILITIES | <u>\$ 96,233</u> | <u>\$ -</u> | <u>\$ 96,233</u> |
| | | | |
| FUND BALANCES: | | | |
| Restricted for: | | | |
| Capital Projects/Debt Service | \$ 96,233 | \$ - | \$ 96,233 |
| TOTAL FUND BALANCES | <u>\$ 96,233</u> | <u>\$ -</u> | <u>\$ 96,233</u> |
| | | | |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 96,233</u> | <u>\$ -</u> | <u>\$ 96,233</u> |

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2013

| | Capital Project Funds | | Total Non-major Governmental Funds |
|--|-----------------------|-----------------------------------|---|
| | FSPK Fund | SEEK Capital Outlay Fund | |
| REVENUES: | | | |
| From Local Sources: | | | |
| Taxes: | | | |
| Property | \$ 837,495 | \$ - | \$ 837,495 |
| Earnings on Investments | 254 | - | 254 |
| Intergovernmental - State | 804,309 | 150,970 | 955,279 |
| TOTAL REVENUES | \$ 1,642,058 | \$ 150,970 | \$ 1,793,028 |
| EXPENDITURES: | | | |
| None | \$ - | \$ - | \$ - |
| TOTAL EXPENDITURES | \$ - | \$ - | \$ - |
| Excess (Deficit) of Revenues over Expenditures | \$ 1,642,058 | \$ 150,970 | \$ 1,793,028 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers In | \$ - | \$ - | \$ - |
| Transfers Out | 1,545,825 | 150,970 | 1,696,795 |
| TOTAL OTHER FINANCING SOURCES (USES): | \$ (1,545,825) | \$ (150,970) | \$ 1,696,795 |
| Excess (Deficit) of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses | \$ 96,233 | \$ - | \$ 96,233 |
| FUND BALANCE JULY 1, 2012 | - | - | - |
| FUND BALANCE JUNE 30, 2013 | \$ 96,233 | \$ - | \$ 96,233 |

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 DEBT SERVICE FUNDS
 For the Year Ended June 30, 2013**

| | <u>REFUNDING ISSUE OF 2003</u> | <u>ISSUE OF 2004</u> | <u>ISSUE OF 2006</u> | <u>REFUNDING ISSUE OF 2008</u> |
|--|------------------------------------|----------------------|----------------------|------------------------------------|
| REVENUES: | | | | |
| Intergovernmental - State on Behalf Payments | \$ 16,723 | \$ 39,907 | \$ 609,425 | \$ 42,101 |
| Federal Interest Credit - Build America Bonds | - | - | - | - |
| Total Revenue | <u>\$ 16,723</u> | <u>\$ 39,907</u> | <u>\$ 609,425</u> | <u>\$ 42,101</u> |
| EXPENDITURES: | | | | |
| Debt Service | | | | |
| Principal Retirement | \$ 295,000 | \$ 25,000 | \$ 590,000 | \$ 55,000 |
| Interest and Fiscal Charges | 37,872 | 17,082 | 584,484 | 32,241 |
| Total Expenditures | <u>\$ 332,872</u> | <u>\$ 42,082</u> | <u>\$ 1,174,484</u> | <u>\$ 87,241</u> |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES | <u>\$ (316,149)</u> | <u>\$ (2,175)</u> | <u>\$ (565,059)</u> | <u>\$ (45,140)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating Transfers In | \$ 316,149 | \$ 2,175 | \$ 565,059 | \$ 45,140 |
| Total Other Financing Sources (Uses) | <u>\$ 316,149</u> | <u>\$ 2,175</u> | <u>\$ 565,059</u> | <u>\$ 45,140</u> |
| EXCESS (DEFICIT) OF REVENUES AND FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | \$ - | \$ - | \$ - | \$ - |
| FUND BALANCE, JULY 1, 2012 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE, JUNE 30, 2013 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

| <u>REFUNDING ISSUE OF 2008 2ND SERIES</u> | <u>ISSUE OF 2010</u> | <u>REFUNDING ISSUE OF 2010</u> | <u>ISSUE OF 2012</u> | <u>TOTALS</u> |
|---|----------------------|------------------------------------|----------------------|---------------------|
| \$ 116,588 | \$ 36,238 | \$ - | \$ 3,828 | \$ 864,810 |
| - | 121,474 | - | - | 121,474 |
| <u>\$ 116,588</u> | <u>\$ 157,712</u> | <u>\$ -</u> | <u>\$ 3,828</u> | <u>\$ 986,284</u> |
| | | | | |
| \$ 100,000 | \$ 190,000 | \$ 170,000 | \$ - | \$ 1,425,000 |
| 49,125 | 347,068 | 56,190 | 40,017 | 1,164,079 |
| <u>\$ 149,125</u> | <u>\$ 537,068</u> | <u>\$ 226,190</u> | <u>\$ 40,017</u> | <u>\$ 2,589,079</u> |
| | | | | |
| \$ (32,537) | \$ (379,356) | \$ (226,190) | \$ (36,189) | \$ (1,602,795) |
| | | | | |
| \$ 32,537 | \$ 379,356 | \$ 226,190 | \$ 36,189 | \$ 1,602,795 |
| <u>\$ 32,537</u> | <u>\$ 379,356</u> | <u>\$ 226,190</u> | <u>\$ 36,189</u> | <u>\$ 1,602,795</u> |
| | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
For the Year Ended June 30, 2013

| | Cash Balances | | | Cash Balances | Accounts | | Fund Balances |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-----------------|-----------------------------|-------------------|
| | July 1, 2012 | Receipts | Disbursements | | June 30, 2013 | Receivable June 30, 2013 | |
| ACCOUNTS: | | | | | | | |
| Central Office & Bus Garage General | \$ 4,397 | \$ 1,772 | \$ 1,128 | \$ 5,041 | \$ - | \$ - | \$ 5,041 |
| Interest Account | 3,029 | 32,744 | 33,658 | 2,115 | - | - | 2,115 |
| Flags & Pendants | 1,000 | - | - | 1,000 | - | - | 1,000 |
| High School | | | | | | | |
| Academic Team | 29 | 74 | 103 | - | - | - | - |
| Adopt a Jr Program | - | 979 | 979 | - | - | - | - |
| After-Prom | 890 | 1,630 | 2,025 | 495 | - | - | 495 |
| Art Club | 171 | 640 | 664 | 147 | - | - | 147 |
| Athletic Speedway | 771 | 23,158 | 20,163 | 3,766 | - | - | 3,766 |
| Athletics | 1,188 | 29,245 | 30,326 | 107 | 62 | - | 169 |
| Basketball Camp | 592 | 2,302 | 2,893 | 1 | - | - | 1 |
| Beta Club | 517 | 599 | 538 | 578 | - | 521 | 57 |
| Bogardus Scholarships | 73,688 | 1,741 | 1,000 | 74,429 | 771 | - | 75,200 |
| Boys Baseball | 2,303 | 4,038 | 6,215 | 126 | - | - | 126 |
| Boys Basketball | 3,232 | 10,716 | 10,808 | 3,140 | 544 | - | 3,684 |
| Boys Basketball Fundraiser | 2,393 | 11,108 | 9,245 | 4,256 | - | 97 | 4,159 |
| Boys Cross Country | 36 | 25 | 50 | 11 | - | - | 11 |
| Boys Golf | 28 | 125 | 150 | 3 | - | - | 3 |
| Boys Soccer | 325 | 2,395 | 2,706 | 14 | - | - | 14 |
| Boys Tennis | 336 | - | - | 336 | - | - | 336 |
| Cheerleaders | 4,322 | 11,407 | 15,464 | 265 | - | - | 265 |
| Counselors Office | 166 | 1,027 | 1,026 | 167 | 15 | - | 182 |
| Crume Family Scholarship | 94,256 | 2,250 | 5,000 | 91,506 | 56 | - | 91,562 |
| Drama Club | 295 | 1,237 | 1,186 | 346 | - | - | 346 |
| F Trip Grant | 426 | - | - | 426 | - | - | 426 |
| FBLA | 266 | 2,754 | 1,260 | 1,760 | - | - | 1,760 |
| FCA | 201 | 248 | 248 | 201 | - | - | 201 |
| FFA | 8,811 | 16,911 | 16,064 | 9,658 | - | 60 | 9,598 |
| FFA Northern Region | 3,358 | 4,780 | 5,922 | 2,216 | - | - | 2,216 |
| Football | 2,654 | 8,971 | 7,644 | 3,981 | - | 176 | 3,805 |
| Football Lights | 13,108 | - | 6,818 | 6,290 | - | - | 6,290 |
| Freshman Mentors | 617 | 615 | 1,044 | 188 | - | - | 188 |
| Future Educators | 381 | 48 | 87 | 342 | - | - | 342 |
| Girls Basketball | 304 | 13,004 | 11,980 | 1,328 | - | 523 | 805 |
| Girls Fundraiser | 560 | 1,250 | - | 1,810 | - | - | 1,810 |
| Girls Golf | 30 | 1,525 | 1,498 | 57 | - | - | 57 |
| Girls Softball | 2,866 | 3,935 | 6,212 | 589 | - | - | 589 |
| Girls Volleyball | 58 | 2,334 | 2,392 | - | - | - | - |
| Hall of Fame | 226 | - | - | 226 | - | - | 226 |
| High School Football Fundraiser | 3,610 | 14,943 | 11,149 | 7,404 | - | 5,180 | 2,224 |
| High School General | 4,130 | 1,741 | 1,896 | 3,975 | - | - | 3,975 |
| High School Spirit Club | 290 | - | 69 | 221 | - | - | 221 |
| High School Teachers | 1,352 | 1,347 | 754 | 1,945 | - | - | 1,945 |
| High School Textbooks | 221 | - | - | 221 | - | - | 221 |
| High School Trip | - | 4,951 | 14 | 4,937 | - | - | 4,937 |
| HS Volleyball Fundraiser | 871 | 2,509 | 2,305 | 1,075 | - | - | 1,075 |
| Juniors | - | 7,113 | 6,896 | 217 | - | - | 217 |
| Landscaping | 513 | - | - | 513 | - | - | 513 |
| Library | 350 | 486 | 288 | 548 | - | - | 548 |
| Ms. Gurska's Class | 1 | 260 | 78 | 183 | - | - | 183 |
| Pre-Registration | 431 | 1,547 | 1,965 | 13 | - | - | 13 |
| Principal's Donations | 1,402 | 430 | 1,500 | 332 | - | - | 332 |
| Printing/Copier Works | 194 | 1,024 | 1,098 | 120 | - | - | 120 |
| SADD Club | 1,150 | 750 | 530 | 1,370 | - | - | 1,370 |
| Samantha Spade Scholarship | 1,500 | 500 | 750 | 1,250 | - | - | 1,250 |
| Seniors | 831 | 4,917 | 5,217 | 531 | - | - | 531 |
| Spanish Club | 269 | 643 | 769 | 143 | - | - | 143 |
| Student Awards Prof & Dist | 277 | - | - | 277 | - | - | 277 |
| Technology Club (TSA) | 824 | - | 824 | - | - | - | - |
| Tournaments | 244 | - | 192 | 52 | - | - | 52 |
| VoAg | 1,776 | 2,518 | 1,721 | 2,573 | - | 221 | 2,352 |
| Y Club | - | 3,521 | 3,521 | - | - | - | - |
| Yearbook | 3,347 | - | 892 | 2,455 | - | - | 2,455 |
| Youth Service Center | 84 | 301 | 315 | 70 | - | - | 70 |
| Middle School | 13,702 | 40,197 | 44,410 | 9,489 | 371 | 115 | 9,745 |
| Middle School Athletics | 4,415 | 22,658 | 21,586 | 5,487 | 40 | 124 | 5,403 |
| Elementary School | 6,744 | 31,867 | 26,539 | 12,072 | 8 | 526 | 11,554 |
| Upper Elementary School | 11,712 | 20,647 | 26,565 | 5,774 | - | 78 | 5,696 |
| | <u>\$ 288,070</u> | <u>\$ 360,457</u> | <u>\$ 368,359</u> | <u>\$ 280,168</u> | <u>\$ 1,867</u> | <u>\$ 7,621</u> | <u>\$ 274,414</u> |

Included in receipts and disbursements are \$16,252 of interfund transfers.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
For the Year Ended June 30, 2013**

BOARD MEMBERS

David Morris, Chairperson

Alex Tainsh, Vice-Chairperson

Sonya Giles

Dicky Wilson (as of January 1, 2013)

Chad Murray (as of January 1, 2013)

Becky Burgett (through December 31, 2012)

Joanie Rogers (through December 31, 2012)

ADMINISTRATIVE PERSONNEL

Dorothy Perkins, Superintendent of Schools and Secretary to the Board

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

**Kentucky State Committee For School District Audits
Members of the Gallatin County, Kentucky, Board of Education
Warsaw, Kentucky**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, Board of Education, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise Gallatin County, Kentucky, Board of Education's basic financial statements and have issued our report thereon dated November 8, 2013 except for Notes L and Q as to which the date is December 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gallatin County, Kentucky, Board of Education'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 Gallatin County, Kentucky, Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Gallatin County, Kentucky, Board of Education'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2013-1 and 2013-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gallatin County, Kentucky, Board of Education'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*.

Gallatin County, Kentucky, Board of Education's Response to Findings

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

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.

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

November 8, 2013 except for Notes L and Q as to which the date is December 5, 2013

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

**Kentucky State Committee For School District Audits
Members of the Gallatin County, Kentucky, Board of Education
Warsaw, Kentucky**

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

November 8, 2013

GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2013

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | MUNIS Project Number | Federal Expenditures |
|---|---------------------------|--|----------------------------|-------------------------|
| U. S. Department of Education: | | | | |
| Pass-through Programs from the Kentucky Department of Education: | | | | |
| Title I Part A Cluster: | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 3100202 11 | 3202 | \$ 4,179 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100202 10 | 3201 | 12,183 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002 12 | 3103 | 329,894 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002 11 | 3102 | 47,315 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002 12 | 3103D | 66,516 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100202 12 | 3103T | 1,823 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002 10 | 3101T | 2,261 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002 11 | 3102T | 4,985 |
| Sub-Total Title I Grants to Local Educational Agencies | | | | <u>\$ 469,156</u> |
| Total Title I, Part A Cluster | | | | <u>\$ 469,156</u> |
| Education Jobs Fund | 84.410 | EJOB00 10 | 4411 | \$ 8,192 |
| Sub-Total Education Jobs Fund | | | | <u>\$ 8,192</u> |
| Special Education Cluster (IDEA): | | | | |
| Special Education - Grants to States | 84.027 | 3810002 12 | 3373 | \$ 299,403 |
| Special Education - Grants to States | 84.027 | 3810002 11 | 3372 | 16,197 |
| Sub-Total Special Education - Grants to States | | | | <u>\$ 315,600</u> |
| Special Education - Preschool Grants | 84.173 | 3800002 12 | 3433 | \$ 9,341 |
| Special Education - Preschool Grants | 84.173 | 3800002 11 | 3432 | 3,978 |
| Sub-Total Special Education - Preschool Grants | | | | <u>\$ 13,319</u> |
| Total Special Education Cluster (IDEA) | | | | <u>\$ 328,919</u> |
| Career and Technical Education - Basic Grants to States (Perkins IV) | 84.048 | 4621332 12 | 3483 | \$ 2,152 |
| Career and Technical Education - Basic Grants to States (Perkins IV) | 84.048 | 4621232 13 | 3483 | 12,241 |
| Career and Technical Education - Basic Grants to States (Perkins IV) | 84.048 | 4621132 10 | 3481A | (68) |
| Sub-Total Career and Technical Education - Basic Grants to States (Perkins IV) | | | | <u>\$ 14,325</u> |
| Improving Teacher Quality State Grants | 84.367 | 3230002 12 | 4013 | \$ 68,128 |
| Sub-Total Improving Teacher Quality State Grants | | | | <u>\$ 68,128</u> |
| Rural Education and Low Income School Grant Program | 84.358 | 3140002 12 | 3503 | \$ 30,441 |
| Sub-Total Rural Education and Low Income School Grant Program | | | | <u>\$ 30,441</u> |
| English Language Acquisition Grants | 84.365 | 3300002 11 | 3452 | \$ 4,748 |
| Pass-through Program from Carroll County, Kentucky, Board of Education: | | | | |
| English Language Acquisition Grants | 84.365 | 3300002 12 | 3453 | \$ 633 |
| Sub-Total English Language Acquisition Grants | | | | <u>\$ 5,381</u> |
| Race to the Top | 84.413A | 3980002 11 | 4521 | \$ 5,671 |
| Sub-Total Race to the Top | | | | <u>\$ 5,671</u> |
| Total U.S. Department of Education Pass-through Programs from the Kentucky Department of Education | | | | <u>\$ 930,213</u> |
| U.S. Department of Agriculture: | | | | |
| Pass-through Programs from the Kentucky Department of Education: | | | | |
| Child Nutrition Cluster: | | | | |
| National School Lunch Program | 10.555 | 7750002 13 | N/A | \$ 406,205 |
| National School Lunch Program | 10.555 | 7750002 12 | N/A | 101,402 |
| National School Lunch Program (Note B) | 10.555 | 0575-02-02 | N/A | 56,849 |
| Sub-Total National School Lunch Program | | | | <u>\$ 564,456</u> |
| School Breakfast Program | 10.553 | 7760005 13 | N/A | \$ 144,462 |
| School Breakfast Program | 10.553 | 7760005 12 | N/A | 34,602 |
| Sub-Total School Breakfast Program | | | | <u>\$ 179,064</u> |
| Total Child Nutrition Cluster | | | | <u>\$ 743,520</u> |
| Total U.S. Department of Agriculture Pass-through Programs from the Kentucky Department of Education | | | | <u>\$ 743,520</u> |
| Total Expenditures of Federal Awards | | | | <u>\$ 1,673,733</u> |

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013**

Note A: Basis of Presentation

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

Note B: Food Distribution

Nonmonetary assistance of the commodities used in the School Food Service Program are reported at the fair market value of commodities received and disbursed.

Note C: Insurance

Other than the non-cash assistance described in Note B, Gallatin County, Kentucky, Board of Education had not received any other federal awards in the form of non-cash assistance, insurance contracts or loans and loan guarantees for the year ended June 30, 2013.

Note D: Build America Bonds

The Gallatin County, Kentucky, Board of Education received \$121,474 in interest credit payments toward the debt service payments made on its School Building Revenue Bonds, Series of 2010 (Build America Bonds), for the year ended June 30, 2013. These payments are not included in the accompanying schedule of expenditures of federal awards.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013**

A. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of the Gallatin County, Kentucky, Board of Education.
2. Two significant deficiencies related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Gallatin County, Kentucky, Board of Education, that would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance for Each Major Program and on Internal Control over Compliance required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Gallatin County, Kentucky, Board of Education expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

| | CFDA No. |
|---|----------|
| Title I Part a Cluster: | |
| Title I Grant to Local Education Agencies | 84.010 |
| Special Education Cluster (IDEA): | |
| Special Education – Grants to States | 84.027 |
| Special Education – Preschool Grants | 84.173 |

8. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
9. The Gallatin County, Kentucky, Board of Education qualified as a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

Government Auditing Standards

2013-1 Segregation of Duties and Checking Procedures

Condition: Instances were identified where checking procedures had not been performed consistently resulting in lapses in internal control. Checking procedures and rotation of duties are limited due to the size of the District's administrative staff and responsibilities associated with individual positions. This condition was also cited as a significant deficiency in the schedule of findings and questioned costs for the year ended June 30, 2012 as item 12-1.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2013**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

SIGNIFICANT DEFICIENCIES (Continued)

Government Auditing Standards (Continued)

2013-1 Segregation of Duties and Checking Procedures (Continued)

Criteria: Internal controls should be implemented to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow the preparation of financial data consistent with management assertions.

Cause: Time constraints and responsibilities associated with individual positions limit the availability of individuals to rotate duties and perform checking/review procedures. Individuals associated with inventory control and fund raiser oversight (including athletic events) have not completed reconciliations regarding funds collected in all cases.

Effect: This limitation may affect the ability to timely record, process, summarize and report financial data. Transactions may not be properly recorded. Misappropriation of funds may occur.

Recommendation: Management should strive to separate duties and implement checking procedures as staff and cost benefits allow. Review procedures should be implemented to insure transactions have been recorded properly. Documentation of oversight reviews should be maintained.

Response: Efforts have been made to provide cross-training for financial department positions and we will continue this endeavor. Additionally we will strive to increase checking procedures and documentation of reviews performed.

2013-2 Failure to Prepare a Complete Set of Financial Statements Including Required Note Disclosures

Condition: District government-wide financial statements, including the required disclosures are prepared as part of the annual audit. This condition was also cited as a significant deficiency in the schedule of findings and questioned costs for the year ended June 30, 2012 as Item 12-2.

Criteria: Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

Cause: The District prepares governmental fund financial statements for its' annual financial report. However the draft accrual basis (government-wide) financial statements and disclosures are prepared during the audit process. Entries are not entered into the District's MUNIS System.

Effect: Management engaged the auditor to prepare draft financial statements and related notes. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation: The outsourcing of this service is not unusual for a District this size and is a result of management's cost benefit decision to use others' accounting expertise rather than incur internal resource costs. We recommend that District Management continue to enhance its knowledge of reporting requirement in providing oversight of the service provided.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2013**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

Government Auditing Standards (Continued)

2013-2 Failure to Prepare a Complete Set of Financial Statements Including Required Note Disclosures (Continued)

Response: We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities.

**GALLATIN COUNTY, KENTUCKY, BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2013**

**U.S. DEPARTMENT OF AGRICULTURE – PASS THROUGH PROGRAMS FROM THE KENTUCKY DEPARTMENT OF
EDUCATION**

SIGNIFICANT DEFICIENCIES

NONE

COMPLIANCE ISSUES

NONE

**Kentucky State Committee for School District Audits
Members of the Gallatin County, Kentucky, Board of Education
Warsaw, Kentucky**

In planning and performing our audit of the financial statements of the Gallatin County, Kentucky, Board of Education as of and for the year ended June 30, 2013, we considered the Board's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

We previously reported on the Board's internal control in our report dated November 8, 2013. A separate report contains our report on deficiencies in the Board's internal control. This letter does not affect our report dated November 8, 2013, except for Notes L and Q as to which the date is December 5, 2013, on the financial statements of the Gallatin County, Kentucky, Board of Education.

We found the Board's accounting system to be capable of providing essential information for effective operating and financial control of the District's operations. At the same time, we observed certain areas where procedural modifications or revisions might provide better internal control. This letter summarizes our comments and suggestions regarding those matters.

In our prior audit, the review of school activity funds identified procedures to improve documentation and consistency with Red Book requirements.

- We recommended that inventories of items held for sale (concessions) be maintained. Evidence of inventory control procedures was not observed in the current year.
- In our prior, audit instances were observed in which rosters of the school trip participants were not formally reconciled to payments received and trip expenditures. Although similar instances were observed during the current year, some improvements were noted. The District is continuing its efforts to educate teachers and sponsors as to the control aspects of these procedures.
- Previously we recommended that athletic schedules be maintained and reviewed in regards to gate and concession sales deposits, and game official expenditures. Since our recommendation was made, the schedules have been maintained on a calendar. However, they are not being reviewed in relation to expected transactions to insure the timely deposit of revenues. Responsible parties are not utilizing the night deposit as appropriate. During the current year some athletic deposits were made months late, and one athletic event reviewed was not deposited at all. Concession deposits were also held for an extended period of time before being deposited. A closer review of the athletic schedules and a ticket reconciliation log would likely have detected these missing deposits prior to year-end. A manual tracking system to document timely receipt of gate and concession sales and game official expenditures is recommended.

In our previous audit we recommended that spot checks of inventory be documented through the School Food Service Director's initialing items reviewed on the inventory listings submitted. Formal documentation of this procedure has not been maintained. In the current audit we noted some differences in ala carte prices charged as compared to the approved rates. Food prices should be reviewed and checked to the approved price lists.

In the prior year we observed some old outstanding checks carried on the bank reconciliations. These checks have not been fully addressed. The District may need to void these transactions.

In the prior year we recommended that District employees sign a copy of their job description to be maintained in their file. The Kentucky Department of Education requires that all classified employees have a job description. Although the District does have job descriptions that are provided to employees upon initial employment, we would recommend the District maintain a copy of the job description signed by the employee rather than simply referencing the description noted in the contract. This prevents any possible disagreements over the expectations of an employee.

In the prior review of payroll, we observed two instances (one permanent employee and one substitute) out of sixty employees tested where the employees were paid using an incorrect pay scale. In the current year instances were again observed where employees were paid using an incorrect pay scale. One employee was also paid based on an incorrect experience rating. We recommend that all new employees and changes in rank or pay scale be reviewed and initialed by a supervisory individual.

In the current year review of payroll, it was noted that extra duty pay was not always approved with an appropriate supervisory signature. Also, supplemental pay for principals lacked corresponding documentation to adequately substantiate the amount of supplemental pay to be received. Additionally, two student workers were observed who were paid for services performed rather than by hour at minimum wage as required by Board policy. We recommend that all supplemental/extra pay be reviewed for appropriate signature and amount.

In the current calendar year one board member has refused per diem payments for meeting attendance. Kentucky Revised Statutes indicate that Board members "may" be paid. However, the District's policy states that board members "shall" receive per diem for meetings and trainings attended. Administrators of the Board of Education have made requests of the board member for the information necessary to issue payments and maintain compliance with District policy. To avoid violation of the District's policy the board member could make a donation of the funds to the District if so desired. Or, for future meetings and expenses, the Board may wish to adopt a formal resolution indicating that Board members may choose to not accept the per diem designated in the Board policy. If such a resolution is adopted, the District should require members choosing such action to sign a formal statement documenting that decision and maintain that statement in the minutes and records of the District. This decision must be made and documented prior to January 1 of the calendar year in which per diem is to be received and cannot be done retroactively.

In the area of expenditure documentation, it was noted that proper travel reimbursement forms are not being used consistently. Three expenditures of one hundred and five reviewed in our sample lacked purchase order approval. Due to a misunderstanding concerning allowable costs, one expenditure was charged in error to the Title I program. This invoice should be reimbursed to the Title I program.

Federal guidelines require grantees [the District] to review vendors against the "excluded party list system" to ensure that selected vendors are not suspended or disbarred. In the prior year we recommended that all vendors including personnel be approved before any contract or purchase is authorized to be paid from the federal programs. Significant improvement has been made in this area.

The District has implemented a new vendor approval system to document and approve new vendors. To be effective, all new vendors should be approved and entered into the computer system by someone other than the accounts payable personnel.

During our review of accounts payable for the current year audit, an equipment purchase was discovered in the activity fund for which an employee entered into a two year financing contract. The requisition and purchase order were processed and approved for only the first of the required two payments; however, by approving the contract, the District was obligated beyond the current period and for an amount greater than the initial approval would indicate. Policies and procedures should be reiterated to school personnel outlining limits of authority in encumbering school funds and the ability to enter into any contract on behalf of the school.

**Kentucky State Committee for School District Audits
Members of the Gallatin County, Kentucky, Board of Education
Warsaw, Kentucky
Page Three**

In the current year review of activity fund disbursements ten percent (10%) of the transactions reviewed contained invoices that were dated prior to the requisition/purchase order approval. The entire purchase amount should be requisitioned and approved prior to completing a purchase to insure that the activity has adequate funds to support the purchase.

Although we have indicated some items for review as observed during the audit process, we would like to take this opportunity to compliment the Board on the conscientious attitude of its employees and the overall procedures employed in the maintaining of a correct and accurate accounting system.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various board 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. This report is intended solely for the information and use of the members of the Kentucky State Committee for School District Audits, the members of the Gallatin County, Kentucky, Board of Education, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**RAISOR, ZAPP & WOODS, P.S.C.
Certified Public Accountants
Carrollton, Kentucky**

November 8, 2013, except for Notes L and Q as to which the date is December 5, 2013

Gallatin County Schools

Wallace Central Office Building

75 Boardwalk

Warsaw, KY 41095

Dorothy B. Perkins
SUPERINTENDENT

Raymond A. Spahn
ASSISTANT SUPERINTENDENT

Leonard T. Whalen
DEPUTY SUPERINTENDENT
DIRECTOR OF PUPIL PERSONNEL

Debra Foltz
DIRECTOR OF DISTRICT WIDE
SERVICES I

Renee Cameron
DIRECTOR OF SPECIAL EDUCATION

Mark Hale
DIRECTOR OF TRANSPORTATION

Connie Wainscott
DIRECTOR OF FINANCE

“Maximizing Student Learning & Achievement”

November 8, 2013

Kentucky State Committee for School District Audits
Frankfort, Kentucky

In response to the findings noted in the Management Letter included with the audit of our financial statements for the year ended June 30, 2013, we submit the following:

Prior audit findings and comments:

It was noted in our audit that inventories should be maintained for vending and concession items. The school district has hired a concessions manager who will be trained in the proper procedures to be followed to maintain inventory and make timely cash deposits. District personnel will check throughout the year to make sure that these procedures are being followed.

Other items noted in the management letter involved instances where field trip payments were not reconciled to the students that attended the trip. Although the auditors noted some improvement from the prior year, there were still some instances noted in the current audit. District finance personnel will continue to monitor field trip receipts and expenditures and will continue to hold training for the principals, teachers and sponsors to further improve in this area. We will strive to have full compliance if possible. Training will be held for all teachers on the new Red Book procedures and policies, with follow up by district personnel as necessary.

Also noted during the prior audit was that athletic schedules were not being maintained and reviewed as to gate receipts and payments to officials for games played. While the district has maintained athletic schedules during the current year, there was not a comparison to the gate receipts received to ensure timely deposit of district revenues. We will change our procedures to match up the schedules with games played and with deposits made to ensure that deposits are made in a timely manner. Any discrepancies will be noted and followed up with. Also, Athletic Department personnel will be trained in proper procedures for handling and depositing gate receipts.

It was noted during the prior audit of the school food service fund that spot checks of inventory were not documented through the Director's initialing items to indicate her review of the inventory. This is still an issue in the current audit. During the summer, we reviewed and improved our inventory

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procedures and implemented recommendations to ensure that the food service inventory is properly maintained and documented. Food Service personnel were also trained at the beginning of the 2013-2014 school year on the new procedures. Follow-up will be done by central office personnel during the year to ensure that these procedures have been implemented fully and correctly.

In our prior audit it was noted that old outstanding checks were carried on the bank reconciliations. There are still a few checks that remain to be investigated. We will investigate and void these transactions or reissue the checks as necessary.

It was noted in our prior audit that the district has job descriptions for all employees in general but that a signed copy of the employee's job description is not kept in their contract file at all times. While we have improved in this area, there were still some instances where a signed copy of the job description was not in the file. We will strive to have 100% compliance in this area in the future.

In our prior audit it was noted that there were two instances where an employee was paid using the wrong pay scale. It was recommended that new employees and changes in rank or pay scale should be reviewed and initialed by a supervisory individual. There were instances found also in the current audit of employees being paid the wrong scale. It was noted that the employees in question had been hired and entered into the payroll system a few years prior to implementing new procedures, and the district will strive to not only enter the new employees correctly but to make sure long-standing employees also have the correct information entered into the payroll system.

Procedures will be implemented to have the employee's rank and years noted on their contract in order that they will be informed of how they are being paid, as well as ensuring that proper documentation is signed and approved as to rank and years before an employee is entered into the payroll system.

Current Year Findings and comments:

In the current year review of payroll, it was recommended that we review all supplemental/extra pay for appropriate signature and amount. We concur with this finding and will require that all supplemental/extra pay have the supervisor's signature and approval as to the amount to be paid before the payment is entered into payroll. District personnel will review these procedures periodically during the year to ensure that they are being followed.

It was noted during the current audit that one board member has refused per diem payments. Although the school district has attempted to obtain the proper documents and information from the board member that is necessary to pay this board member we have not been able to at this time. The school district will comply with board policy and pay the board member as required whether or not payment documentation has been obtained.

It was noted during a check of expenditures in the current audit that proper travel reimbursement forms were not being filled out in all cases. This is required by board policy. We will review board policy and make sure that we have the proper documentation filled out for travel.

reimbursements, and that payments will only be made with the proper documentation. Also, it was noted that one invoice was erroneously charged to Title I that was not an allowable cost. We concur with the finding and will reimburse the Title I program for the amount of that invoice.

The district will strive to continue to improve in the area of reviewing vendors against the "excluded party list" and will continue to document and check the vendors against this list.

It was recommended in the current audit that all new vendors be approved and entered into the MUNIS system by someone other than accounts payable personnel. We concur with this finding and will ensure that there is approval by someone other than accounts payable personnel when new vendors are entered to ensure that all the documentation is obtained and that the vendor is proper and legitimate.

It was noted in our current audit that an employee entered into a financing contract without authorization by the board. We will continue to properly train and inform our employees as to board policy relating to limits of authority in encumbering school funds and entering into contracts. We will review any subsequent invoices for instances of noncompliance and will correct these items as necessary.

In our current audit a recommendation was made that purchases in the activity fund should be requisitioned and approved prior to completing a purchase to ensure that the activity has adequate funds to support the purchase. We concur with this recommendation and will cover that issue when personnel are trained over the new Red Book procedures. Any invoices turned in with a date earlier than the purchase order or requisition will be returned and an explanation required to be attached to that purchase as to why there was a purchase made before the purchase order was obtained. All effort will be made to avoid these types of purchases in the future.

In conclusion, although some errors have been identified, we feel that the control system in place is reasonable. We will be working to instruct our personnel in the new procedures for activity funds and following the Redbook rules required by the State. We have diligently been working on improving our performance in that area through the implementation of additional checking procedures and staff oversight. Training sessions have been or will be held with various personnel to review and instruct personnel on proper procedures. Other items noted are easily corrected and we will do our best to ensure that we are following the auditor's recommendations. As always, we appreciate the insight and professionalism of our auditors, and will work toward improving upon the areas identified in the audit.

Sincerely,



Dorothy Perkins, Superintendent