

**McCRACKEN COUNTY  
BOARD OF EDUCATION**

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

**YEAR ENDED JUNE 30, 2013**

**TABLE OF CONTENTS**

<b>INDEPENDENT AUDITOR’S REPORT</b> .....	2-3
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	4-8
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position – Government Wide .....	9
Statement of Activities – Government Wide.....	10
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds.....	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	14
Statement of Net Position – Proprietary Funds .....	15
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	16
Statement of Cash Flows –Proprietary Funds .....	17
Statement of Fiduciary Net Position – Fiduciary Funds.....	18
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	19
Notes to Financial Statements .....	20-36
<b>REQUIRED SUPPLEMENTAL INFORMATION</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund.....	37
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – Special Revenue Fund.....	38
<b>OTHER SUPPLEMENTAL INFORMATION</b>	
Combining Balance Sheet – Non-major Governmental Funds .....	39
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds.....	40
Schedule of Expenditures of Federal Awards .....	41-42
Notes to Schedule of Expenditures of Federal Awards .....	43
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> .....	44-45
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	46-47
Schedule of Findings and Questioned Costs .....	48
Summary Schedule of Prior Audit Findings.....	49

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 37 through 38 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 McCracken County Board of Education's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2013 on our consideration of the McCracken 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 McCracken County Board of Education's internal control over financial reporting and compliance.

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
October 14, 2013

**McCracken County Public School District—Paducah, Kentucky**  
**Management’s Discussion and Analysis (MD&A)**  
**Year Ended June 30, 2013**

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

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34 “Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments” issued in June 1999.

**FINANCIAL HIGHLIGHTS**

- The government-wide beginning cash and cash equivalents balance for the District on July 1, 2012, was \$25,914,190. The government-wide ending cash and cash equivalents balance for the District on June 30, 2013, was \$27,757,218.
- Interest income decreased to a total of \$101,302 for all categories of funds. This is a 53% decrease from last year due to investment withdrawals made to pay for the McCracken County High School construction project.
- General Fund revenue accounted for \$51,887,380 in revenue, or 80% of all governmental revenues. Program specific revenues in the form of grants, construction, and other governmental units accounted for \$12,603,098, or 20% of total governmental revenues of \$64,490,478.
- The General Fund had \$51.9 million in revenue, which consisted primarily of the state program (SEEK), property, utility, and motor vehicle taxes. Excluding inter-fund transfers, there were \$50.3 million in General Fund expenditures. On-behalf payments by the State of Kentucky for retirement and benefits totaled nearly \$8.6 million for employees paid from the General Fund during FY2013. The General Fund revenues net on-behalf payments were \$43.1 million and expenditures net of on-behalf payments were \$41.7 million.

**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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to 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 years.

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, district and school administration, business and plant operations, student transportation, community service activities, and capital leases for vehicles. Taxes and intergovernmental revenues also support fixed assets and related short and long term debt.

The government-wide financial statements can be found on pages 9-10 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated accounting system including a chart of accounts for all Kentucky public school districts. All Kentucky public school districts utilize the Municipal Information System (MUNIS) accounting 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: 1) governmental, 2) proprietary, and 3) fiduciary funds. Proprietary funds are our food service and daycare operations. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-19 of this report.

**Notes to the financial statements.** The notes provide additional information 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 20-36 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, government-wide assets exceeded government-wide liabilities by \$60 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 outstanding debt used to acquire those assets. 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 the resources needed to repay the 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 result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**The following is a summary of the District's net position (in thousands of dollars):**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>% Change</u>
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>12-13</u>
Current Assets	\$ 27,819	\$29,645	\$1,090	\$1,081	\$ 28,909	\$30,726	6.29%
Noncurrent Assets	<u>111,878</u>	<u>109,946</u>	<u>449</u>	<u>394</u>	<u>\$ 112,327</u>	<u>110,340</u>	-1.77%
<b>Total Assets</b>	<b>139,697</b>	<b>139,591</b>	<b>1,539</b>	<b>1,475</b>	<b>\$ 141,236</b>	<b>141,066</b>	<b>-0.12%</b>
Current Liabilities	10,295	9,404	4	7	10,299	9,411	-8.62%
Noncurrent Liabilities	<u>74,924</u>	<u>71,729</u>	<u>-</u>	<u>-</u>	<u>74,924</u>	<u>71,729</u>	-4.26%
<b>Total Liabilities</b>	<b>85,219</b>	<b>81,133</b>	<b>4</b>	<b>7</b>	<b>85,223</b>	<b>81,140</b>	<b>-4.79%</b>
Net Position							
Investment in capital assets, net of debt	29,970	32,399	449	394	30,419	32,793	7.80%
Restricted	7,499	8,321	-	-	7,499	8,321	10.96%
Unrestricted	<u>17,009</u>	<u>17,737</u>	<u>1,086</u>	<u>1,074</u>	<u>18,095</u>	<u>18,812</u>	3.96%
<b>Total Net Position</b>	<b><u>\$ 54,478</u></b>	<b><u>\$58,457</u></b>	<b><u>\$1,535</u></b>	<b><u>\$1,468</u></b>	<b><u>\$ 56,013</u></b>	<b><u>\$59,926</u></b>	<b><u>6.99%</u></b>

Total net position increased by \$3.9 million (6.99%) during the fiscal year, as shown in detail on page 7.

The following is a summary of the District's change in net position (in thousands of dollars):

	Governmental Activities		Business-Type Activities		Total		% Change 12-13
	2012	2013	2012	2013	2012	2013	
<b>Revenues</b>							
Program Revenues:							
Charges for Services	\$ 595	\$ 521	\$2,027	\$1,877	\$ 2,622	\$ 2,398	-9%
Operating grants and contributions	6,476	5,458	2,875	2,973	9,351	8,431	-10%
Capital grants and contributions	3,314	2,957	-	-	3,314	2,957	-11%
General Revenues:							
Property taxes	15,562	16,712	-	-	15,562	16,712	7%
Vehicle taxes	1,684	1,722	-	-	1,684	1,722	2%
Other taxes	7,153	7,472	-	-	7,153	7,472	4%
State sources	30,362	29,738	-	-	30,362	29,738	-2%
Transfers and Other	<u>362</u>	<u>424</u>	<u>1</u>	<u>2</u>	<u>363</u>	<u>426</u>	-10%
<b>Total Revenues</b>	<b>65,508</b>	<b>65,004</b>	<b>4,903</b>	<b>4,852</b>	<b>70,411</b>	<b>69,856</b>	<b>-0.9%</b>
<b>Expenses</b>							
School operations	57,161	57,438	-	-	57,161	57,438	1%
School food services	-	-	4,192	4,197	4,192	4,197	0%
School daycare	-	-	675	722	675	722	7%
Interest on debt	<u>3,686</u>	<u>3,586</u>	<u>-</u>	<u>-</u>	<u>3,686</u>	<u>3,586</u>	-3%
<b>Total Expenses</b>	<b>60,847</b>	<b>61,024</b>	<b>4,867</b>	<b>4,919</b>	<b>65,714</b>	<b>65,943</b>	<b>1%</b>
<b>Increase in Net Position</b>	<b>\$ 4,661</b>	<b>\$3,980</b>	<b>\$ 36</b>	<b>\$ (67)</b>	<b>\$ 4,697</b>	<b>\$ 3,913</b>	<b>-17%</b>

Revenues in governmental funds decreased by \$504 thousand, mainly due to a decrease in funding from state sources.

#### COMMENTS ON BUDGET COMPARISONS

- The District's total General Fund revenues for the fiscal year ended June 30, 2013, were \$51.9 million compared with budgeted revenues of \$41.3 million.
- General Fund final budget compared to actual revenue varied from line item to line item with the ending actual balance being \$10.5 million more than budget (favorable) primarily due to the recording of \$8.6 million in actual on-behalf payments from the state, which were not budgeted due to Kentucky Department of Education requirements. The remaining favorable variance of \$1.9 million is predominantly from an unexpected favorable variance in revenues in local tax payments, income from other state sources, and indirect Federal programs.
- The total cost of all programs and services to the General Fund was \$50.3 million including capital leases for the bus fleet. This was an increase of about \$708 thousand in large part due to annual rank and experience salary increases for both certified and classified staff, a holiday bonus pay issued to all certified and classified employees, increasing unemployment insurance costs, required contributions for KTRS health insurance costs, sick leave buyout for retiring employees, and the purchase of textbooks that are no longer funded by the state.

- General Fund budget expenditures compared to actual expenditures varied by \$962K (favorable), which was primarily from a decrease in district administration costs.

On-behalf payments include payments made by the State of Kentucky for teacher retirements and benefits. In fiscal year ending June 30, 2013, these amounts for the General Fund totaled \$8,451,153. Payments by KDE for technology network support on behalf of the district were \$111,380. These amounts were reflected as both actual fund revenues and actual fund expenditures, but not budgeted as fund revenues and expenditures, as required by KDE.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

Investment in capital assets, net of related debt, increased by just over \$1 million, due to the purchase of additional technology equipment; architectural, engineering, construction, and related services for the construction of McCracken County High School, and the acquisition of new school buses.

## **COMMITMENT AND RESTRICTION OF FUND BALANCES**

With the implementation of GASB Statement No. 54 standards, the District is allowed to restrict a portion of the fund balance within the General Fund as legislation permits or to commit funds for a future purpose through Board action. These funds cannot be reclassified as unassigned without further Board action.

- Pursuant to Kentucky Revised Statute 161.155, up to 50% of the District's total sick leave liability for the current year may be escrowed to maintain funds necessary to pay employees who qualify for receipt of the benefit. The District restricted \$842,406 as of June 30, 2013 for this purpose.
- The Board took action on June 27, 2013, to allow Site Based Decision Making Councils to carry forward remaining funds from the FY12 allocation into FY13. This amount was \$67,651.
- The Board took action on June 30, 2011, to commit \$5 million of the General Fund balance to future construction and related expenses. This commitment remains unchanged as of June 30, 2013.

## **BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1 through June 30; other programs (i.e. federal dollars) operate on a different fiscal calendar, but they are reflected in the district overall budget. By law, the working budget must have a minimum 2% contingency. The District adopted this budget with a contingency that exceeded the minimum state requirement.

Questions regarding this report should be directed to:

Johnna Lee DeJarnett  
Assistant Superintendent  
McCracken County Public Schools  
435 Berger Road  
Paducah, KY 42003  
270.538.4010  
johnna.dejarnett@mccracken.kyschools.us

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

<b>ASSETS</b>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 27,066,850	\$ 690,368	\$ 27,757,218
Receivables	2,578,297	211,893	2,790,190
Inventory	-	179,142	179,142
<b>Total current assets</b>	<u>29,645,147</u>	<u>1,081,403</u>	<u>30,726,550</u>
<b>Noncurrent Assets</b>			
Capital assets	147,443,697	1,532,042	148,975,739
Less: Accumulated depreciation	<u>(37,497,788)</u>	<u>(1,138,022)</u>	<u>(38,635,810)</u>
<b>Total noncurrent assets</b>	<u>109,945,909</u>	<u>394,020</u>	<u>110,339,929</u>
<b>Total assets</b>	<u>139,591,056</u>	<u>1,475,423</u>	<u>141,066,479</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	4,293,086	6,976	4,300,062
Accrued interest payable	434,351	-	434,351
Current portion of accrued sick leave	340,885	-	340,885
Current portion of bond obligations	3,303,401	-	3,303,401
Current portion of capital leases	438,721	-	438,721
Deferred revenue	593,192	-	593,192
<b>Total current liabilities</b>	<u>9,403,636</u>	<u>6,976</u>	<u>9,410,612</u>
<b>Noncurrent Liabilities</b>			
Noncurrent portion of bond obligations	68,437,395	-	68,437,395
Noncurrent portion of capital leases	1,948,081	-	1,948,081
Noncurrent portion of accrued sick leave	1,343,928	-	1,343,928
<b>Total noncurrent liabilities</b>	<u>71,729,404</u>	<u>-</u>	<u>71,729,404</u>
<b>Total liabilities</b>	<u>81,133,040</u>	<u>6,976</u>	<u>81,140,016</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	32,399,306	394,020	32,793,326
Restricted for:			
KSFCC - Debt Service	7,385,212	-	7,385,212
Capital projects	93,662	-	93,662
Other purposes	842,406	-	842,406
Unrestricted	<u>17,737,430</u>	<u>1,074,427</u>	<u>18,811,857</u>
<b>Total net position</b>	<u>\$ 58,458,016</u>	<u>\$ 1,468,447</u>	<u>\$ 59,926,463</u>

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

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

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
Instruction	\$ 36,064,379	\$ 488,891	\$ 4,885,118	\$ -	\$ (30,690,370)	\$ -	\$ (30,690,370)
Support services:							
Student	2,463,567	-	9,042	-	(2,454,525)	-	(2,454,525)
Instruction staff	1,801,186	-	223,991	-	(1,577,195)	-	(1,577,195)
District administrative	2,460,289	-	-	-	(2,460,289)	-	(2,460,289)
School administrative	2,979,274	-	-	-	(2,979,274)	-	(2,979,274)
Business and central office	1,820,754	-	-	-	(1,820,754)	-	(1,820,754)
Plant operation and maintenance	6,180,334	18,236	-	-	(6,162,098)	-	(6,162,098)
Student transportation	3,261,069	13,500	-	-	(3,247,569)	-	(3,247,569)
Facilities acquisition and construction	66,716	-	-	1,506,937	1,440,221	-	1,440,221
Community service activities	340,485	-	339,526	-	(959)	-	(959)
Interest on long-term debt	3,585,974	-	-	1,450,559	(2,135,415)	-	(2,135,415)
<b>Total governmental activities</b>	<u>61,024,027</u>	<u>520,627</u>	<u>5,457,677</u>	<u>2,957,496</u>	<u>(52,088,227)</u>	<u>-</u>	<u>(52,088,227)</u>
<b>Business-type Activities</b>							
Food service	4,197,257	1,389,169	2,807,077	-	-	(1,011)	(1,011)
Day care	721,952	488,006	165,629	-	-	(68,317)	(68,317)
<b>Total business-type activities</b>	<u>4,919,209</u>	<u>1,877,175</u>	<u>2,972,706</u>	<u>-</u>	<u>-</u>	<u>(69,328)</u>	<u>(69,328)</u>
<b>Total school district</b>	<u>\$ 65,943,236</u>	<u>\$ 2,397,802</u>	<u>\$ 8,430,383</u>	<u>\$ 2,957,496</u>	<u>\$ (52,088,227)</u>	<u>\$ (69,328)</u>	<u>\$ (52,157,555)</u>
<b>General Revenues</b>							
Property taxes					\$ 16,477,961	\$ -	\$ 16,477,961
Delinquent property tax					234,258	-	234,258
Motor vehicle taxes					1,721,558	-	1,721,558
Utility taxes					2,906,084	-	2,906,084
Other taxes					437,696	-	437,696
Revenue in lieu of taxes					4,128,025	-	4,128,025
Investment earnings					98,933	2,369	101,302
State aid formula and other grants					29,738,410	-	29,738,410
Gains (loss) on disposition of capital assets					35,312	-	35,312
Miscellaneous					289,591	-	289,591
Transfers					-	-	-
<b>Total general revenues</b>					<u>56,067,828</u>	<u>2,369</u>	<u>56,070,197</u>
Change in net position					3,979,601	(66,959)	3,912,642
Net position - beginning					54,478,415	1,535,406	56,013,821
Net position - ending					<u>\$ 58,458,016</u>	<u>\$ 1,468,447</u>	<u>\$ 59,926,463</u>

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

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

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Outlay Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,185,595	\$ 696,387	\$ 1,601,854
Other receivables	1,647,298	930,999	-
Investments	-	-	-
Due from other funds	913,765	-	-
<b>Total assets</b>	<u>\$ 18,746,658</u>	<u>\$ 1,627,386</u>	<u>\$ 1,601,854</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 499,072	\$ 120,429	\$ -
Due to other funds	93,610	913,765	-
Deferred revenue	535,797	593,192	-
<b>Total liabilities</b>	<u>1,128,479</u>	<u>1,627,386</u>	<u>-</u>
<b>Fund Balances</b>			
Assigned	507,090	-	-
Committed:			
Site based carry forward	67,651	-	-
Future construction projects	5,000,000	-	-
Restricted:			
Sick leave payable	842,406	-	-
KSFCC Debt Service	-	-	1,508,192
Capital Projects	-	-	93,662
Unassigned	11,201,032	-	-
<b>Total fund balances</b>	<u>17,618,179</u>	<u>-</u>	<u>1,601,854</u>
<b>Total liabilities and fund balances</b>	<u>\$ 18,746,658</u>	<u>\$ 1,627,386</u>	<u>\$ 1,601,854</u>

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

Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,705,994	\$ 5,877,020	\$ -	\$ 27,066,850
-	-	-	2,578,297
-	-	-	-
93,610	-	-	1,007,375
<u>2,799,604</u>	<u>\$ 5,877,020</u>	<u>\$ -</u>	<u>\$ 30,652,522</u>
\$ 1,620,635	\$ -	\$ -	\$ 2,240,136
-	-	-	1,007,375
-	-	-	1,128,989
<u>1,620,635</u>	<u>-</u>	<u>-</u>	<u>4,376,500</u>
-	-	-	507,090
-	-	-	67,651
-	-	-	5,000,000
-	-	-	842,406
-	5,877,020	-	7,385,212
1,178,969	-	-	1,272,631
-	-	-	11,201,032
<u>1,178,969</u>	<u>5,877,020</u>	<u>-</u>	<u>26,276,022</u>
\$ 2,799,604	\$ 5,877,020	\$ -	\$ 30,652,522

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

Total fund balances per fund financial statements	\$ 26,276,022
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	109,945,909
Certain liabilities (such as bonds and leases payable, accrued payables, sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable with current resources, but they are presented in the statement of net position.	<u>(77,763,915)</u>
Net position for governmental activities	<u><u>\$ 58,458,016</u></u>

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

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

<b>Revenues</b>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Outlay Fund</u>
From local sources			
Property taxes	\$ 12,429,242	\$ -	\$ -
Motor vehicle taxes	1,721,558	-	-
Utility taxes	2,906,084	-	-
Other taxes	437,696	-	-
Tuition and fees	103,635	-	-
Earnings on investments	45,265	400	5,323
Net increase (decrease) in the fair value of investments	-	-	-
Other local revenues	398,756	18,478	-
State sources			
SEEK	20,355,657	-	-
On-behalf payments	8,562,533	-	-
Other	200,895	1,790,890	638,053
Federal - indirect	250,727	3,499,589	-
Revenue in lieu of taxes	4,128,025	-	-
Other revenues	347,307	-	-
<b>Total revenues</b>	<u>51,887,380</u>	<u>5,309,357</u>	<u>643,376</u>
<b>Expenditures</b>			
Instruction	30,544,388	4,825,797	-
Support services			
Student	1,857,738	9,249	-
Instruction staff	1,524,136	229,113	-
District administration	2,396,588	-	-
School administration	2,964,404	-	-
Business and central office	1,840,230	-	-
Plant operation and maintenance	5,340,398	-	-
Student transportation	3,374,123	-	-
Facilities acquisition and construction	-	6,803	59,912
Community service activities	-	340,485	-
Debt service	502,690	-	-
<b>Total expenditures</b>	<u>50,344,695</u>	<u>5,411,447</u>	<u>59,912</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>1,542,685</u>	<u>(102,090)</u>	<u>583,464</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from debt issues	432,566	-	-
Payment to bond refunding escrow	-	-	-
Operating transfers in	753,255	102,090	-
Operating transfers out	(356,181)	-	(753,255)
<b>Total other financing sources (uses)</b>	<u>829,640</u>	<u>102,090</u>	<u>(753,255)</u>
<b>Net change in fund balances</b>	2,372,325	-	(169,791)
<b>Fund balance, July 1, 2012</b>	<u>15,245,854</u>	<u>-</u>	<u>1,771,645</u>
<b>Fund balance, June 30, 2013</b>	<u>\$ 17,618,179</u>	<u>\$ -</u>	<u>\$ 1,601,854</u>

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

Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,282,977	\$ -	\$ 16,712,219
-	-	-	1,721,558
-	-	-	2,906,084
-	-	-	437,696
-	-	-	103,635
9,335	15,271	-	75,594
23,339	-	-	23,339
-	-	-	417,234
-	-	-	20,355,657
-	-	514,606	9,077,139
-	868,884	-	3,498,722
-	-	935,953	4,686,269
-	-	-	4,128,025
-	-	-	347,307
<u>32,674</u>	<u>5,167,132</u>	<u>1,450,559</u>	<u>64,490,478</u>
-	-	-	35,370,185
-	-	-	1,866,987
-	-	-	1,753,249
-	-	-	2,396,588
-	-	-	2,964,404
-	-	-	1,840,230
-	-	-	5,340,398
-	-	-	3,374,123
22,903,358	-	-	22,970,073
-	-	-	340,485
-	-	6,760,178	7,262,868
<u>22,903,358</u>	<u>-</u>	<u>6,760,178</u>	<u>85,479,590</u>
<u>(22,870,684)</u>	<u>5,167,132</u>	<u>(5,309,619)</u>	<u>(20,989,112)</u>
-	-	1,115,000	1,547,566
-	-	(1,090,189)	(1,090,189)
-	-	5,284,808	6,140,153
-	(5,030,717)	-	(6,140,153)
<u>-</u>	<u>(5,030,717)</u>	<u>5,309,619</u>	<u>457,377</u>
(22,870,684)	136,415	-	(20,531,735)
<u>24,049,653</u>	<u>5,740,605</u>	<u>-</u>	<u>46,807,757</u>
<u>\$ 1,178,969</u>	<u>\$ 5,877,020</u>	<u>\$ -</u>	<u>\$ 26,276,022</u>

**MCCRACKEN COUNTY 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 total fund balances per fund financial statements	\$ (20,531,735)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlays of \$23,823,060 exceeds depreciation expense of \$2,717,582 for the year.	21,105,478
Revenues recognized in the fund statement that provide current financial resources are reported in the statement of activities in the period earned.	535,797
In the statement of activities, only the loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of capital assets disposed.	(22,644)
The proceeds for the issuance of debt provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	(1,547,566)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	4,906,651
Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts are as follows:	
Amorization of issuance cost, discounts, etc.	\$ (244,685)
Deferral of current year issuance costs	105,924
	(138,761)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(327,620)
Change in net position per statement of activities	\$ 3,979,601

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

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

<b>ASSETS</b>	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 286,132	\$ 404,236	\$ 690,368
Other receivables	207,741	4,152	211,893
Inventory	179,142	-	179,142
<b>Total current assets</b>	<u>673,015</u>	<u>408,388</u>	<u>1,081,403</u>
<b>Noncurrent Assets</b>			
Furniture and equipment	1,455,423	76,619	1,532,042
Less: Accumulated depreciation	<u>(1,092,459)</u>	<u>(45,563)</u>	<u>(1,138,022)</u>
<b>Total noncurrent assets</b>	<u>362,964</u>	<u>31,056</u>	<u>394,020</u>
<b>Total assets</b>	<u>1,035,979</u>	<u>439,444</u>	<u>1,475,423</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	<u>4,680</u>	<u>2,296</u>	<u>6,976</u>
<b>Total current liabilities</b>	<u>4,680</u>	<u>2,296</u>	<u>6,976</u>
<b>Total liabilities</b>	<u>4,680</u>	<u>2,296</u>	<u>6,976</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	362,964	31,056	394,020
Unrestricted	<u>668,335</u>	<u>406,092</u>	<u>1,074,427</u>
<b>Total net position</b>	<u>\$ 1,031,299</u>	<u>\$ 437,148</u>	<u>\$ 1,468,447</u>

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

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

	Food Service Fund	Day Care Fund	Total
<b>Operating Revenues</b>			
Food service sales	\$ 1,383,701	\$ -	\$ 1,383,701
Community service activities	-	488,006	488,006
Other operating revenues	5,467	-	5,467
<b>Total operating revenues</b>	<u>1,389,168</u>	<u>488,006</u>	<u>1,877,174</u>
<b>Operating Expenses</b>			
Salaries and wages	2,028,072	600,590	2,628,662
Professional and contract services	63,697	46,723	110,420
Supplies and materials	2,042,318	59,809	2,102,127
Depreciation	60,804	4,800	65,604
Other operating expenses	2,366	10,030	12,396
<b>Total operating expenses</b>	<u>4,197,257</u>	<u>721,952</u>	<u>4,919,209</u>
<b>Operating income (loss)</b>	<u>(2,808,089)</u>	<u>(233,946)</u>	<u>(3,042,035)</u>
<b>Nonoperating revenues (expenses)</b>			
Federal grants	2,177,043	-	2,177,043
Donated commodities	231,259	-	231,259
State grants	40,482	55,591	96,073
On-behalf state contributions	358,293	110,039	468,332
Interest income	1,299	1,070	2,369
<b>Total nonoperating revenues (expenses)</b>	<u>2,808,376</u>	<u>166,700</u>	<u>2,975,076</u>
<b>Net income (loss)</b>	<u>287</u>	<u>(67,246)</u>	<u>(66,959)</u>
<b>Total net position, July 1, 2012</b>	<u>1,031,012</u>	<u>504,394</u>	<u>1,535,406</u>
<b>Total net position, June 30, 2013</b>	<u>\$ 1,031,299</u>	<u>\$ 437,148</u>	<u>\$ 1,468,447</u>

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

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

	Food Service Fund	Day Care Fund	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from lunchroom sales	\$ 1,383,701	\$ -	\$ 1,383,701
Cash received from user charges	-	493,210	493,210
Cash received from other activities	5,467	-	5,467
Cash payments to employees for services	(1,669,779)	(490,551)	(2,160,330)
Cash payments to suppliers for goods and services	(1,901,034)	(107,780)	(2,008,814)
Cash payments for other operating activities	(2,367)	(10,030)	(12,397)
<b>Net cash from operating activities</b>	<u>(2,184,012)</u>	<u>(115,151)</u>	<u>(2,299,163)</u>
<b>Cash Flows from Capital Financing Activities</b>			
Acquisition of capital assets	(10,378)	-	(10,378)
<b>Net cash from capital financing activities</b>	<u>(10,378)</u>	<u>-</u>	<u>(10,378)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Cash received from government grants	2,009,784	55,591	2,065,375
<b>Net cash from noncapital financing activities</b>	<u>2,009,784</u>	<u>55,591</u>	<u>2,065,375</u>
<b>Cash Flows from Investing Activities</b>			
Interest on investments	1,299	1,070	2,369
<b>Net cash flows from investing activities</b>	<u>1,299</u>	<u>1,070</u>	<u>2,369</u>
<b>Net increase in cash and cash equivalents</b>	(183,307)	(58,490)	(241,797)
<b>Cash and cash equivalents - beginning</b>	469,439	462,726	932,165
<b>Cash and cash equivalents - ending</b>	<u>\$ 286,132</u>	<u>\$ 404,236</u>	<u>\$ 690,368</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (2,808,089)	\$ (233,946)	\$ (3,042,035)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Depreciation	60,804	4,800	65,604
Donated commodities & on-behalf state contributions	589,552	110,039	699,591
Changes in assets and liabilities:			
Receivables	-	5,204	5,204
Inventory	(30,261)	-	(30,261)
Accounts payable	3,982	(1,248)	2,734
<b>Net Cash Provided by Operating Activities</b>	<u>\$ (2,184,012)</u>	<u>\$ (115,151)</u>	<u>\$ (2,299,163)</u>
<b>Schedule of non-cash transactions:</b>			
Loss on disposal of capital assets	\$ -	\$ -	\$ -
Donated commodities and on-behalf state contributions	589,552	110,039	699,591
	<u>\$ 589,552</u>	<u>\$ 110,039</u>	<u>\$ 699,591</u>

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

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

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 28,080	\$ 544,117
Accounts receivable	64,876	-
<b>Total current assets</b>	<u>92,956</u>	<u>544,117</u>
<b>LIABILITIES</b>		
Accounts payable	-	23,170
Due to student groups	-	520,947
<b>Total liabilities</b>	<u>-</u>	<u>544,117</u>
<b>NET POSITION</b>		
<b>Net position held in trust</b>	<u>\$ 92,956</u>	<u>\$ -</u>

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

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

	Private Purpose Trust Fund
<b>Additions</b>	
Net interest and investment gains (losses)	\$ 2,066
Private donations	19,175
Other additions	-
<b>Total additions</b>	<b>21,241</b>
<b>Deductions</b>	
Benefits paid and other deductions	16,743
<b>Total deductions</b>	<b>16,743</b>
<b>Change in net position</b>	4,498
<b>Net position - beginning</b>	<b>88,458</b>
<b>Net position - ending</b>	<b>\$ 92,956</b>

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

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

**NOTE A - ENTITY**

**Reporting Entity**

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

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

Blended Component Unit:

**McCracken County School Board Finance Corporation** – In 1981, the McCracken County, Kentucky, Board of Education resolved to authorize the establishment of the McCracken County School Board Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the McCracken County Board of Education also comprise the Corporation's Board of Directors. The financial transactions of this entity are included in the accounts and records of the McCracken County Board of Education.

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Basis of Presentation**

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

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

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

**Fund Accounting**

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

a. **Major Governmental Fund Types**

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

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

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

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

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Accounting (continued)**

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

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

b. Non-major Governmental Fund Types

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.

c. Proprietary Funds (Enterprise Funds)

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

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

d. Fiduciary Fund Types

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

The *Private Purpose Trust Fund* is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The expendable trust fund of the Board is the Heath High School Trust which accounts for donations made for future scholarships where both principal and interest may be spent.

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

**Basis of Accounting**

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

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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Board, available means expected to be received within sixty days of the fiscal year-end.

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility and expenditure requirements are met are recorded as deferred revenue.

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

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

**Property Taxes**

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

The property tax rates assessed for the year ended June 30, 2013, to finance General Fund operations were \$.504 per \$100 valuation for real property, \$.504 per \$100 valuation for business personal property and \$.529 per \$100 valuation for motor vehicles.

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

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

**Encumbrance Accounting**

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

**Cash and Cash Equivalents**

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

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounts Receivable**

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

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Food Service</u>	<u>Day Care</u>	<u>Total</u>
Taxes:					
Property – current	\$ 269,665	\$ -	\$ -	\$ -	\$ 269,665
Property– delinquent	103,348	-	-	-	103,348
Utilities	457,427	-	-	-	457,427
State grants	137,374	127,345	-	4,152	268,871
Federal grants	16,640	798,738	207,741	-	1,023,119
Other	<u>662,844</u>	<u>4,916</u>	<u>-</u>	<u>-</u>	<u>667,760</u>
Total	<u>\$ 1,647,298</u>	<u>\$ 930,999</u>	<u>\$ 207,741</u>	<u>\$ 4,152</u>	<u>\$2,790,190</u>

**Inventories**

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

**Capital Assets**

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

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

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

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

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments**

Investments are recorded at fair value determined by reference to published market data for publicly traded securities. The net increase in fair value of investments consists of the realized gains and losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains or losses in sales of investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year. Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and includes amortization of discounts and premiums on interest-bearing instruments that were purchased at a discount or premium.

**Prepaid Assets**

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

**Accumulated Unpaid Sick Leave Benefits**

Upon retirement from the school system, an employee will receive from the Board an amount equal to 30% of the value of accumulated vested sick leave.

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

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

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

**Accrued Liabilities and Long-Term Obligations**

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

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

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Balance**

Beginning in fiscal year 2011, the Board implemented GASB Statement 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

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

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

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

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

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

**Net Position**

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

**Revenues and Expenses**

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

**Use of Estimates**

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

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Interfund Activity**

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

Interfund receivables and payables for the Board arise generally when payments are made from a fund that does not have the legal liability for the expenditure, thus a payable from the fund having the legal liability is established at such time. For the year ended June 30, 2013, interfund receivables/payables consist of reimbursements of \$913,765 due to the general fund for special revenue project expenditures and \$93,610 due to the construction fund for general fund facility expenditures paid during the year. All interfund receivables and payables have been eliminated on the District-wide statement of net position.

**Budgetary Process**

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

The budgetary process begins in October for the next fiscal year. As of May 30, a tentative working budget is submitted to each Board member for discussion and amendment. The Board must adopt a final budget and submit to the Kentucky Department of Education by September 30 of each fiscal year. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end.

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

**NOTE C – DEPOSITS AND INVESTMENTS**

**Custodial credit risk** for deposits and investments is the risk that in the event of a failure of the counterparty, the Board's deposits and investments may not be returned or the Board will not be able to recover collateral securities in the possession of an outside party. The Board's investment policy requires all investments be made in accordance with applicable legal requirements with consideration of investment safety. Accordingly, the Board's main financial institution maintains an irrevocable letter of credit agreement up to \$20,000,000 with the Federal Home Loan Bank of Cincinnati with the Board as the sole beneficiary. Deposits are 100% secured with collateral valued at market or par, whichever is lower. However, some agency fund accounts are maintained at other financial institutions due to various Board locations in the County, and at times, demand deposits exceed depository insurance at these locations. The Board has incurred no losses in the past as a result of bank balances in excess of FDIC insurance coverage.

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

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

**NOTE C – DEPOSITS AND INVESTMENTS (Continued)**

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

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

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

During the year ended June 30, 2013, the Board’s investments were in obligations of the United States or United States government sponsored corporations, demand deposits and certificates of deposits. At year end, the carrying amount and the bank balance of the Board’s cash and cash equivalents was \$28,329,415 and \$32,276,216, respectively. As of June 30, 2013, the Board’s bank balance was as follows:

*Governmental & Proprietary Funds*

Collateral held by pledging financial institutions’ trust department not in the Board’s name	\$ 31,709,950
<i>Fiduciary Funds</i>	
Balance covered by FDIC insurance	439,639
Collateral held by pledging financial institutions’ trust department not in the Board’s name	126,627
Uncollateralized	-
Total	<u>\$ 32,276,216</u>

The Board invested excess construction fund bond proceeds into United States or United States government sponsored corporations’ securities maturing at various intervals over the expected construction period. These investment securities were held by the pledging financial institution’s trust department in the Board’s name. As of June 30, 2013, the remaining investments had matured and were utilized for the construction project.

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

**NOTE D – CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 2,599,181	\$ -	\$ -	\$ 2,599,181
Construction in Progress	<u>42,452,231</u>	<u>22,874,453</u>	<u>-</u>	<u>65,327,684</u>
Total capital assets, not being depreciated:	<u>45,051,412</u>	<u>22,874,453</u>	<u>-</u>	<u>67,926,865</u>
<u>Capital assets, being depreciated:</u>				
Land improvements	2,529,366	-	-	2,529,366
Buildings and improvements	61,616,777	-	-	61,616,777
Technology equipment	6,058,777	210,538	(131,183)	6,138,132
Vehicles	6,685,410	462,673	-	7,148,083
General Equipment	<u>1,822,246</u>	<u>275,395</u>	<u>(12,167)</u>	<u>2,085,474</u>
Totals at historical cost	<u>78,712,576</u>	<u>948,606</u>	<u>(143,350)</u>	<u>79,517,832</u>
Less: Accumulated depreciation				
Land improvements	1,957,978	43,147	-	2,001,125
Buildings and improvements	23,608,082	1,268,687	-	24,876,769
Technology equipment	4,338,108	774,242	(113,259)	4,999,091
Vehicles	4,191,808	490,451	-	4,682,259
General Equipment	<u>804,936</u>	<u>141,055</u>	<u>(7,447)</u>	<u>938,544</u>
Total accumulated depreciation	<u>34,900,912</u>	<u>2,717,582</u>	<u>(120,706)</u>	<u>37,497,788</u>
Total capital assets, being depreciated, net:	<u>43,811,664</u>	<u>(1,768,976)</u>	<u>\$ (22,644)</u>	<u>42,020,044</u>
Governmental Activities Capital Assets – Net	<u>\$ 88,863,076</u>	<u>\$ 21,105,477</u>	<u>\$ (22,644)</u>	<u>\$ 109,945,909</u>
<u>Business-Type Activities</u>				
Food Service:				
Food service and equipment	\$ 1,384,452	\$ 6,752	\$ -	\$ 1,391,204
Technology equipment	63,173	3,626	(2,580)	64,219
Daycare Service:				
Land improvements	29,080	-	-	29,080
Technology equipment	25,620	-	-	25,620
General equipment	<u>21,919</u>	<u>-</u>	<u>-</u>	<u>21,919</u>
Totals at historical cost	<u>1,524,244</u>	<u>10,378</u>	<u>(2,580)</u>	<u>1,532,042</u>
Less: Accumulated depreciation				
Food Service:				
Food service and equipment	979,672	57,530	-	1,037,202
Technology equipment	54,564	3,274	(2,580)	55,258
Daycare Service:				
Land improvements	10,299	1,454	-	11,753
Technology equipment	23,129	1,699	-	24,828
General equipment	<u>7,333</u>	<u>1,648</u>	<u>-</u>	<u>8,981</u>
Total accumulated depreciation	<u>1,074,997</u>	<u>65,605</u>	<u>-</u>	<u>1,138,022</u>
Business-Type Activities Capital Assets – Net	<u>\$ 449,247</u>	<u>\$ (55,227)</u>	<u>\$ -</u>	<u>\$ 394,020</u>

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

**NOTE E – DEPRECIATION AND AMORTIZATION**

Depreciation expense, by function, was as follows:

Instructional	\$ 1,040,281
Student	596,580
Instructional staff	47,938
District administration	63,701
School administration	14,870
Business and central office	2,846
Plant operation and maintenance	601,747
Student transportation	349,619
Community service activities	<u>-</u>
	<u>\$ 2,717,582</u>
Food Service	\$ 60,804
Daycare Service	<u>4,801</u>
	<u>\$ 65,605</u>

For the year ended June 30, 2013, amortization expense of advance refunding costs, bond issue costs, discounts and call premiums reflected in facility acquisitions and construction was \$244,685.

**NOTE F – BOND OBLIGATIONS**

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

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Outstanding Balance</u>	<u>Rates</u>
June, 2004	\$ 3,110,000	\$ 445,000	2.000% - 4.600%
October, 2004	3,345,000	1,455,000	2.000% - 3.800%
September, 2009	4,855,000	3,520,000	1.500% - 3.000%
September, 2010A	12,780,000	12,320,000	0.250% - 2.500%
September, 2010B	720,000	640,000	0.700% - 2.500%
December, 2010	57,270,000	54,060,000	0.950% - 6.125%
September, 2012	<u>1,115,000</u>	<u>1,090,000</u>	1.000% - 1.375%
	<u>\$ 83,195,000</u>	<u>\$ 73,530,000</u>	

**Bonds**

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

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

**Call Provision**

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

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

**NOTE F – BOND OBLIGATIONS (continued)**

**Schedule of Maturities of Obligations**

During the fiscal years ended June 30, 2003, 2005, and 2011 the Board entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the Board and Commission for each year until maturity of all related bond issues. The liability for the total bond amount remains with the Board and, as such, the total principal outstanding has been recorded in the financial statements. For the year June 30, 2013, the Commission provided principal and interest payments of \$302,094 and \$212,512, respectively.

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

<b>Fiscal Year</b>	<b>McCracken County Board of Education</b>			<b>Kentucky School Facilities Construction Commission</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Federal Subsidy</b>	<b>Principal</b>	<b>Interest</b>	
2013-2014	3,206,461	3,011,470	(970,028)	318,539	205,798	5,772,240
2014-2015	3,260,305	2,941,808	(958,825)	324,695	198,595	5,766,578
2015-2016	3,332,541	2,858,039	(944,227)	337,459	190,071	5,773,883
2016-2017	3,409,027	2,764,625	(926,262)	235,973	179,968	5,663,331
2017-2018	3,486,994	2,669,581	(905,445)	243,006	172,954	5,667,090
2019-2023	17,647,123	11,627,676	(4,114,595)	1,332,877	723,362	27,216,443
2023-2028	20,291,039	7,300,727	(2,704,792)	1,183,961	427,252	26,498,187
2028-2030	14,102,452	1,315,370	(485,688)	817,548	72,311	15,821,993
<b>TOTALS</b>	<b>\$ 68,735,942</b>	<b>\$ 34,489,296</b>	<b>\$ (12,009,862)</b>	<b>\$ 4,794,058</b>	<b>\$ 2,170,311</b>	<b>\$ 98,179,745</b>

**Advance Refunding**

On September 14, 2012, the Board issued revenue refunding bonds of \$1,115,000 with interest rates varying from 1.000% to 1.375% to partially advance refund June 2004 series bonds with interest rates varying from 2.000% to 4.600%. The net proceeds of the new issue were deposited into an irrevocable trust with an escrow agent to redeem outstanding June 2004 series bonds maturing after June 1, 2015 in the principle amount of \$1,005,000 at the redemption price of 100%. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$88,986. This amount was netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce future total debt service payments over the next 6 years by \$73,897 with a resulting net economic gain of \$72,932. As of June 30, 2013, \$1,005,000 of these defeased bonds were still outstanding with applicable assets held in trust for actual future payoff in fiscal year ending June 30, 2014.

*Prior year defeasance of debt.* In prior years, the Board has issued revenue refunding bonds by placing the proceeds of the new issue in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board’s financial statements. As of June 30, 2013, none of these defeased bonds remain outstanding.

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

**NOTE G – CAPITAL LEASE PAYABLE**

The Board leases transportation and technology equipment (primarily busses) with a historical cost and accumulated amortization of \$4,605,299 and \$2,400,639, respectively, under capital lease agreements. Future minimum lease payments at June 30, 2013, are as follows:

<u>Fiscal Year Ending June 30</u>	
2014	508,501
2015	458,346
2016	396,958
2017	356,264
2018	256,368
2019-2023	<u>681,027</u>
Total minimum lease payments	2,657,464
Less: deferred interest	<u>(270,662)</u>
Present value minimum lease payments	<u>\$ 2,386,802</u>

**NOTE H – CHANGES IN LONG-TERM LIABILITIES**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Revenue bonds	\$ 76,870,000	\$ 1,115,000	\$ (4,455,000)	\$ 73,530,000	\$ 3,525,000
Less deferred amounts:					
Discounts and Issue					
Costs	(1,298,308)	(16,938)	129,226	(1,186,020)	(126,013)
Advance refunding	<u>(629,657)</u>	<u>(88,986)</u>	<u>115,459</u>	<u>(603,184)</u>	<u>(95,586)</u>
Total bonds payable	74,942,035	1,009,076	(4,210,315)	71,740,796	3,303,401
Capital leases	2,405,887	432,566	(451,651)	2,386,802	438,721
Accumulated sick leave	<u>1,561,356</u>	<u>482,671</u>	<u>(359,214)</u>	<u>1,684,814</u>	<u>340,885</u>
Governmental activity					
Long-term liabilities	<u>\$ 78,909,278</u>	<u>\$ 1,924,313</u>	<u>\$ (5,021,180)</u>	<u>\$ 75,812,411</u>	<u>\$ 4,083,007</u>

**NOTE I – RETIREMENT PLANS**

The McCracken County Board of Education participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employees' Retirement System (CERS), both cost-sharing multiple-employer defined benefit plans. KTRS and CERS administer retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS and CERS were created by the General Assembly and are governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS and CERS issues publicly available financial reports that include financial statements and required supplementary information for the defined benefit pension plans. Those reports can be obtained by writing to:

Kentucky Teachers' Retirement System 479 Versailles Road Frankfort, Kentucky 40601-3868 Frankfort, Kentucky 40601-6124 (502) 573-3266	Kentucky Retirement Systems Perimeter Park West 1260 Louisville Road  (502) 564-4646
---	--

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

**NOTE I – RETIREMENT PLANS (continued)**

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

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

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

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

The McCracken County School System's total payrolls for the years ending June 30, 2013, 2012 and 2011 were \$36,021,523, \$36,663,520 and \$37,134,033, respectively. For the years ending June 30, 2013, 2012 and 2011, the payrolls for employees covered under KTRS were \$27,864,784, \$28,404,580 and \$28,746,471, respectively. For the years ended June 30, 2013, 2012 and 2011, the Commonwealth contributed \$3,532,916, \$3,474,155 and \$3,614,990, respectively, to KTRS for the benefit of participating employees, which equaled the required contributions for each year. The matching contributions for covered salaries of federal programs are paid by that program. For the years ended June 30, 2013, 2012 and 2011, the Board paid \$169,439, \$289,710 and \$173,841, respectively, from federal grant monies to KTRS in matching contributions for federally funded employees, which equaled the required contributions for each year. For the years ending June 30, 2013, 2012 and 2011, the payrolls for employees covered under CERS were \$7,828,032, \$7,703,382 and \$7,939,238. For the years ended June 30, 2013, 2012 and 2011, the Board contributed \$1,932,586, \$1,642,795 and \$1,744,542, of which, \$402,204, \$341,392 and \$402,447 were contributed by employees and \$1,530,382, \$1,301,403 and \$1,342,095 were matched by the Board, which equaled the required contributions for each year.

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

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

**NOTE J – DEFERRED COMPENSATION**

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

**NOTE K – CONTINGENCIES**

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

In addition, the Board receives \$4,128,025 of revenue in lieu of taxes through the State of Kentucky primarily collected from two entities within the county. Due to recent economic change, future collection of this source of revenue may be significantly effect in future periods. Loss of this revenue would significantly impact the Board.

**NOTE L – INTEREST EXPENSE**

For the year ended June 30, 2013, cash expenditures for interest was \$2,226,171. Expenditures consist of interest expenditures on capital leases of \$73,885 and interest expenditures on bond issues of \$2,152,286.

**NOTE M – RISK MANAGEMENT**

The McCracken County Board of Education is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, fiduciary responsibility, etc. In addition, the Board is exposed to various risks of loss related to torts; errors and omissions; injuries to employees; and natural disasters. Each of these risk areas is currently covered through the purchase of commercial insurance. In the early 2000's the Board utilized Kentucky School Boards Insurance Trust (KSBIT), a public entity risk pool to cover such risks. A provision of that coverage allowed KSBIT subsequently to seek reimbursement from current and former insured's in the event KSBIT reserves for claims were determined to be inadequate. During fiscal year, the Board received notification from KSBIT of underfunded risk pools and KSBIT has proposed a plan to the Kentucky Department of Insurance for assessment of current and former member participants. Under the proposed plan, the Board portion of the assessment is estimated at \$254,579. Accordingly, the Board has recorded a liability in the government-wide statements for the estimated liability.

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

**NOTE N - LITIGATION**

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

**NOTE O – ON-BEHALF PAYMENTS**

Payments are made by the Kentucky Department of Education for the benefits of the Board’s students and employees. On-behalf payments consist of employee fringe benefits for health insurance and flex spending accounts of \$5,386,569, KTRS retirement contributions of \$3,532,916, technology support of \$111,380 and donated commodities of \$231,259. These non-monetary amounts are reflected within the general fund, special fund, and the business-type activities in the statements as on-behalf payment state revenues and instructional/support expenses. In accordance with Kentucky Department of Education guidelines, these revenues and expenditures are not budgeted by the Board.

Debt service payments are made by the Kentucky School Facility Construction Commission for school construction related bond issues for part of the Board’s bond principal and interest debt service. Non-monetary principal and interest payments of \$514,606 are reflected within the debt service fund as on-behalf payment state revenues and debt service expenses. In December 2010, the Board issued \$57,270,000 in School Building Revenue Bonds, Taxable Series of 2010 known as “Build America Bonds under the American Recovery and Reinvestment Act of 2009” for construction of the new high school. The Board expects to receive on-behalf subsidy payments from the federal government equal to 33.5% of the amount of the interest payment on these taxable bonds annual. However, during the fiscal year ending June 30, 2013, federal subsidies were reduced by \$42,418 due to sequestration budget cuts, of which, the Board was responsible. There is no guarantee future federal subsidies on behalf of the Board will be restored or reduced further. Non-monetary on-behalf interest subsidy payments of \$935,953 are reflected in the debt service fund as federal revenues and debt service expenses. These revenues and expenditures are not budgeted by the Board.

**NOTE P – TRANSFER OF FUNDS**

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

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Fund	KETS Project	\$ 102,090
Operating	General	Debt Service	Debt Service	\$ 254,091
Operating	Capital Outlay	General Fund	Insurance/Maintenance	\$ 753,255
Operating	Building	Debt Service	Debt Service	\$ 5,030,717

**NOTE Q – COMMITMENT**

In accordance with its long-range facilities plan, the Board issued bonds to begin construction of a new high school during fiscal year 2012. As of June 30, 2013, the Board has outstanding commitments for construction of approximately \$1,781,778, related primarily to construction and architectural/engineering costs for the project. The new facility consolidating the three currently existing high schools was open for school in August 2013. The current projected total cost of this project is approximately \$68,585,000, of which \$66,802,600 had been incurred at June 30, 2013.

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

**NOTE R – RECENTLY ISSUED ACCOUNTING STANDARDS**

During the year ended June 30, 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements that will have a future impact on the Board. These statements relate to the recognition of Other Post-Employments Benefits earned by employees whose governmental agency participates in multi-employer, cost-sharing pension plan. The new statements are Statement No. 67, *Financial Reporting for Pension Plans*, effective for years beginning after June 15, 2013, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for years beginning after June 15, 2014. These GASB statements require the cost-sharing governments to report a net pension liability, pension expense and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. These amounts are not being calculated for the year ended June 30, 2013, but could have a significant impact in the year of implementation.

**NOTE S – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 14, 2013 the date which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

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

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
<b>Revenues</b>				
From local sources				
Property taxes	\$ 12,134,127	\$ 11,963,924	\$ 12,429,242	\$ 465,318
Motor vehicle taxes	1,752,213	1,358,956	1,721,558	362,602
Utility taxes	2,025,934	2,203,934	2,906,084	702,150
Other taxes	210,378	357,378	437,696	80,318
Tuition and fees	100,788	98,889	103,635	4,746
Earnings on investments	30,645	42,645	45,265	2,620
Other local revenues	164,650	346,250	398,756	52,506
State sources				
SEEK	21,377,285	20,355,657	20,355,657	-
On-behalf payments	-	-	8,562,533	8,562,533
Other	202,000	202,000	200,895	(1,105)
Federal - indirect	21,130	21,130	250,727	229,597
Revenue in lieu of taxes	2,538,167	4,106,770	4,128,025	21,255
Other revenues	246,231	302,662	347,307	44,645
<b>Total revenues</b>	<u>40,803,548</u>	<u>41,360,195</u>	<u>51,887,380</u>	<u>10,527,185</u>
<b>Expenditures</b>				
Instruction	23,326,004	24,393,478	30,544,388	(6,150,910)
Support services				
Student	1,459,256	1,461,993	1,857,738	(395,745)
Instruction staff	1,299,913	1,250,356	1,524,136	(273,780)
District administration	7,781,640	7,006,559	2,396,588	4,609,971
School administration	2,401,629	2,396,479	2,964,404	(567,925)
Business and central office	2,038,024	1,743,681	1,840,230	(96,549)
Plant operation and maintenance	4,933,757	5,021,767	5,340,398	(318,631)
Student transportation	2,649,605	2,673,605	3,374,123	(700,518)
Contingency	2,584,856	4,856,415	-	4,856,415
Debt service	503,213	502,690	502,690	-
<b>Total expenditures</b>	<u>48,977,897</u>	<u>51,307,023</u>	<u>50,344,695</u>	<u>962,328</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(8,174,349)</u>	<u>(9,946,828)</u>	<u>1,542,685</u>	<u>11,489,513</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from debt issues	-	-	432,566	432,566
Operating transfers in	-	753,255	753,255	-
Operating transfers out	(271,602)	(271,602)	(356,181)	(84,579)
<b>Total other financing sources (uses)</b>	<u>(271,602)</u>	<u>481,653</u>	<u>829,640</u>	<u>347,987</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(8,445,951)</u>	<u>(9,465,175)</u>	<u>2,372,325</u>	<u>11,837,500</u>
<b>Net change in fund balances</b>	(8,445,951)	(9,465,175)	2,372,325	11,837,500
<b>Fund balance, July 1, 2012</b>	15,245,854	15,245,854	15,245,854	-
<b>Fund balance, June 30, 2013</b>	<u>\$ 6,799,903</u>	<u>\$ 5,780,679</u>	<u>\$ 17,618,179</u>	<u>\$ 11,837,500</u>

See Accompanying Independent Auditor's Report.

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

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
From local sources				
Earnings on investments	\$ -	\$ 207	\$ 400	\$ 193
Other local revenues	-	29,700	18,478	(11,222)
State sources				
SEEK	-	-	-	-
On-behalf payments	-	-	-	-
Other	1,291,312	1,717,527	1,790,890	73,363
Federal - indirect	3,574,201	3,711,330	3,499,589	(211,741)
Revenue in lieu of taxes	-	-	-	-
Other revenues	-	-	-	-
<b>Total revenues</b>	<u>4,865,513</u>	<u>5,458,764</u>	<u>5,309,357</u>	<u>(149,407)</u>
<b>Expenditures</b>				
Instruction	4,292,605	5,035,645	4,825,797	209,848
Support services				
Student	12,865	-	9,249	(9,249)
Instruction staff	219,980	297,323	229,113	68,210
District administration	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Facilities acquisition and construction	-	3,677	6,803	(3,126)
Community service activities	340,063	232,592	340,485	(107,893)
Debt service	-	-	-	-
<b>Total expenditures</b>	<u>4,865,513</u>	<u>5,569,237</u>	<u>5,411,447</u>	<u>157,790</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>-</u>	<u>(110,473)</u>	<u>(102,090)</u>	<u>8,383</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	102,090	102,090	-
Operating transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>102,090</u>	<u>102,090</u>	<u>-</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>-</u>	<u>(8,383)</u>	<u>-</u>	<u>8,383</u>
<b>Net change in fund balances</b>	<u>-</u>	<u>(8,383)</u>	<u>-</u>	<u>8,383</u>
<b>Fund balance, July 1, 2012</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, June 30, 2013</b>	<u>\$ -</u>	<u>\$ (8,383)</u>	<u>\$ -</u>	<u>\$ 8,383</u>

See Accompanying Independent Auditor's Report.

**OTHER SUPPLEMENTAL INFORMATION**

**MCCRACKEN COUNTY BOARD OF EDUCATION  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 As of June 30, 2013**

	Debt Service Fund	Total Nonmajor Govt. Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	-	-
Due from general fund	-	-
<b>Total assets</b>	-	-
 <b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable	-	-
<b>Total liabilities</b>	-	-
 <b>Fund Balances</b>		
Reserved:		
SFCC Debt Service	-	-
Capital Projects	-	-
Unreserved:	-	-
<b>Total fund balances</b>	-	-
<b>Total liabilities and fund balances</b>	\$ -	\$ -

See Accompanying Independent Auditor's Report.

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

	Debt Service Fund	Total Nonmajor Govt. Funds
<b>Revenues</b>		
From local sources		
Property taxes	\$ -	\$ -
Earnings on investments	-	-
State sources		
On-behalf payments	514,606	514,606
Federal sources		
On-behalf payments	935,953	935,953
Other revenues	-	-
<b>Total revenues</b>	1,450,559	1,450,559
<b>Expenditures</b>		
Support services		
Plant operation and maintenance	-	-
Facilities acquisition and construction	-	-
Debt service	6,760,178	6,760,178
<b>Total expenditures</b>	6,760,178	6,760,178
<b>Excess (deficit) of revenues over expenditures</b>	(5,309,619)	(5,309,619)
<b>Other Financing Sources (Uses)</b>		
Refunding bonds issued	1,115,000	1,115,000
Payment to bond refunding escrow	(1,090,189)	(1,090,189)
Operating transfers in	5,284,808	5,284,808
Operating transfers out	-	-
<b>Total other financing sources (uses)</b>	5,309,619	5,309,619
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	-	-
<b>Net change in fund balances</b>	-	-
<b>Fund balance, July 1, 2012</b>	-	-
<b>Fund balance, June 30, 2013</b>	\$ -	\$ -

See Accompanying Independent Auditor's Report.

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

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Totals</u>
<b>US Department of Education</b>				
Passed through State Department of Education:				
Title I, Part A Cluster:				
Title I-Grants to Local Educational Agencies	84.010	3100002 10	\$ 2,585	
	84.010	3100102 10	93,559	
	84.010	3100002 11	272,655	
	84.010	3100102 11	90,110	
	84.010	3100002 12	1,012,272	
	84.010	3100202 11	39,547	
	84.010	3100202 12	<u>124,984</u>	
Total Title I, Part A Cluster				\$ 1,635,712
Special Education Cluster (IDEA):				
Special Education-Grant to States	84.027	3810002 11	455,781	
	84.027	3810002 12	<u>816,851</u>	1,272,632
Special Education-Preschool Grants	84.173	3800002 11	22,845	
	84.173	3800002 12	<u>29,010</u>	<u>51,855</u>
Total Special Education Cluster				1,324,487
Twenty-First Century Community Learning Centers				
	84.287	3400002 10	53,723	
	84.287	3400002 11	122,657	
	84.287	3400002 12	<u>3,719</u>	180,099
Education for Homeless Children and Youth -				
Race to the Top	84.413	4521	6,980	6,980
Rehabilitation Services-Vocational				
Rehabilitation Grants to States	84.126	3712	37,862	
	84.126	3713	<u>1,923</u>	39,785
Improving Teacher Quality State Grants	84.367	3230002 11	96,492	
	84.367	3230002 12	<u>133,157</u>	229,649
Education Jobs Fund	84.410	EJOB00 10	8,977	8,977

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

	<b>Federal CFDA Number</b>	<b>Pass Through Grantor's Number</b>	<b>Federal Expenditures</b>	<b>Totals</b>
<b>US Department of Education (Continued)</b>				
Passed through State Department of Education:				
Education Technology State Grants	84.318	3210002 09	\$ (2,183)	
	84.318	3210002 10	2,750	
	84.318	3210002 11	<u>(944)</u>	\$ (377)
Passed through Workforce Development Cabinet:				
Career and Technology Education-Basic	84.048	4621032 10	2,867	
Grants to States	84.048	4621132 11	23,849	
	84.048	4621232 12	<u>47,732</u>	74,448
Passed through Paducah, KY Board of Education:				
English Language Acquisition Grants	84.365	3300002 11	(344)	
	84.365	3300002 12	<u>173</u>	<u>(171)</u>
<b>Total U.S Department of Education</b>				<u>3,499,589</u>
<b>US Department of Agriculture</b>				
Passed through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	7760005 12	108,555	
	10.553	7760005 13	<u>422,917</u>	531,472
National School Lunch Program	10.555	7750002 12	321,921	
	10.555	7750002 13	1,289,715	
Passed through State Department of Agriculture				
National School Lunch Program:				
Non-monetary Food Distribution (Note B)	10.555	2013	<u>231,259</u>	<u>1,842,895</u>
Total Child Nutrition Cluster				2,374,367
Passed through State Department of Education:				
Fresh Fruit and Vegetable Program	10.582	7720012 12	11,075	
	10.582	7720012 13	<u>22,860</u>	<u>33,935</u>
<b>Total US Department of Agriculture</b>				<u>2,408,302</u>
<b>US Department of Health and Human Services</b>				
Passed through Murray, KY Board of Education:				
Head Start	93.600	6653	<u>167,199</u>	<u>167,199</u>
<b>Total Federal Awards</b>				<u>\$ 6,075,090</u>

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

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – COMMODITIES**

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

**NOTE C – RECONCILIATION OF FEDERAL AWARDS TO THE FINANCIAL STATEMENTS**

Total Federal Awards	<u>\$ 6,075,090</u>
Federal Awards by Fund	
General Fund	\$ 167,199
Special Revenue Fund	3,499,589
Proprietary Fund	<u>2,408,302</u>
Total Federal Awards	<u>\$ 6,075,090</u>

Federal revenues of \$83,528 were reflected in the general fund for reimbursements for Medicaid claims and accordingly, were not included in the Schedule of Expenditures of Federal Awards.

Federal revenues of \$935,953 were reflected in the debt service fund for interest subsidy payments on-behalf of the Board and accordingly, were not included in the Schedule of Expenditures of Federal Awards.



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

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

We have audited in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McCracken County Board of Education as of and for the year ended June 30, 2013, which collectively comprise the McCracken County Board of Education's basic financial statements and have issued our report thereon dated October 14, 2013.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control exists* when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

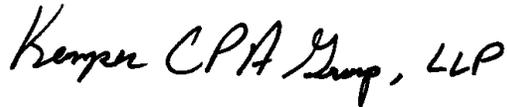
### **Compliance and Other Matters**

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

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

### **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.

Handwritten signature in black ink that reads "Kemper CPA Group, LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants and Consultants  
Paducah, Kentucky  
October 14, 2013



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

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

**Report on Compliance for Each Major Federal Program**

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the McCracken County Board of Education's compliance with those requirements.

***Opinion on Each Major Federal Program***

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

## Report on Internal Control Over Compliance

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

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

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

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

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
October 14, 2013

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

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

1. The independent auditor’s report expresses an unqualified opinion on the financial statements of the McCracken County Board of Education.
2. No significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the McCracken County Board of Education were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported.
5. The auditor’s report on compliance for the major federal award programs for the McCracken County Board of Education expresses an unqualified opinion.
6. There are no findings to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

<u>Name</u>	<u>CFDA</u>
Title I – Grants to Local Educational Agencies (cluster)	84.010
Twenty-First Century Community Learning Center	84.287

8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. The McCracken County Board of Education did qualify to be audited as a low-risk auditee.

**Section II – Findings – Financial Statements Audit**

There are no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

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

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

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

**Section II – Findings – Financial Statements Audit**

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

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

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

**McCRACKEN COUNTY BOARD OF EDUCATION**

**MANAGEMENT LETTER**

**Year Ended June 30, 2013**



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

In planning and performing our audit of the basic financial statements of the McCracken County Board of Education 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. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

However, during our audit, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning these other matters. A separate report dated October 14, 2013, contains our 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*. This letter does not affect our report dated October 14, 2013, on the financial statements of the McCracken County Board of Education as of and for the year ended June 30, 2013.

The District's responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly we express no opinion on them.

We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these items, or to assist you in implementing the recommendations.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Kentucky Department of Education, the School Board's management, audit committee, and members of the Board of Education of McCracken County School District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Kemper CPA Group, LLP*

Certified Public Accountants and Consultants  
Paducah, Kentucky  
October 14, 2013

### **Other Matters:**

*Criteria:* The Kentucky Department of Education provides an expenditure coding matrix for tracking and reporting state and federal program expenditures.

*Condition:* During our testing of Title I and 21<sup>st</sup> Century programs, we noted instances of coding expenditures to object codes which were not applicable to those programs.

*Cause:* This was due to the fact program directors were not using the state provided coding matrix applicable during the year the grants were awarded.

*Effect:* While all of the expenditures were allowable for the applicable programs, use of matrix not applicable to the year the grant was awarded could result in non-allowable expenditures.

*Recommendation:* We recommend additional care and review to insure program directors are utilizing grant matrix applicable to the year the grant was awarded. These matrixes are available on the Kentucky Department of Education's website.

*Board Response:* The Board supplies a link to the funding matrices on the district finance website and will continue to work with directors to make them aware of allowable codes and where to find the information.

*Criteria:* Supporting boosters and organizations are not permitted to use the federal identification number of the school or District.

*Condition:* We noted one high school supporting organization's bank account was in the District's federal identification number.

*Cause:* The account was opened in the District's federal identification number without knowledge or authorization of the District.

*Effect:* The District is exposed to unnecessary risk when supporting organizations use the District's federal identification number.

*Recommendation:* We recommend the Board require the supporting organization to move the account to the supporting organizations' federal identification number. In addition, we recommend management periodically check with their financial institutions to verify accounts have not been opened using either school or District federal identification numbers.

*Board Response:* Staff members are aware that the federal identification number is only to be used for authorized district bank accounts. However, this number is a matter of public record and can be found online or on any W-2 or 1099 issued by the district. While the district cannot prevent unauthorized use of this number, staff members do make routine inquiries to banks to ask if accounts have been opened under the district's federal identification number. When unauthorized accounts are found, the District requests that the accounts be closed and re-opened under an appropriate federal identification number.

**Status of prior year comments:**

*Condition:* During our payroll testing, we noted instances where required retirement application form records could not be located. The State of Kentucky Record Retention Schedule recommends maintaining these records for sixty years from date of hire.

*Status:* Item is still present in the current year. However, we did not note any occurrences of non-compliance with employees hired after July 1, 2009.

*Condition:* During our testing of cash, we noted one high school supporting organization's bank account was in the District's federal identification number.

*Status:* Item is still present in the current year.

*Condition:* We noted the District's request for Education Jobs Fund grant of \$1,266,311 was made in July when periodic reimbursements could have been made in May, June and July.

*Status:* This item was addressed and corrected during the current year.

*Condition:* We noted investments per the annual financial report (AFR) did not agree with the Board's reconciliation of investments at fair value at year-end.

*Status:* This item was addressed and corrected during the current year.

*Condition:* We noted certain assets acquired in the current year were reflected in the MUNIS capital asset module as prior year additions.

*Status:* This item was addressed and corrected during the current year.

*Condition:* We noted variances in the capital asset module with amounts reported in the District's AFR.

*Status:* This item was addressed and corrected during the current year.

*Condition:* We noted insignificant food service errors in quantities on-hand and calculations in school spreadsheets tracking quantities/cost of food inventories.

*Status:* This item was addressed and corrected during the current year.