

METCALFE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

For the Year ended June 30, 2012

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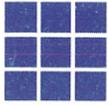
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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Metcalf County School District  
Edmonton, 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 Metcalf County School District (the "District") as of and for the year then ended June 30, 2012 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of 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 Schools District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 2012, on our consideration of the Metcalf County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The additional information shown on Pages 34 through 38 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards on Pages 39 through 41 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the basic financial statements of the District. The additional information shown on pages 34 through 38 and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The additional information found on Pages 34 through 38 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Wise, Buckner, Sprowles & Associates PLLC*

Wise, Buckner, Sprowles & Associates PLLC  
Certified Public Accountants

Campbellsville, KY  
October 17, 2012

METCALFE COUNTY SCHOOL DISTRICT  
EDMONTON, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2012

As management of the Metcalfe County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit report.

#### FINANCIAL HIGHLIGHTS

The beginning unreserved general fund balance for the district was \$4,103,711.

Excluding inter-fund transfers, the General Fund had \$13,203,088 in receipts, which consisted primarily of the state program (SEEK), property, local occupational license taxes, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there was \$13,149,733 in General Fund expenditures.

The District's outstanding debt, excluding KISTA, is \$25,248,000 at the end of fiscal year 2012. The increase in outstanding debt is due to the new primary school construction n project.

The majority of General Fund revenues were derived from state sources, 74% and local taxes, 19%. Regular instruction, student support services staff support services, district and school administration account for 77% of the District expenditures. Central support service expenditures were pupil transportation 9%, maintenance and operations 9%, and business functions 4%.

The District's unrestricted operating fund (General Fund) had \$10,629,066 in revenues, excluding on-behalf payments and transfers, which consisted mainly of Ad Valorem taxes, State SEEK, and Utility tax receipts. Ad Valorem was 14%, state SEEK was 67%, and utility tax receipts was 5%.

#### OVERVIEW OF FINANCIAL STATEMENTS

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

**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 expenses 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 7 and 8 of this report.

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

The basic governmental fund financial statements can be found on pages 11 and 12 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-32 of this report.

**DISTRICT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$10,695,852 as of June 30, 2012. This reflects an increase in net assets of \$305,044 from June 30, 2011.

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); 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.

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

**Net Assets for the period ending June 30, 2012 as compared to June 30, 2011**

<b>Assets</b>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current Assets	\$ 17,300,105	\$ 17,457,445
Non-current Assets	<u>20,941,350</u>	<u>9,361,597</u>
<b>Total Assets</b>	38,241,455	26,819,042
<b>Liabilities</b>		
Current Liabilities	3,213,943	2,084,145
Non-current Liabilities	<u>24,331,660</u>	<u>14,344,089</u>
<b>Total Liabilities</b>	<u>27,545,603</u>	<u>16,428,234</u>
<b>Net Assets</b>		
Investment in Capital Assets (net of debt)	(4,446,239)	(5,595,953)
Restricted	9,881,840	11,228,022
Unrestricted	<u>5,260,251</u>	<u>4,758,739</u>
<b>Total Net Assets</b>	<u>10,695,852</u>	<u>10,390,808</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 38,241,455</u>	<u>\$ 26,819,042</u>

**Comments on Budget Comparisons**

- Excluding on-behalf payments of \$2,574,022, the General Fund budget compared to actual revenue varied slightly from line item to line item with ending actual balance being \$1,676,690 more than budgeted due in large part to a \$491,815 bond issue construction cost reimbursement, a federal direct pay bond interest reimbursement of \$240,580 recorded as accounts receivable at June 30, 2012, and a generally conservative budgeting approach.
- Actual General Fund expenditures, net of on-behalf payments of \$2,574,022 compared to budget expenditures, net of contingency allotments, was \$2,069,486 less than budget due to administration's careful monitoring of expenditures.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2012.

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Food Service</u>
<b>REVENUES</b>					
Local sources	\$ 3,390,455	\$ 302	\$ 43,284	\$ 387,278	\$ 245,343
State sources	9,737,687	725,466	-	1,196,844	98,046
Federal sources	28,860	2,604,342	-	434,218	812,845
Other sources	<u>28,542</u>	<u>65,901</u>	<u>10,965,070</u>	<u>-</u>	<u>-</u>
Total Revenues	13,185,544	3,396,011	11,008,354	2,018,340	1,156,234
<b>EXPENDITURES</b>					
Instruction	7,132,330	2,604,190	-	-	-
Student support	763,920	546,348	-	-	-
Inst. Support	500,083	94,056	-	-	-
District Admin	605,114	9,048	-	-	-
School Admin	1,040,647	-	-	-	-
Business support	519,409	-	-	-	-
Plant operations	1,157,017	1,923	-	28,152	-
Student transp	1,173,089	-	-	-	-
Non-instructional	-	-	-	-	-
Adult Education Operations	-	11,092	-	-	-
Comm service operations	-	174,099	-	-	-
Land/Site Acquisitions	-	-	12,320,794	-	-
Debt service	240,580	-	-	1,673,245	-
Building renovation	-	-	-	-	-
Food services	-	-	-	-	1,229,395
Total Expenditures	<u>13,132,189</u>	<u>3,440,756</u>	<u>12,320,794</u>	<u>1,701,397</u>	<u>1,229,395</u>
Excess (Deficiency) Before Transfers	53,355	(44,745)	(1,312,440)	316,943	(73,161)
Fund transfers	<u>(44,745)</u>	<u>44,745</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues Over (Under) Expenditures	<u>\$ 8,610</u>	<u>\$ -</u>	<u>\$ (1,312,440)</u>	<u>\$ 316,943</u>	<u>\$ (73,161)</u>

### **FUTURE BUDGETARY IMPLICATIONS**

In Kentucky, the public schools' fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2011-2012 with a 4% contingency. Significant Board action that impacts the finances includes an across-the-board pay increase of 1% for all employees. The Board is also currently involved in the middle school construction project and the construction of a new elementary school.

Questions regarding this report should be directed to Patricia Hurt, Superintendent or Donna Caffee, Director of Finance at 270-432-3171 or by mail at 109 Sartin Drive, Edmonton, Kentucky 42129.

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Current Assets			
Cash & Cash Equivalents - Note C	\$ 12,494,232	\$ 85,250	\$ 12,579,482
Investments	3,708,494	-	3,708,494
Accounts Receivable			
Taxes - Current	69,057	-	69,057
Taxes - Delinquent	-	-	-
Accounts	18,693	-	18,693
Intergovernmental - State	1,180	-	1,180
Intergovernmental - Federal	561,382	10,672	572,054
Inventories for Consumption	-	16,390	16,390
Bond Issue Cost	334,755	-	334,755
Total Current Assets	<u>17,187,793</u>	<u>112,312</u>	<u>17,300,105</u>
Noncurrent Assets - Note D			
Land	1,383,567	-	1,383,567
Capital Assets net of Accumulated Depreciation	<u>19,421,017</u>	<u>136,766</u>	<u>19,557,783</u>
Total Noncurrent Assets	<u>20,804,584</u>	<u>136,766</u>	<u>20,941,350</u>
<b>TOTAL ASSETS</b>	<u><u>37,992,377</u></u>	<u><u>249,078</u></u>	<u><u>38,241,455</u></u>
<b>LIABILITIES</b>			
Checks Issued in Excess of Cash	36,887	-	36,887
Accounts Payable	1,635,941	9,065	1,645,006
Accrued Interest Payable	100,327	-	100,327
Other Accrued Liabilities	5,479	-	5,479
Deferred Revenues	269,528	-	269,528
Noncurrent Liabilities:			
Due within one year	1,156,716	-	1,156,716
Due in more than one year	<u>24,331,660</u>	<u>-</u>	<u>24,331,660</u>
<b>TOTAL LIABILITIES</b>	<u><u>27,536,538</u></u>	<u><u>9,065</u></u>	<u><u>27,545,603</u></u>
<b>NET ASSETS</b>			
Invested in Net Assets, Net of Related Debt	(4,583,006)	136,767	(4,446,239)
Restricted for			
Inventories	-	16,390	16,390
Capital Projects	9,865,450	-	9,865,450
Unrestricted	<u>5,173,395</u>	<u>86,856</u>	<u>5,260,251</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 10,455,839</u></u>	<u><u>\$ 240,013</u></u>	<u><u>\$ 10,695,852</u></u>

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

FUNCTION/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>							
Instructional	\$ 9,788,653	\$ 65,901	\$ 2,604,190	\$ -	\$ (7,118,562)	\$ -	\$ (7,118,562)
Student Support Services	1,350,362	-	546,349	-	(804,013)	-	(804,013)
Staff Support Services	610,757	-	94,056	-	(516,701)	-	(516,701)
District Administration	630,832	-	9,048	-	(621,784)	-	(621,784)
School Administration	1,043,828	-	-	-	(1,043,828)	-	(1,043,828)
Business Support Services	522,841	-	-	-	(522,841)	-	(522,841)
Plant Operation & Maintenance	1,378,185	20,000	1,923	-	(1,356,262)	-	(1,356,262)
Student Transportation	1,041,945	-	-	-	(1,041,945)	-	(1,041,945)
Adult Education Operation	11,092	-	-	-	(11,092)	-	(11,092)
Community Service Operations	175,814	-	185,190	-	9,376	-	9,376
Facilities Acquisition & Construction	491,815	-	-	796,367	304,552	-	304,552
Interest on Long-Term Debt	1,152,590	-	-	-	(1,152,590)	-	(1,152,590)
Other Finance Fees	83,804	-	-	-	(83,804)	-	(83,804)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>18,282,518</b>	<b>85,901</b>	<b>3,440,756</b>	<b>796,367</b>	<b>(13,959,494)</b>	<b>-</b>	<b>(13,959,494)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Food Service	1,228,925	243,808	812,845	-	-	(172,272)	(172,272)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,228,925</b>	<b>243,808</b>	<b>812,845</b>	<b>-</b>	<b>-</b>	<b>(172,272)</b>	<b>(172,272)</b>
<b>TOTAL SCHOOL DISTRICT</b>	<b>\$ 19,511,443</b>	<b>\$ 329,709</b>	<b>\$ 4,253,601</b>	<b>\$ 796,367</b>	<b>(13,959,494)</b>	<b>(172,272)</b>	<b>(14,131,766)</b>
<b>GENERAL REVENUES:</b>							
Taxes					2,949,796	-	2,949,796
State Aid - Formula Grants					10,507,838	98,046	10,605,884
Investment Earnings					110,205	1,535	111,740
Miscellaneous					741,318	(470)	740,848
<b>SPECIAL ITEMS:</b>							
Gain(Loss) Sale of Assets					17,786	-	17,786
Transfer					-	-	-
Loss Compensation					10,756	-	10,756
<b>TOTAL GENERAL &amp; SPECIAL</b>					<b>14,337,699</b>	<b>99,111</b>	<b>14,436,810</b>
<b>CHANGE IN NET ASSETS</b>					<b>378,205</b>	<b>(73,161)</b>	<b>305,044</b>
<b>NET ASSETS - BEGINNING (Restated)</b>					<b>10,077,634</b>	<b>313,174</b>	<b>10,390,808</b>
<b>NET ASSETS - ENDING</b>					<b>\$ 10,455,839</b>	<b>\$ 240,013</b>	<b>\$ 10,695,852</b>

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash & Cash Equivalents	\$ 239,346	\$ -	\$ 11,454,823	\$ 800,063	\$ 12,494,232
Investments	3,711,290	-	-	-	3,711,290
Accounts Receivable:					
Taxes - Current	69,057	-	-	-	69,057
Taxes - Delinquent	-	-	-	-	-
Accounts	6,687	9,210	-	-	15,897
Intergovernmental - State	-	1,180	-	-	1,180
Intergovernmental - Federal	258,546	302,836	-	-	561,382
<b>TOTAL ASSETS</b>	<u>\$ 4,284,926</u>	<u>\$ 313,226</u>	<u>\$ 11,454,823</u>	<u>\$ 800,063</u>	<u>\$ 16,853,038</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities:</b>					
Checks Issued in Excess of Cash	\$ -	\$ 36,887	\$ -	\$ -	\$ 36,887
Accounts Payable	39,757	6,811	1,589,373	-	1,635,941
Other Accrued Liabilities	5,479	-	-	-	5,479
Accrued Sick Leave	50,393	-	-	-	50,393
Deferred Revenues	-	269,528	-	-	269,528
<b>Total Liabilities</b>	<u>95,629</u>	<u>313,226</u>	<u>1,589,373</u>	<u>-</u>	<u>1,998,228</u>
<b>Fund Balance</b>					
Assigned -Purchase Obligations	47,216	-	-	-	47,216
Committed - Sick Leave Payable	50,393	-	-	-	50,393
Restricted - SFCC Escrow-Current	-	-	-	26,131	26,131
Restricted - Debt Service	-	-	-	773,932	773,932
Restricted - Future Construction Pr	-	-	9,865,450	-	9,865,450
Unassigned Fund Balance	4,091,688	-	-	-	4,091,688
<b>Total Fund Balance</b>	<u>4,189,297</u>	<u>-</u>	<u>9,865,450</u>	<u>800,063</u>	<u>14,854,810</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,284,926</u>	<u>\$ 313,226</u>	<u>\$ 11,454,823</u>	<u>\$ 800,063</u>	<u>\$ 16,853,038</u>

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

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

TOTAL GOVERNMENTAL FUND BALANCE		\$ 14,854,810
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
Cost of Capital Assets	\$ 30,864,401	
Accumulated Depreciation	<u>(10,059,817)</u>	20,804,584
<p>Bond issuance cost are not financial resources and therefore are not reported as assets in governmental funds</p>		
		334,755
<p>Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>		
<p>Long-term liabilities at year end consist of:</p>		
Accrued Interest Payable	(100,327)	
Bonds Payable	(25,387,590)	
Accrued Sick Leave	<u>(50,393)</u>	<u>(25,538,310)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u>\$ 10,455,839</u>

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

	GENERAL	SPECIAL FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
Taxes	\$ 2,562,518	\$ -	\$ -	\$ 387,278	\$ 2,949,796
Earnings on Investments	66,619	302	43,284	-	110,205
Intergovernmental - State	9,755,231	725,466	-	1,196,844	11,677,541
Intergovernmental - Federal	28,860	2,604,342	-	434,218	3,067,420
Other Sources	761,318	65,901	-	-	827,219
<b>TOTAL REVENUES</b>	<b>13,174,546</b>	<b>3,396,011</b>	<b>43,284</b>	<b>2,018,340</b>	<b>18,632,181</b>
<b>EXPENDITURES</b>					
Instructional	7,149,874	2,604,190	-	-	9,754,064
Student Support Services	763,920	546,348	-	-	1,310,268
Staff Support Services	500,083	94,056	-	-	594,139
District Administration	605,114	9,048	-	-	614,162
School Administration	1,040,647	-	-	-	1,040,647
Business Support Services	519,409	-	-	-	519,409
Plant Operation & Maintenance	1,157,017	1,923	-	28,152	1,187,092
Student Transportation	1,173,089	-	-	-	1,173,089
Community Service Operations	-	174,099	-	-	174,099
Adult Education Operations	-	11,092	-	-	11,092
Land/Site Acquisitions	-	-	12,320,794	-	12,320,794
Debt Service					
Principal	-	-	-	722,960	722,960
Interest	240,580	-	-	880,536	1,121,116
Other	-	-	-	69,749	69,749
<b>TOTAL EXPENDITURES</b>	<b>13,149,733</b>	<b>3,440,756</b>	<b>12,320,794</b>	<b>1,701,397</b>	<b>30,612,680</b>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>24,813</b>	<b>(44,745)</b>	<b>(12,277,510)</b>	<b>316,943</b>	<b>(11,980,499)</b>
<b>OTHER FINANCING SOURCES(USES)</b>					
Proceeds from Bond Issue	-	-	10,965,070	-	10,965,070
Proceeds from Sale of Assets	17,786	-	-	-	17,786
Loss Compensation	10,756	-	-	-	10,756
Operating Transfers In - Note O	1,400	46,145	-	-	47,545
Operating Transfers Out - Note O	(46,145)	(1,400)	-	-	(47,545)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>(16,203)</b>	<b>44,745</b>	<b>10,965,070</b>	<b>-</b>	<b>10,993,612</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>8,610</b>	<b>-</b>	<b>(1,312,440)</b>	<b>316,943</b>	<b>(986,887)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>4,180,687</b>	<b>-</b>	<b>11,177,890</b>	<b>483,120</b>	<b>15,841,697</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 4,189,297</b>	<b>\$ -</b>	<b>\$ 9,865,450</b>	<b>\$ 800,063</b>	<b>\$ 14,854,810</b>

See independent auditor's report and accompanying notes to financial statements.

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

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

NET CHANGES - GOVERNMENTAL FUNDS \$ (986,887)

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital assets exceeds depreciation expense for the year.

Depreciation Expense	\$ (587,177)	
Capital Outlays	<u>12,180,802</u>	11,593,625

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal Paid	722,960	
Bond Proceeds	<u>(11,153,000)</u>	(10,430,040)

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.

Accrued Interest Payable	(31,474)	
Accrued Sick Leave	59,106	
Bond Issuance Cost	187,930	
Amortization Bond Issuance Cost	<u>(14,055)</u>	201,507

In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.

Sale of Asset net of Gain	<u>-</u>	<u>-</u>
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CHANGES - NET ASSETS GOVERNMENTAL FUNDS \$ 378,205

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
<b>ASSETS</b>			
Current Assets			
Cash & Cash Equivalents	\$ 85,250	\$ -	\$ 85,250
Accounts Receivable	10,672	-	10,672
Inventories for Consumption	16,390	-	16,390
Total Current Assets	112,312	-	112,312
Noncurrent Assets			
Capital Assets net of Accumulated Depreciation	136,766	-	136,766
Total Noncurrent Assets	136,766	-	136,766
<b>TOTAL ASSETS</b>	<b>\$ 249,078</b>	<b>\$ -</b>	<b>\$ 249,078</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	\$ 9,065	\$ -	\$ 9,065
Total Current Liabilities	9,065	-	9,065
Net Assets			
Invested in Assets, Net of Debt	136,767	-	136,767
Restricted:			
Nonexpendable- Inventory	16,390	-	16,390
Unrestricted	86,856	-	86,856
Total Net Assets	240,013	-	240,013
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 249,078</b>	<b>\$ -</b>	<b>\$ 249,078</b>

See independent auditor's report and accompanying notes to financial statements.

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom Sales	\$ 243,808	\$ -	\$ 243,808
TOTAL OPERATING REVENUES	243,808	-	243,808
OPERATING EXPENSES			
Salaries & Benefits	549,251	-	549,251
Contract Services	13,465	-	13,465
Materials & Supplies	632,178	-	632,178
Depreciation - Note F	13,400	-	13,400
Other Operating Expenses	20,631	-	20,631
TOTAL OPERATING EXPENSES	1,228,925	-	1,228,925
OPERATING INCOME(LOSS)	(985,117)	-	(985,117)
NONOPERATING REVENUES(EXPENSES)			
Federal Grants	756,542	-	756,542
State Grants	98,046	-	98,046
Donated Commodities	56,303	-	56,303
Interest Income	1,535	-	1,535
Miscellaneous Income	(470)	-	(470)
TOTAL NONOPERATING REVENUE	911,956	-	911,956
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(73,161)	-	(73,161)
TRANSFERS OUT	-	-	-
CHANGE IN NET ASSETS	(73,161)	-	(73,161)
TOTAL NET ASSETS - BEGINNING	313,174	-	313,174
TOTAL NET ASSETS - ENDING	\$ 240,013	\$ -	\$ 240,013

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received From	
Lunchroom sales	\$ 243,808
Other activities	-
Cash paid to/for	
Employees	(461,957)
Supplies	(573,393)
Other activities	<u>(34,095)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(825,636)

CASH FLOWS FROM NON- CAPITAL FINANCING ACTIVITIES

State Grants	10,753
Federal Grants	<u>756,075</u>
NET CASH PROVIDED (USED) BY NON- CAPITAL FINANCING ACTIVITIES	766,828

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest income	<u>1,535</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,535</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (57,274)

Balances, Beginning of Year	<u>142,524</u>
Balances, End of Year	<u><u>\$ 85,250</u></u>

RECONCILIATION OF CHANGE IN NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Income (Loss)	\$ (985,117)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	13,400
State On-Behalf Payments	87,293
Donated Commodities	56,303
Loss on Sale of Assets	470
Change in assets and liabilities	
(Increase) Decrease in Receivables	(2,510)
Increase (Decrease) in Payables	4,683
(Increase) Decrease in Inventory	<u>(158)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (825,636)</u></u>

SCHEDULE OF NON-CASH TRANSACTIONS

On Behalf Payments from the State for Employee Benefits	\$ 87,293
Donated Commodities Received from Federal Government	56,303

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012

	PRIVATE PURPOSE TRUST FUND	AGENCY FUND
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 422	\$ 121,741
Accounts Receivable	-	1,410
<b>TOTAL ASSETS</b>	422	123,151
<b>LIABILITIES</b>		
Accounts Payable	-	3,808
Due to Student Groups	-	119,343
<b>TOTAL LIABILITIES</b>	-	123,151
<b>NET ASSETS HELD IN TRUST</b>	\$ 422	\$ -

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>PRIVATE PURPOSE TRUST FUND</u>
ADDITIONS	
Scholarship Funds Contributed	\$ 3,820
DEDUCTIONS	
Benefits Paid	<u>(3,600)</u>
Changes in Net Assets	220
NET ASSETS - BEGINNING OF YEAR	<u>202</u>
NET ASSETS - END OF YEAR	<u><u>\$ 422</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>				
Taxes	\$ 2,191,347	\$ 2,191,347	\$ 2,562,518	\$ 371,171
Other Local Sources	16,000	16,000	66,619	50,619
State Sources	6,686,429	6,686,429	9,755,231	3,068,802
Federal Sources	-	-	28,860	28,860
Other Sources	60,000	60,000	791,260	731,260
<b>TOTAL REVENUES</b>	<b>8,953,776</b>	<b>8,953,776</b>	<b>13,204,488</b>	<b>4,250,712</b>
<b>EXPENDITURES</b>				
Instructional	6,017,438	6,109,976	7,149,874	(1,039,898)
Student Support Services	613,332	616,781	763,920	(147,139)
Staff Support Services	339,880	340,739	500,083	(159,344)
District Administration	453,020	474,979	605,114	(130,135)
School Administration	745,790	826,661	1,040,647	(213,986)
Business Support Services	435,635	462,536	519,409	(56,873)
Plant Operation & Maintenance	1,390,504	1,356,530	1,157,017	199,513
Student Transportation	1,131,828	1,134,178	1,173,089	(38,911)
Community Service Operations	-	-	-	-
Land/Site Acquisitions	411,077	211,576	-	211,576
Debt Service	413,482	413,482	240,580	172,903
Debt Service Other	350	350	-	350
Other	739,047	743,554	46,145	697,409
<b>TOTAL EXPENDITURES</b>	<b>12,691,382</b>	<b>12,691,342</b>	<b>13,195,878</b>	<b>(504,536)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(3,737,606)</b>	<b>(3,737,566)</b>	<b>8,610</b>	<b>3,746,176</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,737,606</b>	<b>3,737,606</b>	<b>4,180,687</b>	<b>3,737,606</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ -</b>	<b>\$ 40</b>	<b>\$ 4,189,297</b>	<b>\$ 8,570</b>

On-Behalf Payments of \$2,574,022 are not budgeted by the Metcalfe County School District

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Other Local Sources	\$ -	\$ 122	\$ 302	\$ 180
State Sources	-	780,086	725,466	(54,620)
Federal Sources	-	2,149,942	2,604,342	454,400
Other Sources	-	82,006	112,046	30,040
TOTAL REVENUES	<u>-</u>	<u>3,012,156</u>	<u>3,442,156</u>	<u>430,000</u>
EXPENDITURES				
Instructional	-	2,537,569	2,604,190	(66,621)
Student Support Services	-	178,733	546,348	(367,615)
Staff Support Services	-	104,911	94,056	10,855
District Administration	-	9,048	9,048	-
Plant Operation & Maintenance	-	2,100	1,923	177
Adult Education Operations	-	10,000	11,092	(1,092)
Community Service Operations	-	169,795	174,099	(4,304)
Other	-	-	(1,400)	1,400
TOTAL EXPENDITURES	<u>-</u>	<u>3,012,156</u>	<u>3,439,355</u>	<u>(427,199)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCES - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

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

Reporting Entity

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Metcalfe County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

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

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

Metcalfe County School District Finance Corporation – The Metcalfe County, Kentucky, Board of Education has established the Metcalfe 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

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

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

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

In the District-wide Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange-like transactions are recognized when the exchange takes place.

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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. 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. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust 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 39 and 40. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund). The District's Capital Project Funds include:
  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. 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 generally obligation notes payable, as required by Kentucky law.

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

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 is a major fund.

Operating revenues in the proprietary funds are the revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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 and Private Purpose Trust Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust Fund consists of teacher contributions and disbursements for student scholarships.

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 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. 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 resource 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 non-exchange transactions must also be available before it can be recognized.

When both restricted and unrestricted resources are available, it is the District's policy to use restricted first, then unrestricted resources, as they are needed.

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

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

METCALFE COUNTY SCHOOL DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2012

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

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

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are 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 \$0.50 per \$100 valuation for real property, \$0.50 per \$100 valuation for business personal property, and \$0.566 per \$100 valuation for motor vehicles. An assessment of \$0.12 per \$100 for real and tangible property is included and is restricted for allocation to the Building Fund.

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 gases.

Capital Assets

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

Board policy has set the capitalization threshold for reporting capital assets at \$1,000. All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	50 years
Building Improvements	25 years
Technology Improvements	5 years
School Buses	10 years
Vehicles	5 years
Food Service Equipment	12 years
Audio-Visual Equipment	15 years
Other General Equipment	10 years

Inter-fund Balances

On fund financial statements, receivables and payable resulting from short-term inter-fund loans are classified as “inter-fund 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.

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

On-behalf payments were not considered in the budget.

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

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.

Investments

The District's investments consist of certificates of deposit which are recorded at cost.

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the Enterprise Fund. Inventory consists of donated and purchased food held for resale and is expensed when used. Purchased food is valued at cost and the U.S. Government donated commodities value is determined by the U.S. Department of Agriculture.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

Beginning with fiscal year 2010, the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

- Non-spendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balances-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balances-amounts that are available for any purpose; positive amounts are reported only in the General Fund

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's board has provided otherwise in its commitment or assignment actions.

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.

Inter-fund 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 inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating 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.

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Board's policy is to apply restricted net assets first.

**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,

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE B – ESTIMATES – (CONTINUED)**

fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE C – CASH AND CASH EQUIVALENTS**

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure, the District’s deposits may not be returned to it. At year-end, the carrying amount of the District’s total cash and cash equivalents was \$12,664,758. Of the total cash balance, \$500,000 was covered by Federal Depository Insurance, \$12,164,758 was covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

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

	Bank Balance	Book Balance
Edmonton State Bank	\$ 698,859	\$ 1,209,935
Branch Banking & Trust	11,454,823	11,454,823
		\$ 12,664,758

Breakdown per financial statements:

Governmental Funds	\$ 12,457,345
Proprietary Funds	85,250
Fiduciary Funds	122,163
	\$ 12,664,758

**NOTE D – CAPITAL ASSETS**

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES</b>				
Land	\$ 215,406	\$ -	\$ -	\$ 215,406
Land Improvements	1,168,161	-	-	1,168,161
Building & Building Improvements	10,288,690	-	-	10,288,690
Technology Equipment	2,486,980	99,618	(27,697)	2,558,901
Vehicles	2,002,629	246,705	-	2,249,334
General Equipment	625,987	5,500	(1,036)	630,451
Construction in Progress	1,924,479	11,828,979	-	13,753,458
	18,712,332	12,180,802	(28,733)	30,864,401
<b>LESS ACCUMULATED DEPRECIATION FOR</b>				
Land Improvements	985,267	29,149	-	1,014,416
Building & Building Improvements	4,869,012	162,045	-	5,031,057
Technology Equipment	1,883,084	250,433	(27,697)	2,105,820
Vehicles	1,333,733	118,692	-	1,452,425
General Equipment	430,277	26,858	(1,036)	456,099
	9,501,373	587,177	(28,733)	10,059,817
	\$ 9,210,959	\$ 11,593,625	\$ -	\$ 20,804,584

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE D – CAPITAL ASSETS – (CONTINUED)**

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>PROPRIETARY ACTIVITIES</b>				
Building & Building Improvements	\$ 175,489	\$ -	\$ -	\$ 175,489
Technology Equipment	35,471	-	-	35,471
General Equipment	313,138	-	(1,599)	311,539
<b>TOTAL AT HISTORICAL COST</b>	<b>524,098</b>	<b>-</b>	<b>(1,599)</b>	<b>522,499</b>
<b>LESS ACCUMULATED DEPRECIATION FOR</b>				
Building & Building Improvements	73,824	2,955	-	76,779
Technology Equipment	8,146	5,244	-	13,390
General Equipment	291,490	5,203	(1,129)	295,564
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>373,460</b>	<b>13,402</b>	<b>(1,129)</b>	<b>385,733</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL, NET</b>	<b>\$ 150,638</b>	<b>\$ (13,402)</b>	<b>\$ (470)</b>	<b>\$ 136,766</b>

DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS

Instructional	\$ 193,313
Student Support Services	40,095
Staff Support Services	16,617
District Administration	16,670
School Administration	3,180
Business Support Services	3,432
Plant Operation & Maintenance	203,794
Student Transportation	108,361
Community Service Operations	1,715
<b>TOTAL</b>	<b>\$ 587,177</b>

**NOTE E – GENERAL LONG – TERM DEBT**

Bonds Payable

The amount shown in the accompanying government-wide financial statements as bond principal outstanding represents the District's future obligations to make payments relating to the bonds issued by the Metcalfe County School District Finance Corporation.

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

1995 Series	\$ 100,000	5.55%-6.50%
2010 Series	\$ 12,735,000	0.70%-5.50%
2003 Series	\$ 665,000	1.75%-4.40%
2003 Series B	\$ 2,690,000	2.00%-3.50%
2010 Series	\$ 12,735,000	0.70%-5.50%
2011 Series	\$ 11,153,000	4.65%

METCALFE COUNTY SCHOOL DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2012

**NOTE E – GENERAL LONG – TERM DEBT – (CONTINUED)**

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Metcalfe County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The school facilities are pledged as security for the related bonds and the District is required to maintain adequate property insurance on the facilities.

The District has “participation agreements” with the Kentucky School Facility Construction Commission (the Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statement.

The 2010 Bond was issued under the Build America Bonds Program under the America Recovery and Investment Act of 2009. Provisions under the Build America Bonds Program allow for the District to receive a “direct pay” from the federal government of 35% of the interest obligation for the District.

The Series 2011 Bond was issued under the Qualified School Construction Bond under the America Recovery and Reinvestment Act of 2009 and the Hiring Incentive to Restore Employment Act of 2010. Provisions under the Qualified School Construction Bond program allow for a “direct pay” from the federal government of 100% of the interest obligation for the District.

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 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 Ending June 30,	Metcalfe County School District		Kentucky School Facility Construction Commission		Federal	Total Debt Service
	Principal	Interest	Principal	Interest	Interest	
2012-13	\$ 777,043	\$ 298,785	\$ 312,250	\$ 116,848	\$ 711,832	\$ 2,216,758
2013-14	794,402	284,020	311,891	113,243	711,235	2,214,791
2014-15	813,194	265,348	301,099	109,282	709,133	2,198,056
2015-16	821,133	257,984	297,160	105,614	704,812	2,186,703
2016-17	829,708	248,937	293,585	101,895	699,362	2,173,487
2018-22	4,335,871	1,070,875	1,475,596	440,438	3,381,827	10,704,607
2023-27	4,706,272	675,633	1,570,193	280,554	3,105,753	10,338,405
2028-32	6,270,252	182,637	1,338,351	73,554	1,952,992	9,817,786
	<u>\$ 19,347,875</u>	<u>\$ 3,284,219</u>	<u>\$ 5,900,125</u>	<u>\$ 1,341,428</u>	<u>\$ 11,976,946</u>	<u>\$ 41,850,593</u>

Loans Payable

The District entered into loans from the Kentucky Inter-local School Transportation Association (KISTA) during the 2000 fiscal year for the purpose of making various capital improvements to the District’s school facilities. Interest is payable semiannually on June 1 and December 1 at rates noted as follows:

Issue Date	Proceeds	Rates
Jul-99	\$ 173,000	3.90% - 5.30%
Aug-99	\$ 128,000	4.60% - 5.60%

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE E – GENERAL LONG – TERM DEBT – (CONTINUED)**

Principal on the first loan is due annually on December 1. Principal on the second loan will be payable annually on June 1. The Commission has expressed the intention to make 100% of the principal and interest payments for the July and August 1999 loans. Debt service on the loans is as follows:

Year Ending June 30,	Kentucky School Facility Construction Commission	
	Principal	Interest
2012-13	\$ 17,030	\$ 7,131
2013-14	18,000	6,301
2014-15	19,000	5,334
2015-16	19,100	4,335
2016-17	21,000	3,284
2017-19	45,460	3,041
	\$ 139,590	\$ 29,426

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

	Balance at July 1, 2011	Additions	Reductions	Balance at June 30, 2012	Due within One Year
<b>Primary Government</b>					
Revenue Bond Payable	\$ 14,802,000	\$11,153,000	\$ 707,000	\$ 25,248,000	\$ 1,089,293
Loans Payable	155,550	-	15,960	139,590	17,030
Accrued Sick Leave (restated)	159,036	63,835	122,085	100,786	50,393
Governmental Activities					
Long-Term Liabilities	\$ 15,116,586	\$11,216,835	\$ 845,045	\$ 25,488,376	\$ 1,156,716

The total interest incurred for the year ended June 30, 2012 was \$1,152,590, all of which was charged to expense.

**NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES**

The District has various operating leases for copiers and office equipment. The following is a schedule of future minimum lease payments.

	Year Ending June 30,	
	2013	\$ 45,316
	2014	18,273
	2015	5,690
	2016	1,298
Total Minimum Rentals		\$ 70,577

Rent expense for the year ended June 30, 2012 was \$78,825

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE G – ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon retirement from the school system, a certified employee will receive from the District 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. As of June 30, 2012, management has estimated the accrued sick leave liability obligation will be approximately \$100,786.

In accordance with GASB Statement No. 34, the government fund financial statements reflect the current portion of sick leave payable of \$50,393. This is the amount anticipated to be funded with current year's economic financial resources.

**NOTE H – RETIREMENT PLANS**

Kentucky Teacher's Retirement

The Metcalfe County School 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 systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.355% of their salaries to KTRS for members established before July 1, 2008 and 10.855% for members established after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members established before July 1, 2008 and 14.105% for member established after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. During the years ended June 30, 2012, 2011 and 2010, contributions of \$899,554, \$788,409, and \$774,279 were made by the State of Kentucky and \$149,171, \$208,083 and \$137,841 in contributions were passed through the District's federally funded programs. The employee contribution rates of 10.355% and 10.855% are actuarially determined and withheld by the District. Such withholdings during the years ended June 30, 2012, 2011 and 2010 totaled \$821,101, \$766,737 and \$686,755 and were paid by the District to the State of Kentucky as required. The District has no other liability under the plan. The District's total payroll for all employees during the years ended June 30, 2012, 2011 and 2010 was \$10,556,539, \$9,892,250 and \$9,251,831 and \$7,861,781, \$7,528,896 and \$6,924,387 of such amounts related to employees covered by the retirement plan. All payments were made to the retirement system in the amount of the annually required contributions.

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution for the years ended June 30, 2012, 2011 and 2010 of 18.96%, 16.93% and 16.16% of the employee's total compensation subject to contribution. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended June 30, 2012, 2011 and 2010 was \$445,875, \$400,118 and \$371,842 from the District and \$119,361, \$119,318 and \$116,586 from employees. The total covered payroll for CERS during the years ended June 30, 2012, 2011 and 2010 was \$2,694,758, \$2,363,354 and \$2,327,444. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents. All payments were made to the retirement system in the amount of the annually required contributions.

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

METCALFE COUNTY SCHOOL DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2012

**NOTE H – RETIREMENT PLANS – (CONTINUED)**

Deferred Compensation

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

**NOTE I – ON-BEHALF PAYMENTS**

The following payments made by the state on-behalf of employees of the District and for the benefit of the District are recognized in the district-wide financial statements as additional revenue and expenditures for the year ended June 30, 2012:

Health Insurance	\$	1,887,184
Kentucky Teacher's Retirement System		899,554
Flexible Plans		66,675
Administrative Fees		19,911
Vocational Education		3,374
Life Insurance		4,251
Less: Federal Reimbursements		<u>(219,635)</u>
 Total		 <u><u>\$ 2,661,315</u></u>

**NOTE J – CONTINGENCIES**

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

**NOTE K – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE L – RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members

METCALFE COUNTY SCHOOL DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2012

**NOTE L – RISK MANAGEMENT (CONTINUED)**

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 for which coverage was provided) would be returned to the members on a pro rata basis.

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

**NOTE M – DEFICIT OPERATING BALANCES**

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

Construction	\$1,312,440
Capital Outlay	\$ 168,162
Food Service	\$ 73,161

**NOTE N – COBRA**

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

**NOTE O – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 46,145
Operating	Special Revenue	General	Indirect Cost	1,400
				<u>\$ 47,545</u>

**NOTE P – CHANGE IN ACCOUNTING ESTIMATE AND RESTATEMENT**

Prior to 2012 the Metcalfe County School District's accrued sick leave liability was estimated using the total sick leave accrual for all employees. In 2012 the District changed its valuation method for accrued sick leave to include only those employees that were eligible for retirement. As a result of this change in accounting estimate, the Net Assets – Beginning on the Government Wide Statement of Activities for Governmental Activities has been restated at \$10,077,634, an increase of \$435,414 from the ending balance shown on the prior year Government Wide Statement of Activities for Governmental Activities. Additionally, the accrued sick leave beginning balance in Note E has been restated at \$159,036, a decrease of \$435,414 from the balance shown on the prior year Note E ending balance for accrued sick leave. This change in accounting estimate has no impact on the Governmental Fund financial statements.

**NOTE Q – COMMITMENTS**

Construction of the Metcalfe County Middle School and the Metcalfe County Schools Primary Center is ongoing as of the audit date. It is anticipated that the completion of these projects will cost approximately \$6,494,792.

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

**NOTE R - RESTRICTED NET ASSETS**

The government-wide statement of net assets reports \$9,881,840 of restricted net assets, of which \$9,865,450 is restricted by enabling legislation.

**NOTE S – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through October 17, 2012. There are no material subsequent events to disclose.

SUPPLEMENTARY INFORMATION

METCALFE COUNTY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>DEBT SERVICE</u>	<u>TOTAL NON-MAJOR GOVERNMENT FUNDS</u>
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 303,107	\$ 496,956	\$ -	\$ 800,063
Accounts Receivable				
Taxes	-	-	-	-
Accounts	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 303,107</u>	<u>\$ 496,956</u>	<u>\$ -</u>	<u>\$ 800,063</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Sick Leave	-	-	-	-
Deferred Revenues	-	-	-	-
Total Liabilities	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Fund Balances				
Restricted - SFCC Escrow Current Offer	14,590	11,541	-	26,131
Restricted - Debt Service	288,517	485,415	-	773,932
Restricted - Future Construction	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>303,107</u>	<u>496,956</u>	<u>-</u>	<u>800,063</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 303,107</u>	<u>\$ 496,956</u>	<u>\$ -</u>	<u>\$ 800,063</u>

METCALFE COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

	CAPITAL OUTLAY	BUILDING FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
<b>REVENUES</b>				
Taxes	\$ -	\$ 387,278	\$ -	\$ 387,278
Earnings from Investments	-	-	-	-
Intergovernmental - State	143,956	652,411	400,477	1,196,844
Intergovernmental - Federal	-	-	434,218	434,218
Other Sources	-	-	-	-
<b>TOTAL REVENUES</b>	<u>143,956</u>	<u>1,039,689</u>	<u>834,695</u>	<u>2,018,340</u>
<b>EXPENDITURES</b>				
Instructional	-	-	-	-
Student Support Services	-	-	-	-
Staff Support Services	-	-	-	-
District Administration	-	-	-	-
School Administration	-	-	-	-
Business Support Services	-	-	-	-
Plant Operations & Maintenance	28,152	-	-	28,152
Student Transportation	-	-	-	-
Central Office	-	-	-	-
Community Service Operations	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Debt Service				
Principal	59,585	395,332	268,043	722,960
Interest	157,132	156,752	566,652	880,536
Other	67,249	2,500	-	69,749
<b>TOTAL EXPENDITURES</b>	<u>312,118</u>	<u>554,584</u>	<u>834,695</u>	<u>1,701,397</u>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>(168,162)</b>	<b>485,105</b>	<b>-</b>	<b>316,943</b>
<b>OTHER FINANCING SOURCES(USES)</b>				
Proceeds from Sale of Bonds	-	-	-	-
Proceeds from Sale of Assets	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(168,162)</u>	<u>485,105</u>	<u>-</u>	<u>316,943</u>
<b>FUND BALANCES - BEGINNING</b>	<u>471,269</u>	<u>11,851</u>	<u>-</u>	<u>483,120</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 303,107</u>	<u>\$ 496,956</u>	<u>\$ -</u>	<u>\$ 800,063</u>

METCALFE COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

	FUND BALANCE JULY 1, 2011	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2012
Metcalfe County High School	\$ 85,657	\$ 175,370	\$ 193,300	\$ 67,727
Summer Shade Elementary School	10,546	42,891	39,874	13,563
Edmonton Elementary School	14,791	86,277	85,201	15,867
North Metcalfe Elementary School	8,235	27,418	29,182	6,471
Metcalfe County Middle School	<u>12,644</u>	<u>93,130</u>	<u>90,059</u>	<u>15,715</u>
Total Activity Funds (Due to Student Groups)	<u>\$ 131,873</u>	<u>\$ 425,086</u>	<u>\$ 437,616</u>	<u>\$ 119,343</u>

SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES  
SCHOOL ACTIVITY FUNDS

METCALFE COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	CASH BALANCE		RECEIPTS	DISBURSEMENTS	CASH BALANCE		ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	FUND BALANCE
	July 1, 2011	June 30, 2012			June 30, 2012	June 30, 2012			
Academic Team	\$ 188	\$ 80	100	208	\$ 80	\$ -	-	-	\$ 80
Art Department	123	287	164	-	287	-	-	-	287
Athletics	6,095	3,305	54,298	57,087	61	434	-	-	2,933
Band	381	(1)	430	812	-	-	-	-	(1)
Beta Club	1,938	3,265	7,118	5,791	-	-	-	-	3,265
Book Rental	6,503	689	269	6,083	-	-	-	-	689
Cheerleaders	122	182	100	40	-	-	-	-	182
Volleyball	1,334	868	293	759	156	-	-	-	1,024
Nursing Class	23	-	482	505	-	-	-	-	-
Class of 2013	173	173	-	-	-	-	-	-	173
Class of 2014	285	285	-	-	-	-	-	-	285
Class of 2015	156	431	468	193	-	-	-	-	431
Class of 2012	625	-	412	1,037	-	-	-	-	-
Computer Club/STLP	681	737	691	635	-	-	-	-	737
Concession Golf	635	935	300	-	-	-	-	-	935
Concession Lady Hornets	556	13	945	1,488	-	-	-	-	13
Concession Softball	427	213	1,043	1,257	-	-	-	-	213
Concession Boys Basketball	898	788	300	410	665	-	-	-	1,453
Concession Cheerleaders	361	198	300	463	-	-	-	-	198
Concession Cross Country	49	232	431	248	-	-	-	-	232
Concession Dance Team	494	338	300	456	-	-	-	-	338
Concession Baseball	1,172	60	-	1,112	-	-	-	-	60
Concession Football	-	300	300	-	-	-	-	-	300
Athletics Tournament Share	32,633	27,372	6,582	11,843	-	-	-	-	27,372
Concession Volleyball	918	300	300	918	-	-	-	-	300
Concession Band	229	3	1,400	1,626	-	-	-	-	3
Dance Team	45	470	862	437	-	-	-	-	470
FCA	594	594	-	-	-	-	-	-	594
F.E.A	461	87	110	484	-	-	-	-	87
FFA	1,972	2,264	14,535	14,243	-	43	-	-	2,221
General	-	164	8,554	8,391	-	-	-	-	164
Office Account	-	-	-	-	-	-	-	-	-
Interest	68	49	296	315	-	-	-	-	49
Library	2,001	1,449	6,423	6,975	-	-	-	-	1,449
Pep Club	766	282	30	514	-	-	-	-	282
Student Coke/Snack	488	53	12,800	13,235	-	224	-	-	(171)
Student Council	209	209	-	-	-	-	-	-	209

METCALFE COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	CASH BALANCE July 1, 2011	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2012	ACCOUNTS RECEIVABLE JUNE 30, 2012	ACCOUNTS PAYABLE JUNE 30, 2012	FUND BALANCE JUNE 30, 2012
Softball	\$ -	\$ -	\$ -	\$ -	\$ 526	\$ -	\$ 526
Teachers' Lounge	790	9,472	6,957	3,305	-	-	3,305
Picture Day Fund	36	1,011	997	50	-	-	50
VO-AG	57	-	57	-	-	-	-
Yearbook	11,935	14,057	20,297	5,695	-	-	5,695
Girls Basketball Camp	481	2,036	1,711	806	-	-	806
HOSA	675	6,068	6,061	682	-	-	682
Elective Fee	1,726	5	1,166	565	-	-	565
Concessions Tennis	-	1,863	1,592	271	-	-	271
Signs	553	-	553	-	-	-	-
FBLA	302	3,112	3,372	42	-	-	42
Prom	2,115	8,345	5,986	4,474	-	-	4,474
Senior Trip	1,134	-	567	567	-	-	567
Business Class Trip	10	-	10	-	-	-	-
Ice Cream Fund	983	28	1,010	-	-	-	-
Flower Fund	138	-	40	98	-	-	98
Girl Power	574	-	575	(1)	-	-	(1)
Special Ed	131	-	13	118	-	-	118
Relay for Life	-	956	956	-	-	-	-
Boys Basketball Camp	1,040	2,631	2,469	1,202	-	103	1,099
Archery Club	20	3,589	1,247	2,362	-	-	2,362
Project Graduation	-	567	567	-	-	-	-
Chess Club	207	5	-	212	-	-	212
MCHS Alumni	140	-	140	-	-	-	-
PTSO	21	-	21	-	-	-	-
Entrepreneurship	450	-	450	-	-	-	-
Spanish Club	193	-	193	-	-	-	-
Total All Funds	\$ 87,315	\$ 174,381	\$ 194,575	\$ 67,121	\$ 1,409	\$ 803	\$ 67,727
Interfund Transfers	-	(3,615)	(3,615)	-	-	-	-
Total	\$ 87,315	\$ 170,766	\$ 190,960	\$ 67,121	\$ 1,409	\$ 803	\$ 67,727

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

METCALFE COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through KY Workforce Development Cabinet			
Adult Education - State Grant Program	84.002	3732	\$ 110,519
Total KY Workforce Development Cabinet			<u>110,519</u>
Passed-Through Department of Education			
Title I, Part A Cluster			
Title I	84.010	3100	1,912
Title I - Parent Involvement	84.010	3100M	928
Title I	84.010	3101	185,962
Title I - District Improvement	84.010	3101D	11,533
Title I - Parent Involvement	84.010	3101M	2,160
Title I	84.010	3102	496,874
Title I - District Improvement	84.010	3102D	57,999
Title I - Parent Involvement	84.010	3102M	2,080
Title I - School Improvement	84.010	3202	4,174
Title I - Parent Involvement ARRA	84.392	3919M	707
Total Title I, Part A Cluster			<u>764,329</u>
Migrant Education - State Grant Program			
Migrant Education - State Grant Program	84.011	3110	6,000
Migrant Education - State Grant Program	84.011	3111R	106,469
Migrant Education - State Grant Program	84.011	3112	74,058
Migrant Education - State Grant Program	84.011	3112R	331,708
			<u>518,235</u>
Vocational Education - Basic Grants to States			
Vocational Education - Basic Grants to States	84.048	3480A	901
Vocational Education - Basic Grants to States	84.048	3481	250
Vocational Education - Basic Grants to States	84.048	3481A	889
Vocational Education - Basic Grants to States	84.048	3482	15,578
			<u>17,618</u>
Rural Education	84.358	3501	16,053
Teacher Quality Enhancement Grants			
Teacher Quality Enhancement Grants	84.367	4011	42,238
Teacher Quality Enhancement Grants	84.367	4012	83,275
			<u>125,513</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	4060	6,381
Twenty-First Century Community Learning Centers			
Twenty-First Century Community Learning Centers	84.287	* 5500	57,944
Twenty-First Century Community Learning Centers	84.287	* 5500Q	2,000
Twenty-First Century Community Learning Centers	84.287	* 5500Z	5,600
Twenty-First Century Community Learning Centers	84.287	* 5501	62,693
Twenty-First Century Community Learning Centers	84.287	* 5501S	10,571
			<u>138,808</u>
Special Education Cluster			
Special Education - Grants to States	84.027	3371	44,186
Special Education - Grants to States	84.027	3372	330,979
ARRA - Special Education - Grants to States	84.391	4249	29,574
ARRA - Special Education - Preschool Grants	84.392	4239	4,070

METCALFE COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA NUMBER		PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
Special Education - Preschool Grants	84.173		3430	\$ 29,677
Special Education - Preschool Grants	84.173		3431	19,799
Special Education - Preschool Grants	84.173		3432	7,449
Special Education - Preschool Grants	84.173		3439	1,410
Total Special Education Cluster				<u>467,144</u>
Education Technology State Grants	84.318		4251	1,987
Education Jobs Fund	84.410		4411	40,103
School Improvement Grants-ARRA	84.388	*	5600A	112,523
School Improvement Grants-ARRA	84.388	*	5600B	266,736
				<u>379,259</u>
Total U.S. Department of Education				2,585,949
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
Child Nutrition Cluster				
National School Lunch Program	10.555	*	7750002 11	115,120
National School Lunch Program	10.555	*	7750002 12	392,008
School Breakfast Program	10.553	*	7760005 11	50,191
School Breakfast Program	10.553	*	7760005 12	179,659
Summer Food Service Program for Children	10.559	*	7740023 11	2,789
Summer Food Service Program for Children	10.559	*	7740023 12	1,542
Summer Food Service Program for Children	10.559	*	7740024 11	288
Summer Food Service Program for Children	10.559	*	7740024 12	10,830
Total Child Nutrition Cluster				<u>752,427</u>
Passed-Through State Department of Agriculture				
Food Distribution	10.565		51	56,303
Fresh Fruit & Vegetables Program	10.582		7720012 11	628
				<u>56,931</u>
Total U.S. Department of Agriculture				809,358
<u>Corporation For National and Community Service</u>				
Community Education Learn and Serve	94.004		6751	3,807
Total Corporation For National and Community Service				<u>3,807</u>
Total Federal Financial Assistance				<u>\$ 3,399,114</u>

\* Denotes Major Federal Program

METCALFE COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the 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 Metcalfe 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**

Non-monetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

METCALFE COUNTY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2012

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of audit issued: Unqualified

Internal control over financial reporting

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs?

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None Reported

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

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

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.287	Twenty-first Century Community Learning Centers
84.388	School Improvement Grants-ARRA
10.553,10.555,10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement of Findings**

No matters were reported

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported

METCALFE COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For the Year Ended June 30, 2012

**Financial Statement Findings**

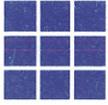
**Finding 2011-01: Adjustments**

During our prior year audit, we proposed several adjustments to management that were non-material in nature but were significant enough to warrant attention due to lack of controls over the year-end closing procedures concerning A/R and A/P.

**Current year observation:** Control procedures have been implemented over A/R and A/P to allow for proper identification and recording at year-end.

**Federal Award Findings and Questioned Costs:**

The audit of Metcalfe County School District for the year ended June 30, 2011, revealed no audit findings requiring corrective action.



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

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Metcalf County School District  
Edmonton, KY 42129

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Metcalfe County School District, as of and for the year ended June 30, 2012, which collectively comprise the Metcalfe County School District's basic financial statements and have issued our report thereon dated October 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Audits of States, Local Governments, and Non-Profit Organizations* and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III and IV of the *Independent Auditor's Contract*.

Internal Control Over Financial Reporting

Management of the Metcalfe County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Metcalfe 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 Metcalfe County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metcalfe County School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Kentucky State Committee for School District Audits  
And Members of the Board of Education of  
Metcalf County School District  
Page 2

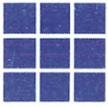
We noted certain matters that we reported to management of Metcalfe County School District, in a separate letter dated October 17, 2012.

This report is intended solely for the information and use of management, the member of the Metcalfe County School District, the Kentucky Department of Education, and the 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.

*Wise, Buckner, Sprowles & Associates PLLC*

Wise, Buckner, Sprowles & Associates PLLC  
Campbellsville, KY

October 17, 2012



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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  
Metcalf County School District  
Edmonton, KY 42129

Compliance

We have audited Metcalfe County School District's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Metcalfe County School District's major federal programs for the year ended June 30, 2012. Metcalfe 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 Metcalfe County School District's management. Our responsibility is to express an opinion on Metcalfe 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 of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards 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 Metcalfe 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 Metcalfe County School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of Metcalfe 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 Metcalfe County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program, 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 Metcalfe County School District's internal control over compliance.

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

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

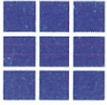
This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Metcalf County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities,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

*Wise, Buckner, Sprowles & Associates PLLC*

Wise, Buckner, Sprowles & Associates PLLC  
Certified Public Accountants

Campbellsville, Kentucky  
October 17, 2012

MANAGEMENT LETTER



October 17, 2012

Members of the Board of Education  
Metcalf County School District  
Edmonton, Kentucky

In planning and performing our audit of the financial statements of the Metcalfe 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 financial statements and not to provide assurance of the internal control structure.

However, during our audit we became aware of two matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters, but we would first like to address the progress of the management letter points from the previous audit.

The management letter from the previous fiscal year discussed four points with respect to strengthening internal controls within the school activities funds. One point was discussed in regards to strengthening internal controls within the Central Office.

In connection with our testing of activity funds, the following observations were made concerning the prior year management letter points:

**Fiduciary Funds – School Activity Funds**

- I. Condition – The Metcalfe County High School's Archery, Beta, FFA and the Metcalfe County Middle School's Jr. Beta, Dance and FFA clubs held approved fundraiser's with little or no documentation on the Fundraiser Worksheet F-SA-2B or equivalent. The Fundraiser Worksheet Sections 3 & 4 contains cells to document individual daily receipts and individual expense checks so that the activity can be traced from the worksheet to the activity fund ledger.

Observation – Two fundraisers were found during our current year's fieldwork not to have been properly documented on the Fundraiser Worksheet F-SA-2B or equivalent.

- II. Condition – Booster club financial statements are not being turned in. At the time of audit fieldwork, Metcalfe County High School booster clubs for volleyball and softball had not turned in their annual financial statement to the principal which is due July 25. The Metcalfe County Baseball Booster Club had turned in an annual financial report timely but failed to list expenditures in detail.

Observation – At the time of our current year's fieldwork, the booster clubs for the high school's Girls Basketball and Girls Softball had submitted financial information but expenditures were not detailed by vendor as required by the Redbook.

The following memorandum discusses the current year management letter points. We will review the status of these comments during our next audit engagement. We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the Board is complying with requirements such as those mentioned in the following memorandum.

Sincerely,

*Wise, Buckner, Sprowles & Associates PLLC*

Wise, Buckner, Sprowles & Associates PLLC  
Certified Public Accountants

**Fiduciary Funds – School Activity Funds**

**Current Year Finding and Recommendation**

Finding - During our fieldwork for activity funds, we found the Metcalfe County High School's Beta and HOSA clubs held approved fundraiser's of which the activity could not be traced back to the Fundraiser Worksheet F-SA-2B or equivalent. The Fundraiser Worksheet Sections 3 & 4 contains cells to document individual daily receipts and individual expense checks so that the activity can be traced from the worksheet to the activity fund ledger.

Recommendation – Document receipts (line 3) and expenses (line 4) on School Activity Fund Raiser Worksheet F-SA- 2B or equivalent in manner which allows for receipt and expenses amounts to be traceable to the fund ledgers. Hold staff meetings for activity fund sponsors specifically to address the proper procedures for recording fundraiser transactions. Proper recording procedures for fundraisers can be found in the Red Book.

**Management Response**

Management agrees with the finding and continues to hold Red Book training sessions with staff and club sponsors concerning proper Red Book procedures.

**Current Year Finding and Recommendation**

Finding - The Metcalfe County High School booster club's for Girls Basketball and Girls Softball had turned in an annual financial report timely but failed to list expenditures in detail.

Recommendation – Continue to educate booster club sponsors concerning the requirements of booster club reporting requirements according to Red Book procedures by providing the sponsors with documentation concerning the responsibilities of booster clubs with information taken from the Red Book. Alternatively, the District could institute policies to terminate consistently non-compliant booster clubs and begin to operate them within the activity fund of the school.

For the booster clubs to satisfy the financial reporting requirements, they could simply submit a copy of a completed check register for the year.

**Management Response**

Management agrees with the finding and the recommendation will discuss with those involved

**Current Year Finding and Recommendation**

Finding - During our fieldwork, one immaterial unrecorded receipt was found that should have been recorded as accounts receivable at June 30, 2012.

Recommendation – Although controls for year-end closing procedures concerning accounts receivable have been improved and implemented, we would recommend that an additional cross-check be included to allow for two people, preferably the Accounts Payable Clerk (although this would not currently be within her job description), or another suitable person and the Finance Officer to be involved in the process of recording accounts receivable.

**Management Response**

Management agrees with the finding and the recommendation will be discussed within the finance department.

**Current Year Finding and Recommendation**

Finding - The District has several Certificates of Deposit with varying dates of maturity of which accrued interest receivable is not being recorded.

Recommendation – We recommend the Finance Officer obtain sufficient documentation such as dates of maturity, interest rates and the balance of the Certificates of Deposit at fiscal year-end to be able to calculate and record the interest accrual.

**Management Response**

Management agrees with the finding and the recommendation will be discussed within the finance department.