

**Muhlenberg County
School District**

Financial Statements

June 30, 2012



Muhlenberg County School District
Table of Contents
June 30, 2012

Independent Auditors' Report.....	4
Required Supplementary Information:	
Management's Discussion and Analysis.....	8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities.....	19
Fund Financial Statements:	
Balance Sheet — Governmental Funds.....	21
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	23
Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	24
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	26
Statement of Net Assets — Proprietary Funds.....	27
Statement of Revenues, Expenses and Changes in Fund Net Assets — Proprietary Funds.....	28
Statement of Cash Flows — Proprietary Funds	29
Statement of Fiduciary Net Assets — Fiduciary Funds	31
Statement of Changes in Fiduciary Net Assets — Fiduciary Funds	32
Notes to the Financial Statements	33

Required Supplementary Information:

Budgetary Comparison Schedule for the General Fund	60
Budgetary Comparison Schedule for the Special Revenue Fund	62

Supplementary Information:

Combining Balance Sheet — Nonmajor Governmental Funds	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances — Nonmajor Governmental Funds	66
Combining Statement of Net Assets — Nonmajor Proprietary Funds	68
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets — Nonmajor Proprietary Funds	69
Combining Statement of Cash Flows — Nonmajor Proprietary Funds	70
Combining Statement of Assets and Liabilities — All Activity Funds — All Schools	71
Statement of Assets and Liabilities — School Activity Funds — Muhlenberg County High School – West Campus	72
Statement of Assets and Liabilities — School Activity Funds — Muhlenberg County High School – East Campus	76
Schedule of Expenditures of Federal Awards	79
Notes to the Schedule of Expenditures of Federal Awards	81
Summary Schedule of Prior Year Audit Findings	82
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	83
Independent Auditors’ Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	86
Schedule of Findings and Questioned Costs	89
Management Letter	95



Carr, Riggs & Ingram, LLC

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

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

www.cricpa.com

Independent Auditors' Report

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 on our consideration of Muhlenberg County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 through 15 and 60 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual nonmajor fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and other information, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and

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

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

Required Supplementary Information

Management's Discussion and Analysis

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012**

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

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets increased \$512,080. Net assets of governmental activities increased \$541,036 from fiscal year 2011. Net assets of the business-type activity, which represents food service, community education and daycare, decreased \$28,956 from fiscal year 2011.
- General revenues accounted for \$47M in revenue or 79% of all revenues. Program specific revenues, in the form of charges for services, sales, grants and contributions accounted for \$12.3M or 21% of total revenues of \$59.3M.
- The Board had \$71.4M in total governmental expenses. This included \$15.6M in the construction fund.
- Total revenue was \$56.3M, an increase of \$531K over FY 2011.
- Investment income was \$256K, a decrease of \$90,000, a reflection of the current interest rate environment.
- SEEK funding increased by 5.7% almost entirely due to the SEEK base increase from \$3,868 to \$3,903.
- Total salary and benefit costs increased by \$871K from 2010-11. This was 2% increase.
- Total general fund current operating expenses increased \$3.7M from 2010-11, due primarily to the salary and retirement match increases.
- Contingency fund was budgeted at \$3.6M (which is 6%) in anticipation of shrinking state revenue and the exhaustion of Federal Stimulus funding. The state requires 2%.

OVERVIEW OF ANNUAL FINANCIAL REPORT (AFR)

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 58 of this report.

Reporting the School District as a Whole

One of the most important questions asked about the District is "How did we do financially during 2012?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$57,311,881 as of June 30, 2012. This was an increase of \$512,080 over the previous year.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The amount of capital assets, net of related debt was \$44,151,311 (an increase of \$16,471,132 over the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Total net assets increased \$512,080. Net assets of the District’s governmental activities increased \$541,036. The net assets of the District’s business-type activity decreased \$28,956.

The district-wide financial statements can be found on pages 17 to 20 of this report.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District’s major funds follows. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate

compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others such as trust funds established by benefactors to aid in student education, welfare and teacher support. The school's activity funds are reported as fiduciary funds. The proprietary fund consists of daycare, food service, and community education operations. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Muhlenberg County School District are the general fund, the special revenue (grants) fund, and the construction fund.

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

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

Fiduciary Funds – The schools' activity funds (or agency funds) are the District's fiduciary fund. The fiduciary fund liabilities at year end total \$578,180 (an increase of \$8,390 from the previous year).

The basic government fund financial statements can be found on pages 21 through 32 of this report.

DISTRICT WIDE FINANCIAL ANALYSIS

The perspective of the statement of net assets of the District as a whole. The following table provides a summary of the District's net assets for 2012 compared to 2011:

	2012	2011
Current assets	\$ 17,386,129	\$ 2,546,441
Noncurrent assets	<u>79,188,694</u>	<u>65,181,090</u>
Total assets	<u>\$ 96,574,823</u>	<u>\$ 97,727,531</u>
Current liabilities	\$ 2,809,298	\$ 4,843,678
Noncurrent liabilities	<u>36,453,644</u>	<u>36,084,052</u>
Total liabilities	<u>\$ 39,262,942</u>	<u>\$ 40,927,730</u>
Net assets		
Investment in capital assets - net of debt	\$ 44,151,311	\$ 27,680,179
Restricted	3,685,991	18,527,560
Unrestricted fund balance	<u>9,474,579</u>	<u>10,592,062</u>
Total net assets	<u>\$ 57,311,881</u>	<u>\$ 56,799,801</u>

The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2012 and 2011.

	2012	2011
Revenues:		
Program Revenues		
Charges for Services	\$1,155,796	1,188,001
Operating Grants and Contributions	8,024,898	10,885,381
Capital Grants and Contributions	3,119,054	129,150
General Revenue		
Taxes	6,830,451	7,222,813
Other local government units (TVA)	9,892,171	10,911,486
Other taxes	137,315	126,261
State Aid	28,981,120	28,802,830
Investment Earnings	241,619	347,362
Other Revenue	898,754	951,665
Transfers	61,496	0
Total Revenue	<u>59,342,674</u>	<u>60,564,949</u>

Expenses:

Instructional	35,781,944	35,399,781
Student Support	1,512,152	1,400,799
Instructional Support	1,386,448	1,091,299
District Administration	1,326,569	1,230,753
School Administration	2,322,497	2,094,043
Business Support	1,442,199	1,251,786
Plant Operation & Maintenance	5,623,164	4,980,791
Student Transportation	4,226,266	3,379,633
Other	571,431	555,489
Debt Services	1,354,883	1,396,966
Food Services-Govt	28,799	21,680
Food Services	2,922,895	2,882,674
Day Care	329,897	327,126
Community Education	1,450	2,075
Total Expenses	<u>58,830,594</u>	<u>56,014,895</u>
Excess of revenue over expenditures	<u>512,080</u>	<u>4,550,054</u>

BUSINESS-TYPE ACTIVITY

The major business-type activity of the District is the food service operation. This program had revenues of \$2.9M and expenses of \$2.9M for fiscal year 2012. The food service operation is self-operating without assistance from the General Fund. The business activity receives no support from tax revenues and continues to be fiscally sound while student lunch prices are among the lowest in the region.

THE DISTRICT'S FUNDS

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$56.3M and expenditures and other financing uses of \$71.4M. Included in the \$71.4M is \$15.6M in construction fund expenditures. The General Fund balance decreased \$42,922.

Changes in End-of-Year Fund Balance	FY 2011	FY 2012	Amount of Change	% Change
General Fund	\$11,763,760	\$11,720,838	(\$42,922)	-.36%
Special Revenue Fund	\$0	\$0	0	0.00%
Construction Fund	\$16,573,537	\$1,571,636	(\$15,001,901)	-90.52%
Other Governmental Funds	\$148,494	\$344,035	\$195,541	131.68%
School Food Fund	\$1,010,258	\$981,262	(\$28,996)	-2.87%
Other Enterprise Funds	\$323	\$363	\$40	12.38%
Total	\$29,496,372	\$14,618,134	(\$14,878,238)	-50.40%

GENERAL FUND BUDGETING HIGHLIGHTS

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. In Kentucky the public school's fiscal year is July 1 - June 30; other programs, i.e. some federal, operate on a different fiscal calendar but are reflected in the overall budget. By law the budget must have a minimum 2 percent contingency. The District adopted a budget with \$3.6M in contingency (6 percent). The beginning fund balance for the fiscal year was \$11,763,760. The most significant budgeted fund is the General Fund.

During the course of fiscal 2012, the District amended its General Fund budget as needed. The District uses a centralized budget. The budgeting system is designed to control budgets but allow flexibility for management.

For the General Fund, actual original revenues and other financing sources, excluding on-behalf payments (revenues that do not flow through the District), were \$38.1M. Original budgeted revenues were \$36.5M. The continued poor economy has had negative effects on the primary revenue sources to the district state SEEK, TVA in lieu, local taxes, and state and federal grants.

Original budgeted expenditures were \$42.7M, excluding on-behalf payments made by the State of Kentucky. Actual expenditures were \$38.1M. The District recorded on-behalf payments in 2012 totaling \$8.2M as required by KDE. These revenues and expenditures are not budgeted and do not run directly through the Muhlenberg County School District financial system. These payments are made on behalf of the Muhlenberg County School District by the Commonwealth of Kentucky for employee health insurance, Teachers' Retirement and Vocational Education.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2012 the district had invested \$78,924,729 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total initial cost of assets was \$113,506,156 with accumulated depreciation of \$34,581,427.

Debt

The District's long-term general obligation bonds outstanding at June 30, 2012 were \$36,311,797. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to repay \$13,242,883 of the bonds leaving the District to pay \$23,068,914. The District's portion of the bonds is primarily being paid from the Capital Outlay and Building funds. The district paid \$2,008,325 for bond payments for FY 2012.

During FY 2012, the District refinanced bonds of \$8,775,000. This refunding was for bonds originally issued in FY2004. Total savings due to the interest rate drop was \$776,228.

CURRENT ISSUES

Total local generated property taxes dropped from \$6.5M to \$6.1M from last fiscal year to FY 2012. The decrease is primarily due to a drop in franchise taxes from \$1M to \$681,000. Fluctuations in franchise taxes are not uncommon due to appeals and valuations at the state level. The real estate market was steady holding at \$5M. Motor vehicle assessments increased over 3% to \$915,000. Enrollment remained steady at 5,065. Looking ahead, enrollment numbers are projected to remain stable as they have over the past five years.

The District remains committed to increasing staff salaries and responding to the competitive educational environment. The beginning teacher salary was increased to \$36,094 while the top end of the 187 day salary schedule for teachers stands at \$58,116. Muhlenberg County School District staff salaries are competitive in comparison to other Western Kentucky school districts. Staff retention and stability are good across all employee categories and are competitive with neighboring districts. Applicants for all job categories are more plentiful than in years. State revenue projections continue to look very bleak. This will require that the budget be closely monitored and new initiatives closely reviewed. In preparation, the contingency balance was set at \$3.6M. The district is always reviewing for cost savings in transportation, administration, facility maintenance and energy. Debt refinancing is always monitored as some issues mature. At the same time, services and supports have been continued at the schools. This will change if state budget cuts continue.

There continues to be a concerted focus on investing in capital construction considering the age and size of our facilities. The construction to replace Bremen Elementary school was nearly complete at the end of FY2012, as well as the West Campus Sports Complex. The district's next top construction priority is the new Tech Wing at the West Campus projected to be at a cost of \$10M.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to Mr. Jeff Travis, Treasurer, at 270-338-2871, or by mail at 510 W. Main St., Powderly, KY 42367.

Basic Financial Statements

Muhlenberg County School District
Statement of Net Assets

June 30, 2012	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 2,472,162	\$ 645,295	\$ 3,117,457
Investments	11,868,974	-	11,868,974
Accounts receivable:			
Taxes	3,157	-	3,157
Accounts	509,554	15,674	525,228
Intergovernmental	550,152	-	550,152
Pledge receivable	500,000	-	500,000
Inventory	189,026	50,627	239,653
Prepaid expenses	581,508	-	581,508
Bond issuance cost	322,139	-	322,139
Less: accumulated amortization	(58,174)	-	(58,174)
Nondepreciable capital assets	18,365,798	-	18,365,798
Depreciable capital assets	93,736,627	1,403,731	95,140,358
Less: accumulated depreciation	(33,463,627)	(1,117,800)	(34,581,427)
Total assets	95,577,296	997,527	96,574,823
Liabilities			
Accounts payable	1,496,678	-	1,496,678
Accrued liabilities	92,776	-	92,776
Deferred revenue	948,570	-	948,570
Accrued interest	271,274	-	271,274
Long-term obligations:			
Due within one year:			
Outstanding bonds	2,265,235	-	2,265,235
Compensated absences	804,598	12,552	817,150
Due beyond one year:			
Outstanding bonds	32,508,183	-	32,508,183
Compensated absences	859,726	3,350	863,076
Total liabilities	39,247,040	15,902	39,262,942

June 30, 2012	Governmental Activities	Business- Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 43,865,380	\$ 285,931	\$ 44,151,311
Restricted for:			
Grants	586,598	-	586,598
Capital projects	3,099,393	-	3,099,393
Unrestricted	8,778,885	695,694	9,474,579
Total Net Assets	\$ 56,330,256	\$ 981,625	\$ 57,311,881

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Activities

Year Ended June 30, 2012	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction	\$ 35,781,944	\$ 9,145	\$ 4,114,954	\$ 222,012	\$ (31,435,833)	\$ -	\$ (31,435,833)
Support services:							
Student	1,512,152	-	41,529	-	(1,470,623)	-	(1,470,623)
Instructional staff	1,386,448	-	53,790	-	(1,332,658)	-	(1,332,658)
District administration	1,326,569	-	-	-	(1,326,569)	-	(1,326,569)
School administration	2,322,497	-	867,954	-	(1,454,543)	-	(1,454,543)
Business	1,442,199	-	233,158	-	(1,209,041)	-	(1,209,041)
Plant operations and maintenance	5,623,164	555	43,570	-	(5,579,039)	-	(5,579,039)
Student transportation	4,226,266	-	168,019	-	(4,058,247)	-	(4,058,247)
Other	565,039	-	431,288	-	(133,751)	-	(133,751)
Food service operation	28,799	-	-	-	(28,799)	-	(28,799)
Site improvement	-	-	-	1,379,083	1,379,083	-	1,379,083
Interest on long-term debt	1,354,883	-	-	1,511,816	156,933	-	156,933
Loss on disposal of assets	6,392	-	-	-	(6,392)	-	(6,392)
Total governmental activities	55,576,352	9,700	5,954,262	3,112,911	(46,499,479)	-	(46,499,479)
Business-Type Activities							
Food services	2,922,895	862,834	2,022,511	6,143	-	(31,407)	(31,407)
Community education	1,450	1,398	92	-	-	40	40
Day care	329,897	281,864	48,033	-	-	-	-
Total business-type activities	3,254,242	1,146,096	2,070,636	6,143	-	(31,367)	(31,367)
Total School District	\$ 58,830,594	\$ 1,155,796	\$ 8,024,898	\$ 3,119,054	(46,499,479)	(31,367)	(46,530,846)

General Revenues			
Taxes:			
Property	5,026,392	-	5,026,392
Motor vehicle	914,578	-	914,578
Unmined minerals	208,966	-	208,966
Franchise tax	680,515	-	680,515
Revenue in lieu of taxes	9,892,171	-	9,892,171
Other	137,315	-	137,315
State aid	28,981,120	-	28,981,120
Investment earnings	239,208	2,411	241,619
Other	898,754	-	898,754
Transfers	61,496	-	61,496
<hr/>			
Total general revenues and transfers	47,040,515	2,411	47,042,926
<hr/>			
Change in Net Assets	541,036	(28,956)	512,080
<hr/>			
Net Assets – Beginning of Year	55,789,220	1,010,581	56,799,801
<hr/>			
Net Assets – End of Year	\$ 56,330,256	\$ 981,625	\$ 57,311,881
<hr/>			

Muhlenberg County School District
Balance Sheet
Governmental Funds

June 30, 2012	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 1,452,442	\$ 400,317	\$ 275,368	\$ 344,035	\$ 2,472,162
Investments	9,511,216	-	2,357,758	-	11,868,974
Accounts receivable:					
Taxes	3,157	-	-	-	3,157
Accounts	342,887	-	166,667	-	509,554
Intergovernmental	-	550,152	-	-	550,152
Inventory	189,026	-	-	-	189,026
Prepaid expenses	581,508	-	-	-	581,508
Total Assets	\$12,080,236	\$ 950,469	\$ 2,799,793	\$ 344,035	\$16,174,533

Liabilities and Fund Balances

Liabilities					
Accounts payable	\$ 266,622	\$ 1,899	\$ 1,228,157	\$ -	\$ 1,496,678
Accrued liabilities	92,776	-	-	-	92,776
Deferred revenue	-	948,570	-	-	948,570
Total liabilities	359,398	950,469	1,228,157	-	2,538,024
Fund Balances					
Nonspendable	770,534	-	-	-	770,534
Restricted	1,770,320	-	1,571,636	344,035	3,685,991
Committed	6,376,960	-	-	-	6,376,960
Assigned	193,676	-	-	-	193,676
Unassigned	2,609,348	-	-	-	2,609,348
Total fund balances	11,720,838	-	1,571,636	344,035	13,636,509
Total Liabilities and Fund Balances	\$12,080,236	\$ 950,469	\$ 2,799,793	\$ 344,035	\$16,174,533

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

June 30,	2012
Total Fund Balances – Governmental Funds	\$ 13,636,509
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$112,102,425, and the accumulated depreciation is \$33,463,627.	78,638,798
Bond issuance costs are not financial resources and, therefore, are not reported as an asset in governmental funds. The cost of the asset is \$322,139, and the accumulated amortization is \$58,174.	263,965
Certain long-term assets are not reported in the governmental funds because they are not available to pay current period expenditures, but they are reported in the statement of net assets.	500,000
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. Long-term liabilities at year-end consist of:	
Bonds payable	(34,773,418)
Accrued interest on outstanding bonds	(271,274)
Compensated absences	(1,664,324)
Total Net Assets – Governmental Activities	\$ 56,330,256

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 4,261,015	\$ -	\$ -	\$ 765,377	\$ 5,026,392
Motor vehicle	914,578	-	-	-	914,578
Unmined minerals	208,966	-	-	-	208,966
Franchise tax	680,515	-	-	-	680,515
Revenue in lieu of taxes	9,892,171	-	-	-	9,892,171
Other	137,315	-	-	-	137,315
Earnings on investments	214,841	931	15,594	24,367	255,733
Other local revenue	809,128	-	333,333	-	1,142,461
Intergovernmental – state	28,981,120	1,647,797	-	2,686,044	33,314,961
Intergovernmental – federal	99,326	4,527,546	-	189,261	4,816,133
Total revenues	46,198,975	6,176,274	348,927	3,665,049	56,389,225
Expenditures					
Current:					
Instruction	29,239,390	4,447,972	-	-	33,687,362
Support services:					
Student	1,394,172	41,529	-	-	1,435,701
Instructional staff	1,328,500	53,790	-	-	1,382,290

District administration	1,304,877	-	-	-	1,304,877
School administration	1,454,543	867,954	-	-	2,322,497
Business	1,216,120	233,158	-	-	1,449,278
Plant operations and maintenance	5,603,530	43,570	-	-	5,647,100
Student transportation	4,164,574	168,019	-	-	4,332,593
Other	133,422	431,288	-	-	564,710
Food service operation	28,799	-	-	-	28,799
Debt service:					
Principal	-	-	-	2,224,559	2,224,559
Interest	-	-	-	1,326,690	1,326,690
Building acquisition and construction	-	-	15,600,288	-	15,600,288
Bond issuance costs	-	-	-	120,020	120,020
Total expenditures	45,867,927	6,287,280	15,600,288	3,671,269	71,426,764
Excess (Deficiency) of Revenues over Expenditures	331,048	(111,006)	(15,251,361)	(6,220)	(15,037,539)
Other Financing Sources (Uses)					
Proceeds of advance refunding bonds	-	-	-	15,341,867	15,341,867
Payment to advance refunded bonds escrow agent	-	-	-	(15,215,105)	(15,215,105)
Operating transfers in	61,496	111,006	249,460	2,008,324	2,430,286
Operating transfers out	(435,466)	-	-	(1,933,325)	(2,368,791)
Total other financing sources (uses)	(373,970)	111,006	249,460	201,761	188,257
Net Change in Fund Balances	(42,922)	-	(15,001,901)	195,541	(14,849,282)
Fund Balances – Beginning of Year	11,763,760	-	16,573,537	148,494	28,485,791
Fund Balances – End of Year	\$ 11,720,838	\$ -	\$ 1,571,636	\$ 344,035	\$ 13,636,509

See accompanying notes to the financial statements.

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

Year Ended June 30,	2012
Total Net Change in Fund Balances – Governmental Funds	\$ (14,849,282)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$16,862,010) exceeds depreciation expense (\$2,619,522) in the period.	14,242,488
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual gain (loss) from the sale net to this amount for the year.	(6,392)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,149,559
The issuance of a bond is shown as an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. Correspondingly, the transfer to an escrow agent for the refunding of bonds is shown as an other financing use in the governmental funds, but the transfer reduces long-term liabilities in the statement of net assets. The net of these other financing sources and uses is shown here for the period.	(126,762)
Receipt of pledges receivable provide current financial resources in the governmental funds but reduce a receivable in the statements of net assets.	(333,333)
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	(535,242)
Change in Net Assets – Governmental Activities	\$ 541,036

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Net Assets
Proprietary Funds

June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Assets			
Current Assets			
Cash	\$ 644,932	\$ 363	\$ 645,295
Accounts receivable:			
Accounts	15,674	-	15,674
Inventory	50,627	-	50,627
Total current assets	711,233	363	711,596
Noncurrent Assets			
Fixed assets – net	285,931	-	285,931
Total Assets	\$ 997,164	\$ 363	\$ 997,527
Liabilities and Net Assets			
Current Liabilities			
Compensated absences	\$ 12,552	\$ -	\$ 12,552
Total current liabilities	12,552	-	12,552
Long-Term Liabilities			
Compensated absences	3,350	-	3,350
Total long-term liabilities	3,350	-	3,350
Net Assets			
Invested in capital assets, net of related debt	285,931	-	285,931
Unrestricted	695,331	363	695,694
Total net assets	981,262	363	981,625
Total Liabilities and Net Assets	\$ 997,164	\$ 363	\$ 997,527

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Operating Revenues			
Lunchroom sales	\$ 862,834	\$ -	\$ 862,834
Tuition and fees	-	283,262	283,262
Total operating revenues	862,834	283,262	1,146,096
Operating Expenses			
Salaries and wages	1,384,192	329,364	1,713,556
Contract services	26,785	-	26,785
Materials and supplies	1,446,834	533	1,447,367
Other operating expenses	-	1,450	1,450
Depreciation expense	52,897	-	52,897
Total operating expenses	2,910,708	331,347	3,242,055
Operating loss	(2,047,874)	(48,085)	(2,095,959)
Nonoperating Revenues (Expenses)			
State operating grants	227,262	48,125	275,387
Federal operating grants	1,660,336	-	1,660,336
Donated commodities	134,913	-	134,913
Interest revenue	2,411	-	2,411
Loss on disposal of assets	(12,187)	-	(12,187)
Total nonoperating revenues (expenses)	2,012,735	48,125	2,060,860
Income (loss) before capital contributions	(35,139)	40	(35,099)
Capital Contributions	6,143	-	6,143
Change in Net Assets	(28,996)	40	(28,956)
Total Net Assets – Beginning of Year	1,010,258	323	1,010,581
Total Net Assets – End of Year	\$ 981,262	\$ 363	\$ 981,625

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Cash Flows from Operating Activities			
Cash received from user charges	\$ 848,314	\$ 283,262	\$ 1,131,576
Cash payments to employees for services	(1,167,076)	(281,331)	(1,448,407)
Cash payments for contract services	(26,785)	-	(26,785)
Cash payments to suppliers for goods and services	(1,291,580)	(533)	(1,292,113)
Cash payments for other operating expenses	-	(1,358)	(1,358)
Net cash provided by (used in) operating activities	(1,637,127)	40	(1,637,087)
Cash Flows from Noncapital Financing Activities			
Nonoperating grants received	1,686,384	-	1,686,384
Net cash provided by noncapital financing activities	1,686,384	-	1,686,384
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(46,039)	-	(46,039)
Net cash used in capital and related financing activities	(46,039)	-	(46,039)
Cash Flows from Investing Activities			
Interest on investments	2,411	-	2,411
Net cash provided by investing activities	2,411	-	2,411
Net Increase in Cash	5,629	40	5,669
Cash – Beginning of Year	639,303	323	639,626
Cash – End of Year	\$ 644,932	\$ 363	\$ 645,295

Year Ended June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Reconciliation of Operating Loss to Net Cash Provided By (Used In) Operating Activities			
Operating loss	\$ (2,047,874)	\$ (48,085)	\$ (2,095,959)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
On-behalf payments	201,214	48,125	249,339
Depreciation	52,897	-	52,897
Commodities used	134,913	-	134,913
Changes in assets and liabilities:			
Receivables	(14,520)	-	(14,520)
Inventories	22,205	-	22,205
Accounts payable	(1,864)	-	(1,864)
Accrued benefits	15,902	-	15,902
Net Cash Provided By (Used In) Operating Activities	\$ (1,637,127)	\$ 40	\$ (1,637,087)

Noncash Capital and Related Financing Activities

- The food service fund received \$134,913 of donated commodities from the federal government.
- The District received on-behalf payments of \$249,339 relating to insurance benefits.

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012	Agency Funds	Trust Fund
Assets		
Cash	\$ 570,681	\$ -
Accounts receivable	7,499	-
Total Assets	\$ 578,180	\$ -
 Liabilities		
Accounts payable	\$ 7,677	\$ -
Due to other funds	51,383	-
Due to student groups	519,120	-
Total Liabilities	\$ 578,180	\$ -

See accompanying notes to the financial statements.

Muhlenberg County School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year Ended June 30, 2012	Trust Fund
Additions	
Earnings on investments	\$ 10
Total additions	10
Deductions	
Administrative fees	19,071
Total deductions	19,071
Transfers Out	(61,496)
Change in Net Assets	(80,557)
Net Assets – Beginning of Year	80,557
Net Assets – End of Year	\$ -

See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

• ***Reporting Entity***

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Basis of Presentation***

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

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

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

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

The District has the following funds:

▶ **Governmental Fund Types**

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

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

▶ **Proprietary Fund Types**

Enterprise Funds

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

The *Community Education Fund* is used to account for local community education activities.

The *Day Care Fund* is used to account for day care services offered to the general public.

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

Agency Funds

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

Trust Funds

The *Trust Fund* consists of revolving funds of the County Employees Retirement revolving Fund and the Kentucky KARE Revolving Fund. These funds were closed as of June 30, 2012.

The County Employees Retirement System Revolving Fund is a fund used to meet retirement obligations.

The Kentucky KARE Revolving Fund is a fund used to meet monthly insurance premiums.

• ***Basis of Accounting***

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

The financial statements of the governmental fund types are prepared on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

• ***Estimates***

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

• ***Investments***

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

• ***Inventory***

Inventory in the General Fund consists of transportation supplies. All other supplies and materials in the General Fund are charged to expenditures when purchased. Inventories are valued at cost using the first-in, first-out method.

Note 1: Summary of Significant Accounting Policies
(Continued)

Inventory in the Food Service Fund consists of food and supplies valued at cost and government commodities, whose value is determined by the U.S. Department of Agriculture.

• **Capital Assets**

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

• ***Deferred Revenue***

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

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

• ***Compensated Absences***

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

• **Net Assets**

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

• **Property Taxes**

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

• **Revenues — Exchange and Nonexchange Transactions**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis of accounting, assets and revenues from property taxes

Note 1: Summary of Significant Accounting Policies
(Continued)

are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● ***Interfund Activity***

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

● ***Interfund Balances***

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

● ***Contributions of Capital***

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

● ***Operating Revenues and Expenses***

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

Note 1: Summary of Significant Accounting Policies
(Continued)

• **Subsequent Events**

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through November 9, 2012, which was the date the financial statements were made available.

• **New Accounting Pronouncements**

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to provide more consistent financial reporting. The District plans to implement the new requirements for the fiscal year 2013–2014.

GASB Statement No. 66, *Technical Corrections—2012: an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District plans to implement the new requirements for the fiscal year 2013–2014.

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

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

Note 2: Cash and Investments

• **Deposits**

At June 30, 2012, the carrying amounts of the District's cash and investments in deposits were \$6,259,546 and the bank balances were \$7,772,035, which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

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

June 30,	2012
Governmental funds – investments	\$ 2,571,408
Governmental funds – cash	2,472,162
Proprietary funds	645,295
Fiduciary funds	570,681
	\$ 6,259,546

▶ **Custodial Credit Risk-Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$7,772,035 was not exposed to custodial credit risk as of June 30, 2012.

• **Investments**

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

June 30, 2012			
Investment	Rating	Maturities	Fair Value
CD	N/R	8/16/2012	\$ 514,798
CD	N/R	3/26/2014	1,027,276
CD	N/R	3/26/2014	1,029,334
PFM Governmental Pool	N/R	—	31,065
Money Market – federated prime value	N/R	On Demand	2,357,758
Chevron Corp Stock	N/R	—	143,269
Exxon Mobile Corp	N/R	—	400,895

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

Note 2: Cash and Investments (Continued)

June 30, 2012			
Investment	Rating	Maturities	Fair Value
Fed Home Ln Bk 5.7%	AAA	—	105,563
Fed Home Ln Mtg 1.05%	AA+	—	150,123
Money Market – Goldman Sachs Fin Square Treasury Obligation	N/R	—	215,763
Fed Home Ln Mtg 2%	AAA	—	847,756
Fed Nat Mtg Assoc 2.3%	AAA	—	125,539
Fed Home Ln Mtg Gold Pool	N/R	—	86,204
Fed Home Ln Bk Ser 5K	AA+	—	149,511
Fed Farm Cr Bk Ser 2010	AAA	—	451,930
Fed Nat Mtg Assoc Ser 2011	N/R	—	538,264
Fed Home Ln Mtg Ser 3935	N/R	—	157,736
Fed Home Ln Mtg Ser 4060	N/R	—	458,437
Fed Nat Mtg Assoc Pool	N/R	—	6,824
Fed Nat Mtg Assoc Pool	N/R	—	10,985
Fed Nat Mtg Assoc Ser 2003	N/R	—	125,157
Fed Nat Mtg Assoc Ser 2011	N/R	—	233,194
Fed Home Ln Mtg Ser 3553	N/R	—	57,243
Fed Home Ln Mtg Ser 3554	N/R	—	122,931
Fed Nat Mtg Assoc Ser 2010	N/R	—	204,120
Fed Home Ln Mtg Ser 3683	N/R	—	441,955
Fed Home Ln Mtg Ser 3747	N/R	—	261,094
Fed Home Ln Mtg Ser 3649	N/R	—	284,239
Fed Home Ln Mtg Ser 3649	N/R	—	46,769
Fed Nat Mtg Assoc Arm Pool	N/R	—	177,487
Fed Nat Mtg Assoc Pool	N/R	—	327,379
Ally Bk Midvalue UT CTF	N/R	—	239,076
Beal Bk Las Vegas NV CTF	N/R	—	149,970
Discover Bk Greenwood DE CFT	N/R	—	238,625
GE Cap Finl Inc Salt Lake City UT	N/R	—	150,705
Total			\$ 11,868,974

► *Interest Rate Risk*

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

Note 2: Cash and Investments (Continued)

▶ *Credit Risk*

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

▶ *Concentration of Credit Risk*

The District's investment policy places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in Federal National Mortgage Association and Federal Home Loan Mortgage. These investments are 10.33% and 23.83%, respectively, of the District's total investments.

Note 3: Capital Assets

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

June 30, 2012	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 2,510,490	\$ -	\$ -	\$ 2,510,490
Construction in progress	7,672,887	15,600,288	7,417,867	15,855,308
Total nondepreciable historical cost	10,183,377	15,600,288	7,417,867	18,365,798
Capital assets that are depreciated:				
Land improvements	2,316,163	-	-	2,316,163
Buildings and improvements	69,184,230	7,417,867	-	76,602,097

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

Note 3: Capital Assets (Continued)

June 30, 2012	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Technology equipment	4,548,894	677,625	128,868	5,097,651
Vehicles	6,263,296	458,124	-	6,721,420
General	2,886,799	125,973	13,476	2,999,296
Total depreciable historical cost	85,199,382	8,679,589	142,344	93,736,627
Less accumulated depreciation for:				
Land improvements	1,071,437	107,331	-	1,178,768
Buildings and improvements	19,973,111	1,501,176	-	21,474,287
Technology equipment	3,683,445	482,987	128,631	4,037,801
Vehicles	4,337,300	388,226	-	4,725,526
General	1,914,764	139,802	7,321	2,047,245
Total accumulated depreciation	30,980,057	2,619,522	135,952	33,463,627
Total depreciable historical cost, net	54,219,325	6,060,067	6,392	60,273,000
Governmental Activities, Capital Assets, Net	\$64,402,702	\$ 21,660,355	\$ 7,424,259	\$78,638,798
Business-Type Activities:				
Capital assets that are depreciated:				
Buildings and improvements	\$ 130,186	\$ -	\$ -	\$ 130,186
Technology equipment	2,765	-	599	2,166
General	1,236,857	52,182	17,660	1,271,379
Total depreciable historical cost	1,369,808	52,182	18,259	1,403,731
Less accumulated depreciation for:				
Buildings and improvements	108,113	4,135	-	112,248
Technology equipment	2,729	-	599	2,130
General	960,133	48,762	5,473	1,003,422
Total accumulated depreciation	1,070,975	52,897	6,072	1,117,800
Business-Type Activities, Capital Assets, Net	\$ 298,833	\$ (715)	\$ 12,187	\$ 285,931

Note 3: Capital Assets *(Continued)*

Depreciation expense was charged to governmental functions as follows:

June 30,	2012
Instruction	\$ 2,082,049
Support services:	
Student support	76,451
Instructional staff	4,158
District administration	25,687
Business support	1,291
Facilities operations	104,214
Student transportation	325,343
Other	329
Total Depreciation Expense	\$ 2,619,522

Note 4: General Long-Term Obligations

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

Issue Date	Proceeds	Rates
1993 Bond	\$ 610,000	2.90%–5.50%
2002R Bond	7,830,000	1.70%–4.50%
2003 Bond	1,135,000	2.00%–4.50%
2004 Bond	1,605,000	2.50%–4.63%
2007 Bond	2,000,000	3.63%–4.00%
2007R Bond	4,015,000	3.40%–3.90%
2009R KISTA	362,851	1.00%–3.00%
2010 Bond	12,670,000	0.70%–5.55%
2011R Bond	6,560,000	1.25%–2.125%
2012R Bond	8,775,000	2.00%

Note 4: General Long-Term Obligations *(Continued)*

On September 22, 2011, the District issued \$6,560,000 in General Obligation Bonds with an average interest rate of 1.92% to advance refund \$5,960,000 of outstanding 2003 Series bonds with an average interest rate of 4.36%. The net proceeds of \$6,453,977 (after payment of \$55,420 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments on the 2003 Series bonds. As a result, the advance refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$605,793. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2023 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 12 years by \$586,015 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$510,005.

On January 11, 2012, the District issued \$8,775,000 in General Obligation Bonds with an interest rate of 2.00% to advance refund \$7,935,000 of outstanding 2004 Series bonds with an average interest rate of 4.45%. The net proceeds of \$8,761,128 (after payment of \$64,600 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments on the 2000 Series Energy Conservation bonds. As a result, the advance refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,020,502. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2023 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 12 years by \$776,228 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$675,601.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Muhlenberg 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.

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

Note 4: General Long-Term Obligations *(Continued)*

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

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

Year	Muhlenberg County School District		School Facility Construction Commission		US Treasury Build America Bonds	Total Debt Service
	Principal	Interest	Principal	Interest	Interest	
2012–2013	\$ 1,304,861	\$ 781,734	\$ 960,374	\$ 362,181	\$ 188,660	\$ 3,597,810
2013–2014	1,345,705	739,052	960,299	330,391	187,817	3,563,264
2014–2015	1,374,851	692,486	991,884	298,807	186,239	3,544,267
2015–2016	1,413,869	656,344	1,014,664	276,027	183,555	3,544,459
2016–2017	1,447,231	622,997	1,038,059	252,630	180,114	3,541,031
2017–2018	1,483,967	587,402	1,006,033	229,053	176,252	3,482,707
2018–2019	1,510,232	549,253	1,029,768	205,273	171,958	3,466,484
2019–2020	1,540,147	507,462	1,054,853	180,157	166,872	3,449,491
2020–2021	1,472,158	455,768	952,842	153,652	158,763	3,193,183
2021–2022	1,504,579	411,082	975,421	131,073	147,641	3,169,796
2022–2023	1,511,196	364,149	998,804	107,690	135,927	3,117,766
2023–2024	1,544,145	315,115	1,000,855	83,637	123,478	3,067,230
2024–2025	778,914	271,003	196,086	59,682	110,140	1,415,825
2025–2026	804,981	234,300	205,019	50,750	95,988	1,391,038
2026–2027	825,343	194,912	214,657	41,113	80,719	1,356,744
2027–2028	770,217	153,050	154,783	30,669	64,302	1,173,021
2028–2029	791,787	111,651	163,213	22,240	46,862	1,135,753
2029–2030	811,800	68,349	178,200	13,018	28,479	1,099,846
2030–2031	832,931	23,114	147,069	4,081	9,518	1,016,713
	\$ 23,068,914	\$ 7,739,223	\$ 13,242,883	\$ 2,832,124	\$ 2,443,284	\$ 49,326,428

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

Note 4: General Long-Term Obligations (Continued)

Changes in long-term obligations are as follows:

June 30, 2012	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation debt	\$ 37,096,356	\$ 15,335,000	\$ (16,119,559)	\$ 36,311,797	\$ 2,265,235
Less deferred issuance (discounts)/premiums	-	6,867	666	7,533	-
Less deferred amount on refunded bonds	-	(1,626,295)	80,383	(1,545,912)	-
Total bonds and notes payable	37,096,356	13,715,572	(16,038,510)	34,773,418	2,265,235
Other liabilities:					
Compensated absences	1,685,934	197,503	(219,113)	1,664,324	804,598
Total other liabilities	1,685,934	197,503	(219,113)	1,664,324	804,598
Total Long-Term Liabilities	\$ 38,782,290	\$ 13,913,075	\$ (16,257,623)	\$ 36,437,742	\$ 3,069,833

Business-Type Activities:

Other liabilities:					
Compensated absences	\$ -	\$ 17,744	\$ (1,842)	\$ 15,902	\$ 3,350
Total Long-Term Liabilities	\$ -	\$ 17,744	\$ (1,842)	\$ 15,902	\$ 3,350

Note 5: Fund Balances

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

Nonspendable fund balances are amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. At June 30, 2012, the District had \$770,534 nonspendable in the general fund related to inventory and prepaid expenses.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the District had \$1,183,722 as restricted for capital projects in the general fund, \$1,571,636 restricted for capital projects in the construction fund, \$586,598 restricted in the general fund for local grants and \$344,035 restricted in the nonmajor funds (\$195,541 restricted for capital projects or debt service and \$148,494 for 2011 SFCC offer).

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments in the general fund at June 30, 2012: \$6,000,000 for future construction and \$376,960 for the purchase of buses.

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2012 was \$0. The District has assigned \$193,676 in the general fund for site-base carry forward. Assigned fund balances also include (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Note 5: Fund Balances *(Continued)*

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

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

Note 6: Pension Plans

Plan Descriptions — The Muhlenberg County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS), and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or from the KTRS web site at <http://ktrs.ky.gov/>. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Note 6: Pension Plans (Continued)

Funding Policy — KTRS plan members are required to contribute 10.355% (10.855% for new hires effective July 1, 2008) of their covered salary. The CERS plan members are required to contribute 5.00% of their covered salary (6.00% for new hires effective July 1, 2008). The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The rate for KTRS is 13.605% (14.105% for new hires effective July 1, 2008) of annual covered payroll. The rate for CERS is 18.96%, 16.93% and 16.16% for the years ended June 30, 2012, 2011 and 2010, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2012, 2011 and 2010 were \$1,420,536, \$1,237,373 and \$1,152,823, respectively, equal to the required contributions for each year.

For the year ended June 30, 2012 the Commonwealth contributed \$2,976,058 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2012 were \$539,760.

• **Medical Insurance Plan**

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

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

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

Note 6: Pension Plans *(Continued)*

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits, retirement and insurance benefits for the year ended June 30, 2012 was \$8,114,208 for the governmental funds and \$249,339 for proprietary funds.

• ***Deferred Compensation***

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

Note 7: Contingencies

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

Note 8: Concentrations

For the year ended June 30, 2012, the District received \$9,892,171 from the Tennessee Valley Authority (TVA) as payment in-lieu-of-tax, which represented 17.5% of the total governmental fund revenues.

Note 9: Insurance and Related Activities

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

Note 10: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District purchases commercial insurance.

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 11: Litigation

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

Note 12: Excess Expenditures over Appropriations

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

June 30, 2012	
Fund	Amount
General	\$ 42,922
Construction	15,001,901
Food Service	28,996

Note 13: Fund Transfers

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

Type	From Fund	To Fund	Purpose	Amount
Operating	General Fund	Special Revenue Fund	Matching	\$ 111,006
Operating	General Fund	Construction Fund	Construction	249,460
Operating	General Fund	Debt Service	Debt Service	75,000
Operating	SEEK	Debt Service	Debt Service	466,900
Operating	FSPK	Debt Service	Debt Service	1,466,425
Operating	Trust Fund	General Fund	Operations	61,496

Required Supplementary Information

Muhlenberg County School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2012	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ 17,182,268	\$ 17,310,748	\$ 17,118,529	\$ (192,219)
State programs	19,293,442	20,786,481	20,866,912	80,431
Federal programs	25,000	75,000	99,326	24,326
Total revenues	36,500,710	38,172,229	38,084,767	(87,462)
Expenditures				
Current:				
Instruction	15,963,831	22,700,924	22,616,544	84,380
Support services:				
Student	1,152,058	1,273,220	1,192,601	80,619
Instructional staff	723,773	1,090,175	1,207,567	(117,392)
District administration	1,567,214	1,701,809	1,219,070	482,739
School administration	1,875,413	1,956,366	1,259,154	697,212
Business	871,474	1,013,457	1,073,565	(60,108)
Plant operations and maintenance	4,174,288	5,400,813	5,242,152	158,661
Student transportation	3,478,268	4,020,440	3,797,240	223,200
Other	57,745	107,334	118,416	(11,082)
Food service operations	3,234,504	3,714,918	27,410	3,687,508
Architectural/engineering	9,542,834	5,778,451	-	5,778,451
Building acquisition and construction	-	303,000	-	303,000
Total expenditures	42,641,402	49,060,907	37,753,719	11,307,188

Excess (Deficiency) of Revenues over Expenditures	(6,140,692)	(10,888,678)	331,048	11,219,726
Other Financing Sources (Uses)				
Operating transfers – net	(75,000)	(186,006)	(373,970)	(187,964)
Total other financing sources (uses)	(75,000)	(186,006)	(373,970)	(187,964)
Net Change in Fund Balance	(6,215,692)	(11,074,684)	(42,922)	11,031,762
Fund Balance – Beginning of Year	6,215,692	11,074,684	11,763,760	689,076
Fund Balance – End of Year	\$ -	\$ -	\$ 11,720,838	\$ 11,720,838

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

19

Inflows/revenues:

Actual amounts (budgetary basis) \$ 38,084,767

Differences — budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts 8,114,208

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

\$ 46,198,975

Outflows/expenditures:

Actual amounts (budgetary basis) \$ 37,753,719

Differences — budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts 8,114,208

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

\$ 45,867,927

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

Year Ended June 30, 2012	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ -	\$ -	\$ 931	\$ 931
State programs	1,319,854	1,185,104	1,647,797	462,693
Federal programs	3,313,111	3,313,946	4,527,546	1,213,600
Total revenues	4,632,965	4,499,050	6,176,274	1,677,224
Expenditures				
Current:				
Instruction	3,927,342	3,912,232	4,447,972	(535,740)
Support services:				
Student	48,000	52,091	41,529	10,562
Instructional staff	51,428	172,382	53,790	118,592
School administration	153,107	163,738	867,954	(704,216)
Business	-	3,400	233,158	(229,758)
Plant operations and maintenance	-	16,270	43,570	(27,300)
Student transportation	-	178,825	168,019	10,806
Other	453,088	429,241	431,288	(2,047)
Total expenditures	4,632,965	4,928,179	6,287,280	(1,359,101)
Excess (Deficiency) of Revenues over Expenditures	-	(429,129)	(111,006)	318,123

Other Financing Sources (Uses)				
Operating transfers	-	56,028	111,006	54,978
Total other financing sources (uses)	-	56,028	111,006	54,978
Net Change in Fund Balance	-	(373,101)	-	373,101
Fund Balance – Beginning of Year	-	-	-	-
Fund Balance – End of Year	\$	-	\$ (373,101)	\$
			\$	-
				\$ 373,101

Supplementary Information

Muhlenberg County School District
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Assets				
Cash	\$ -	\$ 344,035	\$ -	\$ 344,035
Total Assets	\$ -	\$ 344,035	\$ -	\$ 344,035
Fund Balances				
Fund Balances				
Restricted	\$ -	\$ 344,035	\$ -	\$ 344,035
Total fund balances	-	344,035	-	344,035
Total Fund Balances	\$ -	\$ 344,035	\$ -	\$ 344,035

Muhlenberg County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended June 30, 2012	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Other Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 765,377	\$ -	\$ 765,377
Earnings on investments	-	-	24,367	24,367
Intergovernmental – state	466,900	896,589	1,322,555	2,686,044
Intergovernmental – federal	-	-	189,261	189,261
Total revenues	466,900	1,661,966	1,536,183	3,665,049
Expenditures				
Debt service:				
Principal	-	-	2,224,559	2,224,559
Interest	-	-	1,326,690	1,326,690
Bond issuance costs	-	-	120,020	120,020
Total expenditures	-	-	3,671,269	3,671,269
Excess (Deficiency) of Revenues over Expenditures	466,900	1,661,966	(2,135,086)	(6,220)
Other Financing Sources (Uses)				
Proceeds of advance refunding bonds	-	-	15,341,867	15,341,867
Payment to advance refunded bonds escrow agent	-	-	(15,215,105)	(15,215,105)

Operating transfers in	-	-	2,008,324	2,008,324
Operating transfers out	(466,900)	(1,466,425)	-	(1,933,325)
Total other financing sources (uses)	(466,900)	(1,466,425)	2,135,086	201,761
Net Change in Fund Balances	-	195,541	-	195,541
Fund Balances – Beginning of Year	-	148,494	-	148,494
Fund Balances – End of Year	\$ -	\$ 344,035	\$ -	\$ 344,035

Muhlenberg County School District
Combining Statement of Net Assets
Nonmajor Proprietary Funds

June 30, 2012	Enterprise Fund Community Education	Day Care	Total Other Enterprise Funds
Assets			
Current Assets			
Cash	\$ 363	\$ -	\$ 363
Total current assets	363	-	363
Total Assets	\$ 363	\$ -	\$ 363
Net Assets			
Unrestricted	\$ 363	\$ -	\$ 363
Net Assets	\$ 363	\$ -	\$ 363

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

Year Ended June 30, 2012	Enterprise Fund Community Education	Day Care	Total Other Enterprise Funds
Operating Revenues			
Tuition and fees	\$ 1,398	\$ 281,864	\$ 283,262
Total operating revenues	1,398	281,864	283,262
Operating Expenses			
Salaries and wages	-	329,364	329,364
Materials and supplies	-	533	533
Other operating expenses	1,450	-	1,450
Total operating expenses	1,450	329,897	331,347
Operating loss	(52)	(48,033)	(48,085)
Nonoperating Revenues (Expenses)			
State operating grants	92	48,033	48,125
Total nonoperating revenues (expenses)	92	48,033	48,125
Change in Net Assets	40	-	40
Total Net Assets – Beginning of Year	323	-	323
Total Net Assets – End of Year	\$ 363	\$ -	\$ 363

Muhlenberg County School District
Combining Statement of Cash Flows
Nonmajor Proprietary Funds

Year Ended June 30, 2012	Enterprise Fund Community Education	Day Care	Total Other Enterprise Funds
Cash Flows from Operating Activities			
Cash received from user charges	\$ 1,398	\$ 281,864	\$ 283,262
Cash payments to employees for services	-	(281,331)	(281,331)
Cash payments to suppliers for goods and services	-	(533)	(533)
Cash payments for other operating expenses	(1,358)	-	(1,358)
Net cash used in operating activities	40	-	40
Net Increase in Cash	40	-	40
Cash – Beginning of Year	323	-	323
Cash – End of Year	\$ 363	\$ -	\$ 363

Muhlenberg County School District
Combining Statement of Assets and Liabilities
All Activity Funds
All Schools

June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Other Funds June 30, 2012	Due to Student Groups June 30, 2012
Breman Elementary School	\$ 16,051	\$ 123,349	\$ 109,880	\$ 29,520	\$ -	\$ -	\$ 2,153	\$ 27,367
Central City Elementary School	50,354	205,851	216,613	39,592	730	-	-	40,322
Greenville Elementary School	26,885	76,162	73,207	29,840	-	421	-	29,419
Longest Elementary School	78,320	263,346	268,436	73,230	4,348	51	49,230	28,297
Muhlenberg South Elementary School	41,392	96,965	92,525	45,832	1,677	1,299	-	46,210
Muhlenberg North Middle School	46,100	157,035	127,667	75,468	-	3,085	-	72,383
Muhlenberg South Middle School	24,986	135,264	131,620	28,630	-	-	-	28,630
Muhlenberg County West Campus	142,745	608,063	567,248	183,560	-	2,821	-	180,739
Muhlenberg County East Campus	69,216	183,468	187,675	65,009	744	-	-	65,753
Total	\$ 496,049	\$ 1,849,503	\$ 1,774,871	\$ 570,681	\$ 7,499	\$ 7,677	\$ 51,383	\$ 519,120

Muhlenberg County School District
Statement of Assets and Liabilities
School Activity Funds
Muhlenberg County High School – West Campus

June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
General	\$ 10,050	\$ 14,915	\$ 20,939	\$ 4,026	\$ -	\$ 29	\$ 3,997
Book Rentals	173	-	173	-	-	-	-
High School Fees	632	1,504	1,316	820	-	-	820
Library	4,004	212	29	4,187	-	-	4,187
Book Store	553	-	553	-	-	-	-
Teachers' Materials	960	-	-	960	-	-	960
Student Snacks	1,482	643	435	1,690	-	-	1,690
Extra Work to Board	-	2,530	2,410	120	-	-	120
Faculty and Staff Gift	24	30	54	-	-	-	-
Athletics	7,249	128,523	110,890	24,882	-	-	24,882
Football	9,263	17,683	20,567	6,379	-	-	6,379
Boys' Golf	3,348	2,506	5,852	2	-	-	2
Tennis	229	4,925	3,783	1,371	-	-	1,371
Baseball	-	3,000	3,000	-	-	-	-
Softball	443	14,856	10,799	4,500	-	-	4,500
Concessions	5,074	28,830	27,187	6,717	-	-	6,717
Boys' Basketball	1,415	15,094	14,532	1,977	-	1,035	942
Girls' Basketball	5,938	10,041	11,763	4,216	-	890	3,326
Athletic Boosters	6,163	170	5,351	982	-	-	982
Girls' Golf	3,735	-	3,735	-	-	-	-
Boys' Soccer	2,236	4,689	6,216	709	-	-	709
Track Team	1,040	12,087	13,089	38	-	-	38
Girls' Soccer	2,866	4,743	6,642	967	-	-	967
Developmental Basketball	-	12,020	8,687	3,333	-	-	3,333
Volleyball	1,970	2,210	3,964	216	-	-	216
Band	270	6,536	4,952	1,854	-	-	1,854
Chorus	81	1,231	525	787	-	-	787

JROTC College Credit	-	1,511	-	1,511	-	-	1,511
FFA	6,011	11,847	10,928	6,930	-	627	6,303
Family and Consumer Science	4,117	16,865	15,598	5,384	-	-	5,384
FCCLA	803	1,350	1,990	163	-	-	163
Industrial Arts	1,462	-	64	1,398	-	-	1,398
Marketing	186	-	186	-	-	-	-
Business Department	651	186	21	816	-	-	816
Computer Department	1,597	-	-	1,597	-	-	1,597
Music Department	399	4,725	4,985	139	-	-	139
FFA Field Trips	180	102	-	282	-	-	282
FFA Banquet	474	2,728	1,615	1,587	-	-	1,587
Vocational Agriculture	250	-	247	3	-	-	3
Lady Mustangs Basketball Classic	-	7,982	6,263	1,719	-	-	1,719
FFA National Convention	-	11,361	10,826	535	-	-	535
English Department	5	1,424	1,424	5	-	-	5
Math Department	13	280	-	293	-	-	293
FFA Fruit	-	2,350	1,695	655	-	-	655
Science Department	93	622	666	49	-	-	49
Art Department	187	1,467	1,007	647	-	125	522
Yearbook	23,659	26,752	28,657	21,754	-	-	21,754
Social Studies	408	-	-	408	-	-	408
Drama Department	1,012	8,498	8,149	1,361	-	-	1,361
Dance Team	261	1,738	1,862	137	-	-	137
Cheerleaders	862	5,535	3,098	3,299	-	-	3,299
Drama Club	157	19,068	15,997	3,228	-	-	3,228
Film Club	4	-	4	-	-	-	-
National Honor Society	601	2,327	2,477	451	-	-	451
Academic Team	34	5,479	4,819	694	-	-	694
Writing Account	561	-	-	561	-	-	561
Spirit Club	458	9,056	9,418	96	-	-	96
FBLA Club	3	1,180	1,183	-	-	-	-
Art Club	166	420	470	116	-	-	116
Technology Club	278	-	278	-	-	-	-
STLP Club	1	-	1	-	-	-	-
Math Club	159	450	433	176	-	-	176
Science and Technology Club	448	2,369	1,965	852	-	-	852

Muhlenberg County School District
Statement of Assets and Liabilities (Continued)
School Activity Funds
Muhlenberg County High School – West Campus

June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
Student Council	74	-	-	74	-	-	74
Scholarship Fund	-	5,000	4,000	1,000	-	-	1,000
Bill Gatton School Foundation	3,744	47,038	42,691	8,091	-	-	8,091
JROTC	1,502	10,265	9,678	2,089	-	-	2,089
Christian Athletic Club	183	3,069	3,023	229	-	-	229
CEC Club	91	-	-	91	-	-	91
KYA	94	-	-	94	-	-	94
Class of 2011	761	7,661	8,422	-	-	-	-
Class of 2012	256	7,646	7,902	-	-	-	-
Class of 2013	-	23,747	22,961	786	-	-	786
Class of 2014	-	4,190	-	4,190	-	-	4,190
Youth Service Center	810	5,100	2,006	3,904	-	-	3,904
Guidance Department	429	6,917	5,415	1,931	-	115	1,816
Relay for Life	544	6,805	7,149	200	-	-	200
MCHS Recycling Committee	-	500	157	343	-	-	343
Special Education Account	44	-	-	44	-	-	44
Anime Club	26	170	-	196	-	-	196
Historical Foundation	45	-	-	45	-	-	45
SADD Club	258	-	-	258	-	-	258
MCHS Newspaper	3	825	750	78	-	-	78
DECA Club	716	3,355	3,516	555	-	-	555
Swim Team	2,029	2,820	4,793	56	-	-	56
Project Prom	2,023	13,442	6,987	8,478	-	-	8,478
Student Celebrations	13	1,551	1,513	51	-	-	51
Greenhouse	9,311	6,889	6,200	10,000	-	-	10,000
FFA Grant	240	-	126	114	-	-	114

Wildlife Management	1,070	8,071	3,266	5,875	-	-	5,875
Multicultural Club	3	633	222	414	-	-	414
Future Educators of America	509	1,562	1,693	378	-	-	378
George Taylor Classic	88	-	-	88	-	-	88
Central Screen Printing T-Shirts	3,181	2,869	-	6,050	-	-	6,050
Spanish Honor Society	-	1,288	1,009	279	-	-	279
Total	\$ 142,745	\$ 608,063	\$ 567,248	\$ 183,560	\$ -	\$ 2,821	\$ 180,739

Muhlenberg County School District
Statement of Assets and Liabilities
School Activity Funds
Muhlenberg County High School – East Campus

June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
Concessions	\$ 557	\$ 114	\$ 671	\$ -	\$ -	\$ -	\$ -
General Fund	33,106	36,837	46,745	23,198	546	-	23,744
Memorial Fund/Flower Fund	239	105	124	220	-	-	220
MSSH PTO	241	-	241	-	-	-	-
Class Trips	99	700	99	700	-	-	700
Relay for Life	86	4,670	4,746	10	-	-	10
Freshman Relay for Life	-	176	176	-	-	-	-
Sophomore Relay for Life	-	159	159	-	-	-	-
Vending Drinks	542	887	909	520	-	-	520
Central Screen T-Shirts	671	375	375	671	-	-	671
Rewards	4,060	-	263	3,797	-	-	3,797
09/10 Band	12	5,047	4,854	205	-	-	205
Target Take Charge of Edu. Program	110	131	-	241	-	-	241
AP Test Fees	325	-	120	205	-	-	205
Guidance	268	455	372	351	-	-	351
Book Store/Student Bank	-	120	120	-	-	-	-
Chorus	50	-	-	50	-	-	50
Get Started	2,291	-	2,291	-	-	-	-
Parenting/Relationships	1,265	-	1,265	-	-	-	-
Teacher's Lounge	1,191	2,356	2,826	721	-	-	721
Greenhouse	3,738	3,770	3,599	3,909	-	-	3,909
Intro Shop Materials	-	448	284	164	-	-	164
Equine Science	-	596	562	34	-	-	34
State Fair Account	4	-	-	4	-	-	4
Meat Stick Account	1,131	6,111	4,470	2,772	-	-	2,772
FFA T-Shirt/Hoodies	308	1,005	1,313	-	-	-	-

FFA Jackets	-	1,141	1,124	17	-	-	17
FFA Fruit	-	6,158	5,016	1,142	-	-	1,142
FFA Camp	645	1,712	2,357	-	-	-	-
Recycling Fund	-	500	486	14	-	-	14
Land Judging Fund	-	801	800	1	-	-	1
AG	489	2,986	3,249	226	-	-	226
FFA Dues	60	1,260	1,134	186	150	-	336
Family/Consumer	652	6,842	6,778	716	-	-	716
FCCLA	207	6,437	6,152	492	-	-	492
Mustang Anglers	-	1,481	996	485	-	-	485
DECA Store	-	49	49	-	-	-	-
Science	-	98	98	-	-	-	-
Art	25	2,126	2,071	80	-	-	80
JROTC College Credit/Cadets	1,411	100	1,511	-	-	-	-
FCA	14	-	-	14	-	-	14
JROTC	71	1,709	179	1,601	-	-	1,601
Phys/Astronomy Club	130	-	130	-	-	-	-
Freshman Academy	34	130	-	164	-	-	164
Guitar Club	61	-	-	61	-	-	61
Dare 2 B Club	-	7,181	6,505	676	-	-	676
Math Club	34	-	-	34	-	-	34
Future Educators	1,142	-	-	1,142	-	-	1,142
Need Project Mini Grant	150	-	-	150	-	-	150
Foreign Language	134	-	-	134	-	-	134
STLP	560	57	144	473	-	-	473
Media	477	-	35	442	-	-	442
Newspaper	46	-	46	-	-	-	-
Academic Team	9	-	9	-	-	-	-
Sr. Beta	225	12,737	12,799	163	-	-	163
Yearbook	191	-	-	191	-	-	191
Jr. Beta	-	2,376	2,376	-	-	-	-
Drama Club	929	545	875	599	-	-	599
Student Government	784	-	-	784	-	-	784
Multicultural	55	-	-	55	-	-	55
FBLA Club	69	150	219	-	-	-	-

Muhlenberg County School District
Statement of Assets and Liabilities (Continued)
School Activity Funds
Muhlenberg County High School – East Campus

June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
Lost Books	-	45	45	-	-	-	-
Book Rental	24	8,903	8,927	-	48	-	48
Spirit Club	614	2,432	2,286	760	-	-	760
SADD Club	8	-	8	-	-	-	-
Sports Club	-	1,820	1,564	256	-	-	256
Chess Club	20	115	79	56	-	-	56
Community Service Club	283	-	-	283	-	-	283
Student Council	140	-	-	140	-	-	140
Humanities/Journalism	-	661	661	-	-	-	-
Library	492	14	177	329	-	-	329
Baseball	3,243	26,896	25,097	5,042	-	-	5,042
Varsity Baseball Concessions	-	4,383	3,371	1,012	-	-	1,012
Baseball 15 & Under League	1,494	2,752	3,468	778	-	-	778
Baseball 15 & Under Concession	-	812	137	675	-	-	675
Athletic Baseball Umpires	-	1,020	1,020	-	-	-	-
Girls' Golf	2,000	6,784	2,594	6,190	-	-	6,190
Cross Country	2,000	6,193	6,519	1,674	-	-	1,674
Total	\$ 69,216	\$ 183,468	\$ 187,675	\$ 65,009	\$ 744	\$ -	\$ 65,753

Muhlenberg County School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Child Nutrition Cluster			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	7760005 11	\$ 436,651
National School Lunch Program	10.555	7750002 11	1,203,559
National School Summer Meals Program	10.559	7740023 11	20,126
Passed-Through State Department of Agriculture:			
Food Distribution Program – noncash	10.555	057502 02	134,913
Total U.S. Department of Agriculture			1,795,249
U.S. Department of Defense			
ROTC	12.000	–	63,334
Total U.S. Department of Defense			63,334
U.S. Department of Energy			
Passed-Through Green River Regional Education Cooperative:			
ARRA – SEMP – School Energy Managers Project	81.041	5692	15,168
Total U.S. Department of Energy			15,168
U.S. Department of Education			
Passed-Through State Department of Education:			
Title I, Part A Cluster			
Title I to Local Educational Agencies – 2011	84.010	3100002 10	483,391
Title I to Local Educational Agencies – 2012	84.010	3100002 11	984,681
Subtotal			1,468,072
ARRA – Education for Homeless Children	84.387A	4990002 09	2,282
Special Education Cluster			
Special Education – 2010	84.027	3810002 09	142,094
Special Education – 2011	84.027	3810002 10	1,023,901
Special Education – 2012	84.027	3810002 11	105,257
ARRA Special Education – 2009	84.391A	4810002 09	3,583
Special Education – Preschool – 2010	84.173	3800002 09	4,794
Special Education – Preschool – 2011	84.173	3800002 10	29,295
Special Education – Preschool – 2012	84.173	3800002 11	47,436
Subtotal			1,356,360

Year Ended June 30, 2012

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Perkins Carryforward	84.048	4621132 09	2,337
Perkins Carryforward	84.048	4621132 10	2,765
Perkins	84.048	4621132 11	58,750
Perkins Additional Money	84.048	4621132 11	1,150
Subtotal			65,002
Rural/Low Income School Program – Title VI	84.358	3140002 10	136,340
Rural/Low Income School Program – Title VI	84.358	3140002 11	11,219
Subtotal			147,559
Improving Teacher Quality – 2012	84.367	3230002 11	304,438
Educational Technology State Grants Cluster:			
Enhancing Ed. Through Tech. – 2010	84.318	3210002 09	10,209
Enhancing Ed. Through Tech. – 2011	84.318	3210002 10	3,015
Subtotal			13,224
Education Jobs Fund	84.410	EJOB00 10	1,050,279
Race to the Top	84.413	4521	13,228
Passed-Through State Workforce Cabinet: Community Based Work Transition	84.126	3762	25,800
Total U.S. Department of Education			4,446,244
U.S. Department of Health and Human Services			
Delta Rural Development Program	93.912C	6701	2,800
Total U.S. Department of Health and Human Services			2,800
Total Expenditures of Federal Awards			\$ 6,322,795

Muhlenberg County School District
Notes to the Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

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

Note 2: Summary of Significant Accounting Policies

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

Nonmonetary assistance is reported in the schedule of fair value of the goods received.

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

Muhlenberg County School District
Summary Schedule of Prior Year Audit Findings

None reported.



Carr, Riggs & Ingram, LLC

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

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

www.cricpa.com

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muhlenberg County School District as of and for the year ended June 30, 2012, which collectively comprise Muhlenberg County School District's basic financial statements and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Audit Extension Request* and Appendix IV of the *Independent Auditors' Contract—Instructions for the Submission of the Audit Report*.

● **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item numbers 12-01, 12-02, 12-03, 12-04, 12-05 and 12-06 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 12-04 and 12-06. In addition, the results of our tests disclosed no significant instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract—State Audit Requirements*, except as noted above.

We noted certain matters that we reported to management of the District in a separate letter dated November 9, 2012.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on it.

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

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



Carr, Riggs & Ingram, LLC

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

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

www.cricpa.com

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

• Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements* and Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, Appendix III of the *Independent Auditors' Contract—Audit Extension Request* and Appendix IV of the *Independent Auditors' Contract—Instructions for Submission of the Audit Report*. Those standards and OMB

Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

- **Internal Control over Compliance**

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 significant 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 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.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-07 to be a significant deficiency.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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

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

Section I — Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

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

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

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I, Part A Cluster
84.410	Education Jobs Fund
84.367	Improving Teacher Quality
84.358	Rural and Low-Income Schools Program

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

Auditee qualified as low-risk auditee? Yes No

Section II — Financial Statement Findings

▪ **12-01 Financial Reporting**

Criteria and Condition: The internal control structure should be such that misstatements in the District’s financial statements are prevented or detected and corrected on a timely basis. Proposed audit adjustments were made to accounts receivable, accounts payable, deferred revenue, capital assets and long-term liabilities.

Cause: Certain internal controls were not in place to prevent or detect and correct misstatements.

Effect: Financial statements could contain undetected errors.

Recommendation: We recommend controls over the financial close process be reviewed to ensure significant amounts are reported correctly and timely in the District’s financial statements.

Management Response: We will review the financial close process for correct reporting on the financial statements.

▪ **12-02 Journal Entries**

Criteria and Condition: All journal entries to the District's general ledger should be reviewed for propriety purposes on a consistent basis.

Cause: Internal controls were not in place to review general journal entries prepared by the lead accounts clerk.

Effect: Unauthorized or erroneous journal entries could have a significant impact on the financial statements.

Recommendation: Someone independent and knowledgeable of the preparation of journal entries should review the entries on a regular basis for propriety purposes.

Management Response: All journal entries will be reviewed and signed off on on a monthly basis.

▪ **12-03 Controls over Cash Disbursements**

Criteria and Condition: A system of internal controls provides for the proper segregation of accounting functions.

Cause: There is an improper segregation of duties allowing for one individual to enter vendors, enter invoices, print checks, run the check signing machine and prepare checks for mailing.

Effect: Misappropriations could occur and not be detected by the District's internal controls.

Recommendation: We recommend duties are separated to provide proper segregation in the cash disbursements function.

Management Response: We will set up security roles to not allow the accounts payable clerk to set up new vendors.

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

▪ **12-04 Procurement Policy**

Criteria and Condition: The Kentucky regulations (KRS 424.260) require the District to advertise for sealed bids for items of more than \$20,000.

Cause: Several vendors with greater than \$20,000 of purchases were not properly bid or documented properly if not required to be bid as required by Kentucky regulations.

Effect: The District failed to bid several items therefore they are not in compliance with Kentucky regulations.

Recommendation: We recommend all items over \$20,000 be bid or documented properly if not required to be bid and the bidding process be monitored as required by regulations.

Management Response: Stricter controls will be placed on items over \$20,000 in the future to determine if they need to be bid out or not.

▪ **12-05 Activity fund reporting**

Criteria and Condition: Proper documentation shall be maintained and proper signatures noting approval by appropriate school officials shall be obtained for all disbursements.

Cause: Proper documentation, including the documentation of appropriate signatures, was not maintained for all disbursements at one school.

Effect: Unauthorized or erroneous disbursements could have a significant impact on the school activity funds.

Recommendation: We recommend all documentation be maintained and appropriate signatures of authority be obtained for all disbursements.

Management Response: A new staff person has been put in place with emphasis on documentation and appropriate signatures.

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

▪ **12-06 Investments**

Criteria and Condition: The Kentucky regulations (KRS 66.480) restricts the types of investments that the District may hold.

Cause: The District has investment holdings that include stocks that are in violation of KRS 66.480.

Effect: The District is not in compliance with Kentucky regulations.

Recommendation: We recommend all investment holdings comply with KRS 66.480.

Management Response: The Exxon and Chevron stock the board currently holds was bequeathed to it in a will from years ago. The will is very specific and restrictive on how the District is allowed to spend the dividend monies. The District is in compliance with the legal requirements of the will.

Section III — Federal Award Findings and Questioned Costs

▪ **12-07 Allowable Cost Principles**

U.S. Department of Education
Improving Teacher Quality and Rural and Low-Income Schools Programs
CFDA No. 84.367, and 84.358
Grant No. 3230002-11, 3140002-10 and 314002-11
For the Year Ended June 30, 2012

Criteria and Condition: Time and effort documentation should be maintained for all time charged to applicable federal programs. In our testing of payroll cost, we noted controls were not in place to detect that employee time and effort documentation was not being prepared.

Effect: Payroll cost may be charged to grants incorrectly. No questioned costs were noted as a result of this finding as time and effort sheets were obtained subsequently.

Cause: The District does not have sufficient procedures in place to monitor federal programs' payroll cost to ensure time and effort reports are maintained.

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

Recommendation: We recommend the District establish procedures to improve controls over payroll for federal programs to ensure time and effort reports are maintained.

Management Response: The District was unaware that time and effort sheets had to be maintained on these two federal grants. We will make sure the time and effort sheets are signed by the appropriate staff.



Carr, Riggs & Ingram, LLC

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

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

www.cricpa.com

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

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

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated November 9, 2012 contains our report on the District's internal control. This letter does not affect our report dated November 9, 2012 on the financial statements of the District.

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

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

Carr, Riggs & Ingram, LLC
Russellville, Kentucky
November 9, 2012

Current Year and Prior Year

• Muhlenberg South Middle School

- During our review of ticket sales, we noted that receipts from ticket sales are not deposited in a timely manner. We recommend that all receipts collected from ticket sales from school events be deposited at least the day following the event when it is after school hours. Undeposited receipts should be secure until a deposit is made.

Current Year

• Central Office

- During our procedures, we noted that invoices are not documented as approved on a consistent basis. We recommend all invoices are documented by initializing and dating to show the proper approval prior to being paid.
- During our procedures over disbursements, we noted invoices are not stamped paid. We recommend all paid invoices should be marked as paid to avoid double payment of invoices.
- During our review of the salary schedule, we noted that several employees at one school as well as the finance officer's salary did not agree to the salary schedule. We recommend that all employees be paid in accordance with the salary schedule or proper documentation of Board approval of adjustments be maintained in the personnel file.
- During our review of the bank accounts, we noted two accounts that were not included in the accounting system of the District. We recommend all bank accounts be included in the District's accounting system.
- During our review of the bank reconciliations we noted unusual reconciling items as well as balances that did not reconcile to the general ledger balances. We recommend variances in the reconciliation process be resolved and the bank reconciliations be reviewed by someone other than the preparer.

Muhlenberg County School District Comments and Recommendations (Continued)

- During our review of the bank accounts, we noted Food Service bank accounts with large balances. We recommend funds in any accounts used for Food Service daily deposits be transferred to the District's main operating account on a regular basis and that only minimal funds are maintained in those accounts.
- During our review of the District's cash, we noted many bank accounts. We recommend the accounts be reviewed for any that could be closed and transferred into one centralized account.
- During our procedures over the school food inventory, we noted errors in the counts of inventory at year end. We recommend physical inventory counts are accurately completed and proper amounts are recorded for inventory at year-end.
- During our review of the accounting records, we noted that there were Food Service expenses recorded in the General Fund. We recommend all Food Service expense are recorded in the Food Service so that there is a more accurate indication of the operations of that function.
- During our review of procurement, we noted that purchase orders are not used for all purchases. We recommend in order to obtain and document proper approval of expenditures, that purchase orders are used for all purchases over a set threshold.
- During our procedures over capital assets, we noted several assets that were disposed of in error that were not detected during the reconciliation process. We recommend the fixed asset reconciliation be reviewed for unusual results and reasonableness.

• All Schools

- During our procedures over the activity funds, we noted that the school treasurers are not submitting a list of donations to the Board annually. We recommend, in accordance with the Accounting Procedures for Kentucky School Activity Funds ("Redbook"), that the school treasurers submit, on an annual basis, a listing of all contributions received to the Board.

- During our procedures over the activity funds, we noted that the treasurer receives the bank statement at all schools. In order to maintain the proper segregation of duties, we recommend that the principal receive the unopened bank statement and review it for errors and unusual items prior to giving it to the treasurer.
- During our procedures over the activity funds, we noted that the activity funds are being used for activities that should not be in the activity funds including but not limited to day care operations, community education, professional development and to supplement shortfalls in Board allocations. We recommend that the use of the activity funds be limited to those activities as set forth in the Redbook.

• **Bremen Elementary School**

- During our procedures over disbursements, we noted that credit card purchases were not approved prior to the purchase. We recommend that proper approval is obtained for all credit card purchases prior to the use of the credit card.
- During our procedures over the activity funds, we noted that there was a raffle held without prior registration with the Office of Charitable Gaming. We recommend that the school register with the Office of Charitable Gaming for either a license or exemption prior to any charitable gaming activities in accordance with KRS 238.535.
- During our procedures over disbursements, we noted one disbursement with no invoice where a standard invoice would have been appropriate. We recommend a standard invoice is used when there is not an invoice provided by the vendor and that the standard invoice is signed by the vendor prior to receiving the check.
- During our procedures over disbursements, we noted that copies of purchase orders with the principal and secretaries signatures were being used. We recommend that blank purchase orders are used to ensure proper approval of all disbursements.
- During our procedures over the activity funds, we noted that the PTO was using the school's tax exempt number. No supporting organizations should use the school's tax exempt or federal identification number. We recommend the PTO no longer use the school's tax exempt number.

• **Greenville Elementary School**

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.
- Vendor commission checks should be agreed to the vendor report. Currently, there are no controls in place to monitor the commission checks and review their accuracy. To strengthen controls, we recommend a monthly vendor report be requested for each vending machine and reconciled to the commission check.

• **South Elementary School**

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.
- In our testing, we noted the teacher/sponsor was not giving money to the school treasurer each day sales were made at the book fair. We recommend all money collected by a teacher/sponsor be given to the school treasurer on the day collected.

• **Central City Elementary School**

- During our procedures over the activity funds, we noted that a stamp was being used for the principal's signature. Upon further inquiry, we determined that the stamp was being used by someone other than the principal at times. We recommend that the use of signature stamps be limited and that if a stamp is used, access to the stamp is limited to the person whose signature is being used to mitigate the risk of fraud through the improper use of signatures.

• **Longest Elementary School**

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.

Muhlenberg County School District Comments and Recommendations (Continued)

- During our inquiries, we noted an event where admission charges were collected without the use of prenumbered tickets. We recommend any event in which admission is charged uses prenumbered tickets in accordance with the guidelines in the Redbook.
- During our review of the Annual Financial Report, we noted two certificates of deposit that were not included in the balances of the report. We recommend all cash, including certificates of deposits held for investment purposes, be included in the balances of the AFR.

• Muhlenberg North Middle School

- During our review of ticket sales, we noted that receipts from ticket sales are not deposited in a timely manner. We recommend that all receipts collected from ticket sales from school events be deposited at least the day following the event when it is after school hours. Undeposited receipts should be secure until a deposit is made.
- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.
- In our testing, we noted the teacher/sponsor was not giving money to the school treasurer each day sales were made at the book fair. We recommend all money collected by a teacher/sponsor be given to the school treasurer on the day collected.
- During our procedures over receipts, we noted that there was no documentation that the daily deposits were counted by two individuals. We recommend two individuals count money for daily deposit and document the counting by initialing the deposit slip.
- During our procedures over receipts, we noted a series of receipts that were recorded in the accounting program several days after the handwritten receipts were completed. We recommend all receipts are recorded and deposited the day they are received.

Muhlenberg County School District Comments and Recommendations (Continued)

- During our procedures over disbursements, we noted several disbursements that lacked a proper purchase order or invoice. We recommend that a purchase order is properly approved for each purchase and that an invoice, or standard invoice if one is not provided by the vendor, is maintained for all disbursements.
- During our procedures over disbursements, we noted that checks are not being signed by two individuals on a consistent basis. We recommend all check are signed by two authorized individuals as required by the Red Book.
- During our procedures over ticket sales, we noted that ticket colors are not being rotated between events. We recommend that ticket sales are rotated between each event to reduce the risk of an individual being admitted into an event without paying.

• Muhlenberg South Middle School

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.
- During our procedures over ticket sales, we noted that ticket colors are not being rotated between events. We recommend that ticket sales are rotated between each event to reduce the risk of an individual being admitted into an event without paying.
- In our testing, we noted the teacher/sponsor was not giving money to the school treasurer on a timely basis for candy sales. We recommend all money collected by a teacher/sponsor be given to the school treasurer on the day collected.

• Muhlenberg County High School - East Campus

- During our procedures over the activity funds, we noted that disbursements were being made from student funds that did not benefit the students. We recommend all student generated funds be used to benefit the students.

Muhlenberg County School District Comments and Recommendations (Continued)

- During our inquiries, we noted that fundraiser worksheets were not being utilized. We recommend fundraiser worksheets are completed for all applicable fundraisers and reviewed for reasonableness.
- Vendor commission checks should be agreed to the vendor report. Currently, there are no controls in place to monitor the commission checks and review their accuracy. To strengthen controls, we recommend a monthly vendor report be requested for each vending machine and reconciled to the commission check.

• Muhlenberg County High School - West Campus

- During our review of ticket sales, we noted that receipts from ticket sales are not deposited in a timely manner. We recommend that all receipts collected from ticket sales from school events be deposited at least the day following the event when it is after school hours. Undeposited receipts should be secure until a deposit is made.
- During our procedures over receipts, we noted that there was no documentation that the daily deposits were counted by two individuals. We recommend two individuals count money for daily deposit and document the counting by initialing the deposit slip.
- During our procedures over ticket sales, we noted that ticket colors are not being rotated between events. We recommend that ticket sales are rotated between each event to reduce the risk of an individual being admitted into an event without paying.
- During our inquiries, we noted that fundraiser worksheets were not being utilized. We recommend fundraiser worksheets are completed for all applicable fundraisers and reviewed for reasonableness.
- Vendor commission checks should be agreed to the vendor report. Currently, there are no controls in place to monitor the commission checks and review their accuracy. To strengthen controls, we recommend a monthly vendor report be requested for each vending machine and reconciled to the commission check.

Muhlenberg County School District Comments and Recommendations (Continued)

- During our review of the annual financial report and bank reconciliation, we noted several old outstanding checks. We recommend that the outstanding check list be reviewed and any checks that have been outstanding for a significant period be properly voided and reissued if necessary.
- During our review of the bank statements, we noted large deposits made 3-4 times each month. We recommend receipts are recorded in the accounting system when received and all deposits over \$100 are made on a daily basis.

Muhlenberg County School District
Management Responses
June 30, 2012

Muhlenberg South Middle School-Prior Year & Current Year

- Ticket receipts will be deposited in a timely manner.

Central Office

- Invoices will be closely reviewed for proper approval.
- When invoices are paid the documentation is always attached to that check. Marking the invoice paid would not prevent a duplicate invoice from being received. We are not having an issue with duplicate payments.
- Employees not listed on the salary schedule will be reviewed.
- The two banking accounts noted will be closed during the upcoming fiscal year.
- Bank reconciliations will be reviewed by someone other than the preparer and initialed and dated by that person.
- The food service bank account referred to is transferred over into the districts main general fund on a monthly basis. We received KDE approval on this process.
- The two bank accounts noted previously will be closed. The food service account will be reviewed as well.
- Food-service inventory will be reviewed and counted closely at year end.
- The expenses noted from general fund for food service are monitors and some of the locations. That procedure will be reviewed But food-service has indicated that is not an allowable expense for them to pay.
- We will review the purchase order threshold.
- The four assets deleted in error were corrected. We will review closely to make certain for reasonableness in the future.

Muhlenberg County School District
Management Responses (Continued)
June 30, 2012

All Schools

- We will keep a running list of donations by outside agencies, groups and individuals to be submitted to the central office. This list will be submitted with year-end financial records.
- The principal will open bank statements monthly. The principal will sign and date when bank statements are opened each month. Electronic statements will be signed or initialed for review by the Principal.
- School activity funds purchases will be for expenses will have benefit students.

Bremen

- As of the training date, all credit card purchases are preapproved.
- No more raffles will be held without registering with the Office of Charitable Gaming.
- All disbursements without an invoice will be submitted on a standard invoice.
- All purchase orders have and will have original signatures.
- Bremen PTO is no longer allowed to use the school's tax exempt number.

Greenville

- School activity funds purchase orders will show that all expenses will have an impact/benefit students directly.
- We will contact vendors to request itemized inventory regarding income received.

South Elementary

- We will review expenditures to see that they benefit students.
- Sales monies are now being collected daily.

Muhlenberg County School District
Management Responses (Continued)
June 30, 2012

Central City

- We are no longer using a signature stamp.

Longest

- School activity funds being used: We had funds from school pictures in the general category and we used funds to purchase food for FRC Advisory Council meetings.
- We held one event-Battle of the Spartans II raising money for the FRC. We collected funds at the door but didn't distribute tickets. We have since held a third such event and we did distribute tickets at the gate.
- The final category was including the two CD's in with activity report. We moved upon recommendation and each month's report includes the two CD's (1 Daycare-approximately \$35000, and 1 Jr. Beta Club Scholarship approximately \$1400)

North Middle

- Ticket sales are routinely deposit the day after the event. However, the wrong date may have mistakenly been written down. Careful attention will be paid to this detail in the future.
- All disbursements will be under careful consideration to ensure that they are to the students benefit.
- Teachers/sponsors have been verbally informed that each days proceeds from book fairs are to be turned in daily.
- Two individuals are now counting all monies and initialing each deposit slip.
- All receipts are deposited daily. Once the discrepancy in the dates the money was received and deposited could have possible human error or an incorrect date entered into the computer. Careful attention will be paid in the future.
- A purchase order or standard invoice will be properly approved for each purchase.
- All checks will be signed by two authorized individuals as required.

Muhlenberg County School District
Management Responses (Continued)
June 30, 2012

- We will review for ticket sales to be rotated on colors.

South Middle

- MSMS is making sure that disbursements from student funds be used only to benefit students.
- Ticket colors are now being rotated between events
- Staff has been informed to turn in any money collected daily to the treasurer.

East

- Care will be taken to use student generated funds for students only.
- Fundraiser worksheets will be implemented.
- Contacting Coca-Cola to request a monthly vendor report to match commission checks for vending machines.
- Will track donations and report to board office annually .

West

- When it is required that a deposit is to be counted by two individuals, it is sometimes difficult for another person to take extra time to count the deposit too in order to have the amount deposited in a timely manner. When this occurs – all money is secure until a deposit is made.
- Refer to above. ALL deposit slips for last school year had been initialed by two individuals. If they were not, I had not counted the money for that particular deposit.
- Working to comply with recommendation.
- Work to comply with recommendation.
- Have asked for detailed report to match with commission check to no avail. Will work to comply with recommendation.