

**LAUREL COUNTY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012**

**with**

**REPORT OF INDEPENDENT AUDITORS**

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## REPORT OF INDEPENDENT AUDITORS

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Laurel County School District  
London, 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 Laurel County School District (District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, and Appendix III to the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 12, 2012, on our consideration of Laurel County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and budgetary comparison information on page 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Laurel County School District's basic financial statements. The supplementary information on pages 37 through 46, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Laurel County School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
Corbin, Kentucky  
November 12, 2012

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY  
YEAR ENDED JUNE 30, 2012**

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

**FINANCIAL HIGHLIGHTS**

The District's solid financial position is attributed to sound fiscal management and continuing review of all policies in search of ways to increase revenues and/or reduce costs. Our current financial position is strong and our budget for FY 2013 is solid and supports the educational needs of the students the District serves while at the same time is capable of responding to the fluid nature of changes in the current economic landscape.

Bonds are issued as the District renovates and builds 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 net total bonded debt decreased by \$2,745,000 during the current fiscal year.

In fiscal year 2012 the District refunded a 2004 bond issue at a lower interest rate resulting in \$615,692 savings over the remaining life of the bonds.

In FY 2012 total Fund revenue was \$98.2 million which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes and excluding construction cost of \$4.3 million total fund expenditures was \$104.2 million.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**District-wide financial statements.** The district-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 expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-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 are also supported by taxes and intergovernmental revenues.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY**  
**YEAR ENDED JUNE 30, 2012**

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories:

**Governmental Funds:** Most of the District's basic activities are reported in these funds, which focus on how money flows into and out of these funds and the balances left at year-end that is available for spending. The funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The statements for these funds provide a short-term view of the District's general operations and the basic services they provide to help determine where financial resources may be found to finance the District's programs.

**Proprietary Funds:** These are business-type activities where the District charges students or parents for the services it provides. These funds are reported using the full accrual accounting method in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. School food service is the major activity considered as business-type activities in the District.

**Fiduciary funds:** These are trust funds used to account for resources held for the benefit of parties outside the District. These funds are not reflected in the District-wide financial statements because the resources of these funds are not available to support the District's own activities or programs. The basis of accounting for fiduciary funds is similar to that of proprietary funds.

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 20-35 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY**  
**YEAR ENDED JUNE 30, 2012**

**DISTRICT-WIDE FINANCIAL ANALYSIS**

Net assets are an indicator of a district's financial position. Laurel County School District assets exceeded liabilities by \$63,897,603 as of June 30, 2012, an increase of \$1,705,306 from the previous year.

**Net Asset Comparison Statement**

	<u>June 30, 2012</u>	<u>June 20, 2011</u>	<u>Change</u>
Current assets	\$ 12,205,017	\$ 15,204,630	\$ (2,999,613)
Long-term assets	4,877,444	5,256,472	(379,028)
Capital Lease Proceeds	<u>130,065,072</u>	<u>130,435,981</u>	<u>(370,909)</u>
<b>Total assets</b>	<b><u>147,147,533</u></b>	<b><u>150,897,083</u></b>	<b><u>(3,749,550)</u></b>
Current liabilities	6,199,858	8,868,002	(2,668,144)
Long-term liabilities	<u>77,050,072</u>	<u>79,836,784</u>	<u>(2,786,712)</u>
<b>Total liabilities</b>	<b><u>83,249,930</u></b>	<b><u>88,704,786</u></b>	<b><u>(5,454,856)</u></b>
<b>Net Assets</b>			
Investment in capital assets, net of debt	54,405,232	51,616,010	2,789,222
Restricted	3,983,993	6,456,408	(2,472,415)
Unreserved Fund Balance	<u>5,508,379</u>	<u>4,119,878</u>	<u>1,388,501</u>
<b>Total net assets</b>	<b><u>\$ 63,897,604</u></b>	<b><u>\$ 62,192,296</u></b>	<b><u>\$ 1,705,308</u></b>

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 are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY**  
**YEAR ENDED JUNE 30, 2012**

<b>Capital Asset Activity</b>	<b>June 30, 2011</b>			<b>June 30, 2012</b>
	<b>Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance</b>
<b>Governmental Activities</b>				
Land & Land Improvements	\$ 7,157,348	\$ 308,344	\$ 109,500	\$ 7,356,192
Buildings	130,454,089	11,649,179	-	142,103,268
Technology	7,272,684	460,202	387,335	7,345,551
Vehicles	8,445,510	719,532	111,840	9,053,202
General Equipment	1,856,785	170,451	41,544	1,985,692
Construction Work in Progress	<u>8,417,682</u>	<u>383,797</u>	<u>8,417,684</u>	<u>383,795</u>
Total historical cost	163,604,098	13,691,505	9,067,903	168,227,700
Less accumulated depreciation	<u>41,960,255</u>	<u>5,322,569</u>	<u>489,617</u>	<u>46,793,207</u>
Governmental capital assets, net	<u>\$ 121,643,843</u>	<u>\$ 8,368,936</u>	<u>\$ 8,578,286</u>	<u>\$ 121,434,493</u>
<b>Business-type Activities</b>				
Buildings	\$ 10,776,135	\$ -	\$ -	\$ 10,776,135
Technology	65,891	-	7,984	57,907
General Equipment	<u>2,445,568</u>	<u>177,469</u>	<u>6,500</u>	<u>2,616,537</u>
Total historical cost	13,287,594	177,469	14,484	13,450,579
Less accumulated depreciation	<u>4,495,454</u>	<u>339,030</u>	<u>14,484</u>	<u>4,820,000</u>
Business-type capital assets, net	<u>\$ 8,792,140</u>	<u>\$ (161,561)</u>	<u>\$ -</u>	<u>\$ 8,630,579</u>

**Comments on General Fund Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2012, net of inter-fund transfers, were \$61,943,304.
- Total General Fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual revenue being \$57,077 more than budget.
- Total General Fund budgeted expenditures net of budgeted contingency and interfund transfers compared to actual expenditures were \$1,028,320 (1.7%) less than budgeted. The major contributors to this decrease were salary transfers to Fund 2 and lower utility cost due to a mild winter.

The Budget Verses Actual comparison statement can be found on page 15 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY**  
**YEAR ENDED JUNE 30, 2012**

The following table presents a summary of revenues and expenditures reported on the Annual Financial Report for the fiscal year ended June 30, 2012, excluding beginning balance and inter-fund transfers, compared to the fiscal year ended June 30, 2011.

**REVENUES**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>
Local revenue sources	\$ 19,007,526	\$ 17,720,420	\$ 1,287,106
State revenue sources	56,798,649	52,753,803	4,044,846
Federal Revenue	12,983,449	14,914,742	(1,931,293)
Bond Proceeds	9,425,000	8,720,000	705,000
Capital Lease Proceeds	-	-	-
<b>Total revenues</b>	<b><u>98,214,624</u></b>	<b><u>94,108,965</u></b>	<b><u>4,105,659</u></b>

**EXPENDITURES**

Instruction	48,273,107	47,780,339	492,768
Student Support Services	4,813,844	5,062,906	(249,062)
Instructional Support	5,018,289	5,431,525	(413,236)
District Administration	1,009,905	853,301	156,604
School Administration	3,286,709	3,341,328	(54,619)
Business Support	1,652,262	1,480,352	171,910
Plant Operations	8,131,248	8,601,711	(470,463)
Student Transportation	4,177,827	4,251,868	(74,041)
Central Office Support	-	-	-
Food Service	6,025,007	5,795,906	229,101
Enterprise Operations	108,786	101,341	7,445
Community Support	876,926	963,058	(86,132)
Adult Education Operations	-	-	-
Bond Refunding Payment	-	-	-
Building Renovations/Additions	4,337,483	11,505,469	(7,167,986)
Debt Service	16,379,607	6,119,690	10,259,917
Lease Payments	84,065	168,130	(84,065)
Other expenditures	-	-	-
<b>Total expenditures</b>	<b><u>104,175,065</u></b>	<b><u>101,456,924</u></b>	<b><u>2,718,141</u></b>

<b>Revenue in Excess (Deficit) of Expenditures:</b>	<b><u>\$ (5,960,441)</u></b>	<b><u>\$ (7,347,959)</u></b>	<b><u>\$ 1,387,518</u></b>
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The major factors in the above changes are the result of portions of the proceeds from the bond sale in FY 2011 not being expended for building construction until FY 2012 and the refunding of a 2004 bond issue.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
LAUREL COUNTY SCHOOL DISTRICT - LONDON, KY  
YEAR ENDED JUNE 30, 2012**

**BUDGETARY IMPLICATIONS**

Kentucky's public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By statute the General Fund budget must have a minimum 2.0% contingency. The District adopted a budget with a \$5,210, 773 (9.35%) contingency and ended the year with an actual contingency of \$6,496,168 (11.96%).

**LOCAL ECONOMIC OUTLOOK**

The economic forecast for the London/Laurel County area continues to be stable.

Census data from the University of Louisville indicates on average a 7% population growth every five years for the next twenty-five years. Laurel County Schools had growth of 37 students in FY 2012 but expects to return to additional student growth in FY 2013. Real estate property assessments increased \$30 million (1.0%) for the current fiscal year.

Laurel County has an intersection of a north/south interstate, I-75, and a major east/west highway. Economic strength can be found in the balance among manufacturing, professional services, retail trade, tourism, educational, health and social service, and transportation. The area's diverse economic infrastructure has insulated it from major economic downturns. Local government officials continue to be very proactive in attracting new employers to the area and have been successful in attracting new jobs to the area.

**CONTACTING THE LAUREL COUNTY SCHOOL DISTRICT MANAGEMENT**

Questions regarding this report should be directed to the Business Manager or the Director of Accounting, by phone (606) 862-4600 or by mail at 718 North Main Street, London, KY 40741.

LAUREL COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

ASSETS	Governmental Activities	Business-type Activities	Total
<b>Current Assets</b>			
Cash and cash equivalents	\$ 8,603,217	\$ 708,862	\$ 9,312,079
SFCC Current receivable of bonds payable	512,640	-	512,640
Accounts receivable	1,765,329	62	1,765,391
Inventory	452,994	161,914	614,908
<b>Total current assets</b>	<u>11,334,180</u>	<u>870,838</u>	<u>12,205,018</u>
<b>Noncurrent Assets</b>			
SFCC Long term receivable of bond principal	4,877,444	-	4,877,444
Capital Assets	168,227,700	13,450,579	181,678,279
Less: Accumulated depreciation	(46,793,207)	(4,820,000)	(51,613,207)
<b>Total noncurrent assets</b>	<u>126,311,937</u>	<u>8,630,579</u>	<u>134,942,516</u>
<b>Total assets</b>	<u>\$ 137,646,117</u>	<u>\$ 9,501,417</u>	<u>\$ 147,147,534</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 231,815	\$ 17,035	\$ 248,850
Interest payable	809,925	-	809,925
Current portion of bond obligations	3,975,000	-	3,975,000
Current portion of accrued sick leave	168,000	-	168,000
Accrued payroll and withholding obligations	688,362	-	688,362
Deferred revenue	309,721	-	309,721
<b>Total current liabilities</b>	<u>6,182,823</u>	<u>17,035</u>	<u>6,199,858</u>
<b>Noncurrent Liabilities</b>			
Noncurrent portion of bonds obligations	76,265,000	-	76,265,000
Noncurrent portion of capital lease obligations	-	-	-
Noncurrent portion of accrued sick leave	785,072	-	785,072
<b>Total noncurrent liabilities</b>	<u>77,050,072</u>	<u>-</u>	<u>77,050,072</u>
<b>Total Liabilities</b>	<u>83,232,895</u>	<u>17,035</u>	<u>83,249,930</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	44,474,790	8,630,579	53,105,369
Restricted for:			
Capital projects	2,927,473	-	2,927,473
Other purposes	1,052,249	853,803	1,906,052
Unrestricted	5,958,710	-	5,958,710
<b>Total net assets</b>	<u>54,413,222</u>	<u>9,484,382</u>	<u>63,897,604</u>
<b>Total liabilities and net assets</b>	<u>\$ 137,646,117</u>	<u>\$ 9,501,417</u>	<u>\$ 147,147,534</u>

LAUREL COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

**FUNCTIONS/PROGRAMS**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
Instruction	\$ 46,862,853	\$ 201,022	\$ 8,171,361	\$ -	\$ (38,490,470)	\$ -	\$ (38,490,470)
Support services:							
Student	4,809,249	920	85,549	-	(4,722,780)	-	(4,722,780)
Instruction staff	4,902,022	-	1,568,182	-	(3,333,840)	-	(3,333,840)
District administrative	973,346	-	3,596	-	(969,750)	-	(969,750)
School administrative	3,286,709	-	93,085	-	(3,193,624)	-	(3,193,624)
Business	1,652,262	-	350,043	-	(1,302,219)	-	(1,302,219)
Plant operation and maintenance	8,014,892	3,206	33,596	-	(7,978,090)	-	(7,978,090)
Student transportation	3,494,107	-	83,833	-	(3,410,274)	-	(3,410,274)
Facilities acquisition and construction	930,892	-	-	-	(930,892)	-	(930,892)
Community service activities	1,027,056	-	768,165	-	(258,891)	-	(258,891)
Other	3,377,971	-	-	-	(1,065,000)	-	(1,065,000)
Interest on long-term debt	80,396,359	205,148	11,157,410	528,355	(2,849,616)	-	(2,849,616)
<b>Total governmental activities</b>							
	\$ 86,215,051	\$ 1,994,624	\$ 15,228,197	\$ 528,355	(68,505,446)	41,571	(68,463,875)
<b>Business-type Activities</b>							
Food service	5,696,124	1,666,002	4,070,787	-	-	40,665	40,665
Adult education	-	-	-	-	-	-	-
Day care	108,786	111,918	-	-	-	3,132	3,132
Other business activities	13,782	11,556	-	-	-	(2,226)	(2,226)
<b>Total business-type activities</b>							
	\$ 5,818,692	\$ 1,789,476	\$ 4,070,787	\$ -	\$ -	\$ 41,571	\$ 41,571
<b>Total school district</b>							
	\$ 86,215,051	\$ 1,994,624	\$ 15,228,197	\$ 528,355	(68,505,446)	41,571	(68,463,875)

**General Revenues**

Property taxes	\$ 11,757,592	\$ -	\$ 11,757,592
Delinquent property tax	380,695	-	380,695
Motor vehicle taxes	946,802	-	946,802
Utility taxes	3,444,444	-	3,444,444
Other taxes	190,818	-	190,818
Revenue in lieu of taxes	68,552	-	68,552
Investment earnings	33,461	1,166	34,627
State aid formula grants	53,313,852	-	53,313,852
Gains on sale of fixed assets	(130,633)	-	(130,633)
Loss compensation	11,152	-	11,152
Miscellaneous	149,313	1,969	151,282
<b>Total general revenues</b>	<b>70,166,048</b>	<b>3,135</b>	<b>70,169,183</b>
Change in net assets	1,660,602	44,706	1,705,308
Net assets - beginning	52,752,620	9,439,676	62,192,296
<b>Net assets - ending</b>	<b>\$ 54,413,222</b>	<b>\$ 9,484,382</b>	<b>\$ 63,897,604</b>

LAUREL COUNTY SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General Fund	Special Revenue	Construction Fund	Other Nonmajor Governmenta	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 6,751,527	\$ (1,080,447)	\$ 2,932,137	\$ -	\$ 8,603,217
Accounts receivable	313,233	1,452,096	-	-	1,765,329
Inventory	452,994	-	-	-	452,994
<b>Total assets</b>	<u>\$ 7,517,754</u>	<u>\$ 371,649</u>	<u>\$ 2,932,137</u>	<u>\$ -</u>	<u>\$ 10,821,540</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 165,223	\$ 61,928	\$ 4,664	\$ -	\$ 231,815
Accrued payroll and withholding obligations	688,362	-	-	-	688,362
Deferred revenue	-	309,721	-	-	309,721
Current portion of accumulated sick leave	168,000	-	-	-	168,000
<b>Total liabilities</b>	<u>1,021,585</u>	<u>371,649</u>	<u>4,664</u>	<u>-</u>	<u>1,397,898</u>
<b>Fund Balances</b>					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	2,927,473	-	2,927,473
Committed	600,000	-	-	-	600,000
Assigned	194,853	-	-	-	194,853
Unassigned	5,701,316	-	-	-	5,701,316
<b>Total fund balances</b>	<u>6,496,169</u>	<u>-</u>	<u>2,927,473</u>	<u>-</u>	<u>9,423,642</u>
<b>Total liabilities and fund balances</b>	<u>\$ 7,517,754</u>	<u>\$ 371,649</u>	<u>\$ 2,932,137</u>	<u>\$ -</u>	<u>\$ 10,821,540</u>

**LAUREL 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	\$ 9,423,642
Amounts reported for governmental activities in the statement of activities 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.	121,434,494
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	5,390,084
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) 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.	<u>(81,834,998)</u>
Net assets for governmental activities	<u><u>\$ 54,413,222</u></u>

LAUREL COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
From local sources					
Property taxes	\$ 7,102,941	\$ -	\$ -	\$ 4,435,212	\$ 11,538,153
Motor vehicle taxes	946,802	-	-	-	946,802
Utility taxes	3,444,444	-	-	-	3,444,444
Franchise fees	600,134	-	-	-	600,134
Other taxes	190,818	-	-	-	190,818
Earnings on investments	33,461	175	-	-	33,636
Other local revenues	21,733	201,023	128,500	-	351,256
State sources					
SEEK	37,918,023	-	-	-	37,918,023
Other	11,308,430	2,201,431	-	4,406,264	17,916,125
Federal - direct	68,083	93,732	-	-	161,815
Federal - indirect	198,762	8,865,278	-	-	9,064,040
Revenue in lieu of taxes	68,552	-	-	-	68,552
Other revenues	41,121	-	-	-	41,121
<b>Total revenues</b>	<b>61,943,304</b>	<b>11,361,639</b>	<b>128,500</b>	<b>8,841,476</b>	<b>82,274,919</b>
<b>Expenditures</b>					
Instruction	35,058,239	8,572,384	-	-	43,630,623
Support services					
Student	4,688,748	85,549	-	-	4,774,297
Instruction staff	3,330,978	1,568,182	-	-	4,899,160
District administration	931,269	3,596	-	-	934,865
School administration	3,191,053	93,085	-	-	3,284,138
Business	1,301,115	350,043	-	-	1,651,158
Plant operation and maintenance	7,348,221	36,802	-	-	7,385,023
Student transportation	3,733,720	83,833	-	-	3,817,553
Facilities acquisition and construction	-	-	4,337,483	-	4,337,483
Community service activities	107,478	768,165	-	-	875,643
Debt service	84,065	-	-	6,954,607	7,038,672
Other expenditures	151,413	-	-	-	151,413
<b>Total expenditures</b>	<b>59,926,299</b>	<b>11,561,639</b>	<b>4,337,483</b>	<b>6,954,607</b>	<b>82,780,028</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>2,017,005</b>	<b>(200,000)</b>	<b>(4,208,983)</b>	<b>1,886,869</b>	<b>(505,109)</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of bonds	-	-	-	-	-
Deposits with escrow agents	-	-	-	-	-
Net proceeds from sale of fixed assets	-	-	-	-	-
Operating transfers in	-	200,000	1,887,869	6,291,896	8,379,765
Operating transfers out	(201,000)	-	-	(8,178,765)	(8,379,765)
<b>Total other financing sources (uses)</b>	<b>(201,000)</b>	<b>200,000</b>	<b>1,887,869</b>	<b>(1,886,869)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>1,816,005</b>	<b>-</b>	<b>(2,321,114)</b>	<b>-</b>	<b>(505,109)</b>
<b>Fund balance, July 1, 2011</b>	<b>4,680,164</b>	<b>-</b>	<b>5,248,587</b>	<b>-</b>	<b>9,928,751</b>
<b>Fund balance, June 30, 2012</b>	<b>\$ 6,496,169</b>	<b>\$ -</b>	<b>\$ 2,927,473</b>	<b>\$ -</b>	<b>\$ 9,423,642</b>

**LAUREL COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2012**

Net change in total fund balances per fund financial statements	\$ (505,109)
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 capital outlays exceeds depreciation expense for the year.	(48,744)
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.	(9,425,000)
Unrealized gains and losses are not presented in this financial statement because they do not provide or use current financial resources but they are presented in the statement of activities.	(160,604)
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.	12,170,000
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>(369,941)</u>
Change in net assets of governmental activities	<u>\$ 1,660,602</u>

**LAUREL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2012**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	Original Tentative		General Fund	
	Working	Final Working		
<b>Revenues</b>				
From local sources				
Property taxes	\$ 5,987,926	\$ 7,113,361	\$ 7,102,941	\$ (10,420)
Motor vehicle taxes	1,123,896	1,156,920	946,802	(210,118)
Utility taxes	3,600,000	3,500,000	3,444,444	(55,556)
Unmined minerals taxes	-	-	217	217
Francise taxes	600,000	700,000	600,134	(99,866)
Other local revenues	73,000	76,170	212,334	136,164
Earnings on investments	180,000	45,000	33,461	(11,539)
State sources				
SEEK	37,178,763	37,684,084	37,918,023	233,939
Other	11,875,000	11,875,000	11,308,430	(566,570)
Federal - direct	85,000	70,000	68,083	(1,917)
Federal - indirect	75,000	100,000	198,762	98,762
Revenue in lieu of taxes	145,000	145,000	68,552	(76,448)
Other revenues	72,000	72,000	41,121	(30,879)
<b>Total revenues</b>	<b>60,995,585</b>	<b>62,537,535</b>	<b>61,943,304</b>	<b>(594,231)</b>
<b>Expenditures</b>				
Instruction	35,872,482	35,560,352	35,058,239	502,113
Support services				-
Student	4,894,014	4,981,145	4,688,748	292,397
Instruction staff	3,545,361	3,376,466	3,330,978	45,488
District administration	724,300	888,348	931,269	(42,921)
School administration	3,271,698	3,272,838	3,191,053	81,785
Business	1,419,351	1,514,704	1,301,115	213,589
Plant operation and maintenance	7,640,799	7,938,552	7,348,221	590,331
Student transportation	3,738,231	3,837,869	3,733,720	104,149
Community service activities	189,000	189,170	107,478	81,692
Debt service	84,065	84,065	84,065	-
Other expenditures	163,417	163,417	151,412	12,005
<b>Total expenditures</b>	<b>61,542,718</b>	<b>61,806,926</b>	<b>59,926,298</b>	<b>1,880,628</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>(547,133)</b>	<b>730,609</b>	<b>2,017,006</b>	<b>1,286,397</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds	-	-	-	-
Deposits with escrow agents	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	\$ (200,000)	(200,000)	\$ (201,000)	(1,000)
<b>Total other financing sources (uses)</b>	<b>(200,000)</b>	<b>(200,000)</b>	<b>(201,000)</b>	<b>(1,000)</b>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<b>(747,133)</b>	<b>530,609</b>	<b>1,816,006</b>	<b>1,285,397</b>
<b>Fund balance, July 1, 2011</b>	<b>4,846,029</b>	<b>4,680,164</b>	<b>4,680,164</b>	<b>-</b>
<b>Fund balance, June 30, 2012</b>	<b>\$ 4,098,896</b>	<b>\$ 5,210,773</b>	<b>\$ 6,496,170</b>	<b>\$ 1,285,397</b>

**LAUREL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2012**

<b>ASSETS</b>	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 612,105	\$ 96,757	\$ 708,862
Other receivables	-	63	63
Inventory	161,913	-	161,913
<b>Total current assets</b>	<u>774,018</u>	<u>96,820</u>	<u>870,838</u>
<b>Noncurrent Assets</b>			
Capital Assets	13,450,579	-	13,450,579
Less: Accumulated depreciation	(4,820,000)	-	(4,820,000)
<b>Total noncurrent assets</b>	<u>8,630,579</u>	<u>-</u>	<u>8,630,579</u>
<b>Total assets</b>	<u>\$ 9,404,597</u>	<u>\$ 96,820</u>	<u>\$ 9,501,417</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 16,075	\$ 960	\$ 17,035
<b>Total current liabilities</b>	<u>16,075</u>	<u>960</u>	<u>17,035</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,630,579	-	8,630,579
Restricted for:			
Other	757,943	95,860	853,803
Unrestricted	-	-	-
<b>Total net assets</b>	<u>9,388,522</u>	<u>95,860</u>	<u>9,484,382</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 9,404,597</u>	<u>\$ 96,820</u>	<u>\$ 9,501,417</u>

**LAUREL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2012**

	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>Operating Revenues</b>			
Food service sales	\$ 1,666,002	\$ 5,888	\$ 1,671,890
Community service activities	-	111,918	111,918
Other operating revenues	1,969	5,668	7,637
<b>Total operating revenues</b>	<u>1,667,971</u>	<u>123,474</u>	<u>1,791,445</u>
<b>Operating Expenses</b>			
Salaries and wages	2,243,080	95,141	2,338,221
Professional and contract services	46,876	3,944	50,820
Supplies and materials	3,048,084	20,566	3,068,650
Depreciation	339,030	-	339,030
Other operating expenses	19,055	2,916	21,971
<b>Total operating expenses</b>	<u>5,696,125</u>	<u>122,567</u>	<u>5,818,692</u>
<b>Operating income (loss)</b>	<u>(4,028,154)</u>	<u>907</u>	<u>(4,027,247)</u>
<b>Nonoperating revenues (expenses)</b>			
Federal grants	3,461,858	-	\$ 3,461,858
State grants	313,192	-	313,192
Donated commodities	295,736	-	295,736
Operating transfers Out	-	-	-
Interest income	1,167	-	1,167
<b>Total nonoperating revenues (expenses)</b>	<u>4,071,953</u>	<u>-</u>	<u>4,071,953</u>
<b>Net income (loss)</b>	<u>43,799</u>	<u>907</u>	<u>44,706</u>
<b>Total net assets, July 1, 2011</b>	<u>9,344,723</u>	<u>94,953</u>	<u>9,439,676</u>
<b>Total net assets, June 30, 2012</b>	<u>\$ 9,388,522</u>	<u>\$ 95,860</u>	<u>\$ 9,484,382</u>

**LAUREL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended June 30, 2012

	Food Service Fund	Other Enterprise Funds	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from lunchroom sales	\$ 1,694,348	\$ 5,888	\$ 1,700,236
Cash received from user charges	-	111,918	111,918
Cash received from other activities	1,969	5,977	7,946
Cash payments to employees for services	(1,983,466)	(95,141)	(2,078,607)
Cash payments to suppliers for goods and services	(2,825,986)	(23,681)	(2,849,667)
Cash payments for other operating activities	(9,424)	(2,917)	(12,341)
<b>Net cash from operating activities</b>	<u>(3,122,559)</u>	<u>2,044</u>	<u>(3,120,515)</u>
<b>Cash Flows from Capital Financing Activities</b>			
Acquisition of capital assets	(177,469)	-	-
<b>Net cash from capital financing activities</b>	<u>(177,469)</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Nonoperating grants received	3,515,437	-	3,515,437
Operating transfers out	-	-	-
<b>Net cash from noncapital financing activities</b>	<u>3,515,437</u>	<u>-</u>	<u>3,515,437</u>
<b>Cash Flows from Investing Activities</b>			
Interest on investments	1,166	-	1,166
<b>Net cash flows from investing activities</b>	<u>1,166</u>	<u>-</u>	<u>1,166</u>
<b>Net increase in cash and cash equivalents</b>	216,575	2,044	218,619
<b>Cash and cash equivalents - beginning</b>	395,530	94,713	490,243
<b>Cash and cash equivalents - ending</b>	<u>\$ 612,105</u>	<u>\$ 96,757</u>	<u>\$ 708,862</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (4,028,154)	\$ 907	\$ (4,027,247)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Depreciation	339,030	-	339,030
Donated Commodities	295,736	-	295,736
On-behalf payments	259,613	-	259,613
Realized loss/gain on sale of assets	-	-	-
Changes in assets and liabilities:			
Receivables	28,346	309	28,655
Inventory	3,333	-	3,333
Accounts payable	(20,463)	828	(19,635)
Accrued liabilities	-	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (3,122,559)</u>	<u>\$ 2,044</u>	<u>\$ (3,120,515)</u>
<b>Non-Cash Non-Capital Financing Activities</b>			
Donated commodities received from federal government	\$ 295,736	\$ -	\$ 295,736

**LAUREL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2012

	<u>Agency Fund</u>
<b>Assets</b>	
Total Assets, net	\$ <u>521,654</u>
<b>Liabilities</b>	
Due to student groups	\$ 521,654
<b>Net Assets</b>	<u>-</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 521,654</u>

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Laurel 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 Laurel County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Laurel County Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 39 *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

Laurel County School District Finance Corporation - In a prior year the Board of Education resolved to authorize the establishment of the Laurel 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.

Basis of Presentation

District-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, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

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

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Presentation - continued

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

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

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

The District has the following funds:

I. Government Fund Types

- (A) The General Fund is the main operating fund of the District. 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.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 45 and 46. This is a major fund of the District.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Basis of Presentation - continued

I. Government Fund Types - continued

(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. This is a major fund of the District.

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

II. Proprietary Fund Types (Enterprise Fund)

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

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

III. Fiduciary Fund Type (Agency Funds)

(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*.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended 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. District-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.

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.47 per \$100 valuation for real property, \$.47 per \$100 valuation for business personal property and \$.350 per \$100 valuation for motor vehicles.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Accounting - continued

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 district-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 district-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 computer CPU's for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Interfund Receivables and Payables

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

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The entire compensated absence liability is reported on the district-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.

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 on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

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

Once the budget is approved, it can be amended. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

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

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

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

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

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

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

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

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

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

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

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

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Encumbrances

Encumbrances are reported as a reservation of fund balance and are not reported as expenditures until incurred. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2012 in the governmental funds balance sheet.

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.

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.

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 financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE C - CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2012, none of the District's bank balance was exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE C- CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED**

Cash and cash equivalents at June 30, 2012 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
First National Bank & Trust	\$ 11,190,949	\$ 9,450,041
Cumberland Valley National Bank & Trust	450,072	383,521
Petty cash	<u>-</u>	<u>171</u>
	<u>\$ 11,641,021</u>	<u>\$ 9,833,733</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 8,603,217
Proprietary funds	708,862
Agency funds	<u>521,654</u>
	<u>\$ 9,833,733</u>

**NOTE D - RECEIVABLES**

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. While the District receives revenues from many different sources throughout each year, accounts and grants receivable from outside sources may be grouped into the following categories, (as stated in the District-wide financial statements):

	<u>June 30, 2012</u>
Accounts receivable from outside sources	
Accounts receivable	\$ 313,295
Grants receivable	<u>1,452,096</u>
	<u>\$ 1,765,391</u>

Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE E - CAPITAL ASSETS**

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

	June 30, 2011 Balance	Additions	Retirements	June 30, 2012 Balance
<b>Governmental Activities</b>				
Land & Land Improvements	\$ 7,157,348	\$ 308,344	\$ 109,500	\$ 7,356,192
Buildings	130,454,089	11,649,179	-	142,103,268
Technology	7,272,684	460,202	387,335	7,345,551
Vehicles	8,445,510	719,532	111,840	9,053,202
General Equipment	1,856,785	170,451	41,544	1,985,692
Construction Work in Progress	8,417,682	383,797	8,417,684	383,795
Total historical cost	163,604,098	13,691,505	9,067,903	168,227,700
Less accumulated depreciation	41,960,255	5,322,569	489,617	46,793,207
Governmental capital assets, net	<u>\$ 121,643,843</u>	<u>\$ 8,368,936</u>	<u>\$ 8,578,286</u>	<u>\$ 121,434,493</u>
<b>Business-type Activities</b>				
Buildings	\$ 10,776,135	\$ -	\$ -	\$ 10,776,135
Technology	65,891	-	7,984	57,907
General Equipment	2,445,568	177,469	6,500	2,616,537
Total historical cost	13,287,594	177,469	14,484	13,450,579
Less accumulated depreciation	4,495,454	339,030	14,484	4,820,000
Business-type capital assets, net	<u>\$ 8,792,140</u>	<u>\$ (161,561)</u>	<u>\$ -</u>	<u>\$ 8,630,579</u>

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

Instruction	\$ 3,981,152
Student	39,548
Instruction staff	118,181
District administrative	74,045
School administrative	2,571
Business	1,104
Plant operation and maintenance	746,225
Student transportation	359,743
	<u>\$ 5,322,569</u>

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
 Year Ended June 30, 2012

**NOTE F - LONG-TERM OBLIGATIONS**

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1998	\$ 8,350,000	3.90% - 4.60%
1999	5,245,000	4.125% - 4.625%
2003	4,385,000	1.15% - 3.80%
2004	9,280,000	2.00% - 4.95%
2005	8,180,000	3.50% - 4.00%
2006	14,510,000	4.50% - 4.625%
2007	25,210,000	4.00% - 5.00%
2008	3,550,000	2.40% - 3.6%
2009	4,050,000	1.50% - 3.15%
2010	11,650,000	1.70% - 6.50%
2011	11,000,000	.70% - 5.00%
2012	9,425,000	1.00%-2.80%

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 Laurel 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.

In 1987, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school 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. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Assets since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE F - LONG-TERM OBLIGATIONS - CONTINUED**

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:

Year	Laurel County School District		Kentucky School Facility Construction Commission		ARRA Rebate	Total
	Principal	Interest	Principal	Interest	Interest	
2012-13	\$ 3,535,985	\$ 2,756,985	\$ 439,015	\$ 189,323	\$ 318,324	\$ 7,239,632
2013-14	3,646,880	2,637,182	378,120	178,044	312,680	7,152,906
2014-15	3,763,638	2,519,889	371,362	168,072	305,865	7,128,826
2015-16	3,892,920	2,393,311	382,080	157,354	297,843	7,123,508
2016-17	4,026,232	2,259,641	393,768	145,666	288,750	7,114,057
2017-18	4,185,261	2,099,667	349,739	133,103	278,495	7,046,265
2018-19	4,303,843	1,980,077	361,157	121,687	267,225	7,033,989
2019-20	4,455,819	1,833,198	234,181	109,398	255,205	6,887,801
2020-21	4,612,094	1,671,835	242,906	100,676	242,463	6,869,974
2021-22	4,807,786	1,501,913	252,214	91,366	228,651	6,881,930
2022-23	4,977,766	1,327,836	262,234	81,348	214,000	6,863,184
2023-24	5,167,060	1,144,509	272,940	70,641	198,412	6,853,562
2024-25	5,449,852	909,575	240,148	59,202	181,748	6,840,525
2025-26	5,693,977	667,079	251,023	48,327	164,160	6,824,566
2026-27	5,953,954	408,698	231,046	37,392	145,517	6,776,607
2027-28	1,764,469	190,181	160,531	28,255	117,620	2,261,056
2028-29	1,826,527	128,104	168,473	20,315	79,918	2,223,337
2029-30	1,893,020	62,492	176,980	11,807	40,007	2,184,306
2030-31	966,458	14,405	148,542	3,714	9,756	1,142,875
	<u>\$ 74,923,541</u>	<u>\$ 26,506,577</u>	<u>\$ 5,316,459</u>	<u>\$ 1,755,690</u>	<u>\$ 3,946,639</u>	<u>\$ 112,448,906</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2012 is as follows:

Governmental Activities	Balance	Additions	Deductions	Balance
	July 1, 2011			June 30, 2012
Bonded debt obligations	\$ 82,985,000	\$ 1,065,000	\$ 3,810,000	\$ 80,240,000
Capital Lease obligations	84,066	-	84,066	-
Accrued sick leave	621,785	163,287	-	785,072
	<u>\$ 83,690,851</u>	<u>\$ 1,228,287</u>	<u>\$ 3,894,066</u>	<u>\$ 81,025,072</u>

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE F - LONG-TERM OBLIGATIONS - CONTINUED**

School Building Refunding Revenue Bonds

In November 2011, the Laurel County School District Finance Corporation issued \$9,425,000 in School Building Revenue Bonds with interest rates ranging from 1.0% to 2.85% over the life of the bonds. The net proceeds were used to pay off the London Elementary Issue from 2004 resulting in savings of \$615,692 over the remaining life of the bonds.

**NOTE G - RETIREMENT PLANS**

The District contributes to the Teachers' Retirement System of Kentucky ("KTRS"), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes ("KRS").

Certified employees are covered under KTRS. KTRS also establishes the contribution rates. Funding for the plan is provided through member payroll withholdings and matching State contributions. Effective July 1, 2008 new KTRS members were required to pay 10.855% of their salary, while all other members hired prior to that date continue to pay 10.105%. The District is required to contribute .25% for all KTRS members. The matching contributions that are paid by the Federal program for any salaries paid by that program are 13.355% or 14.105% for new members effective July 1, 2008.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost-sharing, multiple employers, and public employer's retirement system. Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008 new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5% and a District contribution of 16.93% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$46,436, 570. The payroll for employees covered under KTRS was \$36,579,171 and for CERS was \$9,602,598; the payroll for part time temporary employees which are not covered under either retirement system was \$254, 801.

The contribution requirement for CERS for the year ended June 30, 2012, 2011 and 2010 was \$2,316,425, \$2,193,660 and \$2,148,585 respectively. The contribution requirement for KTRS for the year ended June 30, 2012, 2011 and 2010 was \$4,623,319, \$4,362,030 and \$4,139,647 respectively. The District met their contribution requirements.

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

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE F – RETIREMENT PLANS - CONTINUED**

The KTRS and CERS each issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 (KTRS) and Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 (CERS).

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans

**NOTE H - LEASES**

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2012, aggregate cost for equipment and copier rentals was \$257,964.

**NOTE I - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of moneys 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 predicted 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 legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

**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.

**NOTE L - RISK MANAGEMENT**

To obtain insurance of 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. 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.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE L - RISK MANAGEMENT – CONTINUED**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance for workers' compensation coverage, the District contracted with Kentucky School Boards Insurance Trust. Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

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 but did have funds with current year deficits.

**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.

**NOTE O – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Technology Match	\$ 200,000
Operating	Capital Outlay	Construction	Construction	845,072
Operating	Building	Construction	Construction	1,041,797
Operating	Building	Debt Service	Debt Service	6,291,896
Operating	General	Construction	Construction	1,000

**NOTE P – INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2012, there were no interfund balances outstanding that would be reflected in the financial statements.

**LAUREL COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2012

**NOTE Q – ON-BEHALF PAYMENTS**

For the year ended June 30, 2012 total payments of \$11,883,853 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances.

For the year ended June 30, 2012 total payments of \$131,386 were made for the Kentucky Educational Network (KEN), MUNIS financial Management and McAfee Virus Protection software and services payments paid by the Kentucky Department of Education (KDE) on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances.

For the year ended June 30, 2012 total payments of \$662,711 were made for the debt service payments paid by SFCC on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances.

**NOTE R – SUBSEQUENT EVENTS**

Management of the District has evaluated subsequent events through November 12, 2012, the date on which the financial statements were available to be issued. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LAUREL COUNTY SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET - NONMAJOR GOVENMENTAL FUNDS**  
 Year ended June 30, 2012

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
<b>Total assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances</b>				
Designated for capital projects	-	-	-	-
<b>Total fund balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**LAUREL COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
Year Ended June 30, 2012

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>				
From local sources				
Property taxes	\$ -	\$ 4,435,212	\$ -	\$ 4,435,212
State sources				
SEEK	845,072	2,898,481	-	3,743,553
Other	-	-	662,711	-
<b>Total revenues</b>	<b>845,072</b>	<b>7,333,693</b>	<b>662,711</b>	<b>8,841,476</b>
<b>Expenditure</b>				
Debt service	-	-	6,954,607	6,954,607
Plant operations and maintenance	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>6,954,607</b>	<b>6,954,607</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>845,072</b>	<b>7,333,693</b>	<b>(6,291,896)</b>	<b>1,886,869</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds	-	-	9,425,000	9,425,000
Deposits with escrow agents	-	-	(9,266,696)	(9,266,696)
Cost of issuance	-	-	(158,304)	(158,304)
Operating transfers in	-	-	6,291,896	6,291,896
Operating transfers out	(845,072)	(7,333,693)	-	(8,178,765)
<b>Total other financing sources (uses)</b>	<b>(845,072)</b>	<b>(7,333,693)</b>	<b>6,291,896</b>	<b>(1,886,869)</b>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balance July 1, 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balance June 30, 2012</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**LAUREL COUNTY SCHOOL DISTRICT**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS**  
**Year Ended June 30, 2012**

School/ Activity Fund	Cash and			Cash and Cash	Accounts	Accounts	Fund
	Equivalents	Receipts	Disbursements				
	June 30, 2011			June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012
Bush Elementary School	\$ 20,965	\$ 19,649	\$ 19,580	\$ 21,034	\$ -	\$ -	\$ 21,034
Camp Ground Elementary School	15,850	24,097	21,400	18,547	-	-	18,547
Cold Hill Elementary School	41,334	51,765	56,557	36,542	-	-	36,542
Colony Elementary School	19,118	22,353	18,825	22,646	-	-	22,646
Hazel Green Elementary School	13,825	14,830	12,387	16,268	-	-	16,268
Hunter Hills Elementary School	18,154	23,961	27,100	15,015	-	-	15,015
Johnson Elementary School	7,567	21,805	20,551	8,821	-	-	8,821
Keavy Elementary School	12,463	14,802	10,490	16,775	-	-	16,775
London Elementary School	16,841	45,784	40,931	21,694	-	-	21,694
North Laurel Middle School	53,700	206,079	196,351	63,428	-	-	63,428
South Laurel Middle School	70,172	210,498	214,916	65,754	-	-	65,754
Sublimity Elementary School	19,659	34,496	30,604	23,551	-	-	23,551
Wyan-Pine Elementary School	17,348	25,831	29,296	13,883	-	-	13,883
<b>Totals</b>	<b>\$ 326,996</b>	<b>\$ 715,950</b>	<b>\$ 698,988</b>	<b>\$ 343,958</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 343,958</b>

Note: Receipts and disbursements do not include current year receivables and payables.

LAUREL COUNTY SCHOOL DISTRICT  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -  
 SOUTH LAUREL HIGH SCHOOL ACTIVITY FUND  
 Year ended June 30, 2012

	Fund Balances June 30, 2011	Receipts	Disbursements	Transfers in	Transfers Out	Fund Balances June 30, 2012
Agriculture	\$ 4,027	\$ 27,490	\$ 22,770	\$ 344	\$ -	\$ 9,091
Art Department	49	-	45	-	-	4
Athletics	4,343	113,833	113,973	92	-	4,295
Archery Club	940	239	725	-	-	454
Baseball Club	2,183	31,320	29,444	-	-	4,059
Beta Club	486	1,186	383	-	-	1,289
Boys Basketball Club	707	37,062	32,648	-	375	4,746
Boys Soccer	1,246	2,470	1,781	-	-	1,935
Careers	2,830	100	-	-	2,930	-
Chorale Club	557	60	-	-	-	617
Cross Country Sports	20	4,545	4,144	-	-	421
Culinary Skills	82	-	36	-	-	46
Guidance Department	-	31,686	25,940	-	5,529	217
Dance	7,156	10,799	15,164	-	-	2,791
DECA	-	35,353	37,185	1,921	-	89
Fashion Club	707	585	856	61	-	497
First Priority	1,120	745	547	-	-	1,318
Football Club	8,669	16,476	21,170	-	-	3,975
Forensics	204	999	1,274	73	-	2
F.B.L.A.	35	120	120	665	-	700
F.C.C.L.A	36	6,264	6,094	162	-	368
F.M.D. Club	1	-	-	-	-	1
FMD #2	1	-	-	-	-	1
General	5,172	18,565	24,649	4,794	-	3,882
Girls Basketball Club	328	22,249	13,116	-	-	9,461
Girls Golf Club	178	-	-	-	-	178
Girls Softball Club	837	22,952	19,934	-	-	3,855

(continued)

**LAUREL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -**  
**SOUTH LAUREL HIGH SCHOOL ACTIVITY FUND -CONTINUED**  
Year ended June 30, 2012

	Fund Balances June 30, 2011	Receipts	Disbursements	Transfers in	Transfers Out	Fund Balances June 30, 2012
Girls in Science	114	642	688	-	68	-
Golf Club	104	-	-	-	-	104
MMP	2,166	12,835	2,000	55	-	13,056
Junior Class	4,154	10,150	14,402	100	-	2
J.R.O.T.C.	3,254	19,913	17,954	-	-	5,213
Keyettes	2,198	5,761	5,090	125	-	2,994
Library Department	818	645	1,585	150	-	28
National Honor Soc.	-	460	375	-	-	85
Madrigal	1,687	55,639	53,043	-	150	4,133
Outdoor Club	115	259	44	-	-	330
Parking	2,119	3,945	5,015	-	-	1,049
Pep Club	-	408	405	-	-	3
Science Club	168	-	-	-	144	24
Senior Class	1,375	14,977	2,074	838	-	15,116
Special Games	2	4,370	2,946	-	-	1,426
Staff Vending	1,202	4,412	3,558	-	-	2,056
Tennis Club	-	158	212	55	-	1
TIP	447	90	-	-	72	465
Track Club	136	7,680	5,472	-	-	2,344
UNITE	418	131	-	-	-	549
Volleyball Club	2,886	15,244	8,310	-	-	9,820
Varsity Cheerleaders	9,330	18,261	24,816	153	-	2,928
Vending Machines	1,660	3,316	4,118	-	199	659
Youth Leadership Co	-	-	-	-	-	-
SLHS Donations	1,890	1,051	695	-	121	2,125
<b>Total accounts</b>	<b>\$ 78,157</b>	<b>\$ 565,445</b>	<b>\$ 524,800</b>	<b>\$ 9,588</b>	<b>\$ 9,588</b>	<b>\$ 118,802</b>

LAUREL COUNTY SCHOOL DISTRICT  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -  
 NORTH LAUREL HIGH SCHOOL ACTIVITY FUND  
 Year ended June 30, 2012

	Fund Balances June 30, 2011		Receipts		Disbursements		Transfers		Transfers		Fund Balances June 30, 2012
	\$		\$		\$		in	Out	\$		\$
Academic Team		3									3
Art Club		102									102
Athletic Fund		23,717	283,450		270,817			12,078			24,272
Beta Club		1,666	3,760		4,663			700			63
Business Co-op Class		1,989	-		261			1,000			728
Bus Transportation		12,279	600		32,520		19,641	-			-
Charitable Gaming		1	20,376		20,376			-			1
Dance Team		2,422	3,525		6,823		1,340	-			664
DECA		2	-		-		-	-			2
Donation Incentives		1,907	7,372		6,865			2,400			14
Drama Club		127	-		-			-			127
First Priority		1,442	175		-			1,600			17
Flower Fund - Faculty		158	-		80			-			78
Fishing Club		-	1,380		1,148			-			232
F.B.L.A.		325	-		-			-			325
F.C.A.		4	120		-			124			-
F.C.C.L.A.		180	3,758		3,577			361			-
FFA		460	13,531		13,974		614	-			621
F.M.D Club		-	4,816		3,981			791			44
General		1,397	28,654		28,300		74	-			1,825
Junior Class		2,819	7,603		7,047		1,857	-			5,232
Library		116	50		-			-			166
Marching Band		-	140		6,998		6,858	-			-
Musical		518	169		508			179			-
National Honor Society		312	632		640			300			4
North Financial		258	82,131		82,015			-			374

(continued)

**LAUREL COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -  
NORTH LAUREL COUNTY HIGH SCHOOL ACTIVITY FUND - CONTINUED  
Year ended June 30, 2012**

	Fund Balances June 30, 2011	Receipts	Disbursements	Transfers in	Transfers Out	Fund Balances June 30, 2012
N.J.R.O.T.C	3,466	10,640	10,121	-	1,984	2,001
Pep Club	94	36	-	-	130	-
Rodeo Club	1,251	280	351	-	100	1,080
Science Club	300	503	95	-	708	-
Senior Class	226	12,230	12,152	-	-	304
Singing Jags	628	1,572	2,163	-	-	37
Spanish Club	1,142	5,010	5,191	-	-	961
Student Council	48	326	167	-	207	-
Student Flower Fund	3	-	-	-	-	3
Student Vending	1,785	5,798	9,783	2,200	-	-
STLP	484	761	328	-	568	349
Teacher Vending	1,269	5,315	6,457	9	-	136
Tech Student Assoc.	1,179	1,189	866	-	1,502	-
Textbook Replacement	7,567	126	-	-	7,627	66
UNITE	-	-	-	-	-	-
Yearbook	12,982	14,705	16,151	-	-	11,536
Young Democrats	4	-	-	-	4	-
Young Republicans	322	40	129	-	233	-
Youth Service Center	1,993	8,704	3,169	-	-	7,527
<b>Total accounts</b>	<b>\$ 86,937</b>	<b>\$ 529,477</b>	<b>\$ 557,516</b>	<b>\$ 32,593</b>	<b>\$ 32,596</b>	<b>\$ 58,894</b>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

LAUREL COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. Department of Education</b>			
Passed through the Kentucky Department of Education:			
<i>Title I, Part A Cluster</i>			
Title I Grants to Local Educational Agencies	84.010	3210002 10	\$ 490,220
Title I Grants to Local Educational Agencies	84.010	3210002 11	<u>2,767,499</u>
			3,257,719
Title I Grants to Local Educational Agencies, Recovery Act	84.389	4100002 09	<u>137,715</u>
<i>Total Title I, Part A Cluster</i>			3,395,434
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3160002 11	240,032
<i>Special Education Cluster (IDEA)</i>			
Special Education—Grants to States	84.027	3810002 10	606,444
Special Education—Grants to States	84.027	3810002 11	<u>1,148,875</u>
			1,755,319
Special Education—Preschool Grants	84.173	3800002 10	46,964
Special Education—Grants to States, Recovery Act	84.391	4810002 09	328,652
Special Education—Preschool Grants, Recovery Act	84.392	4800002 09	<u>-</u>
<i>Total Special Education Cluster</i>			2,130,935
Education for Homeless Children and Youth, Recovery Act	84.387	4990002 09	1,599
Tech-Prep Education	84.243	4631180 10	4,136
Career and Technical Education—Basic Grants to States	84.048	4621032 10	14,450
Career and Technical Education—Basic Grants to States	84.048	4621132 11	<u>117,054</u>
			131,504
Rural Education	84.358	3140002 10	79,402
Rural Education	84.358	3140002 11	<u>97,969</u>
			177,371
Education Job Funds	84.410	EJOB00 11	2,134,215
Improving Teacher Quality State Grants	84.367	3230002 10	34,876
Improving Teacher Quality State Grants	84.367	3230002 11	<u>549,236</u>
			584,112
Safe and Drug-Free Schools and Communities_State Grants	84.186	3410002 10	8,272
<b>Total U.S. Department of Education</b>			<u>6,667,660</u>
<b>U.S. Department of Agriculture</b>			
Passed through the Kentucky Department of Education			
<i>Child Nutrition Cluster</i>			
National School Lunch Program	10.555	7750002 10	2,512,479
School Breakfast Program	10.553	7760005 10	934,364
Summer Food Services Program for Children	10.559	7760005 11	15,015
National School Lunch Program	10.555	77500002 11	<u>295,736</u>
<i>Total Child Nutrition Cluster</i>			3,757,594
<b>U.S. Department of Labor</b>			
Passed through Kentucky Department of Education			
WIA-In School Regular Youth Program	17.255	5801	46,041

(continued)

LAUREL COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED  
 Year ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b><u>U.S. Department of Defense</u></b>			
Direct Program			
Naval Junior Reserve Officer Training Corps	12.000	5041	20,318
ROTC Miscellaneous	12.000	5041	4,319
Air Force Junior Reserve Officer Training Corps	12.000	5041	<u>69,094</u>
<b>Total U.S. Department of Defense</b>			<b>93,731</b>
<b><u>Appalachian Regional Commission</u></b>			
Passed Through Kentucky Department of Education			
Appalachian Research, Technical Assistance, and and Demonstration Projects	23.011	6881	4,053
Appalachian Research, Technical Assistance, and and Demonstration Projects	23.011	6882	3,963
<b><u>U.S. Department of Commerce</u></b>			
Passed Through Eastern Kentucky Pride:			
Congressionally Identified Awards and Projects	11.469	5661	<u>3,611</u>
<b>Total cash expenditures</b>			<b><u>\$ 12,716,603</u></b>

**LAUREL 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 Laurel County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2012 is \$295,736.

**NOTE C – CLUSTER PROGRAMS**

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Special Education – Grants to State, Recovery Act	84.391
Special Education – Preschool Grants, Recovery Act	84.392
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Summer Food Services for Children	10.559
Title I Cluster	
Title I Grants to Local Educational Agencies	84.010
Title I Grants to Local Educational Agencies, Recovery Act	84.389

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

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Laurel County School District  
London, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Laurel County School District as of and for the year ended June 30, 2012, which collectively comprise the Laurel County School District basic financial statements and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School Districts Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

If other matters involving the internal control over financial reporting were noted during the audit then they have been reported to the management of Laurel County School District in a separate letter dated November 12, 2012.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Laurel County School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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*.

If we noted certain immaterial instances of noncompliance during the audit then we have reported to management of the Laurel County School District in a separate letter dated November 12, 2012.

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

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
Corbin, Kentucky  
November 12, 2012

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Laurel County School District  
London, Kentucky

**Compliance**

We have audited the compliance of Laurel County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The Laurel 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 Laurel County School District's management. Our responsibility is to express an opinion on Laurel 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, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III to the Independent Auditor's Contract – Electronic Submission*. 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 Laurel 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 on Laurel County School District's compliance with those requirements.

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

A deficiency in an entity's 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 and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of Laurel County School District as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012. Our audit was performed for the purpose of forming an opinion on those financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
Corbin, Kentucky  
November 12, 2012

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**LAUREL COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2012

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

**Financial Statements**

Type of auditors' report issued		Unqualified		
Internal control over financial reporting:				
Material weakness identified	_____	Yes	<input checked="" type="checkbox"/>	No
Noncompliance material to financial statement notes	_____	Yes	<input checked="" type="checkbox"/>	No

**Federal Awards**

Internal control over major programs:				
Material weaknesses identified	_____	Yes	<input checked="" type="checkbox"/>	No
Type of auditors' report issued on compliance for major programs		Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	<input checked="" type="checkbox"/>	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Special Education – Grants to State, Recovery Act	84.391
Special Education – Preschool Grants, Recovery Act	84.392
Child Nutrition Cluster	
National School Lunch Program	10.055
School Breakfast Program	10.053
Summer Food Services Program for Children	10.559
Title I Cluster	
Title I Grants to Local Educational Agencies	84.010
Title I Grants to Local Educational Agencies, Recovery Act	84.389
Title II, Improving Teacher Quality State Grants	84.367
Education Job Funds	84.410
Dollar threshold used to distinguish between Type A and Type B program	\$300,000
Auditee qualified as low risk	<input checked="" type="checkbox"/> Yes _____ No

(continued)

**LAUREL COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
Year Ended June 30, 2012

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**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings**

None

**LAUREL COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
Year Ended June 30, 2012

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**Status of Prior Year Findings**

There were no prior year audit findings.

**MANAGEMENT LETTER COMMENTS**

Members of the Board of Education  
Laurel County School District  
London, Kentucky

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

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 12, 2012, on the basic financial statements of Laurel County School District.

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

Respectfully,

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
Corbin, Kentucky  
November 12, 2012

# LAUREL COUNTY SCHOOL DISTRICT

## MANAGEMENT LETTER COMMENTS

JUNE 30, 2012

### Follow-up on Prior Year Comments --School Activity Funds

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

1. Purchase orders were either not noted, adequately completed, or timely prepared for all purchases. The Redbook states that "To initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before payment is obligated". Instances of this deficiency were noted at Hunter Hills Elementary.
2. Ticket requisitions were either not present or improperly issued. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Form F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signed the form." This deficiency was noted at Hunter Hills Elementary.
3. Invoices were not always used or present or were not always approved by two individuals. The Redbook states "The vendor invoice and/or the standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued." This deficiency was noted at Hunter Hills Elementary.
4. Receipts did not have proper support; required multiple receipt forms were not being used. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money including fundraisers. A copy of Form F-SA-6 or a copy of the pre-numbered receipt shall be retained by the teacher/sponsor and the original shall be given to the school treasurer. Instances of this non-compliance were noted at Hunter Hills Elementary School.

### **Current year follow-up:**

1. We noted the issue has been resolved.
2. We noted the issue has been resolved.
3. We noted the issue has been resolved.
4. We noted the issue has been resolved.

### Current Year Comments --School Activity Funds

No current year comments were noted.