

**Simpson County
School District**

Financial Statements

June 30, 2012



Simpson County School District
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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
Simpson County School District
Franklin, 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 Simpson 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 October 9, 2012 on our consideration of Simpson 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 23 and 66 through 69 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 non-major fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for 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 non-major fund financial statements and other information, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and

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

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 9, 2012

Required Supplementary Information

Management's Discussion and Analysis



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

As management of the Simpson County Public 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.

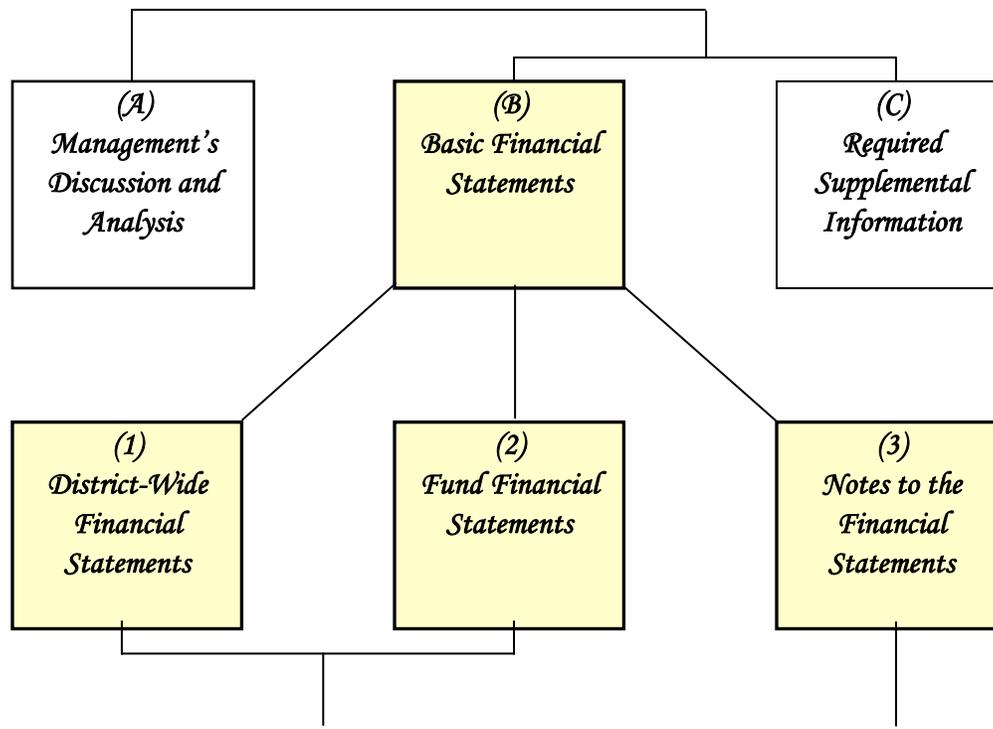
FINANCIAL HIGHLIGHTS

- The beginning General Fund fund balance for the District was \$3,801,754. The ending General Fund balance was \$3,418,624.
- The majority of General Fund revenues were derived from state sources (68.9%) and local taxes (30.2%). Regular instruction, student support services, instructional support services and school administration account for 77% of the General Fund expenditures. Pupil Transportation expenditures were 7%, maintenance and operations 11%, business functions 2%, and central office support, non-instructional, and fund transfers making up the remaining 3%.
- One continued concern is the impact of unfunded mandates without the compensating increase in SEEK which causes a reflection in the growth of expenses each year. SEEK is an acronym for Support Educational Excellence in Kentucky and is the state formula for funding schools. Salaries and benefits are recurring expenses that will continue to be an issue to the district to maintain quality employees without the State support of proper funding of mandates which can cause a drain on our resources.
- There is a noticeable difference reported between the budgetary and the actual revenue and expenditures due to reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution to our employee's health insurance and retirement (\$4,539,520) is included in the district's revenues and expenditure. These are recorded within the audit as "On-Behalf Payments".
- The Capital Outlay and Facility Support Program of Kentucky (FSPK) Fund remained at a minimum due to utilization of restricted funds for renovations and improvement of facilities.
- There are two current facility improvement and building projects in the Simpson County School District during the 2011-2012 school year. The District completed the Franklin-Simpson High School Gymnasium and major asphalt resurfacing repairs at Franklin Elementary School.
- The district continued the "Thoughtful Classroom" initiative that will increase training and resources for the increased challenges for improved student achievement toward the goal of proficiency for all schools by 2014.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Simpson County Public 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, (B) the basic financial statements and related notes (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The District-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances can be found on starting on page 25. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column which can be found starting on page 29.

Notes to Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 40 of this report.

Reporting the School District as a Whole

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

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

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

- **Governmental Activities** – Most of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District’s food service and daycare services 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 \$13,828,469 as of June 30, 2012. This was a decrease of \$178,467 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 related of debt was \$10,512,638. 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.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

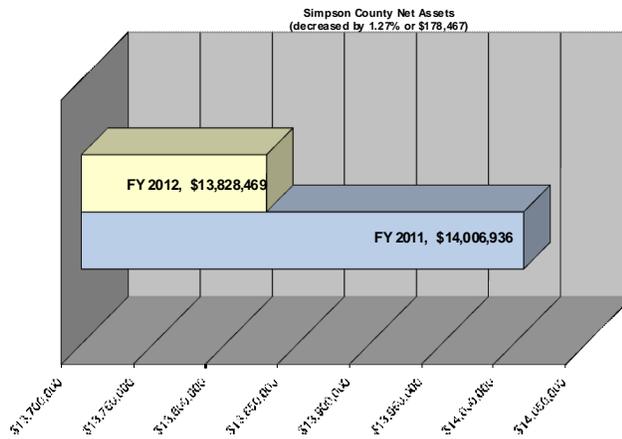
Fiduciary Funds - The schools' activity funds (or agency funds) are the District's fiduciary fund. The fiduciary fund liabilities at year end total \$147,281 (a decrease of \$1,128 from the previous year).

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2012

	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District % Change
	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	
Current & Other Assets	\$ 5,301,729	\$ 4,224,078	\$ 413,523	\$ 450,918	\$ 5,715,252	\$ 4,674,996	-18.20%
Capital Assets	31,914,946	31,652,660	152,587	235,371	32,067,533	31,888,031	-0.56%
Total Assets	37,216,675	35,876,738	566,110	686,289	37,782,785	36,563,027	-3.23%
Long Term Liabilities	21,396,945	20,416,907	13,904	-	21,410,849	20,416,907	-4.64%
Other Liabilities	2,342,732	2,257,787	22,268	59,864	2,365,000	2,317,651	-2.00%
Total Liabilities	23,739,677	22,674,694	36,172	59,864	23,775,849	22,734,558	-4.38%
Investment in Capital Assets (net of debt)	9,661,435	10,291,171	124,779	221,467	9,786,214	10,512,638	7.42%
Restricted	870,710	367,441	-	-	870,710	367,441	0.00%
Unrestricted	2,944,853	2,543,432	405,159	404,958	3,350,012	2,948,390	-11.99%
Total Net Assets	\$ 13,476,998	\$ 13,202,044	\$ 529,938	\$ 626,425	\$ 14,006,936	\$ 13,828,469	-1.27%

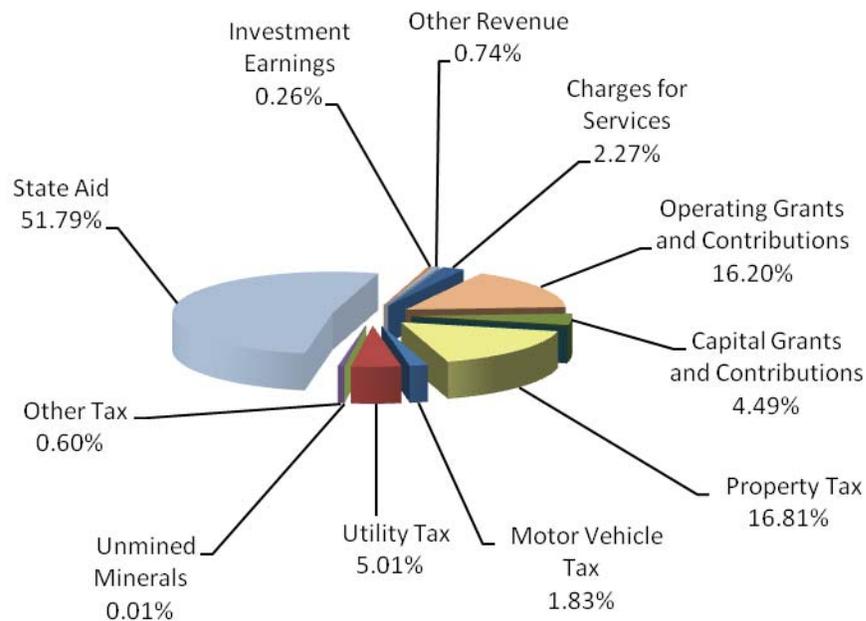
At year-end assets exceeded liabilities by \$13,828,469.



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

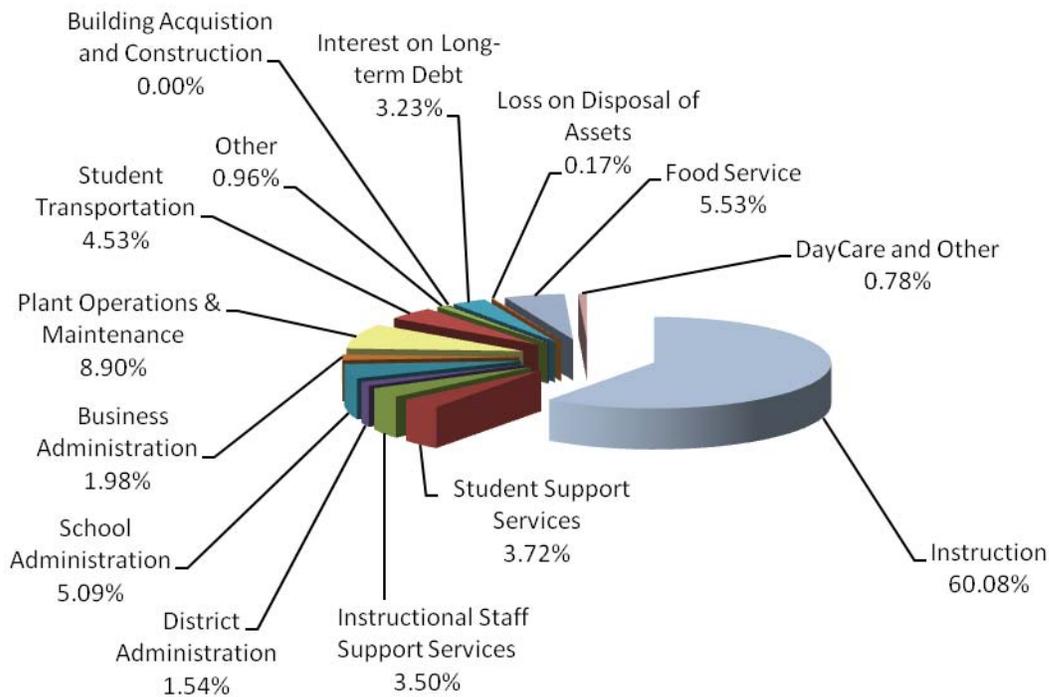
	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District % Change
	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	
Revenues							
Program Revenues							
Charges for Services	\$21,653	\$14,040	\$681,890	\$658,199	\$703,543	\$672,239	-4.45%
Operating Grants and Contributions	4,808,235	3,489,356	1,248,829	1,316,505	6,057,064	4,805,861	-20.66%
Capital Grants and Contributions	1,401,425	1,330,759	-	-	1,401,425	1,330,759	-5.04%
General Revenue							
Property Tax	4,721,896	4,986,952	-	-	4,721,896	4,986,952	5.61%
Motor Vehicle Tax	531,610	543,036	-	-	531,610	543,036	2.15%
Utility Tax	1,535,364	1,485,860	-	-	1,535,364	1,485,860	-3.22%
Unmined Minerals	1,122	1,864	-	-	1,122	1,864	66.13%
Other Tax	329,486	179,187	-	-	329,486	179,187	-45.62%
State Aid	14,251,069	15,363,210	-	-	14,251,069	15,363,210	7.80%
Investment Earnings	66,073	73,086	2,604	3,823	68,677	76,909	11.99%
Other Revenue	104,316	218,665	(301)	(357)	104,015	218,308	109.88%
Total Revenues	\$27,772,249	\$27,686,015	\$1,933,022	\$1,978,170	\$29,705,271	\$29,664,185	-0.14%

Sources of Revenue



Expenses	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District % Change
	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	2011-12
	Instruction	\$ 16,975,313	\$ 17,928,207	\$ -	\$ -	\$ 16,975,313	\$ 17,928,207
Student Support Services	917,371	1,110,756	-	-	917,371	1,110,756	21.08%
Instructional Staff Support Services	1,113,055	1,045,066	-	-	1,113,055	1,045,066	-6.11%
District Administration	527,261	458,112	-	-	527,261	458,112	-13.11%
School Administration	1,490,095	1,518,590	-	-	1,490,095	1,518,590	1.91%
Business Administration	494,851	589,696	-	-	494,851	589,696	19.17%
Plant Operations & Maintenance	2,585,482	2,656,177	-	-	2,585,482	2,656,177	2.73%
Student Transportation	1,228,638	1,352,487	-	-	1,228,638	1,352,487	10.08%
Other	263,735	287,743	-	-	263,735	287,743	9.10%
Building Acquisition and Construction	-	-	-	-	-	-	0.00%
Interest on Long-term Debt	987,192	962,980	-	-	987,192	962,980	-2.45%
Loss on Disposal of Assets	99,667	51,155	-	-	99,667	51,155	0.00%
Food Service	-	-	1,569,259	1,649,583	1,569,259	1,649,583	5.12%
DayCare and Other	-	-	206,180	232,100	206,180	232,100	12.57%
Total Expenses	\$ 26,682,660	\$ 27,960,969	\$ 1,775,439	\$ 1,881,683	\$ 28,458,099	\$ 29,842,652	4.87%

Expenses

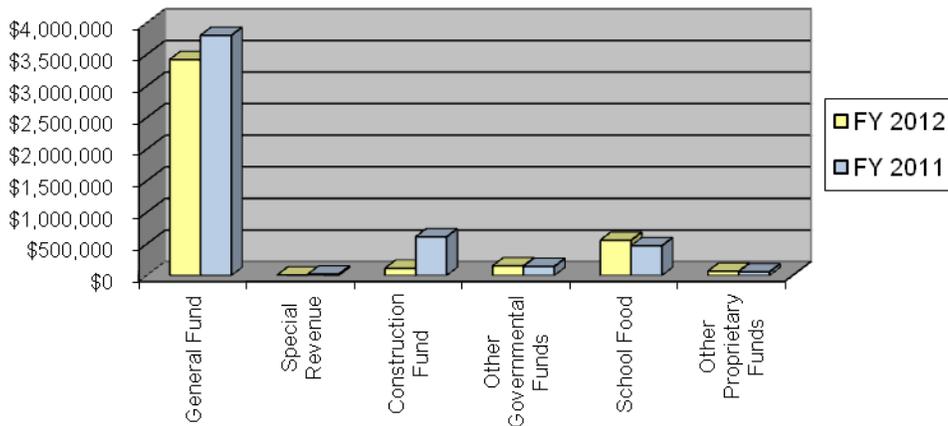


- The District’s total revenues were \$29,664,185 and the total expenses were \$29,842,652. Expenses exceeded revenues by \$178,467.
- State revenues accounted for 52% and local taxes accounted for 24% of the revenue.
- Instruction was the major expense category and accounted for 60% of the total.
- Food Service revenues exceeded expenses by \$87,045 resulting in a profit. Day Care revenues exceeded expenses by \$9,442.

Financial Analysis of the District Funds

End-of-Year Fund Balances	FY 2011	FY 2012	Amount of Change	% Change
General Fund	\$3,801,754	\$3,418,624	(\$383,130)	-10%
Special Revenue	\$23,626	\$7,583	(\$16,043)	-68%
Construction Fund	\$612,705	\$115,111	(\$497,594)	0
Other Governmental Funds	\$142,572	\$152,940	\$10,368	7%
School Food	\$471,328	\$558,373	\$87,045	18%
Other Proprietary Funds	\$58,610	\$68,052	\$9,442	16%

Year-End Balances

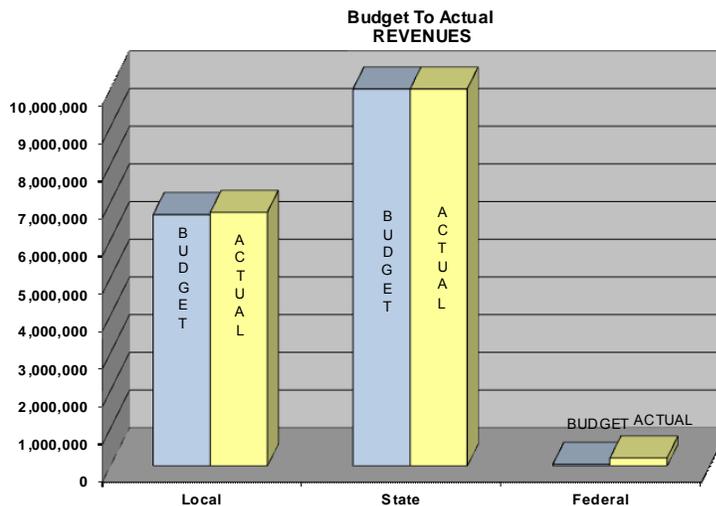


- The General Fund’s fund balance showed a decrease in fund balance of \$383,130. This reflects an increase in expenditures for one-time general fund purchases of property and textbooks.
- The Special Revenue fund balance showed a decrease of \$16,043. Projects in the Special Revenue fund are zeroed at year-end with the exception of the KETS Technology project(s).
- Construction fund and other governmental funds showed a net decrease in fund balance of \$487,226. This consists mainly of construction funds which are restricted funds to be used for construction and renovation projects outlined by the District Facility Plan.
- Other Proprietary Funds, which includes the District Daycare operation, had an increase in funds of \$9,442, while the School Food Fund had an increase of \$87,045.

Comments on General Fund Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2012, net of interfund transfers, were \$17,889,051. This is \$120,804 more than was budgeted in the final working budget. The District budgeted conservatively in its local revenues, but received \$57,882 more than budget. This accounted for 48% of the General Fund revenue increase. The District received 87% less and 139% more than budgeted amounts in state and federal (Medicaid) revenues, respectively.
- Expenditures were less than budgeted by \$1,339,930. The main reason is that contingencies of \$1,554,041 were budgeted and not intended to be spent.
- The General Fund's ending actual balance was \$383,130 less than the prior year.
- The Final Budget and the Original Budget differ primarily because the Original (Working) Budget is prepared by the end of September for the school year and the Final Budget contains Board approved amendments.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not expended at the end of the previous year.

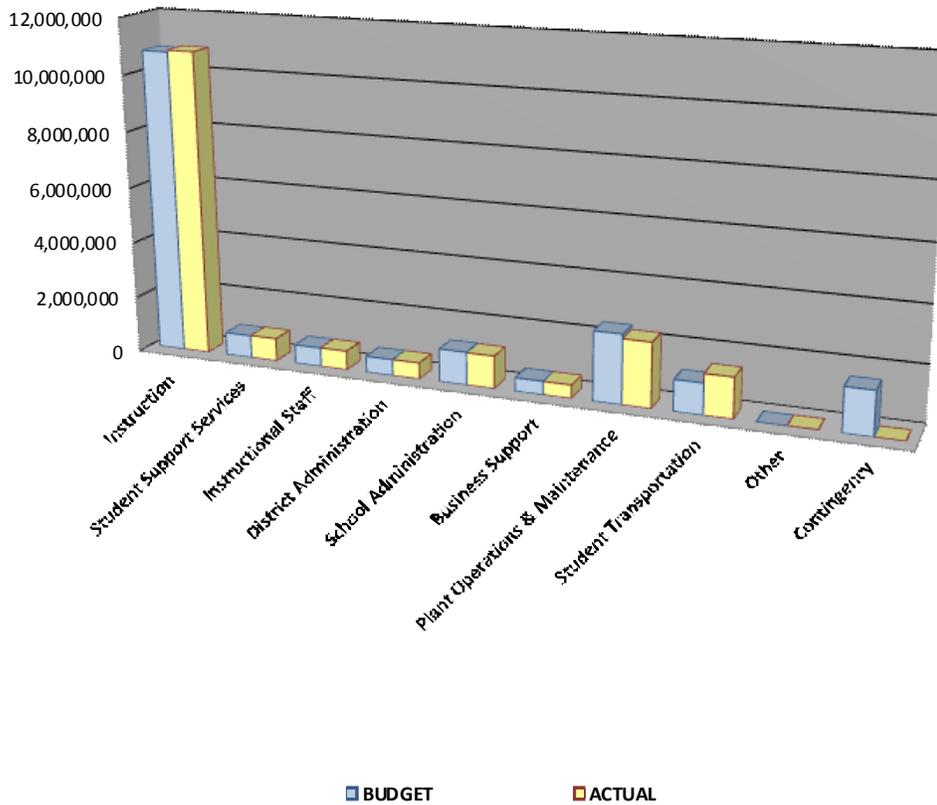
	BUDGET	ACTUAL
Local	\$ 6,667,174	\$ 6,725,056
State	\$ 11,061,073	\$ 10,955,769
Federal	\$ 40,000	\$ 208,226
TOTAL	\$ 17,768,247	\$ 17,889,051
	DIFFERENCE	\$ 120,804



General Fund Budget Comparisons (continued)

Expenditures	BUDGET	ACTUAL
Instruction	\$ 10,775,614	\$ 10,838,644
Student Support Services	\$ 805,744	\$ 813,840
Instructional Staff	\$ 671,788	\$ 674,782
District Administration	\$ 576,103	\$ 574,889
School Administration	\$ 1,168,710	\$ 1,150,689
Business Support	\$ 476,142	\$ 469,242
Plant Operations & Maintenance	\$ 2,446,703	\$ 2,282,831
Student Transportation	\$ 1,102,586	\$ 1,427,383
Other	\$ -	\$ 5,201
Contingency	\$ 1,554,041	\$ -
	\$ 19,577,431	\$ 18,237,501
	DIFFERENCE	\$ (1,339,930)

Budget to Actual Expenditures



The following tables present a summary of revenue and expenditures of the General Fund for the fiscal year ended June 30, 2012.

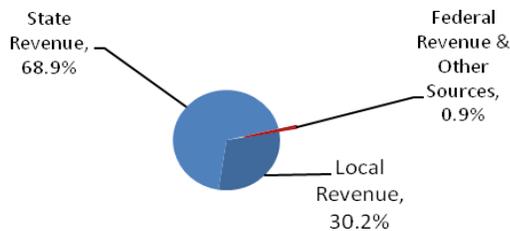
Revenues:

Local Revenue:		\$ 6,725,056
Taxes		
Property	\$	4,381,258
Motor Vehicle		543,036
Utilities		1,485,860
Unmined Minerals		1,864
Other		179,187
Tuition and Fees		4,040
Earnings on Investments		73,058
Other Local Revenue		56,753
State Revenue		15,363,210
Federal Revenue & Other Sources		208,226
Total Revenues		<u>\$ 22,296,492</u>

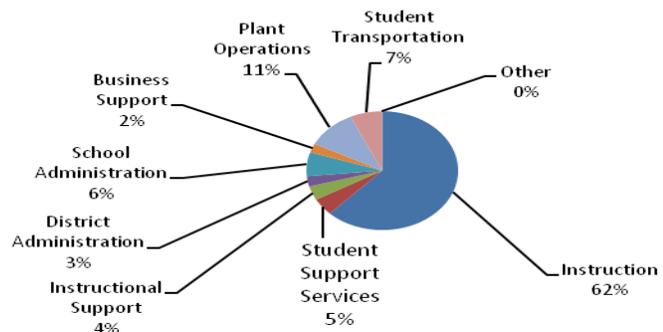
Expenditures:

Instruction		\$ 14,078,178
Support Services:		
Student Support Services		1,066,439
Instructional Support		862,548
District Administration		631,435
School Administration		1,479,047
Business Support		557,581
Plant Operations		2,414,445
Student Transportation		1,550,068
Other		5,201
Total Expenditures		<u>\$ 22,644,942</u>

GENERAL FUND REVENUES



GENERAL FUND EXPENDITURES

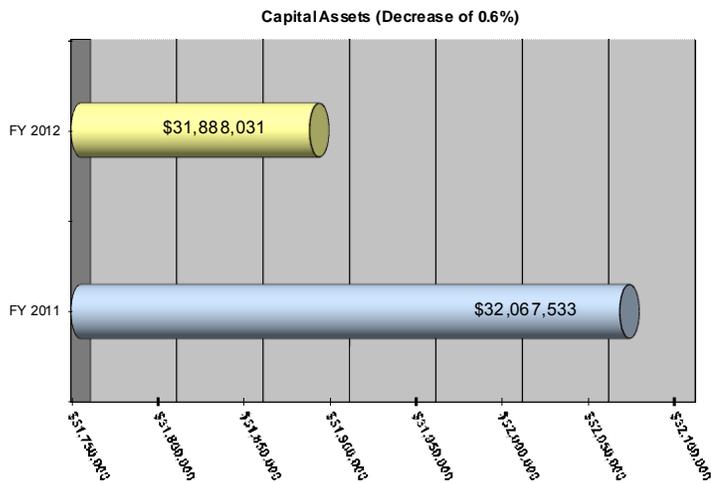


CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2012, the district had invested \$49,870,884 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The accumulated depreciation was a total of \$17,982,853. This district had no open construction projects at June 30, 2012.

Capital Assets (net of depreciation)	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District % Change
	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	2011-12
Land	\$ 828,678	\$ 792,641	\$ -	\$ -	\$ 828,678	\$ 792,641	-4.3%
Construction in Progress	\$ 4,696,794	\$ -	\$ -	\$ -	\$ 4,696,794	\$ -	-100.0%
Buildings	\$ 24,229,585	\$ 28,624,207	\$ -	\$ -	\$ 24,229,585	\$ 28,624,207	18.1%
Equipment and Furniture	\$ 1,289,849	\$ 1,171,406	\$ 152,587	\$ 235,371	\$ 1,442,436	\$ 1,406,777	-2.5%
Vehicles	\$ 870,040	\$ 1,064,406	\$ -	\$ -	\$ 870,040	\$ 1,064,406	22.3%
Total Assets	\$ 31,914,946	\$ 31,652,660	\$ 152,587	\$ 235,371	\$ 32,067,533	\$ 31,888,031	-0.6%



Long-Term Debt

At year-end the district had \$22.489 million in general obligation bonds outstanding.

General Obligation Bonds:		Governmental Activities FY 2011	Governmental Activities FY 2012
Series 2002	Re-funding of 1993 Issue (Additions and Renovation to Lincoln Elementary)	\$ 520,000	\$ 265,000
Series 2005	Renovations for Simpson Elem, F-S Middle School	\$ 8,550,000	\$ 8,240,000
Series 2006	Improvements at Franklin Elementary - Phase I	\$ 5,170,000	\$ 4,975,000
Series 2007	Improvements at Franklin Elementary - Phase II	\$ 355,000	\$ 340,000
Series 2007R	Partially Refinanced Series 2000 Bonds	\$ 2,060,000	\$ 1,880,000
Series 2010	Franklin-Simpson High School Gymnasium	\$ 4,800,000	\$ 4,720,000
KISTA		\$ 859,057	\$ 1,069,472
TOTAL		\$ 22,314,057	\$ 21,489,472

BUDGETARY IMPLICATIONS

A fundamental principle of finance is a balanced budget. It is important not to spend more than is received. Unknown circumstances sometimes arise that require expenses in a year that exceed revenues. It is extremely important that the district continue to budget very conservatively. The district receives approximate 69% of its revenue each year through the state funding formula (SEEK). There have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 20% of the revenue is from local property tax. The major portion of the tax revenue does not come to the district until the sixth-eighth months of the school year. This means the general fund's beginning fund balance must be used to absorb much of the first five months of expenditures in the school year. Provisions must always be made to have a significant fund beginning balance to start each year. The General Fund has an ending fund balance of \$3,418,624 being brought forward as a beginning balance for next year to continue to effectively maintain quality programs. Some of this surplus is already obligated due to the recurring increase cost of salaries.

By law the budget must have a minimum 2% contingency, but it is recommended that a higher contingency be maintained. The beginning fund balance at the beginning of the 2013 fiscal year is \$3,418,624 (comprised of nonspendable, restricted, committed, assigned and unassigned funds). Significant Board action that impacts the finances include the approval of the construction of phase one of a Fine Arts Center, life-safety repairs to the Football Stadium, construction of a Fieldhouse, and general fund matching dollars for state and federal grants. The district currently participates in over thirty federal and state grants. All federal funds received by Simpson County are restricted for specific purposes. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant upfront and then apply for reimbursement. At year-end, the District's General Fund was due \$263,777 from other funds. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash

balance in order to pay the expenses of these grants while waiting for reimbursements. In addition, decisions about allocation of funds held in reserve for annual expense must always consider the implication of recurring expense. Personnel expenses are a classic example of recurring expense. Also, additional contingency is required due to the age of the district's buildings where unanticipated major repairs could arise to maintain up-to-date facilities and a good learning environment for all students. Simpson County Schools has made a continuous effort to increase pay raises above the state minimum requirement to compete more with surrounding districts in attracting the best and talented educators. The district's policy of maintaining a strong reserve resulted in no cutbacks or layoffs as a result of reduced state funding.

DISTRICT CHALLENGES FOR THE FUTURE

The economy continues to be an area of concern for all types of organizations and individuals, including our school system. State and federal revenues are declining, which will continue during the next two year budget cycle. We can only hope things will improve and we can continue our march forward of providing our students in Simpson County with a world-class, high quality education that is second to none.

The vision of Simpson County Schools is to graduate our students ready for life – we define ready for life as prepared for productive citizenship, college and/or careers. To that end, our mission is simple – *successfully educating every child we serve*. To do this well is very challenging and difficult work. It will require us to work in ways we never have before to accomplish this noble goal. There are five fundamental questions we must ensure are answered and executed in order to accomplish this work:

- ▶ **Do we have a clear plan for building positive, professional relationships with students and their parents?** *Building rapport with student; enlisting support from parents through Parent-Teacher Conferences and many other communication and volunteer opportunities...*
- ▶ **Do we have clear procedures for making sure we are teaching the standards?** *Teaching the Simpson County Schools District Curriculum including the common core academic standards...*
- ▶ **Do we have clear procedures for making sure our students have learned the standards?** *Using results from Classroom formative and summative assessments, Learning Checks, STAR, K-PREP, ACT, PLAN, EXPLORE, ASVAB, ACT WorkKeys, KOSSA...*
- ▶ **Do we have clear procedures for making sure we “fix it” when students do not learn the standards?** *Multi-tiered School-based Systems of Interventions in place to serve individual students who need extra help meeting our learning goals...*
- ▶ **Do we have clear procedures for providing enrichment strategies for students who are already meeting our learning goals?** *Enrichment programs and strategies to stretch students further who are already meeting or exceeding our learning goals...*

Some specific initiatives we are implementing to improve student achievement and help us meet our student achievement goals include the following:

We have a process, including a monitoring system, to align and continuously renew the district curriculum. Data, including classroom assessment results, should be used to identify gaps in the curriculum as it is implemented.

- We will continue to refine and renew the district curriculum through on-going planned sessions to further develop our resources, curricular units and assessments around each content standard, specifically the new common core standards in reading and math, as well as the new standards in science and social studies as those are released.
- We have implemented district-wide learning checks and common assessments to monitor student progress on the district curriculum. We have planned these learning checks to occur at least quarterly.
- We are implementing Pre/Post testing in Reading, Language and Math in Grades K-8 for all students to measure individual student growth over the year. We are using the STAR Enterprise Assessment to provide diagnostic information that will help teachers deliver targeted instruction to meet individual learner needs.

- At the high school level we are implementing Pre/Post assessment using the PLAN and ACT series to help ensure every graduate is ready for post secondary training. Additionally, we have ramped up our Advanced Placement course offerings and implemented a partnership with the Franklin Center of Bowling Green Technical College to offer dual credit college courses for students. Through these programs, students at FSHS earned over 600 hours of college credit last year!
- Our Professional Learning Community (PLC) Work will bring teachers together in collegial work groups to analyze student work and results on classroom assessments and use the data to inform instruction, share and celebrate successful strategies, as well as identify students who need remediation or enrichment in an area. Ultimately, we want to achieve common formative and summative assessments in like courses/content areas that are aligned to the district curriculum and use the results from these assessments to inform instruction and identify students for interventions/enrichments...

We will use a variety of methods to gauge the status of the existing district and school cultures. Results of the methods will be used to determine strategies to implement that foster a culture conducive to performance excellence. All staff should be held responsible for the success of all students.

- We will continue monitoring student attendance, discipline reports, grade distributions, drop-out rates.... We will more closely monitor staff attendance as an indicator as well.
- We will implement surveys of staff, students and parents to gauge our culture and performance perceptions among stakeholders. We will use this information to monitor our culture and develop strategies for improving it on behalf of our students.

We will execute effective use of planning time using the most current curriculum standards to develop lesson plans and units of study.

- We will continue our work with *Thoughtful Education*, refining our efforts to design effect lessons and units of study around the district curriculum using research-based instructional strategies and engaging resources. We will use time during the work-day for job embedded staff development to work on this and other important initiatives for raising student achievement. One important initiative that ties together the curriculum, instruction and assessment practices around high levels of student engagement our ***Designing Student Engagement*** work with John Antonetti.

Our business is a people business. The adults we have working with our students are critical to our success. Therefore, it's essential to our mission to attract and retain the very best educators possible in order to enhance the instructional program for all students. This requires competitive salaries/benefits and up-to-date resources and facilities. We have upgraded all of our recruitment, assessment and selection systems to improve our ability to attract and hire the very best. We are continuing our new teacher induction programming with plans to further develop a career development program for staff at all levels of experience.

We are continuing our support and work with teachers who are working on the prestigious and rigorous National Board Teacher Certification Program. The National Board for Professional Teaching Standards was established in 1987 to advance quality teaching and learning by developing a national vocabulary of teaching standards and recognizing accomplished teaching through administering a voluntary program of National Board Teacher Certification. Today, National Board Teacher Certification is not only a rare, highly-regarded professional distinction, but is also shown by research to have a positive impact on student achievement. We continue to support our teachers in this program and others to inspire growth and development over an entire career.

In our quest to our students, staff and visitors with high quality school facilities, we have completed improvements to almost every school building in our district over the past 8 years. Our current District Facilities Plan approved in the spring of 2011 has as its top priority a new performing arts center for the high

school. We are in the process of constructing the first phase of this project with a new band room and chorus room in the design process. We're targeting an August 2013 completion date for this project. We completed construction of a new competition gym/physical education/student wellness center at FSHS in June of 2011. We sincerely hope the General Assembly will consider measures to address adequate facility funds in a manner that will be equitable for school districts across the state. An adequate and equitable funding system would provide the resources necessary to do all of our priority one projects in our current District Facilities Plan.

Due to the current economic conditions, district funding is a serious issue facing our school system. Though our school system has consistently ranked in the bottom 5% to 15% of the state in total per pupil funding, we have operated our district efficiently and wisely which has allowed us to maintain a healthy budget. Consequently, we have been able to maintain most of our programs and services for students without making any major cuts. However, if the current economic conditions persist, we will be faced with more serious cuts like many districts have already experienced. We are implementing serious "belt tightening" strategies to help us maintain critical programs for our students. Some key areas we must keep our focus on to maximize our funding are:

- ✓ **Improving student attendance** – we need students to be at school in order to teach them. At the same time, our funding mechanism is dependent on student attendance rates. We need our student to attend school every day possible. Good student attendance will improve learning results and our financial outlook!
- ✓ **Reducing substitute costs** by improving staff attendance. Just like our students, we need our staff present every day possible to deliver on our mission while saving on the cost of providing a substitute.
- ✓ **Initiating a district-wide Energy Savings Program and Promotion** to encourage saving energy by turning off lights, computers, SMART boards and projectors when not in use... We need to instill an awareness and commitment to energy efficiency among every person in our school system!
- ✓ **Initiating a "Pay to Save" program** rewarding staff members and/or students who come up with cost-saving strategies that are proven to save money!
- ✓ **Selling our surplus equipment** – we plan to scour the district for unused items and have a big sale/auction. We can raise revenues and remove clutter at the same time!

Making progress in the above mentioned initiatives can help us improve our financial outlook and be better able to provide our students and staff with the needed resources to help us achieve our vision/mission for all students. Ultimately, we are going to work hard to ensure the funds we have are targeted toward helping our students learn and be successful in life.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, inquiries should be directed to Jim Flynn, Superintendent or Amanda Deweese, Finance Director (270) 586-8877, 430 South College St., Franklin, KY, 42134.

Basic Financial Statements

Simpson County School District
Statement of Net Assets

June 30, 2012	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 3,225,271	\$ 395,277	\$ 3,620,548
Accounts receivable:			
Taxes	286,670	-	286,670
Accounts	18,385	1,729	20,114
Intergovernmental	595,845	28,630	624,475
Inventory	-	25,282	25,282
Prepaid expenses	606	-	606
Bond issuance cost	147,935	-	147,935
Less: accumulated amortization	(50,634)	-	(50,634)
Non-depreciable capital assets	606,981	-	606,981
Depreciable capital assets	48,620,361	643,542	49,263,903
Less: accumulated depreciation	(17,574,682)	(408,171)	(17,982,853)
Total assets	35,876,738	686,289	36,563,027
Liabilities			
Accounts payable	183,528	45,960	229,488
Accrued liabilities	36,528	-	36,528
Deferred revenue	212,463	-	212,463
Accrued interest	352,764	-	352,764
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,258,524	-	1,258,524
Other	81,777	13,904	95,681
Compensated absences	132,203	-	132,203
Due beyond one year:			
Outstanding bonds	20,021,188	-	20,021,188
Compensated absences	395,719	-	395,719
Total liabilities	22,674,694	59,864	22,734,558

June 30, 2012	Governmental Activities	Business-Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	10,291,171	221,467	10,512,638
Restricted for:			
Capital projects	268,051	-	268,051
Grant programs	7,583	-	7,583
Compensated absences	91,807	-	91,807
Unrestricted	2,543,432	404,958	2,948,390
Total Net Assets	\$ 13,202,044	\$ 626,425	\$ 13,828,469

See accompanying notes to the financial statements.

Simpson County School District
Statement of Activities

Year Ended June 30, 2012	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
Instruction	\$ 17,928,207	\$ 4,040	\$ 2,865,798	\$ 65,340	\$ (14,993,029)	\$ -	\$ (14,993,029)
Support services:							
Student	1,110,756	-	41,444	-	(1,069,312)	-	(1,069,312)
Instructional staff	1,045,066	-	177,137	-	(867,929)	-	(867,929)
District administration	458,112	-	-	-	(458,112)	-	(458,112)
School administration	1,518,590	-	40,198	-	(1,478,392)	-	(1,478,392)
Business	589,696	-	30,491	-	(559,205)	-	(559,205)
Plant operations and maintenance	2,656,177	10,000	23,530	82,179	(2,540,468)	-	(2,540,468)
Student transportation	1,352,487	-	28,216	-	(1,324,271)	-	(1,324,271)
Other	287,743	-	282,542	-	(5,201)	-	(5,201)
Building acquisition and construction	-	-	-	26,496	26,496	-	26,496
Interest on long-term debt	962,980	-	-	1,156,744	193,764	-	193,764
Loss on disposal of assets	51,155	-	-	-	(51,155)	-	(51,155)
Total governmental activities	27,960,969	14,040	3,489,356	1,330,759	(23,126,814)	-	(23,126,814)
Business-type activities							
Food services	1,649,583	458,785	1,274,377	-	-	83,579	83,579
Other	232,100	199,414	42,128	-	-	9,442	9,442
Total business-type activities	1,881,683	658,199	1,316,505	-	-	93,021	93,021
Total School District	\$ 29,842,652	\$ 672,239	\$ 4,805,861	\$ 1,330,759	(23,126,814)	93,021	(23,033,793)

General revenues			
Taxes:			
Property	4,986,952	-	4,986,952
Motor vehicle	543,036	-	543,036
Utilities	1,485,860	-	1,485,860
Unmined minerals	1,864	-	1,864
Other	179,187	-	179,187
State aid	15,363,210	-	15,363,210
Investment earnings	73,086	3,823	76,909
Other	218,665	(357)	218,308
Total general revenues	22,851,860	3,466	22,855,326
Change in net assets	(274,954)	96,487	(178,467)
Net assets – beginning of year	13,476,998	529,938	14,006,936
Net Assets – End of Year	\$ 13,202,044	\$ 626,425	\$ 13,828,469

Simpson County School District
 Balance Sheet
 Governmental Funds

June 30, 2012	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 2,945,149	\$ -	\$ 280,122	\$ 3,225,271
Accounts receivable:				
Taxes	286,670	-	-	286,670
Accounts	18,385	-	-	18,385
Intergovernmental	94,662	501,183	-	595,845
Due from other funds	263,777	-	-	263,777
Prepaid expenses	606	-	-	606
Total Assets	\$ 3,609,249	\$ 501,183	\$ 280,122	\$ 4,390,554

Liabilities and Fund Balances

Liabilities				
Accounts payable	\$ 154,097	\$ 17,360	\$ 12,071	\$ 183,528
Accrued liabilities	36,528	-	-	36,528
Due to other funds	-	263,777	-	263,777
Deferred revenue	-	212,463	-	212,463
Total liabilities	190,625	493,600	12,071	696,296
Fund Balances				
Nonspendable	606	-	-	606
Restricted	91,807	7,583	268,051	367,441
Committed	1,883,896	-	-	1,883,896
Assigned	90,397	-	-	90,397
Unassigned	1,351,918	-	-	1,351,918
Total fund balances	3,418,624	7,583	268,051	3,694,258
Total Liabilities and Fund Balances	\$ 3,609,249	\$ 501,183	\$ 280,122	\$ 4,390,554

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

June 30,	2012
Total Fund Balances – Governmental Funds	\$ 3,694,258
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$49,227,342, and the accumulated depreciation is \$17,574,682.</p>	31,652,660
<p>Bond issuance costs are not financial resources and, therefore, are not reported as an asset in governmental funds. The cost of the asset is \$147,935, and the accumulated amortization is \$50,634.</p>	97,301
<p>Long-term liabilities, including bonds payable and accrued interest, 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:</p>	
Bonds payable	(21,279,712)
Accrued interest on outstanding bonds	(352,764)
Other debt	(81,777)
Compensated absences	(527,922)
Total Net Assets – Governmental Activities	\$ 13,202,044

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ 4,381,258	\$ -	\$ 605,694	\$ 4,986,952
Motor vehicle	543,036	-	-	543,036
Utilities	1,485,860	-	-	1,485,860
Unmined minerals	1,864	-	-	1,864
Other	179,187	-	-	179,187
Tuition and fees	4,040	-	-	4,040
Earnings on investments	73,058	272	3,514	76,844
Other local revenue	56,753	93,221	-	149,974
Intergovernmental – state	15,363,210	1,396,364	1,167,572	17,927,146
Intergovernmental – federal	208,226	2,064,839	94,361	2,367,426
Total revenues	22,296,492	3,554,696	1,871,141	27,722,329
Expenditures				
Current:				
Instruction	14,078,178	3,037,883	-	17,116,061
Support services:				
Student	1,066,439	41,444	-	1,107,883
Instructional staff	862,548	177,137	-	1,039,685
District administration	631,435	-	-	631,435

School administration	1,479,047	40,198	-	1,519,245
Business	557,581	30,491	-	588,072
Plant operations and maintenance	2,414,445	23,530	-	2,437,975
Student transportation	1,550,068	28,216	-	1,578,284
Other	5,201	282,542	-	287,743
Site improvement	-	-	57,826	57,826
Debt service:				
Principal	-	-	1,191,069	1,191,069
Interest	-	-	950,184	950,184
Building acquisition and construction	-	-	469,750	469,750
Total expenditures	22,644,942	3,661,441	2,668,829	28,975,212
Excess (deficiency) of revenues over expenditures	(348,450)	(106,745)	(797,688)	(1,252,883)
Other financing sources (uses)				
Bond proceeds – net of discount	366,484	-	-	366,484
Operating transfers – in	82,179	90,702	1,548,514	1,721,395
Operating transfers – out	(483,343)	-	(1,238,052)	(1,721,395)
Total other financing sources (uses)	(34,680)	90,702	310,462	366,484
Net Change in Fund Balances	(383,130)	(16,043)	(487,226)	(886,399)
Fund Balances – Beginning of Year	3,801,754	23,626	755,277	4,580,657
Fund Balances – End of Year	\$ 3,418,624	\$ 7,583	\$ 268,051	\$ 3,694,258

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See accompanying notes to the financial statements.

Simpson 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	\$ (886,399)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation outlays (\$1,607,475) exceeds capital outlays (\$1,432,658) in the period.	(174,817)
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.	(87,469)
Repayment of bond principal and other debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,272,846
The proceeds for the issuance of bonds and other debt service provide current financial resources and are reported in the fund financial statements but they are presented as liabilities in the statement of net assets.	(366,484)
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.	(32,631)
Change in Net Assets – Governmental Activities	\$ (274,954)

See accompanying notes to the financial statements.

Simpson County School District
Statement of Net Assets
Proprietary Funds

June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Assets			
Current assets			
Cash	\$ 326,548	\$ 68,729	\$ 395,277
Accounts receivable:			
Accounts	1,729	-	1,729
Intergovernmental	28,630	-	28,630
Inventory	25,282	-	25,282
Total current assets	382,189	68,729	450,918
Non-current assets			
Fixed assets – net	235,371	-	235,371
Total Assets	\$ 617,560	\$ 68,729	\$ 686,289
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 45,283	\$ 677	\$ 45,960
Long term obligations:			
Due within one year:			
Other	13,904	-	13,904
Total current liabilities	59,187	677	59,864
Net Assets			
Invested in capital assets, net of related debt	221,467	-	221,467
Unrestricted	336,906	68,052	404,958
Total net assets	558,373	68,052	626,425
Total Liabilities and Net Assets	\$ 617,560	\$ 68,729	\$ 686,289

See accompanying notes to the financial statements.

Simpson 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	\$ 458,785	\$ -	\$ 458,785
Tuition and fees	-	199,414	199,414
Total operating revenues	458,785	199,414	658,199
Operating expenses			
Salaries and wages	733,784	194,910	928,694
Contract services	154,488	3,524	158,012
Materials and supplies	716,439	28,196	744,635
Other operating expenses	886	5,470	6,356
Depreciation expense	44,623	-	44,623
Total operating expenses	1,650,220	232,100	1,882,320
Operating loss	(1,191,435)	(32,686)	(1,224,121)
Non-operating revenues (expenses)			
State operating grants	120,243	42,128	162,371
Federal operating grants	1,058,439	-	1,058,439
Donated commodities	95,695	-	95,695
Interest revenue	3,823	-	3,823
Gain on disposal of assets	637	-	637
Other	(357)	-	(357)
Total non-operating revenues (expenses)	1,278,480	42,128	1,320,608
Change in Net Assets	87,045	9,442	96,487
Total Net Assets – Beginning of Year	471,328	58,610	529,938
Total Net Assets – End of Year	\$ 558,373	\$ 68,052	\$ 626,425

See accompanying notes to the financial statements.

Simpson 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	\$ 460,746	\$ 199,414	\$ 660,160
Cash payments to employees for services	(629,782)	(166,833)	(796,615)
Cash payments for contract services	(154,488)	(3,524)	(158,012)
Cash payments to suppliers for goods and services	(569,014)	(27,692)	(596,706)
Cash payments for other operating expenses	(886)	(5,470)	(6,356)
Net cash used in operating activities	(893,424)	(4,105)	(897,529)
Cash Flows from Non-capital Financing Activities			
Non-operating grants received	1,074,680	14,051	1,088,731
Other	(357)	-	(357)
Net cash provided by non-capital financing activities	1,074,323	14,051	1,088,374
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(131,671)	-	(131,671)
Proceeds from sale of assets	4,901	-	4,901
Payments on long-term obligations	(13,904)	-	(13,904)
Net cash used in capital and related financing activities	(140,674)	-	(140,674)
Cash Flows from Investing Activities			
Interest on investments	3,823	-	3,823
Net cash provided by investing activities	3,823	-	3,823
Net Increase in Cash	44,048	9,946	53,994
Cash – Beginning of Year	282,500	58,783	341,283
Cash – End of Year	\$ 326,548	\$ 68,729	\$ 395,277

Year Ended June 30, 2012	Enterprise Fund Food Service	Other Enterprise Funds	Total
Reconciliation of Operating Loss to Net Cash Used In Operating Activities			
Operating loss	\$ (1,191,435)	\$ (32,686)	\$ (1,224,121)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	44,623	-	44,623
Commodities used	95,695	-	95,695
On-behalf payments received	104,002	28,077	132,079
Changes in assets and liabilities:			
Receivables	1,961		1,961
Inventories	14,638		14,638
Accounts payable	37,092	504	37,596
<hr/>			
Net Cash Used In Operating Activities	\$ (893,424)	\$ (4,105)	\$ (897,529)

Non-cash Activities

- The food service fund received \$95,695 of donated commodities from the federal government.
- The District received on-behalf payments of \$104,002 relating to insurance benefits.
- The District had a gain on disposal of fixed assets in the amount of \$637.

See accompanying notes to the financial statements.

Simpson County School District
Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012	Agency Funds
Assets	
Cash	\$ 144,272
Accounts receivable	3,009
<hr/>	
Total Assets	\$ 147,281
<hr/>	
Liabilities	
Accounts payable	\$ 1,076
Due to student groups	146,205
<hr/>	
Total Liabilities	\$ 147,281
<hr/>	

See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

• ***Reporting Entity***

The Simpson 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 Simpson 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 Simpson 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:

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

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Basis of Presentation***

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

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

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

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

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.

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

▶ **Proprietary Fund Types**

Enterprise 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 *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.

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*.

Note 1: Summary of Significant Accounting Policies
(Continued)

● ***Basis of Accounting***

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

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.

• **Inventory**

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

• **Capital Assets**

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

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

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

Note 1: Summary of Significant Accounting Policies
(Continued)

Description	Estimated Lives
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

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

• **Deferred Revenue**

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

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

• **Compensated Absences**

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

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.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

• ***Net Assets***

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

• ***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are 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 Non-Exchange 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.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

● ***Interfund Activity***

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

● ***Interfund Balances***

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

● ***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.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Operating Revenues and Expenses***

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

• ***Subsequent Events***

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

• ***Recently Issued Accounting Standards***

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 Statements No. 61, *The Financial Reporting: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, effect 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.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

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

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

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

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

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.

Note 1: Summary of Significant Accounting Policies
(Continued)

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 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 in deposits were \$3,764,820 and the bank balances were \$6,034,404, 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	\$ 3,225,271
Proprietary funds	395,277
Fiduciary funds	144,272
	\$ 3,764,820

▶ *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 \$6,034,404 was not exposed to custodial credit risk as of June 30, 2012.

Note 2: Cash and Investments *(Continued)*

• **Investments**

▶ *Interest Rate Risk*

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

▶ *Credit Risk*

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

Note 3: Interfund Receivables and Payables

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

June 30, 2012		
Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$ 263,777

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

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

Note 4: Capital Assets

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

June 30, 2012	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 604,981	\$ 2,000	\$ -	\$ 606,981
Construction in progress	4,696,794	527,576	5,224,370	-
Total non-depreciable historical cost	5,301,775	529,576	5,224,370	606,981
Capital assets that are depreciated:				
Land improvements	1,479,017	61,430	-	1,540,447
Buildings and improvements	35,223,270	5,342,941	85,214	40,480,997
Technology equipment	2,326,105	302,023	256,838	2,371,290
Vehicles	2,379,989	354,843	123,598	2,611,234
General	1,699,200	66,215	149,022	1,616,393
Total depreciable historical cost	43,107,581	6,127,452	614,672	48,620,361
Less accumulated depreciation for:				
Land improvements	1,255,320	99,467	-	1,354,787
Buildings and improvements	10,993,685	923,381	60,276	11,856,790
Technology equipment	1,441,405	341,957	226,010	1,557,352
Vehicles	1,509,949	160,477	123,598	1,546,828
General	1,294,051	82,193	117,319	1,258,925
Total accumulated depreciation	16,494,410	1,607,475	527,203	17,574,682
Total depreciable historical cost, net	26,613,171	4,519,977	87,469	31,045,679
Governmental Activities, Capital Assets, Net	\$31,914,946	\$5,049,553	\$ 5,311,839	\$31,652,660

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

Note 4: Capital Assets (Continued)

June 30, 2012	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Technology equipment	\$ 80,671	\$ -	\$ 21,350	\$ 59,321
General	475,095	131,671	22,545	584,221
Total depreciable historical cost	555,766	131,671	43,895	643,542
Less accumulated depreciation for:				
Technology equipment	43,533	13,276	18,340	38,469
General	359,646	31,347	21,291	369,702
Total accumulated depreciation	403,179	44,623	39,631	408,171
Total depreciable historical cost, net	152,587	87,048	4,264	235,371
Business-Type Activities, Capital Assets, Net	\$ 152,587	\$ 87,048	\$ 4,264	\$ 235,371

Depreciation expense was charged to governmental functions as follows:

June 30,	2012
Instruction	\$ 1,191,112
Support services:	
Student	2,873
Instructional staff	8,398
District administration	18,536
School administration	4,482
Business	4,393
Facilities operations	220,202
Student transportation	157,479
Total Depreciation Expense	\$ 1,607,475

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

Note 5: General Long-Term Obligations

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

Issue Date	Proceeds	Rates
2001 KISTA	\$ 167,556	3.50%—4.70%
2002 Bond	2,180,000	1.75%—3.90%
2003 KISTA	187,629	2.00%—3.90%
2005 Bond	9,615,000	2.50%—4.25%
2005 KISTA	259,484	3.00%—3.625%
2006 Bond	5,880,000	4.10%
2006 KISTA	138,680	3.30%—4.00%
2006 KISTA 2 nd Series	152,157	3.50%—3.875%
2007 Bond	2,150,000	3.50%—3.80%
2007-2 Bond	400,000	3.25%—4.00%
2008 KISTA	142,865	3.00%—3.75%
2009 KISTA	176,195	2.00%—3.90%
2009 KISTA 3 rd Series	159,066	2.00%—3.60%
2010 Bond	4,800,000	3.25%--6.25%
2010 KISTA	83,379	1.00%--3.30%
2011 KISTA	84,575	1.00%--3.60%
2012 KISTA	366,484	2.00%--2.625%

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 Simpson County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission. 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.

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

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

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

Year	Simpson County School District		School Facility Construction Commission		U.S. Treasury Build America Bonds	Total Debt Service
	Principal	Interest	Principal	Interest	Interest	
2012—2013	\$ 946,803	\$ 604,227	\$ 311,721	\$ 218,246	\$ 93,479	\$ 2,174,476
2013—2014	956,742	571,524	298,067	206,067	92,569	2,124,969
2014—2015	974,896	539,932	309,205	194,380	91,631	2,110,044
2015—2016	978,892	506,471	325,786	182,161	90,692	2,084,002
2016—2017	998,603	472,669	338,160	169,058	89,543	2,068,033
2017—2018	1,009,777	437,760	351,351	155,136	88,172	2,042,196
2018—2019	1,035,321	400,430	365,093	140,639	86,717	2,028,200
2019—2020	1,054,813	361,415	379,453	125,498	85,220	2,006,399
2020—2021	844,654	319,514	296,332	109,756	83,724	1,653,980
2021—2022	870,424	286,543	313,379	96,821	82,045	1,649,212
2022—2023	868,832	251,800	326,168	83,059	80,134	1,609,993
2023—2024	905,467	216,210	339,533	68,706	78,174	1,608,090
2024—2025	941,500	178,934	353,500	53,738	76,165	1,603,837
2025—2026	806,857	128,907	368,143	38,095	69,702	1,411,704
2026—2027	834,640	98,036	310,360	23,207	58,459	1,324,702
2027—2028	520,915	72,771	84,085	14,002	46,508	738,281
2028—2029	536,909	53,328	68,091	9,594	33,881	701,803
2029—2030	557,606	33,046	72,394	5,291	20,643	688,980
2030—2031	585,806	11,361	49,194	1,537	6,945	654,843
	\$16,229,457	\$ 5,544,878	\$ 5,260,015	\$ 1,894,991	\$ 1,354,403	\$30,283,744

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

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

Maturities of other debt are as follow for the fiscal year ending:

June 30,	Governmental Activities	Business- Type Activities
2013	\$ 81,777	\$ 13,904
	\$ 81,777	\$ 13,904

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:					
Bonds	\$22,314,057	\$ 366,484	\$(1,191,069)	\$21,489,472	\$ 1,258,524
Less bond discount	(263,264)	-	18,582	(244,682)	-
Deferred gain on QZAB bond	128,420	-	(13,638)	114,782	-
Deferred loss on bond refinancing	(89,256)	-	9,396	(79,860)	-
Total bonds and notes payable	22,089,957	366,484	(1,176,729)	21,279,712	1,258,524
Other liabilities:					
Compensated absences	508,087	80,989	(61,154)	527,922	132,203
Other	163,554	-	(81,777)	81,777	-
Total other liabilities	671,641	80,989	(142,931)	609,699	132,203
Total Long-Term Liabilities	\$22,761,598	\$ 447,473	\$(1,319,660)	\$21,889,411	\$ 1,390,727

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

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

June 30, 2012	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Business-Type Activities:					
Other liabilities:					
Other	\$ 27,808	\$ -	\$ 13,904	\$ 13,904	\$ 13,904
Total Long-Term Liabilities	\$ 27,808	\$ -	\$ 13,904	\$ 13,904	\$ 13,904

Note 6: 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 \$606 in nonspendable fund balance for prepaids.

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 \$7,583 restricted in the special revenue fund for local grants and \$268,051 restricted in the nonmajor funds (\$268,051 restricted for capital projects and debt service) and \$91,807 restricted for compensated absences balances in the general fund.

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

Note 6: Fund Balances *(Continued)*

establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments in the general fund at June 30, 2012: \$1,000,000 for future construction and \$883,896 for a minimum fund balance policy.

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 \$90,397. 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.

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.

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. To maintain balances above this level, they recommend reserving at least 5%. On June 21, 2012, the Board committed \$883,896 of funds to ensure fund balance remains above these levels. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

Note 7: Pension Plans

• ***Plan Descriptions***

The Simpson 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.

• ***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 \$721,636, \$597,222 and \$623,799, respectively, equal to the required contributions for each year.

• ***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

Note 7: Pension Plans *(Continued)*

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.

For the year ended June 30, 2012 the Commonwealth contributed \$1,547,140 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 \$146,135.

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 \$4,407,441 for the governmental funds and \$132,079 for proprietary funds.

• ***Deferred Compensation***

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

Note 8: 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 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 Fund	\$ 383,130
Special Revenue	16,043
Construction	497,594

Note 13: Fund Transfers

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

June 30, 2012				
Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 54,344
Operating	General	Special Revenue	Fund Expenditures	36,358
Operating	FSPK	Debt Service	Debt Service	967,292
Operating	Capital Outlay	Debt Service	Debt Service	162,085
Operating	General	Debt Service	Debt Service	392,641
Operating	Capital Outlay	Construction	Construction	26,496
Operating	Capital Outlay	General	Fund Expenditures	82,179

Note 14: Subsequent Events

On October 1, 2012, the District issued \$7,540,000 in 2012 Refunding Revenue Bonds to advance refund the outstanding 2005 Bond issue. The advance refunding has an estimated savings of \$381,081 to the District.

In October 2012, the District approved capital projects for a Fine Art Center (band and chorus rooms) and football stadium repairs in the amount of \$1,625,132 and a new Field house in the amount of \$582,000. On October 5, 2012, the state approved the Fine Art Center Project including football stadium repairs and the Field house Project is pending state approval.

Required Supplementary Information

Simpson County School District
Budgetary Comparison Schedule for the General Fund

For the Year Ended June 30, 2012	Budgeted Amounts		Actual (Budgetary Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ 6,667,174	\$ 6,667,174	\$ 6,725,056	\$ 57,882
State programs	11,061,073	11,061,073	10,955,769	(105,304)
Federal programs	40,000	40,000	208,226	168,226
Total revenues	17,768,247	17,768,247	17,889,051	120,804
Expenditures				
Current:				
Instruction	10,453,064	10,775,614	10,838,644	(63,030)
Support services:				
Student	805,745	805,744	813,840	(8,096)
Instructional staff	685,217	671,788	674,782	(2,994)
District administration	493,924	576,103	574,889	1,214
School administration	1,207,459	1,168,710	1,150,689	18,021
Business	441,686	476,142	469,242	6,900
Plant operations and maintenance	2,433,274	2,446,703	2,282,831	163,872
Student transportation	1,102,586	1,102,586	1,427,383	(324,797)
Other	-	-	5,201	(5,201)
Contingency	1,572,721	1,554,041	-	1,554,041
Total expenditures	19,195,676	19,577,431	18,237,501	1,339,930

Excess (Deficiency) of Revenues over Expenditures	(1,427,429)	(1,809,184)	(348,450)	1,460,734
Other Financing Sources (Uses)				
Bond proceeds – net of discount	-	-	366,484	366,484
Operating transfers	(490,415)	(394,950)	(401,164)	(6,214)
Total other financing sources (uses)	(490,415)	(394,950)	(34,680)	360,270
Net Change in Fund Balance	(1,917,844)	(2,204,134)	(383,130)	1,821,004
Fund Balance – Beginning of Year	1,917,844	2,204,134	3,801,754	1,597,620
Fund Balance – End of Year	\$ -	\$ -	\$ 3,418,624	\$ 3,418,624

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

Inflows/Revenues:	
Actual amounts (budgetary basis) – revenues	\$ 17,889,051
Differences — Budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budgeted amounts	4,407,441
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	\$ 22,296,492
Outflows/Expenditures:	
Actual amounts (budgetary basis)	\$ 18,237,501
Differences — Budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budgeted amounts	4,407,441
Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	\$ 22,644,942

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

For the Year Ended June 30, 2012	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ 44,231	\$ 81,059	\$ 93,493	\$ 12,434
State programs	1,497,516	1,475,324	1,396,364	(78,960)
Federal programs	1,791,471	2,031,606	2,064,839	33,233
Total revenues	3,333,218	3,587,989	3,554,696	(33,293)
Expenditures				
Current:				
Instruction	2,845,779	3,066,458	3,037,883	28,575
Support services:				
Student	40,641	40,641	41,444	(803)
Instructional staff	166,706	170,429	177,137	(6,708)
School administration	51,850	51,850	40,198	11,652
Business	30,075	30,075	30,491	(416)
Plant operations and maintenance	20,255	35,255	23,530	11,725
Student transportation	27,760	27,760	28,216	(456)
Other	247,926	247,276	282,542	(35,266)
Total expenditures	3,430,992	3,669,744	3,661,441	8,303
Excess (Deficiency) of Revenues over Expenditures	(97,774)	(81,755)	(106,745)	(24,990)

Other Financing Sources (Uses)				
Operating transfers	97,774	81,755	90,702	8,947
Total other financing sources (uses)	97,774	81,755	90,702	8,947
Net Change in Fund Balance	-	-	(16,043)	(16,043)
Fund Balance – Beginning of Year	-	-	23,626	23,626
Fund Balance – End of Year	\$ -	\$ -	7,583	\$ 7,583

Supplementary Information

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

June 30, 2012	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Other Governmental Funds
Assets					
Cash	\$ 85,390	\$ 67,550	\$ 127,182	\$ -	\$ 280,122
Total Assets	\$ 85,390	\$ 67,550	\$ 127,182	\$ -	\$ 280,122
Liabilities and Fund Balances					
Accounts payable	\$ -	\$ -	\$ 12,071	\$ -	\$ 12,071
Total liabilities	-	-	12,071	-	12,071
Fund Balances					
Restricted	85,390	67,550	115,111	-	268,051
Total fund balances	85,390	67,550	115,111	-	268,051
Total Liabilities and Fund Balances	\$ 85,390	\$ 67,550	\$ 127,182	\$ -	\$ 280,122

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

Year Ended June 30, 2012	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Other Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ 605,694	\$ -	\$ -	\$ 605,694
Earnings on investments	28	-	3,486	-	3,514
Intergovernmental — state	271,721	370,977	-	524,874	1,167,572
Intergovernmental — federal	-	-	-	94,361	94,361
Total revenues	271,749	976,671	3,486	619,235	1,871,141
Expenditures					
Site improvement	-	-	57,826	-	57,826
Debt service:					
Principal	-	-	-	1,191,069	1,191,069
Interest	-	-	-	950,184	950,184
Building acquisition and construction	-	-	469,750	-	469,750
Total expenditures	-	-	527,576	2,141,253	2,668,829
Excess (deficiency) of revenues over expenditures	271,749	976,671	(524,090)	(1,522,018)	(797,688)
Other financing sources (uses)					
Operating transfers – in	-	-	26,496	1,522,018	1,548,514
Operating transfers – out	(270,760)	(967,292)	-	-	(1,238,052)
Total other financing sources (uses)	(270,760)	(967,292)	26,496	1,522,018	310,462
Net change in fund balances	989	9,379	(497,594)	-	(487,226)
Fund balances – beginning of year	84,401	58,171	612,705	-	755,277
Fund Balances – End of Year	\$ 85,390	\$ 67,550	\$ 115,111	\$ -	\$ 268,051

Simpson County School District
Combining Statement of Net Assets
Non-Major Proprietary Funds

June 30, 2012	Day Care	Total Other Enterprise Funds
Assets		
Current Assets		
Cash	\$ 68,729	\$ 68,729
Total current assets	68,729	68,729
Non-current Assets		
Fixed assets – net	-	-
Total Assets	\$ 68,729	\$ 68,729
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 677	\$ 677
Total current liabilities	677	677
Net Assets		
Unrestricted	68,052	68,052
Total net assets	68,052	68,052
Total Liabilities and Net Assets	\$ 68,729	\$ 68,729

Simpson County School District
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Non-Major Proprietary Funds

Year Ended June 30, 2012	Day Care	Total Other Enterprise Funds
Operating Revenues		
Tuition and fees	\$ 199,414	\$ 199,414
Total operating revenues	199,414	199,414
Operating Expenses		
Salaries and wages	194,910	194,910
Contract services	3,524	3,524
Materials and supplies	28,196	28,196
Other operating expensed	5,470	5,470
Total operating expenses	232,100	232,100
Operating loss	(32,686)	(32,686)
Non-operating Revenues (Expenses)		
State operating grants	42,128	42,128
Total non-operating revenues (expenses)	42,128	42,128
Change in Net Assets	9,442	9,442
Total Net Assets — Beginning of Year	58,610	58,610
Total Net Assets — End of Year	\$ 68,052	\$ 68,052

Simpson County School District
Combining Statement of Cash Flows
Non-Major Proprietary Funds

Year Ended June 30, 2012	Day Care	Total Other Enterprise Funds
Cash Flows from Operating Activities		
Cash received from user charges	\$ 199,414	\$ 199,414
Cash payments to employees for services	(166,833)	(166,833)
Cash payments for contract services	(3,524)	(3,524)
Cash payments to suppliers for goods and services	(27,692)	(27,692)
Cash payments for other operating expenses	(5,470)	(5,470)
Net cash used in operating activities	(4,105)	(4,105)
Cash Flows from Non-capital Financing Activities		
Non-operating grants received	14,051	14,051
Net cash provided by non-capital financing activities	14,051	14,051
Net Increase in Cash	9,946	9,946
Cash – Beginning of Year	58,783	58,783
Cash – End of Year	\$ 68,729	\$ 68,729
Reconciliation of Operating Loss to Net Cash Used In Operating Activities		
Operating loss	\$ (32,686)	\$ (32,686)
Adjustments to reconcile operating loss to net cash used in operating activities:		
On-behalf payments received	28,077	28,077
Changes in assets and liabilities:		
Accounts payable	504	504
Net Cash Used In Operating Activities	\$ (4,105)	\$ (4,105)

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

Year Ended June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
Franklin–Simpson High School	\$ 39,436	\$ 451,641	\$ 455,611	\$ 35,466	\$ 2,945	\$ 985	\$ 37,426
Franklin–Simpson Middle School	34,390	125,154	124,236	35,308	-	91	35,217
Lincoln Elementary School	51,084	45,631	39,691	57,024	64	-	57,088
Simpson Elementary School	9,492	49,275	51,372	7,395	-	-	7,395
Franklin Elementary School	12,978	11,180	15,079	9,079	-	-	9,079
	\$ 147,380	\$ 682,881	\$ 685,989	\$ 144,272	\$ 3,009	\$ 1,076	\$ 146,205

Simpson County School District
Statement of Assets and Liabilities
School Activity Funds
Franklin-Simpson High School

Year Ended June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
General	\$ 3,855	\$ 8,255	\$ 11,495	\$ 615	\$ -	\$ 113	\$ 502
AP Testing	-	20,769	20,769	-	-	-	-
Attendance Rewards	600	250	677	173	-	-	173
Banner/Poster	124	645	693	76	-	-	76
Teachers Vending	407	1,986	1,874	519	271	75	715
Faculty Events	62	-	62	-	-	-	-
Trip Fund	320	1,933	2,175	78	-	-	78
Fundraising	-	1,873	1,795	78	-	-	78
Homecoming committee	-	3,242	3,228	14	-	-	14
Hospitality	61	-	61	-	-	-	-
Lollipop Shop	-	1,065	770	295	-	-	295
Magazine Sales	-	1,448	1,448	-	-	-	-
Parking Tags	-	3,309	2,837	472	-	-	472
PBS Rewards	62	-	54	8	-	-	8
Project Graduation	1	500	500	1	-	-	1
Prom	-	11,517	8,726	2,791	-	-	2,791
Student Council	2,581	7,301	8,444	1,438	-	-	1,438
Student Fees	19	22,191	22,015	195	-	-	195
Student Vending	3,625	9,145	12,770	-	1,261	365	896
Summer School	1,125	900	1,125	900	-	-	900
Tech Rentals	20	4,140	4,160	-	-	-	-
Textbook Rental	467	11,395	11,375	487	-	-	487
Wildcat Cards	-	1,110	667	443	-	-	443
Yearbook	3,475	34,244	34,365	3,354	-	-	3,354
Youth Services	-	425	25	400	-	-	400
Academic Team	-	13	13	-	-	-	-
Band	1	14,789	14,202	588	-	-	588
Beta	1,614	1,545	1,944	1,215	-	-	1,215
Chorus	2,950	19,374	19,629	2,695	-	-	2,695

Deca	-	7,998	7,998	-	-	-	-
Diversity	367	630	640	357	-	-	357
Drama	4,021	3,158	6,070	1,109	-	-	1,109
Fashion Design	25	49	-	74	-	-	74
FBLA	-	11,162	11,001	161	-	-	161
FCA	165	-	-	165	-	-	165
FCCLA	-	5,434	5,434	-	-	-	-
FFA	(932)	18,950	18,018	-	500	-	500
FFA Travel	-	9,200	9,200	-	-	-	-
FA Mums Sale	-	7,728	7,728	-	-	-	-
FFA Poinsettia Sales	-	2,842	2,842	-	-	-	-
FFA Banquet	-	3,720	3,720	-	-	-	-
FFA Ticket Sales	-	540	540	-	-	-	-
HOSA	-	6,994	6,720	274	-	-	274
International Club	-	20	-	20	-	-	20
Mu Alpha Theta	402	215	218	399	-	-	399
Renaissance Club	707	5	-	712	-	-	712
Skills USA	126	2,382	2,492	16	-	-	16
Athletics	-	109,804	109,785	19	492	-	511
Basketball - Boys	-	100	100	-	-	-	-
Basketball – Girls	-	200	200	-	-	-	-
Athletics – Play offs only	-	46,164	46,164	-	-	-	-
Class of 2012	-	500	485	15	-	-	15
Class of 2013	-	802	589	213	-	-	213
Class of 2014	-	500	453	47	-	-	47
Class of 2015	-	1,500	1,302	198	-	-	198
Hendrick Class Fee	47	-	-	47	-	-	47
Agriproduce	44	-	-	44	-	-	44
ART	-	535	323	212	-	-	212
Consumer Science	255	4,189	4,444	-	-	-	-
Fields Class Business	-	210	8	202	-	-	202
Floral Design	682	550	-	1,232	-	-	1,232
Horticulture	8,118	5,011	6,577	6,552	-	228	6,324
Human Services	117	-	117	-	-	-	-
Journalism	383	1,229	1,223	389	-	-	389
Masonry Department	-	100	-	100	-	-	100
Video Production	1,062	4,871	4,278	1,655	348	130	1,873

Simpson County School District
Statement of Assets and Liabilities (Continued)
School Activity Funds
Franklin-Simpson High School

Year Ended June 30, 2012	Cash July 1, 2011	Receipts	Disbursements	Cash June 30, 2012	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2012
Welding	389	8,373	4,823	3,939	-	74	3,865
Bayles Grant	631	-	631	-	-	-	-
Advance KY	-	2,537	2,450	87	73	-	160
McKinney Fund	100	-	-	100	-	-	100
Hughes Memorial	360	-	360	-	-	-	-
Jerry James Memorial	705	75	780	-	-	-	-
Math Grant	293	-	-	293	-	-	293
	\$ 39,436	\$ 451,641	\$ 455,611	\$ 35,466	\$ 2,945	\$ 985	\$ 37,426

Simpson County School District
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed-Through State Department of Education:			
Child Nutrition Cluster			
School Breakfast Program	10.553	7760005 12	\$ 275,254
National School Lunch Program	10.555	7750002 12	729,415
National School Summer Meals Program	10.559	7740023 11	53,770
Passed-Through State Department of Agriculture:			
Food Distribution Program — non-cash	10.555	057502 03	95,695
Total U.S. Department of Agriculture			1,154,134
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	50,249
Title I to Local Educational Agencies – 2012	84.010	3100002 11	539,839
Title 1, School Improvement Funds	84.010A	3100202 10	59,822
Title 1, School Improvement Funds	84.010A	3100202 11	52,296
ARRA – Title I Part A	84.389	4100002 09	1,664
Subtotal			703,870
Special Education Cluster			
Special Education – 2011	84.027	3810002 10	91,278
Special Education – 2012	84.027	3810002 11	547,465
Special Education – Preschool – 2011	84.173	3800002 10	10,987
Special Education – Preschool – 2012	84.173	3800002 11	13,305
Early Childhood – RTC	84.173	3800003 10	40,374
Early Childhood – RTC	84.173	3800003 11	388,322
ARRA – Special Education	84.391	4810002 09	1,136
Subtotal			1,092,867
ARRA – Education for Homeless Child & Youth	84.387A	4990002 09	2,415
Limited English Proficiency – Title III – 2011	84.365	3300002 10	3,647
Limited English Proficiency – Title III – 2012	84.365	3300002 11	13,710
Subtotal			17,357

Year Ended June 30, 2012	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Vocational Education – 2010	84.048	4621032 09	1,102
Vocational Education – 2011	84.048	4621132 10	1,415
Vocational Education – 2012	84.048	4621232 11	30,075
Subtotal			32,592
ARRA – Enhancing Education thru Technology	84.386A	4210002 09	7,440
Educational Technology State Grant Cluster			
Educational Technology – 2010	84.318	3210002 09	4,022
Educational Technology – 2011	84.318	3210002 10	2,130
Subtotal			6,152
Improving Teacher Quality – 2011	84.367	3230002 10	21,439
Improving Teacher Quality – 2012	84.367	3230002 11	121,866
Subtotal			143,305
Education Jobs Fund – 2011	84.410A	EJOB00 10	8,607
Passed-Through State Workforce Cabinet:			
Adult Education – Federal Basic – 2012	84.002	3732	40,732
Adult Education – Professional Staff Development – 2012	84.002	3732S	429
Adult Education – Development – 2011	84.002	3651	9,073
Subtotal			50,234
Total U.S. Department of Education			2,064,839
Total Expenditures of Federal Awards			\$ 3,218,973

See accompanying 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 Simpson 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.

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

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

Simpson County School District
Summary Schedule of Prior Year Audit Findings

None



Carr, Riggs & Ingram, LLC

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

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

www.cricpa.com

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, 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 Simpson County School District as of and for the year ended June 30, 2012, which collectively comprise Simpson County School District's basic financial statements and have issued our report thereon dated October 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 identified above.

● **Compliance and Other Matters**

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

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

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

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 9, 2012

**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
Simpson County School District
Franklin, Kentucky

• **Compliance**

We have audited Simpson 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*, 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 to determine the 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.

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

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

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
October 9, 2012

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555 / 10.559	Child Nutrition Cluster
84.367	Improving Teacher Quality

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

Auditee qualified as low-risk auditee? Yes No

Section II — Financial Statement Findings

None reported.

Section III — Federal Award Findings and Questioned Costs

None reported.



Carr, Riggs & Ingram, LLC

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

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

www.cricpa.com

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

In planning and performing our audit of the financial statements of Simpson 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 October 9, 2012 contains our report on the District's internal control. This letter does not affect our report dated October 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
Bowling Green, Kentucky
October 9, 2012

Current Year Comments

● Franklin Simpson High School

- ▶ During our procedures over disbursements, we noted that purchase orders were not being completed prior to a purchase. The purchase orders are being completed upon payment of the invoice. We recommend prior to a purchase being made a purchase requisition be completed and signed by the person requesting the order and the purchase order should then be signed by the principal thereby noting approval.
- ▶ During our procedures over disbursements, we noted receipt of merchandise is not being documented on a consistent basis. We recommend that receipt of merchandise be documented.
- ▶ During our procedures over activity funds, we noted an account for magazine sales. After inquiry we noted the magazine sales were not file with the county clerk. In accordance with red book and KRS 367.515, magazine sales are to be approved in writing by the superintendent. Such approval should identify the product being sold, solicitors involved, and duration of sales. The approval letter must be file with the county clerk. We recommend future magazine sales be filed with county clerk.

● Simpson Elementary School

- ▶ During our procedures over bids, we noted an occurrence in which expenditures exceeded \$20,000 to a single vendor. The expenditures were not bid. We recommend that all vendors with which the school spends \$20,000 be procured in accordance with Kentucky state law.

● Central Office

- ▶ In our procedures over disbursements, we noted invoices were not marked paid. We recommend all invoices be marked as paid to prevent duplication of payment.

● Food Service

- ▶ In our procedures over inventory, we noted inventory items prices did not agree to support. We recommend the prices on the inventory sheets be reviewed and updated monthly to insure accurate inventory numbers.

**Prior Year Comments
Uncorrected**

● **Franklin Simpson High School**

- ▶ During our procedures over ticket sales, we noted ticket sales are not conducted in accordance with the red book. Ticket sellers and takers are not being segregated and ticket sale forms are not being signed by proper personnel. We recommend the high school perform ticket sales in accordance with the school regulations and that all forms be fully completed.
- ▶ In our procedures over disbursements, we noted invoices were not marked paid. We recommend all invoices be marked as paid to prevent duplication of payment and to be in accordance with the red book.



Management Letter Responses

Current Year Comments

● Franklin Simpson High School

- **Response:** Both purchases documented by the auditors related to athletic purchases. The Bookkeeper has explained the importance of obtaining purchase orders prior to all purchases to all school employees.
- **Response:** The Bookkeeper will establish procedures to ensure all packing slips are received and documented on a consistent basis.
- **Response:** The Bookkeeper will ensure that a letter of approval is obtained from the county clerk for future magazine sales. The high school will not have any magazines sales for the 2012-2013 school year.

● Simpson Elementary School

- **Response:** The vendor was on the District's vendor list and had been an approved bid vendor in prior years. This was an oversight, and the Bookkeeper will insure that all purchases over \$20,000 are either bid internally or on a state approved bid list.

● Central Office

- **Response:** The District has purchased a "Paid and Date" stamp. All invoices are currently being stamped when paid.

● Food Service

- **Response:** Food service prices for inventory will be monitored monthly and updated as necessary to insure accurate reporting.

Prior Year Comments

- **Franklin-Simpson High School**

- **Response:** The Bookkeeper has explained the proper procedures for ticket sales to the current Athletic Director. Football games currently have ticket sellers and ticket takers. The Athletic Director will ensure that this procedure is streamlined to all high school sports.
- **Response:** The Bookkeeper will be more thorough in reviewing monthly invoices and ensuring that they are all stamped paid.