

HART COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2012

HART COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2012

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Assets – Proprietary Funds	16
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds.....	18
Statement of Fiduciary Net Assets – Fiduciary Funds	19
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	20
Notes to the Basic Financial Statements	21-35
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	36
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	37

HART COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

Supplementary Information:

Combining Statements – Nonmajor Funds:

Combining Balance Sheet – Nonmajor Governmental Funds..... 38

Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Nonmajor Governmental Funds..... 39

Combining Statement of Fiduciary Net Assets – Fiduciary Funds..... 40

Schools:

Schedule of Assets, Cash Receipts and Disbursements and Liabilities – All Schools..... 41

Schedule of Assets, Cash Receipts and Disbursements and Liabilities – Hart County
High School..... 42

Schedule of Expenditures of Federal Awards.....43-44

Notes to the Schedule of Expenditures of Federal Awards 45

Schedule of Findings and Questioned Costs46-47

Schedule of Prior Year Audit Findings..... 48

**Independent Auditor’s Report on Internal Control Over Financial
Reporting On Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
Government Auditing Standards..... 49-50**

**Independent Auditor’s 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-13351-52**

Management Letter and Comments53-55

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

JON M. ANDERSON, CPA
CHERYLE L. BEAUCHAMP, CPA
WILLIAM M. DOERR, CPA
CARRIE A. GREY, CPA
LYNN C. HOWARD, CPA
PHILIP A. LOGSDON, CPA
J. ALTON PIKE, CPA

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hart County School District
Munfordville, 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 Hart County School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, *Appendix III of the Independent Auditor's Contract - Audit Extension Request* and *Appendix IV of the Independent Auditor's Contract - Instructions for Submission of the Audit Report*. Those standards 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 a report dated September 11, 2012, on our consideration of Hart County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 36 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hart County School District's financial statements as a whole. The combining financial statements and school schedules 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 financial statements, school schedules 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 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 accounting 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 taken as a whole.

Stiles, Carter & Associates

Certified Public Accountants
September 11, 2012

REQUIRED SUPPLEMENTARY INFORMATION

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

The discussion and analysis of Hart County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to review the School District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$367 thousand. Ending cash was \$1.8 million.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- During fiscal 2012, the District's financial position declined. Net assets decreased by \$760 thousand.
- The General Fund had \$17.8 million in revenue, which primarily consisted of the state program (SEEK), state on-behalf payments for retirement and health insurance and property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$18.5 million in General Fund expenditures.
- Bonds are issued as the District builds and renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$755 thousand during the fiscal year as the District partially advance refunded the 2003 issue..

USING THIS ANNUAL REPORT

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform accounting system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The proprietary funds include the food service operation. The fiduciary funds are agency funds and private purpose trust funds. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 - 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 \$12.2 million as of June 30, 2012.

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 outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**Net Assets for the periods ending June 30, 2012 and 2011
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 1,582,289	\$ 2,452,549	\$ 188,278	\$ 216,148	\$ 1,770,567	\$ 2,668,697
Capital Assets	30,794,624	31,465,649	798,916	850,309	31,593,540	32,315,958
Total Assets	32,376,913	33,918,198	987,194	1,066,457	33,364,107	34,984,655
Long-term Debt	18,900,192	19,928,549	-	-	18,900,192	19,928,549
Other Liabilities	2,182,856	1,982,727	810	33,245	2,183,666	2,015,972
Total Liabilities	21,083,048	21,911,276	810	33,245	21,083,858	21,944,521
Net Assets						
Investment in capital assets (net of debt)	12,096,793	11,710,675	798,916	850,309	12,895,709	12,560,984
Unrestricted	(802,928)	296,247	187,468	182,903	(615,460)	479,150
Total Net Assets	\$ 11,293,865	\$ 12,006,922	\$ 986,384	\$ 1,033,212	\$ 12,280,249	\$ 13,040,134

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

The District put in service \$1.3 million in capital assets and partially advance refunded the 2003 bonds.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2012, net of Interfund transfers, were \$24.9 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$3.6 million more than budget or approximately 26%. This variance was related to on-behalf payments that were not budgeted in accordance with Kentucky Department of Education regulations.
- The total cost of all programs and services including debt service was \$25.8 million.
- General fund budget expenditures to actual varied significantly in Instruction and Other Expenses. This resulted from the District not budgeting on-behalf payments made by the State of Kentucky as instructed by the Department of Education and not having to spend budgeted contingency funds.

The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2012 and 2011.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
REVENUES:						
Program revenues:						
Charges for services	\$ 410	\$ 729	\$ 386,432	\$ 380,042	\$ 386,842	\$ 380,771
Operating grants and contributions	4,540,121	5,935,853	1,157,321	1,155,762	5,697,442	7,091,615
Capital grants	802,432	871,546	-	-	802,432	871,546
General revenues:						
Property taxes	2,689,174	2,624,079	-	-	2,689,174	2,624,079
Motor vehicle taxes	376,585	376,471	-	-	376,585	376,471
Utility taxes	1,024,027	1,021,438	-	-	1,024,027	1,021,438
Revenue in lieu of taxes	113,767	111,437	-	-	113,767	111,437
Other taxes	7,542	9,290	-	-	7,542	9,290
Gain on disposal of capital assets	10,265	4,017	-	-	10,265	4,017
Investment earnings	16,239	25,581	1,073	1,240	17,312	26,821
State and formula grants	13,827,859	12,808,501	-	-	13,827,859	12,808,501
Miscellaneous	40,848	47,625	-	-	40,848	47,625
Total revenues	23,449,269	23,836,567	1,544,826	1,537,044	24,994,095	25,373,611
EXPENSES						
Program Activities						
Instruction	13,321,907	13,440,478	-	-	13,321,907	13,440,478
Student support	1,210,554	1,190,440	-	-	1,210,554	1,190,440
Instructional staff support	1,338,532	1,420,877	-	-	1,338,532	1,420,877
District administrative support	821,808	841,989	-	-	821,808	841,989
School administrative support	1,471,154	1,355,458	-	-	1,471,154	1,355,458
Business support	797,505	934,959	-	-	797,505	934,959
Plant operation and maintenance	1,849,693	1,849,211	-	-	1,849,693	1,849,211
Student transportation	1,994,042	2,182,367	-	-	1,994,042	2,182,367
Community service activities	250,327	256,008	-	-	250,327	256,008
Other	272,393	318,483	-	-	272,393	318,483
Interest costs	834,411	829,016	-	-	834,411	829,016
Business-type Activities:						
Food service	-	-	1,591,654	1,639,262	1,591,654	1,639,262
Total expenses	24,162,326	24,619,286	1,591,654	1,639,262	25,753,980	26,258,548
Change in net assets before transfers	(713,057)	(782,719)	(46,828)	(102,218)	(759,885)	(884,937)
Transfers	-	-	-	-	-	-
Change in net assets	\$ (713,057)	\$ (782,719)	\$ (46,828)	\$ (102,218)	\$ (759,885)	\$ (884,937)

Governmental Activities

Instruction comprises 55% of governmental program expenses. Support services expenses make up 39% of government expenses. The remaining expense for community services, interest and other expense accounts for the remaining 6% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities
Total Cost of Services **Net Cost of Services**

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Instruction	\$ 13,321,907	\$ 13,440,478	\$ 9,909,980	\$ 9,125,989
Support Services	9,483,288	9,775,301	8,875,756	8,719,737
Community services	250,327	256,008	838	6,705
Other	272,393	318,483	810	1,257
Interest costs	834,411	829,016	31,979	(42,530)
Total Expenses	<u>\$ 24,162,326</u>	<u>\$ 24,619,286</u>	<u>\$ 18,819,363</u>	<u>\$ 17,811,158</u>

Business-Type Activities

The business-type activities include the food service operation. This program had total revenues of \$1,544,826 and expenses of \$1,591,654 for fiscal year 2012. Of the revenues, \$386,432 was charges for services, \$1,157,321 was from State and Federal grants and \$1,073 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$27,175,145 and expenditures and other financing uses of \$28,203,377.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at \$14,197,263 with actual amounts of \$17,844,946. Budgeted expenditures of \$15,157,717 compare with actual expenditures of \$18,540,461. The most significant fluctuation is for unbudgeted on-behalf payments of \$3,811,991. If on-behalf payments were not included in revenues, revenues would be \$14,032,955, which is \$164,308 under budget. If on-behalf payments were not included in expenditures, expenditures would be \$14,728,470, which is \$429,247 under budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012 the School District had \$31.6 million invested in land, buildings, vehicles and equipment and \$30.8 million in governmental activities. Table 4 shows fiscal year 2012 and 2011 balances.

(Table 4)
Capital Assets at June 30, 2012 and 2011
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 948,795	\$ 948,795	\$ -	\$ -	\$ 948,795	\$ 948,795
Construction in progress	-	353,423	-	-	-	353,423
Buildings and improvements	27,933,831	27,931,059	607,644	627,770	28,541,475	28,558,829
Technology	818,810	1,039,263	2,914	1,131	821,724	1,040,394
Vehicles	994,439	1,078,675	-	-	994,439	1,078,675
General equipment	98,749	114,434	188,358	221,408	287,107	335,842
Total	\$ 30,794,624	\$ 31,465,649	\$ 798,916	\$ 850,309	\$ 31,593,540	\$ 32,315,958

Table 5 shows changes in capital assets for the years ended June 30, 2012 and 2011.

Change in Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Beginning balance	\$ 31,465,649	\$ 30,512,113	\$ 850,309	\$ 903,115	\$ 32,315,958	\$ 31,415,228
Additions	1,359,556	2,290,514	2,480	1,063	1,362,036	2,291,577
Retirements	(730,597)	(3,697)	(2,433)	-	(733,030)	(3,697)
Depreciation	(1,299,984)	(1,333,281)	(51,440)	(53,869)	(1,351,424)	(1,387,150)
Ending balance	\$ 30,794,624	\$ 31,465,649	\$ 798,916	\$ 850,309	\$ 31,593,540	\$ 32,315,958

Debt

At June 30, 2012, the School District had 18.9 million in bonds outstanding, of this amount \$7.7 million is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$1 million is due within one year.

District Challenges for the Future

Hart County School District's financial status has declined in the last fiscal year. However, as we look forward, we expect unfunded mandates and the national economic climate to have an impact on our District.

The School District has experienced consistent growth in student enrollment during the past year. The need to maintain, renovate and/or build facilities in the next few years will create more challenges for the School District.

The District is experiencing increased personnel costs associated with preschool and special needs programs that have not been funded through state or federal programs.

Most costs associated with growth have, in the past, been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

Additional factors concerning our School District's financial status include the implementation of various unfunded mandates. Examples include the Flex Fund accounts (Professional Development, Safe Schools, Preschool, Textbooks and Extended School Services). State funding for these programs does not meet our needs as a District. Therefore, local generated funds will have to address these areas. Also, the uncertainty of state budgeted revenue projections may impact our funding as well as future mandated salary increases for all certified personnel. In addition, the full effect of No Child Left Behind (NCLB) has yet to be determined. Funding for this program is not equal to the mandates required by the Federal Government.

With careful planning and monitoring of our finances, Hart County Schools' goal is to continue to provide a quality education for our students and a secure financial future for the School District.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2012 - 2013 with a 2.2% contingency. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

Contacting the School District's Financial Management

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 contact Ricky Line, Superintendent, 25 Quality Street, Munfordville, Kentucky, 42765, (270) 524-2631.

BASIC FINANCIAL STATEMENTS

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

Assets	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>Current Assets</u>			
Cash and cash equivalents	\$ 231,381	\$ 135,923	\$ 367,304
Inventory		52,355	52,355
Receivables:			
Taxes-current	199,499		199,499
Taxes-delinquent	7,288		7,288
Other receivables	55,164		55,164
Intergovernmental-State	27,308		27,308
Intergovernmental-Indirect Federal	460,683		460,683
Total Current Assets	981,323	188,278	1,169,601
<u>Noncurrent Assets</u>			
Unamortized discount and expense	305,434		305,434
Deferred amount on refunding	295,532		295,532
Capital assets, net of accumulated depreciation	30,794,624	798,916	31,593,540
Total Noncurrent Assets	31,395,590	798,916	32,194,506
Total Assets	32,376,913	987,194	33,364,107
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	117,172	810	117,982
Accrued payroll and related expenses	425,384		425,384
Deferred revenue	71,616		71,616
Current portion of bond obligations	1,035,000		1,035,000
Current portion of capital lease obligations	187,370		187,370
Current portion of accrued sick leave	116,822		116,822
Interest payable	229,492		229,492
Total Current Liabilities	2,182,856	810	2,183,666
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	17,890,000		17,890,000
Noncurrent portion of capital lease obligations	186,427		186,427
Noncurrent portion of accrued sick leave	823,765		823,765
Total Noncurrent Liabilities	18,900,192	-	18,900,192
Total Liabilities	21,083,048	810	21,083,858
<u>Net Assets</u>			
Invested in capital assets, net of related debt	12,096,793	798,916	12,895,709
Unrestricted	(802,928)	187,468	(615,460)
Total Net Assets	\$ 11,293,865	\$ 986,384	\$ 12,280,249

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	\$ 13,321,907	\$ 410	\$ 3,411,517	\$ -	\$ (9,909,980)	\$ -	\$ (9,909,980)
Support services:							
Student	1,210,554		32,370		(1,178,184)		(1,178,184)
Instruction staff	1,338,532		442,922		(895,610)		(895,610)
District administrative	821,808		9,569		(812,239)		(812,239)
School administrative	1,471,154		1,758		(1,469,396)		(1,469,396)
Business	797,505				(797,505)		(797,505)
Plant operation and maintenance	1,849,693		1,157		(1,848,536)		(1,848,536)
Student transportation	1,994,042		119,756		(1,874,286)		(1,874,286)
Community service activities	250,327		249,489		(838)		(838)
Other	272,393		271,583		(810)		(810)
Interest on long-term debt	834,411			802,432	(31,979)		(31,979)
Total Governmental Activities	24,162,326	410	4,540,121	802,432	(18,819,363)	-	(18,819,363)
Business-Type Activities:							
Food service	1,591,654	386,432	1,157,321	-	-	(47,901)	(47,901)
Total Business-Type Activities	1,591,654	386,432	1,157,321	-	-	(47,901)	(47,901)
Total Primary Government	\$ 25,753,980	\$ 386,842	\$ 5,697,442	\$ 802,432	(18,819,363)	(47,901)	(18,867,264)
			General Revenues:				
			Taxes:				
			Property taxes		2,689,174		2,689,174
			Motor vehicle taxes		376,585		376,585
			Utility taxes		1,024,027		1,024,027
			Revenue in lieu of taxes		113,767		113,767
			Other		7,542		7,542
			Gain on disposal of capital assets		10,265		10,265
			Investment earnings		16,239	1,073	17,312
			State and formula grants		13,827,859		13,827,859
			Miscellaneous		40,848		40,848
			Total general revenues		18,106,306	1,073	18,107,379
			Change in net assets		(713,057)	(46,828)	(759,885)
			Net assets - beginning		12,006,922	1,033,212	13,040,134
			Net assets - ending		\$ 11,293,865	\$ 986,384	\$ 12,280,249

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

HART COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 520,993	\$ -	\$ 30,069	\$ 551,062
Receivables:				
Taxes - current	199,499			199,499
Taxes - delinquent	7,288			7,288
Other receivables	55,164			55,164
Intergovernmental - State		27,308		27,308
Intergovernmental - Indirect Federal		460,683		460,683
Total Assets	\$ 782,944	\$ 487,991	\$ 30,069	\$ 1,301,004
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ 108,994	\$ 8,178	\$ -	\$ 117,172
Cash overdraft		319,681		319,681
Accrued payroll and related expenses	425,384			425,384
Deferred revenue		71,616		71,616
Total Liabilities	534,378	399,475	-	933,853
Fund Balances				
Restricted		88,516	30,069	118,585
Committed	66,224			66,224
Assigned	125,106			125,106
Unassigned	57,236			57,236
Total Fund Balances	248,566	88,516	30,069	367,151
Total Liabilities and Fund Balances	\$ 782,944	\$ 487,991	\$ 30,069	\$ 1,301,004

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

June 30, 2012

Total fund balance per fund financial statements	\$ 367,151
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	
	30,794,624
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets:	
Bonds payable	(18,925,000)
Bond discount and expense	305,434
Deferred amount on refunding	295,532
Capital lease obligations	(373,797)
Interest payable	(229,492)
Accrued sick leave	(940,587)
	<hr/>
Net assets for governmental activities	<u>\$ 11,293,865</u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2012

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ 2,364,901	\$ -	\$ 324,273	\$ 2,689,174
Motor vehicle	376,585			376,585
Utilities	1,024,027			1,024,027
Revenue in lieu of taxes	113,767			113,767
Other taxes	7,542			7,542
Earnings on investments	16,039	200		16,239
Other local revenues	41,257	51,639		92,896
Intergovernmental - State	13,827,859	1,326,256	1,432,385	16,586,500
Intergovernmental - Indirect Federal	72,969	2,459,305		2,532,274
Total Revenues	17,844,946	3,837,400	1,756,658	23,439,004
Expenditures:				
Instruction	9,853,103	2,704,757		12,557,860
Support services:				
Student	1,167,200	32,370		1,199,570
Instruction staff	893,814	442,922		1,336,736
District administrative	725,355	9,569		734,924
School administrative	1,460,542	1,758		1,462,300
Business	791,128			791,128
Plant operation and maintenance	1,848,545	1,157		1,849,702
Student transportation	1,787,383	119,756		1,907,139
Community service activities	2,371	249,489		251,860
Other non-instruction	11,020	271,583		282,603
Facilities acquisition and construction			377,129	377,129
Bond issuance costs			35,400	35,400
Debt service:				
Principal			975,000	975,000
Interest			754,493	754,493
Total Expenditures	18,540,461	3,833,361	2,142,022	24,515,844
Excess (Deficit) of Revenues over Expenditures	(695,515)	4,039	(385,364)	(1,076,840)
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	10,304			10,304
Proceeds from sale of bonds			2,760,000	2,760,000
Payment to refunded escrow agent			(2,688,196)	(2,688,196)
Bond discount			(33,500)	(33,500)
Transfers in		41,680	924,157	965,837
Transfers out	(41,680)		(924,157)	(965,837)
Total Other Financing Sources (Uses)	(31,376)	41,680	38,304	48,608
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	(726,891)	45,719	(347,060)	(1,028,232)
Fund Balance, July 1, 2011	975,457	42,797	377,129	1,395,383
Fund Balance, June 30, 2012	\$ 248,566	\$ 88,516	\$ 30,069	\$ 367,151

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Net change in total fund balances per fund financial statements	\$ (1,028,232)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(670,980)
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(2,691,100)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	3,841,389
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(39)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(164,095)</u>
Change in net assets of governmental activities	<u>\$ (713,057)</u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2012

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 135,923
Inventory	<u>52,355</u>
Total Current Assets	188,278
<u>Noncurrent Assets</u>	
Capital assets, net of accumulated depreciation	<u>798,916</u>
Total Noncurrent Assets	<u>798,916</u>
Total Assets	<u>987,194</u>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	<u>810</u>
Total Current Liabilities	<u>810</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	798,916
Unrestricted	<u>187,468</u>
Total Net Assets	<u><u>\$ 986,384</u></u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 353,997
Other operating revenues	<u>32,435</u>
Total Operating Revenues	386,432
Operating Expenses:	
Salaries and wages	899,751
Materials and supplies	593,540
Depreciation	51,440
Other operating expenses	<u>44,490</u>
Total Operating Expenses	<u>1,589,221</u>
Operating loss	(1,202,789)
Non-Operating Revenues (Expenses):	
Federal grants	924,016
Donated commodities	71,221
State on-behalf payments	148,218
State grants	13,866
Loss on disposal of capital assets	(2,433)
Interest income	<u>1,073</u>
Total Non-Operating Revenues (Expenses)	1,155,961
Changes in net assets	(46,828)
Net Assets, July 1, 2011	<u>1,033,212</u>
Net Assets, June 30, 2012	<u><u>\$ 986,384</u></u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 353,993
Other activities	32,435
Cash paid to/for:	
Employees	751,533
Supplies	547,211
Other activities	<u>44,490</u>
Net Cash Used by Operating Activities	(956,806)
Cash flows from Non-Capital Financing Activities	
Federal grants	924,016
State grants	<u>13,866</u>
Net Cash Provided by Non-Capital Financing Activities	937,882
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	<u>(2,480)</u>
Net Cash Used by Capital and Related Financing Activities	(2,480)
Cash Flows from Investing Activities	
Receipt of interest income	<u>1,073</u>
Net decrease in cash and cash equivalents	(20,331)
Balances, beginning of year	<u>156,254</u>
Balances, end of year	<u>\$ 135,923</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,202,789)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	51,440
State on-behalf payments	148,218
Donated commodities	71,221
Change in assets and liabilities:	
Inventory	7,539
Accounts payable	<u>(32,435)</u>
Net cash used by operating activities	<u>\$ (956,806)</u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u>\$ 71,221</u>
State on-behalf payments	<u>\$ 148,218</u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2012

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 22,235	\$ 252,730
Receivables		<u>1,471</u>
Total Assets	<u>22,235</u>	<u>254,201</u>
Liabilities		
Accounts payable		-
Due to student groups		<u>254,201</u>
Total Liabilities	<u>-</u>	<u>254,201</u>
Net Assets Held in Trust	<u>\$ 22,235</u>	<u>\$ -</u>

See accompanying notes to financial statements.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year Ended June 30, 2012

	Private Purpose Trust Funds
Additions	
Net interest and investment gains (losses)	\$ 177
	177
Deductions	
Scholarships paid	-
	177
Change in net assets	177
Net Assets, July 1, 2011	<u>22,058</u>
Net Assets, June 30, 2012	<u>\$ 22,235</u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hart County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Hart County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

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

The financial statements of the 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:

Hart County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Hart County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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 primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The 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. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs; and for the payment of interest on notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

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

III. Fiduciary Fund Type (Agency Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

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

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

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

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

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

Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - Continued

tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2012, to finance operations were \$.484 per \$100 valuation for real property, \$.487 per \$100 valuation for business personal property and \$.551 per \$100 valuation for motor vehicles.

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

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 one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not.

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Balances

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

Budgetary Process

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

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year.

Cash and Cash Equivalents

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

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

Accrued Liabilities and Long-Term Obligations

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

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

Net Assets

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

Operating Revenues and Expenses

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

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.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Interfund Activity

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

NOTE B – ESTIMATES

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

NOTE C – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2012, there were no nonspendable fund balances

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 \$88,516 restricted for grants in the special revenue fund and \$30,069 restricted for capital projects in the FSPK Fund.

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 general fund commitments at June 30, 2012: \$66,224 for site-based carryforward.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2012, was \$125,106 recorded in the general fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE C – FUND BALANCES – CONTINUED

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE D – DEPOSITS AND INVESTMENTS

Deposits

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's policy is to have all deposits secured by pledged securities. At June 30, 2012, \$1,338,780 of the District's bank balance of \$1,588,780 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE E - CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
Non-Depreciable Assets:				
Land	\$ 948,795	\$ -	\$ -	\$ 948,795
Construction in progress	353,423	377,129	(730,552)	-
Depreciable Assets:				
Buildings and improvements	37,035,852	730,552		37,766,404
Technology equipment	2,751,253	104,926	(29,390)	2,826,789
Vehicles	3,953,378	138,212		4,091,590
General equipment	1,078,150	8,737	(8,200)	1,078,687
Totals at historical cost	46,120,851	1,359,556	(768,142)	46,712,265
Accumulated depreciation:				
Buildings and improvements	9,104,793	727,780		9,832,573
Technology equipment	1,711,990	325,334	(29,345)	2,007,979
Vehicles	2,874,703	222,448		3,097,151
General equipment	963,716	24,422	(8,200)	979,938
Total accumulated depreciation	14,655,202	1,299,984	(37,545)	15,917,641
Government Activities Capital Assets - Net	<u>\$ 31,465,649</u>	<u>\$ 59,572</u>	<u>\$ (730,597)</u>	<u>\$ 30,794,624</u>
Business-Type Activities				
Buildings and improvements	\$ 1,006,305	\$ -	\$ -	\$ 1,006,305
Technology equipment	6,663	2,480		9,143
Food service equipment	496,080		(11,400)	484,680
Totals at historical cost	1,509,048	2,480	(11,400)	1,500,128
Accumulated depreciation:				
Buildings and improvements	378,535	20,126		398,661
Technology equipment	5,532	697		6,229
Food service equipment	274,672	30,617	(8,967)	296,322
Total accumulated depreciation	658,739	51,440	(8,967)	701,212
Business-Type Activities Capital Assets - Net	<u>\$ 850,309</u>	<u>\$ (48,960)</u>	<u>\$ (2,433)</u>	<u>\$ 798,916</u>

Depreciation was charged to governmental functions as follows:

Instruction	\$ 973,458
Student support	14,253
Instructional staff	36,193
District administration	8,767
School administration	9,053
Business support	18,666
Plant	8,191
Transportation	225,955
Community services	5,448
	<u>\$ 1,299,984</u>

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE F – LONG-TERM OBLIGATIONS

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2003	\$ 3,200,000	2.00% - 4.125%
2006	2,980,000	3.25% - 4.00%
2006A	10,005,000	3.25% - 4.25%
2006B	1,560,000	4.00% - 4.60%
2008R	2,685,000	2.75% - 3.45%
2011	1,435,000	3.00% - 4.50%
2011R	2,540,000	2.30% - 4.60%

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 Hart 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 “participation agreements” with the Kentucky School Facilities Construction Commission. 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 amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

On November 1, 2011, the District issued \$2,760,000 in Refunding Revenue Bonds with an average interest rate of 2.49 percent to advance refund \$2,540,000 of outstanding 2003 Series revenue bonds. The refunding was a partial advance refunding. The net proceeds of \$2,688,196 (after \$35,400 in cost of issuance, \$33,500 in bond discount and \$2,902 in excess cash which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to call the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$185,799. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2023 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$187,293 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$167,967.

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

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE F – LONG-TERM OBLIGATIONS - CONTINUED

Year	Principal	Interest	Participation	District's Portion
2013	\$ 1,035,000	\$ 701,978	\$ 800,411	\$ 936,567
2014	1,065,000	667,635	797,091	935,544
2015	1,100,000	631,390	799,090	932,300
2016	1,140,000	593,441	801,253	932,188
2017	1,180,000	554,067	798,356	935,711
2018-2022	6,140,000	2,112,780	3,556,853	4,695,927
2023-2027	6,155,000	949,196	2,545,490	4,558,706
2028-2031	1,110,000	124,181		1,234,181
	<u>\$ 18,925,000</u>	<u>\$ 6,334,668</u>	<u>\$ 10,098,544</u>	<u>\$ 15,161,124</u>

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Long-term liabilities for the year ended June 30, 2012, were as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Revenue bonds payable	\$ 19,680,000	\$ 2,760,000	\$ 3,515,000	\$ 18,925,000	\$ 1,035,000
Accrued sick leave	856,829	144,549	60,791	940,587	116,822
	<u>\$ 20,536,829</u>	<u>\$ 2,904,549</u>	<u>\$ 3,575,791</u>	<u>\$ 19,865,587</u>	<u>\$ 1,151,822</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE G – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

Classes of Property

Buses and computers

Gross amount of assets	\$ 847,920
Accumulated amortization	365,391

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

2013	\$ 207,673
2014	196,636
	<hr/>
Total minimum lease payments	404,309
Less: Amount representing interest	(30,512)
	<hr/>
Present Value of Net Minimum Lease Payments	\$ 373,797
	<hr/> <hr/>

NOTE H – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings for employees with un-refunded accounts before July 1, 2008 and 14.105% of employee's gross earnings for employees on or after July 1, 2008, except for those District employees being paid from and participating in federally funded programs. During the years ended June 30, 2012, 2011 and 2010 contributions of \$1,338,207, \$1,302,179 and \$1,314,942 were made by the State of Kentucky and \$115,663, \$241,649 and \$227,876 in contributions were passed through the District's federally funded programs. Contributions by the employees are 10.355% of gross earnings for employees with un-refunded accounts before July 1, 2008 and 10.855% of employee's gross earnings for employees on or after July 1, 2008 and are withheld by the District. The contribution rate is actuarially determined. Such withholdings during the years ended June 30, 2012, 2011 and 2010 totaled \$1,177,239, \$1,190,217 and \$1,162,159 and were paid by the District to the State of Kentucky as required. The District has no other liability under the plan. The District's total payroll for all employees during the years ended June 30, 2012, 2011 and 2010 was \$14,702,670, \$15,080,216 and \$15,038,221 and \$11,321,020, \$11,708,925 and \$11,712,573 of such amounts related to employees covered by the retirement plan. All payments were made to the retirement system in the amount of the annually required contributions.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE H – RETIREMENT PLANS – CONTINUED

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% for those employee participating in CERS before September 1, 2008 and 6% for those employee participating in CERS on or after September 1, 2008 and a District contribution for the years ended June 30, 2012, 2011 and 2010 of 18.96%, 16.93% and 16.16% of the employee's total compensation subject to contribution. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended June 30, 2012, 2011 and 2010 was \$833,386, \$697,156 and \$722,241 which consisted of \$664,598, \$567,688 and \$532,485 from the District and \$168,788, \$16,553 and \$164,671 from the employees. The total covered payroll for CERS during the years ended June 30, 2012, 2011 and 2010 was \$3,286,704, \$3,292,133 and \$3,297,630. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents. All payments were made to the retirement system in the amount of the annually required contributions.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement 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 statements.

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

NOTE J – 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 basic financial statements as a result of the cases presently in progress.

NOTE K – 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 is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which includes Workers' Compensation insurance.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district 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 members on a pro rata basis. 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 M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net assets:

General Fund	\$ 726,891
Construction Fund	377,129
Food Service Fund	46,828

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Technology Match	\$ 41,680
Nonmajor Governmental	Nonmajor Governmental	Debt Service	924,157

NOTE P – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for insurance, retirement and other items. Total on-behalf payments for the year ended June 30, 2012, were \$3,960,209. These payments were allocated as follows:

General Fund	\$3,811,991
Food Service	148,218

REQUIRED SUPPLEMENTARY INFORMATION

HART COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

GENERAL FUND

Year Ended June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 2,392,500	\$ 2,415,000	\$ 2,364,901
Motor vehicle	375,000	391,000	376,585
Utilities	1,025,000	1,250,000	1,024,027
Revenue in lieu of taxes	50,000	25,000	113,767
Other taxes	10,000	15,000	7,542
Earnings on investments	25,000	25,000	16,039
Other local revenues	20,200	28,500	41,257
Intergovernmental - State	10,264,802	10,012,763	13,827,859
Intergovernmental - Indirect Federal	35,000	35,000	72,969
Total Revenues	14,197,502	14,197,263	17,844,946
Expenditures:			
Instruction	7,391,796	7,415,476	9,853,103
Support services:			
Student	1,020,625	994,680	1,167,200
Instruction staff	700,897	698,184	893,814
District administrative	744,924	782,615	725,355
School administrative	1,107,455	1,132,809	1,460,542
Business	695,752	696,847	791,128
Plant operation and maintenance	1,720,605	1,736,842	1,848,545
Student transportation	1,657,981	1,532,073	1,787,383
Community service activities	4,505	1,705	2,371
Other non-instruction	533,844	166,486	11,020
Total Expenditures	15,578,384	15,157,717	18,540,461
Excess (Deficit) of Revenues over Expenditures	(1,380,882)	(960,454)	(695,515)
Other Financing Sources (Uses):			
Proceeds from sale of capital assets		10,000	10,304
Transfers out	(24,142)	(25,000)	(41,680)
Total Other Financing Sources (Uses)	(24,142)	(15,000)	(31,376)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(1,405,024)	(975,454)	(726,891)
Fund Balance, July 1, 2011	1,405,024	975,454	975,457
Fund Balance, June 30, 2012	\$ -	\$ -	\$ 248,566

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$3,811,991

HART COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

SPECIAL REVENUE FUND

Year Ended June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Earnings on investments	\$ -	\$ -	\$ 200
Other local revenues		14,401	51,639
Intergovernmental - State	1,275,742	1,274,232	1,326,256
Intergovernmental - Indirect Federal	<u>2,264,148</u>	<u>2,373,380</u>	<u>2,459,305</u>
Total Revenues	3,539,890	3,662,013	3,837,400
Expenditures:			
Instruction	2,407,937	2,419,490	2,704,757
Support services:			
Student	25,696	27,892	32,370
Instruction staff	506,909	555,709	442,922
District administrative			9,569
School administrative	26,945	26,945	1,758
Plant operation and maintenance	2,954	2,954	1,157
Student transportation	18,969	78,283	119,756
Community service activities	250,683	242,959	249,489
Other	<u>327,213</u>	<u>332,789</u>	<u>271,583</u>
Total Expenditures	<u>3,567,306</u>	<u>3,687,021</u>	<u>3,833,361</u>
Excess (Deficit) of Revenues over Expenditures	(27,416)	(25,008)	4,039
Other Financing Sources (Uses):			
Transfers in	<u>24,142</u>	<u>25,008</u>	<u>41,680</u>
Total Other Financing Sources (Uses)	<u>24,142</u>	<u>25,008</u>	<u>41,680</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(3,274)	-	45,719
Fund Balance, July 1, 2011	<u>3,274</u>	-	<u>42,797</u>
Fund Balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,516</u>

SUPPLEMENTARY INFORMATION

HART COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:					
Cash and cash equivalents	\$ -	\$ 30,069	\$ -	\$ -	\$ 30,069
Total Assets	<u>\$ -</u>	<u>\$ 30,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,069</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances					
Restricted		30,069	-		30,069
Total Fund Balances	<u>-</u>	<u>30,069</u>	<u>-</u>	<u>-</u>	<u>30,069</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 30,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,069</u>

HART COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2012

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues					
From local sources:					
Property taxes	\$ -	\$ 324,273	\$ -	\$ -	\$ 324,273
Intergovernmental - State	208,405	421,548		802,432	1,432,385
Total Revenues	208,405	745,821	-	802,432	1,756,658
Expenditures					
Facilities acquisition and construction			377,129		377,129
Bond issue costs				35,400	35,400
Debt service:					
Principal				975,000	975,000
Interest				754,493	754,493
Total Expenditures	-	-	377,129	1,764,893	2,142,022
Excess (Deficit) of Revenues over Expenditures	208,405	745,821	(377,129)	(962,461)	(385,364)
Other Financing Sources (Uses)					
Bond proceeds				2,760,000	2,760,000
Bond discount				(33,500)	(33,500)
Payment to refunded escrow agent				(2,688,196)	(2,688,196)
Transfers in				924,157	924,157
Transfers out	(208,405)	(715,752)			(924,157)
Total Other Financing Sources (Uses)	(208,405)	(715,752)	-	962,461	38,304
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	30,069	(377,129)	-	(347,060)
Fund balance, July 1, 2011	-	-	377,129	-	377,129
Fund balance, June 30, 2012	\$ -	\$ 30,069	\$ -	\$ -	\$ 30,069

HART COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2011

	Bonnieville Elementary	Cub Run Elementary	Hart County High School	LeGrande Elementary	Memorial Elementary	Munfordville Elementary	Total Agency Fund
Assets							
Cash and cash equivalents	\$ 23,682	\$ 9,998	\$ 157,376	\$ 31,240	\$ 10,295	\$ 24,485	\$257,076
Receivables	-	736	719	6,025	-	-	7,480
Total Assets	<u>\$ 23,682</u>	<u>\$ 10,734</u>	<u>\$ 158,095</u>	<u>\$ 37,265</u>	<u>\$ 10,295</u>	<u>\$ 24,485</u>	<u>\$264,556</u>
Liabilities							
Accounts payable	\$ -	\$ 218	\$ -	\$ -	\$ -	\$ -	\$ 218
Due to student groups	23,682	10,516	158,095	37,265	10,295	24,485	264,338
Total Liabilities	<u>\$ 23,682</u>	<u>\$ 10,734</u>	<u>\$ 158,095</u>	<u>\$ 37,265</u>	<u>\$ 10,295</u>	<u>\$ 24,485</u>	<u>\$264,556</u>

HART COUNTY SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2012

<u>SCHOOL</u>	<u>CASH BALANCE July 1, 2011</u>	<u>RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>CASH BALANCE June 30, 2012</u>	<u>RECEIVABLES June 30, 2012</u>	<u>ACCOUNTS PAYABLE June 30, 2012</u>	<u>DUE TO STUDENT GROUPS June 30, 2012</u>
Bonnieville Elementary	\$ 23,682	\$ 16,906	\$ 17,598	\$ 22,990	\$ 30	\$ -	\$ 23,020
Cub Run Elementary	9,998	17,258	16,769	10,487	834		11,321
Hart County High School	157,376	180,278	179,003	158,651	607		159,258
LeGrande Elementary	31,241	33,077	41,401	22,917			22,917
Memorial Elementary	10,294	24,150	24,083	10,361			10,361
Munfordville Elementary	24,485	34,519	31,680	27,324			27,324
	<u>\$ 257,076</u>	<u>\$ 306,188</u>	<u>\$ 310,534</u>	<u>\$ 252,730</u>	<u>\$ 1,471</u>	<u>\$ -</u>	<u>254,201</u>

HART COUNTY SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
HART COUNTY HIGH SCHOOL
YEAR ENDED JUNE 30, 2012

NAME OF ACTIVITY	CASH	RECEIPTS	DISBURSE- MENTS	CASH	RECEIVABLES	ACCOUNTS PAYABLE	DUE TO
	BALANCES July 1, 2011			BALANCES June 30, 2012			June 30, 2012
2009 District Basketball	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Academic Team	414	1,093	1,154	353	-	-	353
Agriculture	41,450	15,824	11,739	45,535	-	-	45,535
Art Club	145	-	-	145	-	-	145
Athletic	4,480	52,123	54,934	1,669	607	-	2,276
Attendance Increase	1,425	3,550	3,000	1,975	-	-	1,975
Beta Club	3,184	3,898	4,533	2,549	-	-	2,549
Broadcasting	5,807	600	961	5,446	-	-	5,446
Chess Club	-	-	-	-	-	-	-
Class of 2011	3,336	-	3,336	-	-	-	-
Class of 2012	8,341	4,800	10,847	2,294	-	-	2,294
Class of 2013	3,737	10,764	12,247	2,254	-	-	2,254
Class of 2014	2,514	1,110	-	3,624	-	-	3,624
Class of 2015	-	1,180	45	1,135	-	-	1,135
Coke machines	5,857	6,687	5,857	6,687	-	-	6,687
Concessions	1,603	1,286	1,603	1,286	-	-	1,286
District Softball/Baseball	-	-	-	-	-	-	-
18th District Volleyball	-	-	-	-	-	-	-
Faculty Commission	276	2,058	1,786	548	-	-	548
FBLA	429	747	978	198	-	-	198
FCCLA	48	-	48	-	-	-	-
FEA	-	421	196	225	-	-	225
FFA	3,153	20,510	22,912	751	-	-	751
Foreign Language	686	595	721	560	-	-	560
General Fund	19,569	13,962	13,293	20,238	-	-	20,238
Lou Walton- Grant	1,423	-	-	1,423	-	-	1,423
Ind. Arts	865	-	-	865	-	-	865
Laptop Initiative	21,459	24,644	13,035	33,068	-	-	33,068
Library	150	154	174	130	-	-	130
Lockers	4,011	2,269	1,923	4,357	-	-	4,357
National Honor Society	787	950	690	1,047	-	-	1,047
Parking	1,913	1,030	581	2,362	-	-	2,362
Pep Club	-	-	-	-	-	-	-
Petty Cash	-	-	-	-	-	-	-
Political Science	418	-	-	418	-	-	418
SADD HOPE	597	3,155	3,542	210	-	-	210
Science Club	194	84	-	278	-	-	278
Softball Region	-	-	-	-	-	-	-
Spirit Club	986	-	986	-	-	-	-
Stand Club	212	-	212	-	-	-	-
Student Council	14	184	149	49	-	-	49
TSA Club	-	-	-	-	-	-	-
Y Club	-	4,600	4,425	175	-	-	175
Yearbook	17,893	13,384	14,480	16,797	-	-	16,797
TOTALS	157,376	191,662	190,387	158,651	607	-	159,258
Transfers	-	-	-	-	-	-	-
TOTALS	\$ 157,376	\$ 191,662	\$ 190,387	\$ 158,651	\$ 607	\$ -	\$ 159,258

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Passed Through State Department of Education:			
National School Lunch	10.555	7750002-11	\$ 149,836
		7750002-12	480,612
School Breakfast Program	10.553	7760005-12	65,869
		7760005-12	224,753
Summer Food Service Program for Children	10.559	7690024-11	275
		7740023-11	2,671
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	057502-02	71,221
TOTAL CHILD NUTRITION CLUSTER			995,237
TOTAL U.S. DEPT. OF AGRICULTURE			995,237
<u>APPALACHIAN REGIONAL COMMISSION</u>			
Passed Through State Department of Education			
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	6882	1,227
TOTAL APPALACHIAN REGIONAL COMMISSION			1,227
<u>U.S. DEPARTMENT OF ENERGY</u>			
Passed Through State Department of Education			
ARRA - State Energy Program	81.041	5691	1,251
		5692	2,724
			3,975
Conservation Research and Development	81.086	6200B	59,314
TOTAL U.S. DEPT. OF ENERGY			63,289
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Title I, Part A Cluster -			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	3101	60,155
		3101M	1,492
		3102	971,753
		3202M	7,795
			1,041,195
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	3919	33,271
		3919M	5,011
			38,282
TOTAL TITLE I, PART A CLUSTER			1,079,477
Special Education Cluster -			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3372	526,282
Special Education - Preschool Grants	84.173	3431	2,970
		3432	26,000
			28,970
TOTAL SPECIAL EDUCATION CLUSTER			555,252

The accompanying notes are an integral part of this schedule.

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through Kentucky Council on Postsecondary Education Adult Education - State Grant Program	84.002	3651 3652 3732 3732S	4,551 11,122 66,470 1,918
			<u>84,061</u>
Passed Through State Department of Education Migrant Education - State Grant Program	84.011	3111 3112	3,142 63,556
			<u>66,698</u>
Vocational Education - Basic Grants to States	84.048	3480A 3481 3482	872 10,406 30,500
			<u>41,778</u>
Even Start - State Educational Agencies	84.213	3231	85,437
Twenty-First Century Community Learning Centers	84.287	5500 5500T 5500Z 5501	63,757 1,000 21,000 107,819
			<u>193,576</u>
Rural Education	84.358	3502	50,081
Improving Teacher Quality - State Grants	84.367	4011 4012	33,972 173,450
			<u>207,422</u>
ARRA - Education Technology State Grants, Recovery Act	84.386	4860	13,323
Education Jobs	84.410	4411	57,660
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,434,765</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,494,518</u>

The accompanying notes are an integral part of this schedule.

HART COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hart County School 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 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 Hart County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of Hart County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. 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.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HART COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Section I-Summary of Auditor's Results - Continued

Identification of major programs:

CFDA Number	Federal Program or Cluster
DEPARTMENT OF AGRICULTURE	
10.555	National School Lunch Program
10.553	School Breakfast Program
10.559	Summer Food Service Program for Children
DEPARTMENT OF EDUCATION	
Title I, Part A Cluster	
84.010	Title I Grants to Local Educational Agencies
84.389	ARRA - Title I Grants to Local Educational Agencies, Recovery Act

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

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2012

There were no prior audit findings.

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

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

JON M. ANDERSON, CPA
CHERYLE L. BEAUCHAMP, CPA
WILLIAM M. DOERR, CPA
CARRIE A. GREY, CPA
LYNN C. HOWARD, CPA
PHILIP A. LOGSDON, CPA
J. ALTON PIKE, CPA

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hart County School District
Munfordville, Kentucky

We have audited the financial statements of Hart County School District as of and for the year ended June 30, 2012, and have issued our report thereon dated September 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II III and IV of the *Independent Auditor's Contract*.

Internal Control Over Financial Reporting

Management of Hart County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Hart County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 previously.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Hart County School District in a separate letter dated September 11, 2012.

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



Certified Public Accountants
September 11, 2012

**INDEPENDENT AUDITOR'S
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**

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

JON M. ANDERSON, CPA
CHERYLE L. BEAUCHAMP, CPA
WILLIAM M. DOERR, CPA
CARRIE A. GREY, CPA
LYNN C. HOWARD, CPA
PHILIP A. LOGSDON, CPA
J. ALTON PIKE, CPA

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hart County School District
Munfordville, Kentucky

Compliance

We have audited Hart County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of are applicable to each Hart County School District's major federal programs for the year ended June 30, 2012. Hart County School District's major federal programs are identified in the summary of auditor's 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 Hart County School District's management. Our responsibility is to express an opinion on Hart County School 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; OMB Circular A-133 and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II III and IV of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hart County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hart County School District's compliance with those requirements.

In our opinion, Hart County School 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

Management of Hart County School 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 Hart County School 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 Hart County School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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 management, the members of the Hart County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants
September 11, 2012

MANAGEMENT LETTER AND COMMENTS

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7934

www.stilescartercpas.com

JON M. ANDERSON, CPA
CHERYLE L. BEAUCHAMP, CPA
WILLIAM M. DOERR, CPA
CARRIE A. GREY, CPA
LYNN C. HOWARD, CPA
PHILIP A. LOGSDON, CPA
J. ALTON PIKE, CPA

Members of the Board of Education of
Hart County School District
Munfordville, Kentucky

In planning and performing our audit of the basic financial statements of Hart County School 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 several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated September 11, 2012, contains our report on the District's internal control. This letter does not affect our report dated September 11, 2012, on the financial statements of the Hart County School District.

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

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

Stiles, Carter & Associates

Certified Public Accountants
September 11, 2012

HART COUNTY SCHOOL DISTRICT

COMMENTS

June 30, 2012

UNCORRECTED PRIOR YEAR COMMENTS

BONNIEVILLE ELEMENTARY

TICKET SALES

We noted the 11/3/11 basketball game and 3/21/12 volleyball game had F-SA-1, Ticket Requisition and Sales forms, attached without a line for separate signatures for the ticket seller and ticket taker.

MANAGEMENT RESPONSE

District finance personnel will meet with school management.

MEMORIAL ELEMENTARY

INDIVIDUAL ACTIVITY FUND BUDGETS

We noted the following individual activity budgets were not on file but amounts for each fund were included in the principal's combining budget: General Fund, Juice, Teacher's Lounge, Student Book Orders, Athletics, All County Athletics, Y Club, Music, Century 21 Program, Attendance Awards, and Flower Fund.

MANAGEMENT RESPONSE

District finance personnel will meet with school management.

CURRENT YEAR COMMENTS

CUB RUN ELEMENTARY

ANNUAL FINANCIAL REPORT

We noted the Annual Financial Report was dated 07/31/12, six days after the Redbook required date of 07/25/12.

MANAGEMENT RESPONSE

District finance personnel will meet with school management.

HART COUNTY SCHOOL DISTRICT

COMMENTS-CONTINUED

June 30, 2012

HART COUNTY HIGH SCHOOL

FUND RAISER

We noted the FFA fruit sales and Ag plant sales fund raisers did not have F-SA-2A, Fund Raiser Approval or F-SA-2B, Fund Raiser Worksheet on file.

MANAGEMENT RESPONSE

District finance personnel will meet with school management.

LEGRANDE ELEMENTARY

PURCHASE ORDER

We noted check #2462 dated 05/14/12 had a purchase order dated 05/11/12 six days after the invoice dated 05/05/12.

MANAGEMENT RESPONSE

District finance personnel will meet with school management.