

**Butler County
School District**

Financial Statements

June 30, 2012



Independent Auditors' Report	4
Required Supplementary Information:	
Management's Discussion and Analysis.....	8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	20
Statement of Activities	22
Fund Financial Statements:	
Balance Sheet — Governmental Funds	24
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	26
Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	27
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	29
Statement of Net Assets — Proprietary Funds.....	30
Statement of Revenues, Expenses and Changes in Fund Net Assets — Proprietary Funds	31
Statement of Cash Flows — Proprietary Funds	32
Statement of Fiduciary Net Assets — Fiduciary Funds	34
Notes to the Financial Statements.....	35

Required Supplementary Information:

Budgetary Comparison Schedule for the General Fund..... 63

Budgetary Comparison Schedule for the Special Revenue Fund..... 65

Supplementary Information:

Combining Balance Sheet — Non-Major Governmental Funds..... 68

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances — Non-Major Governmental Funds 69

Combining Statement of Assets and Liabilities — All School
Activity Funds — All Agency Funds 71

Statement of Assets and Liabilities — School Activity Funds — Butler
County High School..... 72

Schedule of Expenditures of Federal Awards..... 74

Notes to the Schedule of Expenditures of Federal Awards 76

Summary Schedule of Prior Year Audit Findings..... 77

Independent Auditors' 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*..... 78

Independent Auditors' Report on Compliance with Requirements that Could Have a
Direct and Material Effect on Each Major Program and Internal Control over Compliance in
Accordance with OMB Circular A-133 80

Schedule of Findings and Questioned Costs..... 83

Management Letter..... 85



Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Butler County School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Extension Request* and Appendix IV of the *Independent Auditors' 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position and cash

flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 on our consideration of Butler County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the management's discussion and analysis and budgetary comparison information on pages 8 through 18 and 63 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

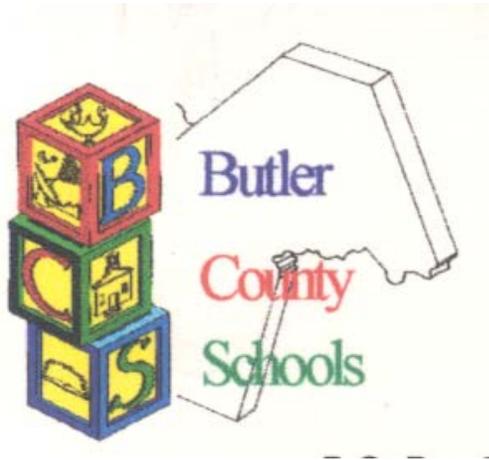
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The combining and individual non-major fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying 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 financial statements. The combining and individual non-major fund financial statements and other information, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records

used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Required Supplementary Information

Management's Discussion and Analysis



**BUTLER COUNTY SCHOOL DISTRICT
MORGANTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)
YEAR ENDED JUNE 30, 2012**

As management of the Butler County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

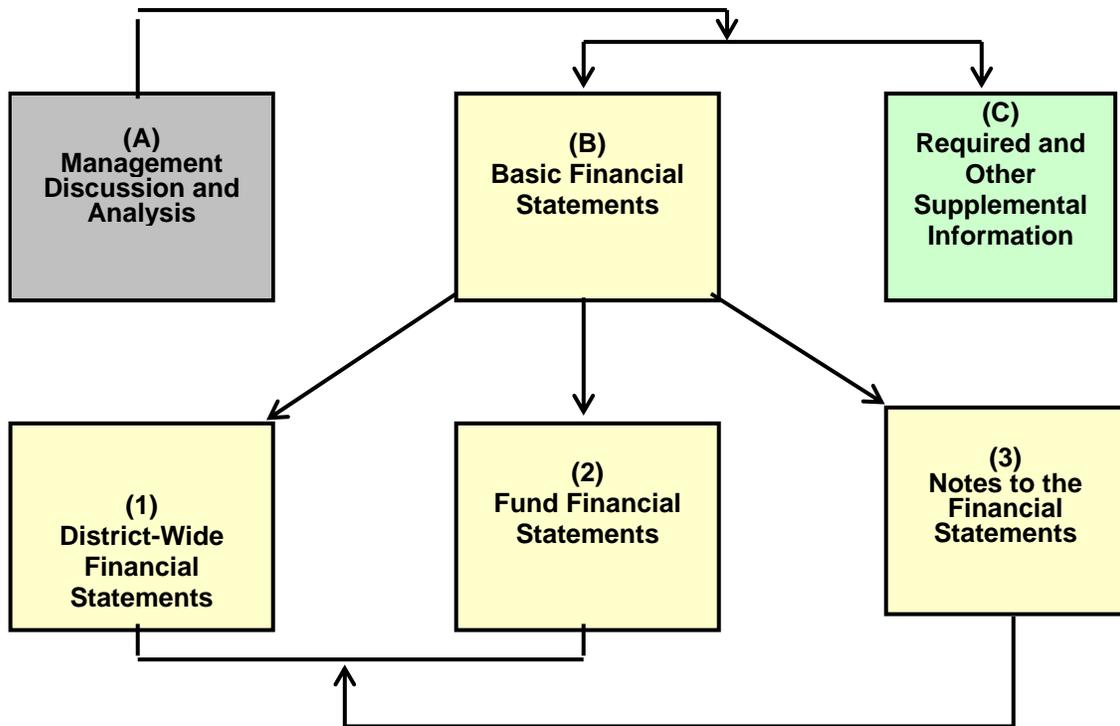
FINANCIAL HIGHLIGHTS

- The beginning General Fund balance for the District was \$2,411,523. The ending General Fund balance was \$1,954,373.
- The beginning Special Revenue Fund balance for the District was \$49,874. The ending Special Revenue Fund balance was \$17,322.
- The beginning balance for Other Governmental Funds was \$177,554. The ending balance for Other Governmental Funds was \$91,843.

Overview of the Annual Financial Report (AFR)

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

Organization of the Annual Financial Report



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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements can be found on pages 35 to 61.

Reporting the School District as a Whole

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

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

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

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

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$19,051,394 as of June 30, 2012. This was a decrease of \$199,020 over the previous year.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The amount of capital assets, net of related debt was \$17,431,486 (an increase of \$352,269 over the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

Fiduciary Funds – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity fund cash balances at year-end totaled \$153,797 (an increase of \$6,020 from the previous year).

The fund financial statements are on pages 24 to 34.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2011 and June 30, 2012

	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2011	FY2012	FY 2011	FY 2012	FY 2011	FY 2012
Current and Other Assets	\$2,933,032	\$2,493,708	\$336,480	\$256,745	\$3,269,512	\$2,750,453
Capital Assets	\$36,038,252	\$35,095,511	\$245,531	\$301,917	\$36,283,783	\$35,397,428
Total Assets	\$38,971,284	\$37,589,219	\$582,011	\$558,662	\$39,553,295	\$38,147,881
Long Term Liabilities	\$19,912,372	\$18,599,229	\$0	\$0	\$19,912,372	\$18,599,229
Other Liabilities (current)	\$377,812	\$489,460	\$12,697	\$7,798	\$390,509	\$497,258
Total Liabilities	\$20,290,184	\$19,088,689	\$12,697	\$7,798	\$20,302,881	\$19,096,487
Net Assets						
Investment in Capital Assets (net of Debt)	\$16,833,686	\$17,129,569	\$245,531	\$301,917	\$17,079,217	\$17,431,486
Restricted	\$227,428	\$106,505	\$0	\$0	\$227,428	\$106,505
Unrestricted Fund	\$1,619,986	\$1,264,456	\$323,783	\$248,947	\$1,943,769	\$1,513,403
Total Net Assets	\$18,681,100	\$18,500,530	\$569,314	\$550,864	\$19,250,414	\$19,051,394

Changes in Net Assets for June 30, 2011 and June 30, 2012

Revenues	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2011	FY2012	FY2011	FY2012	FY2011	FY2012
Program Revenues						
Charges for Services	\$28,946	\$21,349	\$285,615	\$303,771	\$314,561	\$325,120
Operating Grants and Contributions	\$3,227,517	\$2,755,549	\$978,514	\$984,514	\$4,206,031	\$3,740,063
Capital Grants and Contributions	\$1,592,377	\$1,404,010			\$1,592,377	\$1,404,010
General Revenue						
Taxes						
Property Tax	\$1,377,946	\$1,408,731			\$1,377,946	\$1,408,731
Motor Vehicle Tax	\$315,928	\$322,689			\$315,928	\$322,689
Utility Tax	\$768,382	\$762,412			\$768,382	\$762,412
Other Tax	\$251,926	\$251,956			\$251,926	\$251,956
State Aid	\$12,177,419	\$12,603,656			\$12,177,419	\$12,603,656
Investment Earnings	\$48,881	\$40,411	\$770	\$391	\$49,651	\$40,802
Other Revenue	\$307,253	\$128,204			\$307,253	\$128,204
Gain on Sale of Assets	\$0	\$0			\$0	\$0
Total Revenues	\$20,096,575	\$19,698,967	\$1,264,899	\$1,288,676	\$21,301,474	\$20,987,643

Expenses	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2011	FY2012	FY2011	FY2012	FY2011	FY2012
Instruction	\$11,805,198	\$11,373,876			\$11,805,198	\$11,373,876
Support Services						
Student Support Services	\$665,050	\$707,501			\$665,050	\$707,501
Instructional Staff	\$769,529	\$860,213			\$769,529	\$860,213
District Administration	\$882,783	\$951,710			\$882,783	\$951,710
School Administration	\$846,537	\$867,477			\$846,537	\$867,477
Business Administration	\$347,281	\$352,399			\$347,281	\$352,399
Plant Operations & Maintenance	\$2,025,361	\$2,246,213			\$2,025,361	\$2,246,213
Student Transportation	\$1,536,723	\$1,484,655			\$1,536,723	\$1,484,655
Other	\$210,434	\$225,126			\$210,434	\$225,126
Food Service Operations			\$ 1,251,478	\$ 1,307,126	\$1,251,478	\$1,307,126
Interest on Long-Term Debt	\$871,167	\$810,367			\$871,167	\$810,367
Total Expenses	\$19,960,063	\$19,879,537	\$1,251,478	\$1,307,126	\$21,211,541	\$21,186,663

- The District's total revenues were \$19,698,967 and the total expenses were \$19,879,537. Expenses exceeded revenues by \$180,570.
- State revenues accounted for 64% and local taxes accounted for 14% of the revenue.
- Instruction was the major expense category and accounted for 57% of the expense.
- Food service expense exceeded revenue by \$18,450.

Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances	FY 2011	FY 2012	Amount of Change	% Change
General Fund	\$2,411,523	\$1,954,373	(\$457,150)	-19%
Special Revenue Fund	\$49,874	\$17,322	(\$32,552)	-65%
Constuction Fund	\$160,786	\$80,057	(\$80,729)	0%
Debt Service	\$15,092	\$1,642	(\$13,450)	0%
Other Governmental Fund	\$1,676	\$10,144	\$8,468	100%
School Food Fund	\$569,314	\$550,864	(\$18,450)	-3%
Total	\$3,208,265	\$2,614,402	(\$593,863)	-19%

- The General Fund’s fund balance showed a negative change of \$457,150. This was primarily the result of the State of Kentucky reducing SEEK funding at the midpoint of the year. Mid-year funding cuts cannot be budgeted for and reduces the Districts ability to overcome these issues in mid-year.
- The Special Revenue fund had a negative change of \$32,552. The principal reason for the difference is that in FY 2002 the technology fund was transferred to the special revenue fund. This fund balance will vary from year to year depending on how much state money is received for technology and the time of year received. This is because all other Fund 2 projects must be zero’d out at end-of-year. The only fund balance left in the Special Revenue fund is technology at year end.
- Construction fund, Debt Service fund and Other Governmental funds show a decrease of \$85,711.
- The School Food Fund’s fund balance had a \$18,450 decrease. This was due to getting less commodities which increased expenses.

Comments on General Fund and Special Revenue Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2012, net of interfund transfers, were \$12,335,960. This is \$303,964 less than was budgeted in the final working budget. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner, but State monies were cut during the year causing this shortfall.
- Expenditures were less than budgeted, primarily because of unspent contingency funds of \$1,944,863.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$457,150 less than the prior year. This was primarily the result of mid-year State cuts that the district could not overcome in the current fiscal year.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2012, the district had invested \$35,397,428 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total initial cost of assets was \$53,204,254 with accumulated depreciation of \$17,806,826.

SUMMARY OF CAPITAL ASSETS

CAPITAL ASSETS (net of depreciation)	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY2011	FY2012	FY2011	FY2012	FY2011	FY2012	2011-2012
Land and improvements	\$566,066	\$545,435	\$0	\$0	\$566,066	\$545,435	-3.6%
Construction in Progress	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
Buildings	\$33,581,808	\$32,688,547	\$0	\$0	\$33,581,808	\$32,688,547	-2.7%
Equipment & Furniture	1,890,378	1,861,529	\$245,531	\$301,917	\$2,135,909	\$2,163,446	1.3%
Total Assets	\$36,038,252	\$35,095,511	\$245,531	\$301,917	\$36,283,783	\$35,397,428	-2.4%

Long-Term Debt

At year-end the district had \$18.80 million in general obligation bonds outstanding. This was a decrease of 3% over last year. The decrease was due to the normal repayment of bonds.

BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The district receives approximate 64% of its new general fund revenue each year through the state funding formula (SEEK). On occasions, there have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 14% of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$1,954,373 as a beginning balance for next year.

By law, the budget must have a minimum 2 % contingency. The beginning fund balance for beginning the fiscal year is \$1,954,373 well above the minimum state requirement. Significant Board action that impacts finances includes additional spending on proposed construction projects and general fund matching dollars for other grants. Many other grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. At year-end, the District's General Fund was due \$176,143 from the special revenue grant fund. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

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

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

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

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

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

Basic Financial Statements

Butler County School District
Statement of Net Assets

June 30, 2012	Governmental Activities	Business- Type Activities	Total
Assets			
Cash	\$ 265,610	\$ 210,323	\$ 475,933
Investments	1,629,802	-	1,629,802
Accounts receivable:			
Taxes	182,006	-	182,006
Interest	4,923	-	4,923
Accounts	8,711	-	8,711
Intergovernmental	263,232	19,039	282,271
Inventory	-	27,383	27,383
Bond issuance costs	200,756	-	200,756
Less: accumulated amortization	(61,332)	-	(61,332)
Non-depreciable capital assets	389,106	-	389,106
Depreciable capital assets	52,096,997	718,151	52,815,148
Less: accumulated depreciation	(17,390,592)	(416,234)	(17,806,826)
Total assets	37,589,219	558,662	38,147,881
Liabilities			
Accounts payable	138,891	7,798	146,689
Accrued liabilities	94,718	-	94,718
Deferred revenue	57,137	-	57,137
Accrued interest	198,714	-	198,714
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,340,799	-	1,340,799
Capital lease obligation	31,884	-	31,884
Compensated absences	60,000	-	60,000
Due beyond one year:			
Outstanding bonds	16,558,506	-	16,558,506
Capital lease obligation	34,753	-	34,753
Compensated absences	573,287	-	573,287
Total liabilities	19,088,689	7,798	19,096,487

June 30, 2012	Governmental Activities	Business- Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	17,129,569	301,917	17,431,486
Restricted for:			
Capital projects	90,201	-	90,201
Grant programs	14,662	-	14,662
Debt service	1,642	-	1,642
Unrestricted	1,264,456	248,947	1,513,403
Total Net Assets	\$ 18,500,530	\$ 550,864	\$ 19,051,394

See accompanying notes to the financial statements.

Butler County School District
Statement of Activities

Year Ended June 30, 2012	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
Instruction	\$ 11,373,876	\$ 20,839	\$ 1,941,380	\$ 45,575	\$ (9,366,082)	\$ -	\$ (9,366,082)
Support services:							
Student	707,501	-	309,135	-	(398,366)	-	(398,366)
Instructional staff	860,213	-	313,867	-	(546,346)	-	(546,346)
District administration	951,710	-	8,503	-	(943,207)	-	(943,207)
School administration	867,477	-	-	-	(867,477)	-	(867,477)
Business	352,399	-	22,517	-	(329,882)	-	(329,882)
Plant operations and maintenance	2,246,213	510	-	-	(2,245,703)	-	(2,245,703)
Student transportation	1,484,655	-	841	-	(1,483,814)	-	(1,483,814)
Other	184,057	-	159,306	-	(24,751)	-	(24,751)
Facilities acquisition and construction	-	-	-	22,144	22,144	-	22,144
Interest on long-term debt	810,367	-	-	1,336,291	525,924	-	525,924
Loss on disposal of assets	41,069	-	-	-	(41,069)	-	(41,069)
Total governmental activities	19,879,537	21,349	2,755,549	1,404,010	(15,698,629)	-	(15,698,629)
Business-Type Activities							
Food services	1,307,126	303,771	984,514	-	-	(18,841)	(18,841)
Total business-type activities	1,307,126	303,771	984,514	-	-	(18,841)	(18,841)
Total School District	\$ 21,186,663	\$ 325,120	\$ 3,740,063	\$ 1,404,010	(15,698,629)	(18,841)	(15,717,470)

General Revenues			
Taxes:			
Property	1,408,731	-	1,408,731
Motor vehicle	322,689	-	322,689
Utilities	762,412	-	762,412
Unmined minerals	5,397	-	5,397
Other	246,559	-	246,559
State aid	12,603,656	-	12,603,656
Investment earnings	40,411	391	40,802
Other	128,204	-	128,204
Total general revenues	15,518,059	391	15,518,450
Change in Net Assets	(180,570)	(18,450)	(199,020)
Net Assets – Beginning of Year	18,681,100	569,314	19,250,414
Net Assets – End of Year	\$ 18,500,530	\$ 550,864	19,051,394

Butler County School District
Balance Sheet
Governmental Funds

June 30, 2012	General Fund	Special Revenue Funds	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 142,918	\$ -	\$ 122,692	\$ 265,610
Investments	1,629,802	-	-	1,629,802
Accounts receivable:				
Taxes	182,006	-	-	182,006
Interest	4,923	-	-	4,923
Accounts	8,711	-	-	8,711
Intergovernmental	3,193	260,039	-	263,232
Due from other funds	176,143	-	-	176,143
Total Assets	\$ 2,147,696	\$ 260,039	\$ 122,692	\$ 2,530,427

Liabilities and Fund Balances

Liabilities

Accounts payable	\$ 98,605	\$ 9,437	\$ 30,849	\$ 138,891
Accrued liabilities	94,718	-	-	94,718
Due to other funds	-	176,143	-	176,143
Deferred revenue	-	57,137	-	57,137
Total liabilities	193,323	242,717	30,849	466,889
Fund Balances				
Restricted	-	14,662	91,843	106,505
Committed	345,000	-	-	345,000
Assigned	264	2,660	-	2,924
Unassigned	1,609,109	-	-	1,609,109
Total fund balances	1,954,373	17,322	91,843	2,063,538
Total Liabilities and Fund Balances	\$ 2,147,696	\$ 260,039	\$ 122,692	\$ 2,530,427

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

June 30,	2012
Total Fund Balances – Governmental Funds	\$ 2,063,538
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$52,486,103 and the accumulated depreciation is \$17,390,592.</p>	35,095,511
<p>Bond issuance costs are shown as expenditures in the fund statements. However, they are reported as assets and amortized in the statement of net assets. Net bond issuance costs at year-end amounted to</p>	139,424
<p>Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:</p>	
Bonds payable	(17,899,305)
Capital lease obligation	(66,637)
Accrued interest on the bonds	(198,714)
Compensated absences	(633,287)
Total Net Assets – Governmental Activities	\$ 18,500,530

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ 1,183,060	\$ -	\$ 225,671	\$ 1,408,731
Motor vehicle	322,689	-	-	322,689
Utilities	762,412	-	-	762,412
Unmined minerals	5,397	-	-	5,397
Other	246,559	-	-	246,559
Tuition and fees	20,839	-	-	20,839
Earnings on investments	37,500	101	2,911	40,512
Other local revenue	118,028	17,734	-	135,762
Intergovernmental – state	12,603,656	768,231	1,326,163	14,698,050
Intergovernmental – federal	17,327	2,015,058	32,272	2,064,657
Total revenues	15,317,467	2,801,124	1,587,017	19,705,608

Expenditures

Current:

Instruction	9,026,207	2,065,082	-	11,091,289
Support services:				
Student	395,829	309,135	-	704,964

Instructional staff	546,144	313,867	-	860,011
District administration	886,664	8,503	-	895,167
School administration	843,766	-	-	843,766
Business	329,502	22,517	-	352,019
Plant operations and maintenance	1,830,781	-	-	1,830,781
Student transportation	1,304,533	841	-	1,305,374
Other	-	159,306	-	159,306
Debt service:				
Principal	-	-	1,361,528	1,361,528
Interest	-	-	717,139	717,139
Bond issuance costs	-	-	52,800	52,800
Facilities acquisition and construction	-	-	159,775	159,775
Total expenditures	15,163,426	2,879,251	2,291,242	20,333,919
Excess (Deficiency) of Revenues over Expenditures	154,041	(78,127)	(704,225)	(628,311)
Other Financing Sources (Uses)				
Proceeds of advance refunding bonds – net of discount	-	-	5,558,074	5,558,074
Payment to advance refunded bond escrow agent	-	-	(5,505,176)	(5,505,176)
Operating transfers – in	35,594	45,575	1,511,839	1,593,008
Operating transfers – out	(646,785)	-	(946,223)	(1,593,008)
Total other financing sources (uses)	(611,191)	45,575	618,514	52,898
Net Change in Fund Balances	(457,150)	(32,552)	(85,711)	(575,413)
Fund Balances – Beginning of Year	2,411,523	49,874	177,554	2,638,951
Fund Balances – End of Year	\$ 1,954,373	\$ 17,322	\$ 91,843	\$ 2,063,538

See accompanying notes to the financial statements.

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

Year Ended June 30,	2012
Total Net Change in Fund Balances – Governmental Funds	\$ (575,413)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense, \$1,626,899, exceeds capital outlays, \$699,333 in the period.	(927,566)
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual loss from the sale net to this amount for the year.	(47,710)
Repayment of bond principal and capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	6,328,926
The issuance of bonds and other debt service provide current financial resources and are reported in the fund financial statements but they are presented as liabilities in the statement of net assets.	(5,640,000)
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	681,193
Change in Net Assets – Governmental Activities	\$ (180,570)

See accompanying notes to the financial statements.

Butler County School District
Statement of Net Assets
Proprietary Funds

June 30, 2012	Enterprise Fund Food Service
Assets	
Current Assets	
Cash	\$ 210,323
Accounts receivable:	
Intergovernmental	19,039
Inventory	27,383
Total current assets	256,745
Non-Current Assets	
Fixed assets – net	301,917
Total Assets	\$ 558,662
 Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 7,798
Total current liabilities	7,798
Net Assets	
Invested in capital assets	301,917
Unrestricted	248,947
Total net assets	550,864
Total Liabilities and Net Assets	\$ 558,662

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012	Enterprise Fund Food Service
Operating Revenues	
Lunchroom sales	\$ 303,771
Total operating revenues	303,771
Operating Expenses	
Salaries and wages	608,835
Contract services	101,935
Materials and supplies	553,584
Other operating expenses	5,190
Depreciation expense	37,582
Total operating expenses	1,307,126
Operating loss	(1,003,355)
Non-Operating Revenues	
State operating grants	113,816
Federal operating grants	793,180
Donated commodities	77,518
Interest revenue	391
Total non-operating revenues	984,905
Change in Net Assets	(18,450)
Total Net Assets – Beginning of Year	569,314
Total Net Assets – End of Year	\$ 550,864

See accompanying notes to the financial statements.

Butler County School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2012	Enterprise Fund Food Service
Cash Flows from Operating Activities	
Cash received from user charges	\$ 301,910
Cash payments to employees for services	(507,380)
Cash payments for contract services	(101,935)
Cash payments to suppliers for goods and services	(453,976)
Cash payments for other operating expenses	(5,190)
Net cash used in operating activities	(766,571)
Cash Flows from Non-Capital Financing Activities	
Non-operating grants received	805,541
Net cash provided by non-capital financing activities	805,541
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(93,968)
Net cash used in capital and related financing activities	(93,968)
Cash Flows from Investing Activities	
Interest on investments	391
Net cash provided by investing activities	391
Net Decrease in Cash	(54,607)
Cash – Beginning of Year	264,930
Cash – End of Year	\$ 210,323

Year Ended June 30, 2012	Enterprise Fund Food Service
Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
Operating loss	\$ (1,003,355)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	37,582
Commodities used	77,518
On-behalf payments received	101,455
Changes in assets and liabilities:	
Receivables	(1,861)
Inventories	26,989
Accounts payable	(4,899)
Net Cash Used In Operating Activities	\$ (766,571)

Non-Cash Activities

- The school food service fund received \$77,518 of donated commodities from the federal government.
- The school food service fund recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$101,455 from the state government.

See accompanying notes to the financial statements.

Butler County School District
Statement of Fiduciary Net Assets
Fiduciary Funds

Year Ended June 30, 2012	Agency Funds
Assets	
Cash	\$ 153,797
Total Assets	\$ 153,797
Liabilities	
Liabilities	
Accounts payable	\$ 4,920
Due to student groups	148,877
Total Liabilities	\$ 153,797

See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

• ***Reporting Entity***

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Basis of Presentation***

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

reporting funds by type. Each major fund is presented in a separate column. 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 on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

▶ **Governmental Fund Types**

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

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

Debt Service Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and other debt related costs.

▶ **Proprietary Fund Types**

Enterprise Fund

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

Agency Funds

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

● ***Basis of Accounting***

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

• ***Estimates***

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

• ***Investments***

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

• ***Inventory***

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

• ***Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets 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 assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

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

• **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

• **Compensated Absences**

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

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

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

• ***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

• ***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are mailed timely, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from non-exchange transactions must also be available before they can be recognized.

● ***Interfund Activity***

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

● ***Interfund Balances***

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

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Contributions of Capital***

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

• ***Operating Revenues and Expenses***

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

• ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through October 26, 2012, which was the date the financial statements were made available.

• ***New Accounting Pronouncements***

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective immediately for the provisions related to the use and reporting of the alternative measurement method, and effective for periods beginning after June 15, 2011, for the provisions related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of the measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The new requirements are not applicable to the District.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, improves financial reporting by addressing issues related to service concession arrangements (SCA's), which are a type of public-private or public partnership. The new requirements are not applicable to the District.

Note 1: Summary of Significant Accounting Policies
(Continued)

GASB Statement No. 61, *The Financial Reporting: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, effective for periods beginning after June 15, 2012, improves financial reporting by enhancing guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The new requirements are not applicable to the District.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA pronouncements*, effective for periods beginning after December 15, 2011, incorporated in GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. The District intends to implement the new requirements for the fiscal year 2012–13 financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District intends to implement the new requirements for the fiscal year 2012–13 financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53*, effective for periods beginning after June 15, 2011, clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The new requirements are not applicable to the District.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to provide more consistent financial reporting. The District intends to implement the new requirements for the fiscal year 2013–14 financial statements.

GASB Statement No. 66, *Technical Corrections-2012: An Amendment of GASB Statement No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District intends to implement the new requirements for the fiscal year 2013–14 financial statements.

Note 1: Summary of Significant Accounting Policies
(Continued)

GASB Statement No. 67, *Financial Reporting for Pension Plans: An Amendment of GASB Statement No. 25*, effective for fiscal years beginning after June 15, 2013, improves financial reporting by state and local governmental pension plans. The new requirements are not applicable to the District.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions: An Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014, improves information provided by state and local governmental employers about financial support for pensions, which is provided by other entities. The District plans to implement the new requirements for fiscal year 2014–2015. The effects of this statement on the District are unknown.

Note 2: Cash and Investments

• **Deposits**

At June 30, 2012, the carrying amounts of the District's cash and investments in deposits were \$2,259,532 and the bank balances were \$3,808,860 which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

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

June 30,	2012
Governmental funds	\$ 1,895,412
Proprietary funds	210,323
Fiduciary funds	153,797
	\$ 2,259,532

▶ *Custodial Credit Risk Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit

Note 2: Cash and Investments *(Continued)*

risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$3,808,860 was not exposed to custodial credit risk as of June 30, 2012.

• **Investments**

The District's investments, which are stated at cost, at June 30, 2012 are as follow:

June 30, 2012			
General Fund Investment	Rating	Maturities	Cost
Certificate of deposit	N/R	2/13/2016	\$ 519,785
Certificate of deposit	N/R	2/13/2016	519,785
Certificate of deposit	N/R	2/13/2016	519,785
Certificate of deposit	N/R	2/15/2016	70,447
			\$ 1,629,802

▶ **Interest Rate Risk**

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

▶ **Credit Risk**

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

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

Note 3: Interfund Receivables and Payables

Interfund balances at June 30, 2012 consist of the following:

June 30, 2012		
Receivable Fund	Payable Fund	Amount
General	Special Revenue	\$ 176,143

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

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

June 30, 2012	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities				
Capital assets that are not depreciated:				
Land	\$ 389,106	\$ -	\$ -	\$ 389,106
Construction in progress	-	159,775	159,775	-
Total non-depreciable historical cost	389,106	159,775	159,775	389,106
Capital assets that are depreciated:				
Land improvements	638,447	-	-	638,447
Buildings and improvements	44,808,384	165,215	14,722	44,958,877
Technology equipment	2,576,748	387,295	162,984	2,801,059
Vehicles	2,431,190	4,400	3,689	2,431,901
General	1,091,755	174,958	-	1,266,713
Total depreciable historical cost	51,546,524	731,868	181,395	52,096,997

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

Note 4: Capital Assets (Continued)

June 30, 2012	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Less accumulated depreciation for:				
Land improvements	461,487	20,631	-	482,118
Buildings and improvements	11,226,576	1,049,201	5,447	12,270,330
Technology equipment	2,077,687	289,889	124,549	2,243,027
Vehicles	1,518,012	183,923	3,689	1,698,246
General	613,616	83,255	-	696,871
Total accumulated depreciation	15,897,378	1,626,899	133,685	17,390,592
Total depreciable historical cost, net	35,649,146	(895,031)	47,710	34,706,405
Governmental Activities, Capital Assets, Net	\$ 36,038,252	\$ (735,256)	\$ 207,485	\$ 35,095,511
Business-Type Activities				
General	634,918	93,968	10,735	718,151
Less: accumulated depreciation	389,387	37,582	10,735	416,234
Business-Type Activities, Capital Assets, Net	\$ 245,531	\$ 56,386	\$ -	\$ 301,917

Depreciation expense was charged to governmental functions as follows:

June 30,	2012
Instruction	\$ 869,517
Support services:	
Student	15,509
Instructional staff	202
District administration	85,193
School administration	24,796
Business	380

Note 4: Capital Assets (Continued)

June 30,	2012
Facilities operations	425,271
Student transportation	181,280
Other	24,751
<div style="text-align: right;">Total Depreciation Expense \$ 1,626,899</div>	

Note 5: General Long-Term Obligations

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

Issue Date	Proceeds	Rates
2003	835,000	2.00%–4.10%
2004 KISTA	539,750	1.00%–3.50%
2004-B	4,150,000	2.00%–3.76%
2004-C	7,720,000	3.00%–5.00%
2005 KISTA	321,366	3.00%–3.625%
2006	2,440,000	3.75%–4.00%
2006 KISTA	338,162	3.50%–3.875%
2008	3,690,000	3.00%–3.87%
2008 KISTA	387,782	3.00%–3.75%
2009 KISTA	316,907	2.00%–3.80%
2010	1,880,000	4.60%–5.85%
2010	760,000	1.00%–2.85%
2011	5,640,000	1.00%–2.75%

On December 1, 2011, the District issued \$5,640,000 in Revenue Refunding Bonds with interest rates between 1.00% and 2.75%. The District issued the bonds to advance refund \$5,845,000 of outstanding 2004C Series bonds with an average interest rate of 3.15%. The net proceeds of \$5,505,176 (after payment of \$134,824 in underwriting

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

fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments on the 2004C Series bonds. As a result, the advance refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$620,514. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2024 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 13 years by \$328,845 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$286,485.

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

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

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission and U.S. Treasury, at June 30, 2012 for debt service (principal and interest) are as follow:

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

Note 5: General Long-Term Obligations (Continued)

Year	Butler County School District		School Facility Construction Commission		US Treasury Build America Bonds	Total Debt Service
	Interest	Principal	Interest	Principal	Interest	
2012–2013	\$ 422,803	\$ 841,834	\$ 160,212	\$ 498,965	\$ 32,111	\$ 1,955,925
2013–2014	396,449	865,780	142,210	515,140	31,950	1,951,529
2014–2015	368,019	837,100	123,384	533,967	31,789	1,894,259
2015–2016	338,944	833,630	113,260	544,090	31,547	1,861,471
2016–2017	308,891	849,552	102,338	535,521	31,306	1,827,608
2017–2018	280,942	849,199	90,568	504,050	31,145	1,755,904
2018–2019	250,600	836,186	79,306	515,312	30,903	1,712,307
2019–2020	223,855	752,635	67,256	527,365	30,662	1,601,773
2020–2021	198,247	774,642	54,348	520,358	30,501	1,578,096
2021–2022	182,041	705,495	42,010	498,505	29,937	1,457,988
2022–2023	160,006	728,130	29,644	501,870	25,268	1,444,918
2023–2024	135,266	769,831	16,343	515,169	20,333	1,456,942
2024–2025	107,942	812,477	2,057	12,523	14,996	949,995
2025–2026	78,490	836,992	1,572	13,008	9,308	939,370
2026–2027	47,666	636,488	1,067	13,512	3,393	702,126
2027–2028	23,385	555,964	544	14,036	1,409	595,338
2028–2029	1,869	25,000	-	-	1,006	27,875
2029–2030	934	25,000	-	-	503	26,437
	\$ 3,526,349	\$12,535,935	\$ 1,026,119	\$ 6,263,391	\$ 388,067	\$23,739,861

Long-term liability activity for the year ended June 30, 2012 was as follows:

June 30, 2012	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Governmental Activities					
Bonds and notes payable:					
General obligation debt	\$19,390,097	\$ 5,640,000	\$ (6,230,771)	\$18,799,326	\$ 1,340,799
Less deferred issuance discounts and premiums	(149,683)	(81,926)	36,830	(194,779)	-

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

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

June 30, 2012	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Less deferred amount on refundings	(302,705)	(620,514)	99,263	(823,956)	-
Deferred gain on QZAB bond	134,600	-	(15,886)	118,714	-
Total bonds and notes payable	19,072,309	4,937,560	(6,110,564)	17,899,305	1,340,799
Other Liabilities					
Compensated absences	707,806	45,885	(120,404)	633,287	60,000
Capital lease obligations	132,257	32,535	(98,155)	66,637	31,884
Total other liabilities	840,063	78,420	(218,559)	699,924	91,884
Total Long-Term Liabilities	\$19,912,372	\$ 5,015,980	\$ (6,329,123)	\$18,599,229	\$ 1,432,683

Note 6: Obligations Under Capital Leases

On December 28, 2006 the District entered into a technology equipment lease and security agreement with the Central Kentucky Educational Cooperative, Inc. ("CKEC") in order to acquire new computer equipment needed to provide for the educational needs of the students served by the District. The District cannot incur indebtedness in the amount required for the acquisition of the new computer equipment; therefore, as a result, the CKEC was formed to act as and on behalf of the District, which desired to participate in the CKEC Equipment Acquisition Program, a financing program for the acquisition of computer equipment through the issuance of technology equipment lease certificates of participation. The CKEC, acting on behalf of the District and other participating districts, authorized, sold, issued and delivered its non-interest bearing "Technology Equipment Lease Certificates of Participation (Bonds), Series 2006," dated December 28, 2006, under a trust indenture dated December 1, 2006 between CKEC and US Bank, NA, as trustee.

The District, in its participation resolution, elected to make payments over a five-year period and to have a portion of those payments held by an escrow agent, under an escrow deposit agreement dated December 1, 2006.

Note 6: Obligations Under Capital Leases *(Continued)*

During the term of the lease, title to the equipment purchased with the proceeds of such certificates of participation and any and all additions, repairs, replacements or modifications shall vest in CKEC. The District has agreed to lease and rent the equipment from CKEC to be used only for educational purposes, only for the initial term ended June 30, 2012. After the end of the initial term, the District has an exclusive option to renew the lease from year-to-year for a period of one year at a time. The lease will automatically renew itself each year for a renewal term of one year unless the District sends written notice of its intention not to exercise its option to renew to CKEC, to the Kentucky Department of Education, the trustee, the escrow agent and to the purchaser of the 2006 certificates. It is the intent of the District to renew the lease each year over the next five years.

In the event the District elects to terminate its obligation under this lease, the District must surrender possession of the equipment to CKEC. If the Board makes all scheduled payments specified from year-to-year and the final payment date, December 2011, the 2006 certificates will be redeemed, cancelled and retired, and CKEC, the escrow agent and the trustee will do all things necessary to transfer title to the equipment free and clear to the District. As of June 30, 2012, the District had made all scheduled payments and obtained ownership of the equipment.

The economic substance of the lease is that the District is financing the acquisition of the equipment through the lease and, accordingly, it is recorded in the District's assets and liabilities. The asset is amortized over its estimated useful life. Amortization of the assets held under capital lease are included with depreciation expense.

Funds from coal severance taxes are guaranteed to pay approximately 23% of the capital lease obligation over the five-year term. Coal severance funds are only guaranteed for two years, however, it is anticipated that funds will be appropriated in future years.

The District also leases various office equipment under capital leases.

The following is a schedule of future minimum payments required under capital leases together with their present value as of June 30, 2012:

Note 6: Obligations Under Capital Leases *(Continued)*

Years Ending June 30,	Butler County School District
2013	\$ 31,884
2014	19,584
2015	6,729
2016	5,064
2017	3,376
Total Minimum Lease Payments	\$ 66,637

Note 7: Fund Balances

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

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

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the District had \$14,662 restricted in the special revenue fund for local grants and \$91,843 restricted in the non-major funds (\$90,201 restricted for capital projects and \$1,642 restricted for debt service).

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments at June 30, 2012: \$100,000 for future construction, \$175,000 for compensated absences and \$70,000 for SBDM allocation.

Note 7: Fund Balances *(Continued)*

Assigned fund balances are amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2012 was \$2,924. Assigned fund balances also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2012 in the governmental funds balance sheet.

Note 8: Pension Plans

• ***Plan Descriptions***

The Butler County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a

Note 8: Pension Plans *(Continued)*

publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or from the KTRS web site at <http://ktrs.ky.gov/>. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

• **Funding Policy**

KTRS plan members are required to contribute 10.355% (10.855% for new hires effective July 1, 2008) of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 13.605% (14.105% for new hires effective July 1, 2008) of annual covered payroll. The rate for CERS is 18.96%, 16.93%, and 16.16% for the years ended June 30, 2012, 2011 and 2010, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2012, 2011, and 2010 were \$450,930, \$409,462, and \$386,273, respectively, equal to the required contributions for each year.

For the year ended June 30, 2012 the Commonwealth contributed \$987,603 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2012 were \$157,243.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits, retirement and insurance benefits for the year ended June 30, 2012 was \$2,981,507 for the governmental funds and \$101,455 for proprietary funds.

• **Medical Insurance Plan**

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

Note 8: Pension Plans *(Continued)*

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

Funding Policy — In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011–2012 fiscal year.

● ***Deferred Compensation Plans***

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

Note 9: Contingencies

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such

Note 9: Contingencies *(Continued)*

future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Note 10: Insurance and Related Activities

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

Note 11: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

Note 11: Risk Management *(Continued)*

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

Note 12: Litigation

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

Note 13: Excess Expenditures over Appropriations

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

June 30, 2012	
Fund	Amount
General	\$ 457,150
Special revenue	32,552
Construction	80,729
Debt service	13,450
Food service	18,450

Note 14: Fund Transfers

Fund transfers for the year ended June 30, 2012 consist of the following:

June 30, 2012			
From Fund	To Fund	Purpose	Amount
General	Construction	Construction	\$ 76,135
General	Special revenue	Matching	45,575
General	Debt service	Debt service	451,342
Capital outlay	Debt service	Debt service	182,933
FSPK	Debt service	Debt service	727,696
Debt service	General	Reimburse debt service cost	13,450
FSPK	General	Reimburse debt service cost	22,144
General	FSPK	Cover expenses	73,733

Required Supplementary Information

Butler County School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2012	Budgeted Amounts		Actual (Budgetary Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ 2,804,700	\$ 2,804,700	\$ 2,696,484	\$ (108,216)
State programs	9,815,224	9,815,224	9,622,149	(193,075)
Federal programs	20,000	20,000	17,327	(2,673)
Total revenues	12,639,924	12,639,924	12,335,960	(303,964)
Expenditures				
Current:				
Instruction	7,079,065	7,079,065	6,925,132	153,933
Support services:				
Student	341,684	341,684	292,710	48,974
Instructional staff	394,091	394,091	404,085	(9,994)
District administration	2,491,383	2,491,383	825,603	1,665,780
School administration	697,424	697,424	613,777	83,647
Business	283,436	283,436	255,660	27,776
Plant operations and maintenance	1,637,958	1,637,958	1,707,076	(69,118)
Student transportation	1,201,741	1,201,741	1,157,876	43,865
Total expenditures	14,126,782	14,126,782	12,181,919	1,944,863
Excess (Deficiency) of Revenues over Expenditures	(1,486,858)	(1,486,858)	154,041	1,640,899

Other Financing Sources (Uses)				
Operating transfers – net	(513,142)	(513,142)	(611,191)	(98,049)
Total other financing sources (uses)	(513,142)	(513,142)	(611,191)	(98,049)
Net Change in Fund Balance	(2,000,000)	(2,000,000)	(457,150)	1,542,850
Fund Balance – Beginning of Year	2,000,000	2,000,000	2,411,523	411,523
Fund Balance – End of Year	\$ -	\$ -	\$ 1,954,373	\$ 1,954,373

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

Inflows/revenues:

Actual amounts (budgetary basis) \$ 12,335,960

Differences – budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts \$ 2,981,507

Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

\$15,317,467

Outflows/expenditures:

Actual amounts (budgetary basis) \$12,181,919

Differences – budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts 2,981,507

Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

\$15,163,426

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

Year Ended June 30, 2012	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ -	\$ -	\$ 17,835	\$ 17,835
State programs	768,015	761,905	768,231	6,326
Federal programs	1,515,239	1,878,457	2,015,058	136,601
Total revenues	2,283,254	2,640,362	2,801,124	160,762
Expenditures				
Current:				
Instruction	1,439,536	1,796,542	2,065,082	(268,540)
Support services:				
Student	302,422	302,422	309,135	(6,713)
Instructional staff	368,075	365,993	313,867	52,126
District administration	13,856	13,666	8,503	5,163
Business	24,300	24,300	22,517	1,783
Student transportation	1,100	1,100	841	259
Other	162,108	159,307	159,306	1
Total expenditures	2,311,397	2,663,330	2,879,251	(215,921)
Deficiency of Revenues over Expenditures	(28,143)	(22,968)	(78,127)	(55,159)

Other Financing Sources (Uses)				
Operating transfers – net	28,143	22,968	45,575	22,607
Total other financing sources (uses)	28,143	22,968	45,575	22,607
Net Change in Fund Balance	-	-	(32,552)	(32,552)
Fund Balance – Beginning of Year	-	-	49,874	-
Fund Balance – End of Year	\$ -	\$ -	\$ 17,322	\$ (32,552)

Supplementary Information

Butler County School District
Combining Balance Sheet
Non-Major Governmental Funds

June 30, 2012	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Other Governmental Funds
Assets					
Cash	\$ 10,144	\$ -	\$ 110,906	\$ 1,642	\$ 122,692
Total Assets	\$ 10,144	\$ -	\$ 110,906	\$ 1,642	\$ 122,692
Liabilities and Fund Balances					
Liabilities					
Account payable	\$ -	\$ -	\$ 30,849	\$ -	\$ 30,849
Total liabilities	-	-	30,849	-	30,849
Fund Balances					
Restricted	10,144	-	80,057	1,642	91,843
Total fund balances	10,144	-	80,057	1,642	91,843
Total Liabilities and Fund Balances	\$ 10,144	\$ -	\$ 110,906	\$ 1,642	\$ 122,692

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

Year Ended June 30, 2012	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Other Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ 225,671	\$ -	\$ -	\$ 225,671
Earnings on investments	-	-	2,911	-	2,911
Intergovernmental – state	191,401	450,436	-	684,326	1,326,163
Intergovernmental – federal	-	-	-	32,272	32,272
Total revenues	191,401	676,107	2,911	716,598	1,587,017
Expenditures					
Debt service:					
Principal	-	-	-	1,361,528	1,361,528
Interest	-	-	-	717,139	717,139
Bond issuance cost	-	-	-	52,800	52,800
Facilities acquisition and construction	-	-	159,775	-	159,775
Total expenditures	-	-	159,775	2,131,467	2,291,242
Excess (Deficiency) of Revenues over Expenditures	191,401	676,107	(156,864)	(1,414,869)	(704,225)

Other Financing Sources (Uses)

Proceeds of advance refunding bonds – net of discount	-	-	-	5,558,074	5,558,074
Payment to advance refunded bond escrow agent	-	-	-	(5,505,176)	(5,505,176)
Operating transfers – in	-	73,733	76,135	1,361,971	1,511,839
Operating transfers – out	(182,933)	(749,840)	-	(13,450)	(946,223)
Total other financing sources (uses)	(182,933)	(676,107)	76,135	1,401,419	618,514
Net Change in Fund Balances	8,468	-	(80,729)	(13,450)	(85,711)
Fund Balances – Beginning of Year	1,676	-	160,786	15,092	177,554
Fund Balances – End of Year	\$ 10,144	\$ -	\$ 80,057	\$ 1,642	\$ 91,843

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

Year Ended June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
Butler County High School	\$ 65,500	\$ 339,472	\$ 344,282	\$ 60,690	\$ -	\$ 4,920	\$ 55,770
Butler County Middle School	16,964	139,482	137,847	18,599	-	-	18,599
North Butler Elementary School	12,161	30,041	26,794	15,408	-	-	15,408
Morgantown Elementary School	53,152	53,668	47,720	59,100	-	-	59,100
Total	\$ 147,777	\$ 562,663	\$ 556,643	\$ 153,797	\$ -	\$ 4,920	\$ 148,877

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

Year Ended June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due To Student Groups June 30, 2012
General	\$ 4,968	\$ 7,197	\$ 11,412	\$ 753	\$ -	\$ -	\$ 753
Student Fund	8,840	944	2,473	7,311	-	-	7,311
Faculty Fund	1,406	2,257	2,853	810	-	-	810
ROTC	8,363	13,914	13,502	8,775	-	1,614	7,161
Cheerleaders	1,327	17,265	15,064	3,528	-	1,406	2,122
Tree Scape Fund	460	-	34	426	-	-	426
Science Club	1,430	8,072	4,732	4,770	-	-	4,770
Athletics	5,000	110,270	111,724	3,546	-	700	2,846
Football Jr. Pro	1,859	4,176	5,858	177	-	-	177
Boys BK Jr. Pro	341	-	341	-	-	-	-
Girls BK Jr. Pro	7	-	-	7	-	-	7
Jr. Pro Cheerleading	197	-	-	197	-	-	197
Boys BK/Donation	1,106	-	-	1,106	-	-	1,106
Soccer Jr. Pro	1,740	5,498	4,748	2,490	-	-	2,490
Band	73	61,449	60,435	1,087	-	-	1,087
Choir	17	1,824	1,761	80	-	-	80
Library Supplies	459	549	543	465	-	-	465
FCS	1,323	2,292	2,596	1,019	-	-	1,019
Greenhouse	96	-	96	-	-	-	-
Calculators	544	871	26	1,389	-	-	1,389
Business & Office	5,204	465	1,952	3,717	-	-	3,717
Yearbook	2,654	21,287	22,064	1,877	-	1,200	677
Class of 2010	32	-	32	-	-	-	-
Class of 2011	305	-	305	-	-	-	-

Class of 2012	3,205	-	3,098	107	-	-	107
Class of 2013	-	10,285	7,320	2,965	-	-	2,965
FFA	798	19,300	19,867	231	-	-	231
FCCLA	2,352	15,627	16,037	1,942	-	-	1,942
Beta Club	2,419	1,198	1,809	1,808	-	-	1,808
SUPA	530	4,460	3,860	1,130	-	-	1,130
NAC	160	-	-	160	-	-	160
Foreign Language	175	100	15	260	-	-	260
TSA	231	3,204	3,093	342	-	-	342
PRIDE	77	180	224	33	-	-	33
FBLA	189	334	251	272	-	-	272
Literary Club	129	-	-	129	-	-	129
HOSA	59	1,471	1,530	-	-	-	-
FCA	1	150	-	151	-	-	151
Leadership	694	-	-	694	-	-	694
Student Council	768	-	-	768	-	-	768
Rental	195	125	41	279	-	-	279
Project Prom	3,728	19,922	21,537	2,113	-	-	2,113
Region 4 KATFACS	-	1,733	30	1,703	-	-	1,703
Renaissance Leadership	1,464	730	2,040	154	-	-	154
Pep Club	575	-	300	275	-	-	275
Region 4 FCCLA	-	2,323	679	1,644	-	-	1,644
	\$ 65,500	\$ 339,472	\$ 344,282	\$ 60,690	\$ -	\$ 4,920	\$ 55,770

Butler County School District
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed-Through State Department of Education:			
Child Nutrition Cluster			
School Breakfast Program	10.553	7760005 12	\$ 204,930
National School Lunch Program	10.555	7750002 12	555,294
National School Summer Meals Program	10.559	7740023 12	32,956
Passed-Through State Department of Agriculture:			
Food Distribution Program – non-cash	10.555	057502	77,518
Total U.S. Department of Agriculture			870,698
U.S. Department of Defense			
NJROTC – 2011	12.000	–	(9,792)
NJROTC – 2012	12.000	–	67,374
Total U.S. Department of Defense			57,582
U.S. Department of Education			
Passed-Through State Department of Education:			
Title 1, Part A Cluster			
Title I to Local Educational Agencies – 2012	84.010	3100002 11	547,070
Title I to Local Educational Agencies – 2011	84.010	3100002 10	28,883
Title I to Local Educational Agencies – 2012	84.010	3100002 11	13,144
Title I to Local Educational Agencies – 2012	84.010	3100002 11	3,853
Title I to Local Educational Agencies – 2011	84.010	3100002 10	3,029
Title I to Local Educational Agencies – 2010	84.010	3100002 09	507
Subtotal			596,486
Special Education Cluster			
Special Education – 2012	84.027	3810002 11	467,990
Special Education – Preschool – 2012	84.173	3800002 11	29,047
Subtotal			497,037

Year Ended June 30, 2012

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	
Title VI – Rural/Low Income	84.358	3140002 11	43,013	
Title VI – Rural/Low Income	84.358	3140002 10	32,910	
Subtotal			75,923	
Safe & Drug Free Schools & Communities – 2010	84.186	3410002 09		1,475
Education Technology State Grant Cluster				
ARRA – Educational Technology	84.386	4210002 09	12,916	
Vocational Education – 2012	84.048	4621232 11	13,922	
Vocational Education – 2010	84.048	4621032	570	
Subtotal			27,408	
Improving Teacher Quality – 2012	84.367	3230002 11		121,674
ARRA Education for Homeless Children & Youth Recovery Act	84.387	4990002 09		1,332
Education Jobs	84.410	EJOB00 10		261,305
Fund for the Improvement of Education	84.215F	5172		261,853
Passed-Through State Department for Social Services:				
Title I Neglected & Delinquent – 2011	84.013	3132	21,852	
Title I Neglected & Delinquent – 2010	84.013	3131	55	
Title I Transition Services	84.013	3132T	2,185	
Subtotal			24,092	
Passed-Through State Workforce Cabinet:				
Community Based Work Transition – 2012	84.126A	3732	47,651	
Adult Education – Professional Development	84.002	3732S	2,257	
Community Based Work Transition – 2012	84.126A	3712	31,854	
Community Based Work Transition – 2011	84.126A	3711	(3,900)	
Federal Retention	84.002	3652	8,244	
Federal Retention	84.002	3651	268	
Subtotal			86,374	
Total U.S. Department of Education				1,954,959
U.S. Department of Health and Human Services				
Passed-Through State Department of Education:				
Service Learning Grant – 2011	94.004	100001		2,517
Total U.S. Department of Health and Human Services				2,517
Total Expenditures of Federal Awards				\$ 2,885,756

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of Butler County School District (the “District”) under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

Note 2: Summary of Significant Accounting Policies

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

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

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

Butler County School District
Summary Schedule of Prior Year Audit Findings

None



Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Butler County School District as of and for the year ended June 30, 2012, which collectively comprise Butler County School District's basic financial statements and have issued our report thereon dated October 26, 2012. 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 Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Audit Extension Request* and Appendix IV of the *Independent Auditors' Contract—Instructions for the Submission of the Audit Report*.

• Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

● **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the District in a separate letter dated October 26, 2012.

This report is intended solely for the information and use of the members of the Butler County Board of Education, Kentucky State Committee for School District Audits, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 26, 2012



Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on 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
Butler County School District
Morgantown, Kentucky

● Compliance

We have audited Butler County School District's (the "District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements* and Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Audit Extension Request* and Appendix IV of the *Independent Auditors' 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 non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

- **Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance 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 non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify

all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the members of the Butler County Board of Education, Kentucky State Committee for School District Audits, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Section I — Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

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

Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

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

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

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I – Part A Cluster
84.410	Education Jobs

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

Auditee qualified as low-risk auditee? Yes No

Section II — Financial Statement Findings

None reported.

Section III — Federal Award Findings and Questioned Costs

None reported.



Carr, Riggs & Ingram, LLC

927 College Street
Bowling Green, Kentucky 42101
PO Box 104
Bowling Green, Kentucky 42102-0104
(270) 782-0700
(270) 782-0932 (fax)

167 South Main Street
Russellville, Kentucky 42276
(270) 726-7151
(270) 726-3155 (fax)

www.cricpa.com

Management Letter

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

In planning and performing our audit of the financial statements of Butler County School District (the "District") for the year ended June 30, 2012, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Comments from the prior year that have not been corrected will also be listed in this letter. A separate report dated October 26, 2012 contains our report on the District's internal control. This letter does not affect our report dated October 26, 2012 on the financial statements of the District.

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

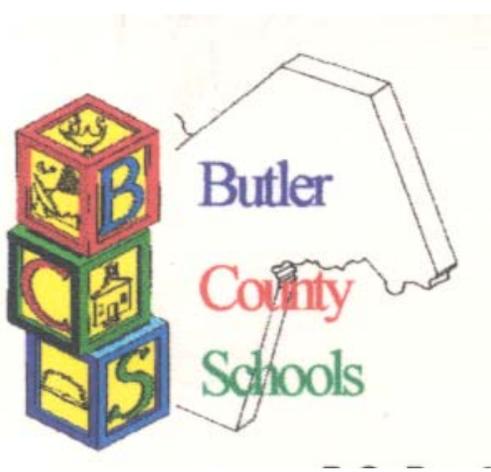
Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 26, 2012

Current Year Comments

- **Food Service**

- ▶ In our procedures for inventory, we noted the pricing of inventory items did not agree to supporting vendor invoices. We recommend the individual inventory prices on the inventory sheets be reviewed and updated monthly to ensure accurate inventory prices are used in valuing inventory.



Management Letter Responses

Current Year Comment

Food Service

In our procedures for inventory, we noted the pricing of inventory items did not agree to supporting vendor invoices. We recommend the individual inventory prices on the inventory sheets be reviewed and updated monthly to ensure accurate inventory prices are used in valuing inventory.

Response

Procedures have been put in place that provide monthly updated pricing on purchased items in the food service program. Commodity pricing is updated as items are received in the District.