

TAYLOR COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Year ended June 30, 2012

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& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, Appendix III of the Independent Auditor's Contract - Audit Extension Request, and Appendix IV of the Independent Auditor's Contract - Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Members of the Board of Education
Taylor County School District
Campbellsville, Kentucky
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Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The additional information shown on Pages 35 through 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards on Pages 39 through 42 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the basic financial statements of the District. The additional information shown on Pages 35 through 38 and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The additional information found on Pages 35 through 38 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Certified Public Accountants
Campbellsville, Kentucky

November 9, 2012

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

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

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the District's General Fund was \$3,656,492 as compared to \$4,038,000 for the year ending balance on June 30, 2012.
- A continued effort focuses on purchasing in the areas of supplies, food, energy and travel resulting in savings due to management strategies.
- Interest income earned in FY 2012 was \$120,749 as compared to \$192,954 in 2011. Total revenue (less bond proceeds) decreased by 3 percent for all governmental funds from \$23,989,735 in FY 11 to \$23,282,354 in FY 12.
- SEEK funding reported in the district's general fund in FY 2011 was \$9,903,644. This amount reflects a reduction of \$818,360 by KDE for State Fiscal Stabilization Funds (SFSF), which were reported in Special Revenue Fund during that year. The total of SEEK dollars for FY 2011 reported in all funds was \$10,722,004. The SFSF funds were not awarded in FY 2012. The amount of SEEK received in FY 2012 was \$10,388,873. There was a 3% decrease in SEEK during 2012 in comparison with FY 2011.
- The General Fund had \$22,401,820 (including the beginning balance) in revenue, which primarily consisted of the state program (SEEK), property, local occupational license taxes, utilities and motor vehicle taxes. Excluding inter-fund transfers of \$48,558 for local technology matching fund, there were \$18,456,738 in General Fund expenditures.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The district's total principal bonded indebtedness decreased by \$615,189 during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 11-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-34 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$12,323,079 as of June 30, 2012 as compared to \$11,088,805 as of June 30, 2011.

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

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

Net Assets for the Period Ending June 30, 2012 and 2011:

Assets	2012	2011
Current Assets	\$ 5,418,288	\$ 6,555,630
Non-Current Assets	13,793,462	12,309,151
Total Assets	19,211,750	18,864,781
Current Liabilities	1,205,276	1,503,022
Non-Current Liabilities	5,683,395	6,272,954
Total Liabilities	6,888,671	7,775,976
Net Assets		
Investment in Capital Assets (Net of Debt)	7,658,462	5,629,151
Restricted	211,925	1,734,864
Unrestricted	4,452,692	3,724,790
Total Net Assets	\$ 12,323,079	\$ 11,088,805

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

COMMENTS ON BUDGET COMPARISONS

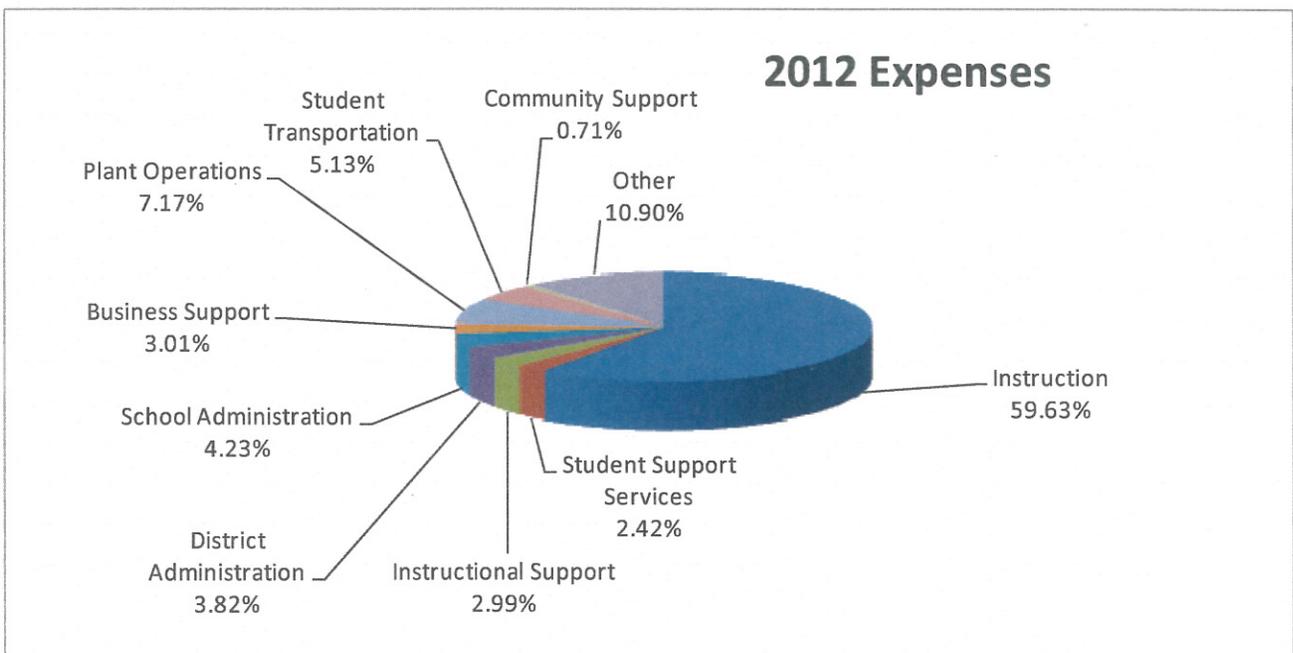
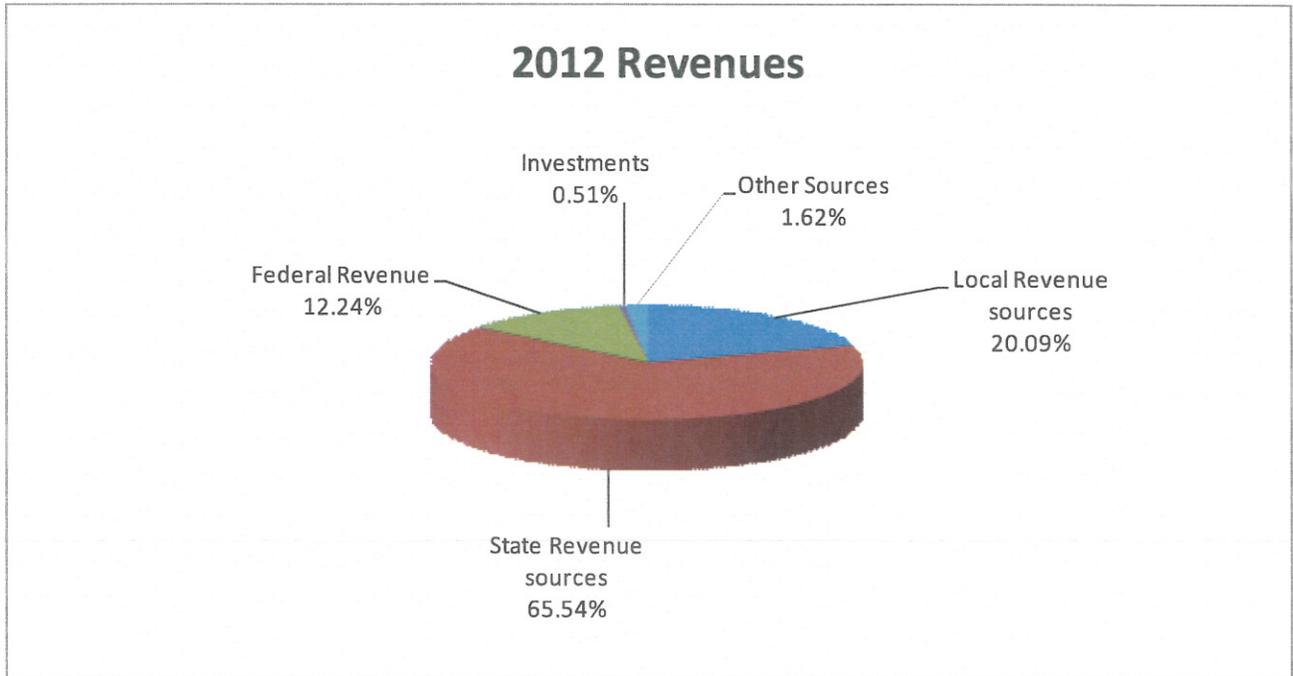
- The District's total revenues for the fiscal year ended June 30, 2012, net of inter-fund transfers and on-behalf payments, were \$19,717,830.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$749,360 more than budget (excluding on-behalf payments from the state of \$3,564,524).
- General fund final budget expenditures were \$3,601,003 less than budget (excluding on-behalf payments from the state of \$3,564,524).

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2012 and 2011:

	2012	2011
Revenues:		
Local Revenue Sources	\$ 4,741,730	\$ 4,726,720
State Revenue Sources	15,466,783	14,882,359
Federal Revenue	2,888,752	4,156,558
Investments	120,749	192,954
Other Sources	381,957	2,736,529
Total Revenue	23,599,971	26,695,120
 Expenses:		
Instruction	14,650,423	15,116,258
Student Support Services	593,946	574,005
Instructional Support	734,444	584,634
District Administration	938,389	508,330
School Administration	1,039,467	1,017,198
Business Support	738,489	662,475
Plant Operations	1,761,812	1,725,340
Student Transportation	1,260,327	1,401,888
Community Support	174,988	198,859
Other	2,678,542	4,200,593
Total Expenses	24,570,827	25,989,580
 Revenue in Excess/(Deficit) of Expenses	\$ (970,856)	\$ 705,540

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

The following pie charts are included as additional illustrations of the District's revenues and expenses for the year ended June 30, 2012.



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

GENERAL FUND REVENUE SOURCES

General fund receipts in FY 2012 were derived from three sources: local taxes account for 24 percent of all revenue; state sources were responsible for 74 percent of general fund revenue; federal sources totaled .5 percent; and an additional 1.5 percent came from investment income, the sale of property and other miscellaneous fees.

GENERAL FUND EXPENDITURE CATEGORIES

General Fund expenditures in FY 2012 were spread among more than one dozen functions.

<u>Expenditure Category</u>	<u>Percent</u>
Instructional Activities (<i>teachers, instructional assistants, instructional supplies, materials & equipment</i>)	60
Plant Operations	7
Student Transportation	5
School Administration Support (principal's offices)	4
Student Support Services (<i>pupil attendance, guidance, social work, health, psychologist, speech pathologists, occupational and physical therapy, services for the visually impaired</i>)	2
Instructional Staff Support	3
District Administration Support (<i>board of ed, office of superintendent</i>)	4
Business Support Services	3
Community Services, Site Improvement, Debt Service & Fund Transfers (<i>Local Technology Match</i>)	1
Other Services	11

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2 percent contingency. The district adopted a budget with \$2,808,491 in contingency (12% of the entire budget). The beginning cash balance for beginning the fiscal year was \$3,656,492.

The Taylor County Public Schools received a federal grant titled 21st Century Community Learning Centers, which was awarded for the period of March 1, 2008 through September 30, 2012. The first installment of \$150,000 was awarded during FY 07-08 with an additional \$1,237,500 awarded in each of the 2nd, 3rd, 4th, and 5th years of the grant period. In addition, the district was awarded supplemental funds during this time period of \$166,500, which was to be used for program expenses including summer school and staff training. Its impact is to enable our community to design and implement effective out-of-school programs that will result in improved student achievement, and be sustained through community partnerships at the conclusion of the grant funds.

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

The Taylor County Public Schools was awarded American Recovery & Reinvestment Act (ARRA) funds in the form of grants in FY 09-10, FY 10-11, and FY 11-12. In FY 09-10, funds included were a \$41,616 Clean Bus Diesel Grant to purchase and install emission reduction technologies on 18 school buses. Also ARRA funds were awarded in the following programs to be used specifically in those programs through 9/30/2011: Title I \$322,122; IDEA B \$596,954, IDEA B Preschool \$40,149; Education for Homeless Children & Youth \$6,000. Also, received in FY 09-10, were ARRA funds for Food Service equipment of \$5,216 & Enhancing Education Thru Technology \$9,855. In addition, the state funded a portion of our Seek dollars with State Fiscal Stabilization Fund (SFSF) funds from Federal ARRA funds in the amount of \$1,010,348 in FY 10.

During FY 10-11, the district was awarded \$174,800 in School Improvement Grants for the middle & high schools; \$599,267 in Education Jobs Grant to be used for staff salary & benefits & another & \$818,360 of SFSF grant funds.

During FY 11-12, the district was awarded \$120,624 in School Improvement Grants for the middle & high schools; \$8,941 additional funds were awarded for Education Jobs Grants to be used for staff salary & benefits.

Questions regarding this report should be directed to the Superintendent (270-465-5371) or to the Finance Officer (270-465-5371) or by mail at 1209 East Broadway, Campbellsville, KY 42718.

TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
As of June 30, 2012

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 4,195,087	\$ 345,800	\$ 4,540,887
Investments	-	40,000	40,000
Inventory	-	49,185	49,185
Accounts Receivable			
Taxes - Current	161,975	-	161,975
Accounts Receivable	40,765	-	40,765
Intergovernmental - State	5,989	-	5,989
Intergovernmental – Indirect Federal	319,311	-	319,311
Bond Issue Costs	260,176	-	260,176
Capital Assets			
Land and other non-depreciable assets	3,501,510	-	3,501,510
Capital Assets, net of Accumulated Depreciation	10,161,233	130,719	10,291,952
TOTAL ASSETS	18,646,046	565,704	19,211,750
LIABILITIES			
Accounts Payable	35,590	10,774	46,364
Checks Issued in Excess of Cash	243,059	-	243,059
Deferred Revenue	82,241	-	82,241
Interest Payable	51,017	-	51,017
Non-Current Liabilities			
Due within one year	812,595	-	812,595
Due in more than one year	5,653,395	-	5,653,395
TOTAL LIABILITIES	6,877,897	10,774	6,888,671
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	7,527,743	130,719	7,658,462
Restricted for:			
Capital Projects	162,740	-	162,740
Inventory	-	49,185	49,185
Unrestricted	4,077,666	375,026	4,452,692
TOTAL NET ASSETS	\$ 11,768,149	\$ 554,930	\$ 12,323,079

TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Net (Expense) Revenue and Changes in Net Assets				
	Program Revenues		Business Type		
	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Activities
	Expense				Total
FUNCTIONS/PROGRAMS					
GOVERNMENTAL ACTIVITIES					
Instruction	\$ 15,110,002	\$ 3,996	\$ -	\$ (12,023,462)	\$ (12,023,462)
Support Services					
Student	594,546	9,683	-	(584,863)	(584,863)
Instruction Staff	734,603	192,297	-	(542,306)	(542,306)
District Administrative	932,754	-	-	(932,754)	(932,754)
School Administrative	1,039,512	5,744	-	(1,033,768)	(1,033,768)
Business	738,489	-	-	(738,489)	(738,489)
Plant Operation and Maintenance	1,146,935	8,521	-	(1,115,094)	(1,115,094)
Student Transportation	1,400,724	-	-	(1,400,724)	(1,400,724)
Facilities acquisition and construction	-	1,125	687,455	688,580	688,580
Community Service Activities	174,988	171,474	-	(3,514)	(3,514)
Site Improvement	-	-	-	-	-
Interest on Long-Term Debt	256,770	-	-	(256,770)	(256,770)
TOTAL GOVERNMENTAL ACTIVITIES	22,129,323	3,471,388	687,455	(17,943,164)	(17,943,164)
BUSINESS-TYPE ACTIVITIES					
Food Service	1,222,177	978,678	-	-	80,037
TOTAL BUSINESS-TYPE ACTIVITIES	1,222,177	978,678	-	-	80,037
TOTAL SCHOOL DISTRICT	\$ 23,351,500	\$ 4,450,066	\$ 687,455	(17,943,164)	(17,863,127)
GENERAL REVENUES					
Taxes					
Property Taxes				3,193,413	3,193,413
Delinquent Property Taxes				128,655	128,655
Motor Vehicle				551,427	551,427
Utility Taxes				847,319	847,319
Other Taxes				20,916	20,916
Investment Earnings				2,125	2,125
State Aid Formula Grants				120,749	122,874
Gains (loss) on Sale of Fixed Assets				14,230,608	14,230,608
Loss Compensation				(919)	(919)
Transfers				-	-
Miscellaneous				62,792	-
				3,108	3,108
TOTAL GENERAL REVENUES				19,158,068	19,097,401
Change in Net Assets				1,214,904	1,234,274
Net Assets - Beginning				10,553,245	11,088,805
Net Assets - Ending				\$ 11,768,149	\$ 12,323,079

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

TAYLOR COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General Fund	Special Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES					
Cash and Cash Equivalents	\$ 3,870,850	\$ -	\$ 162,740	\$ 161,497	\$ 4,195,087
Accounts Receivable					
Taxes - Current	-	-	-	-	-
Accounts Receivable	202,740	-	-	-	202,740
Intergovernmental - State	-	5,989	-	-	5,989
Intergovernmental – Indirect Federal	-	319,311	-	-	319,311
TOTAL ASSETS AND RESOURCES	\$ 4,073,590	\$ 325,300	\$ 162,740	\$ 161,497	\$ 4,723,127
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Checks Issued in Excess of Cash	\$ -	\$ 243,059	\$ -	\$ -	\$ 243,059
Accounts Payable	35,590	-	-	-	35,590
Deferred Revenue	-	82,241	-	-	82,241
TOTAL LIABILITIES	35,590	325,300	-	-	360,890
FUND BALANCES					
Committed- Sick Leave Payable	131,697	-	-	-	131,697
Restricted - KSFCC Escrow Prior Year	-	-	-	24,738	24,738
Restricted - Debt Service	-	-	-	136,759	136,759
Restricted - Future Construction Projects	-	-	162,740	-	162,740
Unassigned Fund Balance	3,906,303	-	-	-	3,906,303
TOTAL FUND BALANCES	4,038,000	-	162,740	161,497	4,362,237
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,073,590	\$ 325,300	\$ 162,740	\$ 161,497	\$ 4,723,127

TAYLOR COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2012

Total fund balances per fund financial statements	\$ 4,362,237
Amounts reported for governmental activities in the statement of assets are different because:	
Capital assets used in government activities are not current financial resources and therefore are not reported as assets in this fund financial statement. The cost of the assets is \$26,599,008, and the accumulated depreciation is \$12,936,265.	13,662,743
Bond issue costs are not current financial resources and therefore are not reported as assets in this fund financial statement.	260,176
Bonds payable are not reported in this fund financial statement because they are not due and payable in the current period, but they are presented in the statement of net assets.	(6,135,000)
Certain liabilities, (Sick leave and interest payable) are not presented in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(382,007)</u>
Net assets for governmental activities	<u><u>\$ 11,768,149</u></u>

TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General Fund	Special Revenue (Grant) Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
From Local Sources					
Taxes					
Property	\$ 2,934,178	\$ -	\$ -	\$ 408,806	\$ 3,342,984
Motor Vehicles	551,427	-	-	-	551,427
Utilities	847,319	-	-	-	847,319
Tuition and Fees	3,996	-	-	-	3,996
Earnings and Investments	118,285	1,609	-	855	120,749
Other Local Revenues	26,428	33,916	-	-	60,344
Intergovernmental – State	14,036,617	648,215	-	781,951	15,466,783
Intergovernmental – Direct federal	62,205	126,244	-	-	188,449
Intergovernmental – Indirect federal	37,290	2,663,013	-	-	2,700,303
TOTAL REVENUES	18,617,745	3,472,997	-	1,191,612	23,282,354
EXPENDITURES					
Instruction	11,520,307	3,130,116	-	-	14,650,423
Support Services					
Student	584,263	9,683	-	-	593,946
Instructional Staff	542,147	192,297	-	-	734,444
District Administration	938,389	-	-	-	938,389
School Administration	1,033,723	5,744	-	-	1,039,467
Business Support Services	738,489	-	-	-	738,489
Plant Operation and Management	1,714,169	8,521	-	39,122	1,761,812
Student Transportation	1,260,327	-	-	-	1,260,327
Food Service Operation	-	-	-	-	-
Facilities Acquisition and Construction	-	-	-	-	-
Building Improvements	-	1,125	1,489,123	-	1,490,248
Community Service Activities	3,514	171,474	-	-	174,988
Debt Service					
Principal	93,576	-	-	596,424	690,000
Interest	27,834	-	-	221,386	249,220
Other	-	-	-	30,940	30,940
TOTAL EXPENDITURES	18,456,738	3,518,960	1,489,123	887,872	24,352,693
Excess (Deficit) of Revenues Over Expenditures	161,007	(45,963)	(1,489,123)	303,740	(1,070,339)
OTHER FINANCING SOURCES (USES)					
Proceeds of Refunding Bond	-	-	-	1,833,460	1,833,460
Payment to Refunded Bond Escrow Agent	-	-	-	(1,796,769)	(1,796,769)
Operating Transfers In	269,059	48,558	-	-	317,617
Operating Transfers Out	(48,558)	(2,595)	-	(203,672)	(254,825)
TOTAL OTHER FINANCING SOURCES (USES)	220,501	45,963	-	(166,981)	99,483
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	381,508	-	(1,489,123)	136,759	(970,856)
Fund Balance June 30, 2011	3,656,492	-	1,651,863	24,738	5,333,093
Fund Balance June 30, 2012	\$ 4,038,000	\$ -	\$ 162,740	\$ 161,497	\$ 4,362,237

TAYLOR COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Net Change - Governmental Funds \$ (970,856)

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

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

Depreciation Expense	\$ (850,276)	
Capital Outlays	<u>2,440,994</u>	1,590,718

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

Refunding Bond Proceeds	1,840,000	
Bonds Defeased	(1,695,000)	
Increase in Bond Amortization Costs	(145,000)	
Principal Paid:		
District	615,189	
State	<u>74,811</u>	690,000

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

Accrued Interest Payable	13,918	
Accrued Sick Leave	4,632	
Bond Amortization Cost	<u>(27,219)</u>	(8,669)

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

Change in net assets of governmental activities		<u><u>\$ 1,214,904</u></u>
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TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
As of June 30, 2012

	<u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 345,800
Investments	40,000
Inventory	<u>49,185</u>
TOTAL CURRENT ASSETS	434,985
NON-CURRENT ASSETS	
Capital Assets net of Accumulated Depreciation	<u>130,719</u>
TOTAL NON-CURRENT ASSETS	<u>130,719</u>
TOTAL ASSETS	<u><u>\$ 565,704</u></u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	<u>\$ 10,774</u>
TOTAL CURRENT LIABILITIES	10,774
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	130,719
Restricted:	
Nonexpendable - Inventory	49,185
Unrestricted	<u>375,026</u>
TOTAL NET ASSETS	<u>554,930</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 565,704</u></u>

TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	<u>Food Service Fund</u>
OPERATING REVENUES	
Lunchroom Sales	\$ 321,133
Other Operating Revenues	<u>2,403</u>
TOTAL OPERATING REVENUES	323,536
OPERATING EXPENSES	
Salaries & Benefits	656,697
Contract Services	16,940
Material and Supplies	521,960
Depreciation	24,745
Other Operating Expenses	<u>1,835</u>
TOTAL OPERATING EXPENSES	<u>1,222,177</u>
OPERATING INCOME (LOSS)	(898,641)
NON-OPERATING REVENUES (EXPENSES)	
Federal Grants	827,771
Donated Commodities	41,073
State Grants	109,834
Interest Income	<u>2,125</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>980,803</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	82,162
NET TRANSFERS	<u>(62,792)</u>
CHANGE IN NET ASSETS	19,370
TOTAL NET ASSETS - BEGINNING	<u>535,560</u>
TOTAL NET ASSETS - ENDING	<u><u>\$ 554,930</u></u>

TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received From	
Lunchroom Sales	\$ 321,133
Other Activities	2,403
Cash Paid to/for	
Employees	(560,215)
Supplies	(477,267)
Other Activities	(18,775)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(732,721)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(4,627)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,627)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State Grants	13,353
Federal Grants	827,771
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	841,124

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest Income	2,125
Net Transfers	(62,792)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(60,667)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,109

Balances, Beginning of Year	302,691
Balances, End of Year	\$ 345,800

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

Net Income (Loss)	\$ (898,641)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	24,745
State On-behalf Payments	96,481
Donated Commodities	41,073
Change in Assets and Liabilities	
(Increase) Decrease in Inventory	9,078
Increase (Decrease) in Accounts Payable	(5,457)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (732,721)

SCHEDULE OF NON-CASH TRANSACTIONS

On Behalf Payments from the State for Employee Benefits	\$ 96,481
Donated Commodities Received from Federal Government	41,073

TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
As of June 30, 2012

	Agency Funds	Other Fiduciary Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 128,571	\$ -	\$ 128,571
Accounts Receivable	-	-	-
TOTAL ASSETS	128,571		128,571
LIABILITIES			
Accounts Payable	-	-	-
Due to Student Groups	128,571	-	128,571
TOTAL LIABILITIES	128,571	-	128,571
NET ASSETS	\$ -	\$ -	\$ -

TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 2,702,400	\$ 2,729,300	\$ 2,934,178	\$ 204,878
Motor Vehicle	500,000	500,000	551,427	51,427
Utilities	900,000	900,000	847,319	(52,682)
Tuition and Fees	5,400	5,400	3,996	(1,404)
Earnings on Investments	90,000	75,000	118,285	43,285
Other Local Revenues	5,500	5,500	26,428	20,928
Intergovernmental – State	10,699,526	10,551,000	14,036,617	3,485,617
Intergovernmental –Direct federal	13,000	13,000	62,205	49,205
Intergovernmental –Indirect federal	20,000	20,000	37,290	17,290
TOTAL REVENUES	14,935,826	14,799,200	18,617,745	3,818,545
EXPENDITURES				
Instruction	9,257,168	9,444,487	11,520,307	(2,075,820)
Support Services				
Student	495,535	495,535	584,263	(88,727)
Instructional Staff	4,424,890	442,490	542,147	(99,658)
District Administration	387,484	404,454	938,389	(533,935)
School Administration	876,115	876,115	1,033,723	(157,608)
Business Support Services	622,621	647,021	738,489	(91,469)
Plant Operations and Maintenance	1,553,766	1,774,190	1,714,169	60,022
Student Transportation	1,432,132	1,466,432	1,260,327	206,105
Food Service Operation	-	-	-	-
Facilities Acquisition and Construction	-	-	-	-
Community Services	1,150	1,150	3,514	(2,364)
Miscellaneous	2,236,177	2,808,491	-	2,808,491
Debt Services	121,411	121,411	121,410	1
TOTAL EXPENDITURES	21,408,449	18,481,776	18,456,738	25,037
Excess (Deficit) of Revenues Over Expenditures	(6,472,623)	(3,682,576)	161,007	3,843,582
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	50,223	253,895	269,059	15,164
Operating Transfers Out	(60,000)	(60,000)	(48,558)	11,442
TOTAL OTHER FINANCING SOURCES (USES)	(9,777)	193,895	220,501	26,606
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(6,482,400)	(3,488,681)	381,508	3,870,188
Fund Balance June 30, 2011	2,500,000	3,488,681	3,656,492	-
Fund Balance June 30, 2012	\$ -	\$ -	\$ 4,038,000	\$ 3,870,188

On-Behalf Payments of \$3,564,524 are not budgeted by the Taylor County School District

TAYLOR COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
SPECIAL REVENUE
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Earnings and Investments	\$ -	\$ -	\$ 1,609	\$ 1,609
Other Local Revenues	17,991	21,123	33,916	12,794
Intergovernmental – State	587,400	600,738	648,215	47,477
Intergovernmental –Direct federal	125,000	125,000	126,244	1,244
Intergovernmental –Indirect federal	<u>1,536,540</u>	<u>2,000,052</u>	<u>2,663,013</u>	<u>662,962</u>
TOTAL REVENUES	<u>2,266,931</u>	<u>2,746,912</u>	<u>3,472,999</u>	<u>726,087</u>
EXPENDITURES				
Instruction	1,912,623	2,397,155	3,130,116	(732,962)
Support Services				
Student	8,479	9,397	9,683	(286)
Instructional Staff	213,363	211,947	192,297	19,650
District Administration	-	-	-	-
School Administration	-	-	5,744	(5,744)
Business Support Services	-	-	-	-
Plant Operations and Maintenance	8,521	8,521	8,521	-
Food Service Operation	-	-	-	-
Student Transportation	-	-	-	-
Facilities Acquisition and Construction	-	-	-	-
Community Services	181,350	177,298	171,474	5,824
Debt Service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>2,324,336</u>	<u>2,804,317</u>	<u>3,517,835</u>	<u>713,518</u>
Excess (Deficit) of Revenues Over Expenditures	(57,405)	(57,405)	(44,836)	12,569
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	60,000	60,000	48,558	(11,442)
Operating Transfers Out	<u>(2,595)</u>	<u>(2,595)</u>	<u>(2,595)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>57,405</u>	<u>57,405</u>	<u>45,963</u>	<u>(11,442)</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	-	-
Fund Balance June 30, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Taylor County Board of Education Finance Corporation – On November 19, 1990, the Taylor County, Kentucky, Board of Education resolved to authorize the establishment of the Taylor County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

The District has the following funds:

- Governmental Fund Types

1. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
2. The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 39 through 40. This is a major fund of the District.
3. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - a. 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.
 - b. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a major fund of the District.
 - c. The Construction Fund includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
4. The Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

- Proprietary Fund Types (Enterprise Fund)

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

- Fiduciary Fund Types

The Agency Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds*.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available.

Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

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

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

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

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

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

Property Taxes

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property Taxes – (Continued)

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.443 per \$100 valuation for real property, \$.443 per \$100 valuation for business personal property and \$.537 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

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

Inter-fund Balances

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgetary Process

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

- Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- The budget can be amended after initial approval.
- Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.
- On-Behalf payments were not considered in the budget.

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. There were no outstanding encumbrances at year-end.

Cash and Cash Equivalents

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

Inventories

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

Prepaid Assets

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

Receivables

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

Accrued Liabilities and Long-Term Obligations

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Fund Balance Reserves

Beginning with fiscal year 2011, the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

Net Assets

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

Operating Revenues and Expenses

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions of Capital

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

Inter-fund Activity

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

NOTE 2 – ESTIMATES

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

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At June 30, 2012, the carrying amount of the District's cash and cash equivalents (cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less) was \$4,426,399 while the bank statements totaled \$5,898,329. Of the total bank balances, \$250,000 was insured by FDIC; collateral agreements were executed and collateral, with a FMV of \$7,777,306 and book value of \$7,055,053, was pledged and held by the pledging bank's trust departments in the District's name to secure the remainder of deposits.

Due to the nature of the accounts and certain limitations on the use of the funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Special Revenue Fund, Debt Service Fund, Food Service Fund and Agency Fund.

Kentucky Revised Statutes authorizes the District to invest in the following: obligations of the United States Government and of its agencies and instrumentalities, repurchase agreements and specially approved AAA rated corporate bonds; bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities; certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution up to FDIC insured amount, and in larger amounts provided that the bank pledges as security obligations having a current market value at least equal to any uninsured deposits.

During the year, the District's temporary investments were comprised of certificates of deposits held at a bank located within the county. At year end, \$40,000 in certificates of deposits with interest rates of .70% and maturity dates of 166 days were held at the bank. Such investments are stated at cost, which approximates market value. These investments were covered by FDIC insurance and was covered by collateral agreements and collateral held by the pledging bank's trust department in the District's name.

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

NOTE 4 – CAPITAL ASSETS

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

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
GOVERNMENTAL ACTIVITIES				
Land	\$ 1,863,676	\$ 1,637,834	\$ -	\$ 3,501,510
Buildings and Building Improvements	15,814,425	177,402	114,576	15,877,251
Technology equipment	1,998,209	272,651	138,828	2,132,031
Vehicles	2,593,700	-	-	2,593,700
General Equipment	1,649,363	11,478	8,410	1,652,431
Construction in Progress	500,454	341,630	-	842,084
Totals at historical cost	<u>24,419,827</u>	<u>2,440,994</u>	<u>261,814</u>	<u>26,599,008</u>
Less accumulated depreciation for:				
Land	148,617	28,640	-	177,257
Buildings and Building Improvements	7,622,539	307,940	29,263	7,901,216
Technology Equipment	1,298,570	278,872	138,516	1,438,926
Vehicles	2,008,322	153,779	-	2,162,101
General Equipment	1,183,465	81,046	7,746	1,256,765
Construction	-	-	-	-
Total accumulated depreciation	<u>12,261,513</u>	<u>850,276</u>	<u>175,525</u>	<u>12,936,265</u>
Governmental Activities Capital Net	<u>\$ 12,158,314</u>	<u>\$ 1,590,718</u>	<u>\$ 86,289</u>	<u>\$13,662,743</u>
 PROPRIETARY ACTIVITIES				
Land	\$ -	\$ -	\$ -	\$ -
Buildings and Building Improvements	-	-	-	-
Technology Equipment	31,548	505	1,349	30,704
Vehicles	-	-	-	-
General Equipment	617,473	4,122	7,022	614,573
Construction	-	-	-	-
Totals at historical cost	<u>649,021</u>	<u>4,627</u>	<u>8,371</u>	<u>645,277</u>
Less Accumulated Depreciation For:				
Land	-	-	-	-
Buildings and Buildings Improvement	-	-	-	-
Technology Equipment	20,901	3,163	1,349	22,715
General Equipment	477,283	21,582	7,022	491,843
Construction	-	-	-	-
Total Accumulated Depreciation	<u>498,184</u>	<u>24,745</u>	<u>8,371</u>	<u>514,558</u>
Proprietary Activities Capital Net	<u>\$ 150,837</u>	<u>\$ (20,119)</u>	<u>\$ -</u>	<u>\$ 130,719</u>

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

NOTE 4 – CAPITAL ASSETS - CONTINUED

Depreciation Expense Charged to Governmental Functions as Follows:

Instructional	\$ 680,960
Student Support Services	600
Staff Support Services	159
District Administration	19,309
School Administration	45
Plant Operation and Maintenance	8,806
Student Transportation	<u>140,397</u>
Total	<u><u>\$ 850,276</u></u>

NOTE 5 – LONG-TERM OBLIGATIONS

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

ISSUE	DISTRICT ORIGINAL AMOUNT	SFCC ORIGINAL AMOUNT	INTEREST RATE RANGES	MATURITY DATES
Issue of Aug., 2002	\$ 1,475,000	\$ -	1.50 % - 4.200 %	Feb. 1, 2018
Issue of April, 2004	\$ 1,320,000	\$ -	2.65 % - 4.500 %	Apr. 1, 2024
Issue of April, 2004	\$ 1,917,880	\$ 192,120	2.00 % - 3.625 %	Oct. 1, 2014
Issue of Aug., 2005	\$ 1,942,049	\$ 137,951	2.75 % - 4.000 %	Aug. 1, 2016
Issue of Feb., 2007	\$ 1,371,053	\$ 408,947	4%	June 1, 2019
Issue of Feb., 2012	\$ 1,840,000	\$ -	1.85%	Apr. 1, 2024

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Taylor County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has “participation agreements” with the Kentucky School 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.

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

NOTE 5 – 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, 2011 for debt service (principal and interest) are as follows:

YEAR	TAYLOR COUNTY SCHOOL DISTRICT		KENTUCKY SCHOOL CONSTRUCTION COMMISSION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2012-2013	\$ 666,874	\$ 173,382	\$ 78,126	\$ 17,034	\$ 935,416
2013-2014	689,026	143,585	80,974	14,184	927,769
2014-2015	707,267	121,042	77,733	11,306	917,348
2015-2016	741,048	97,199	63,952	8,685	910,884
2016-2017	673,837	78,980	61,163	6,340	820,320
2018-2022	1,826,715	138,546	108,285	6,334	2,079,880
2023-2027	360,000	9,990	-	-	369,990
Totals	<u>\$ 5,664,767</u>	<u>\$ 762,724</u>	<u>\$ 470,233</u>	<u>\$ 63,883</u>	<u>\$ 6,961,607</u>

Advance Refunding

On March 1, 2012, the District issued \$1,840,000 of School Building Refunding Revenue Bonds, Series 2012, with a fixed interest rate of 1.85% with annual maturities from April 2013 through April 2024.

The net proceeds of \$1,796,769 (after net issuance costs of \$36,691) were used to advance refund bond series 2004 for maturities April 1, 2015 and thereafter and for bond series 2002R maturities August 1, 2013 and thereafter with total principal amounts of \$1,695,000 and average interest rates of 4.205%. The amounts of bond series 2004 and 2002R not defeased by the series 2012 refunding issue is \$40,000 and \$105,000 respectively. Remaining bond series 2004 amount of \$40,000 will be paid upon the normal maturity dates of April 1, 2012 and April 1, 2013. Remaining bond series 2002R amount of \$105,000 will be paid upon the normal maturity date of August 1, 2012.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bond maturities. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities.

The transaction resulted in a cumulative savings of \$141,625 for a net present value of 8.001%.

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. As of June 30, 2011, management has estimated the accrued sick leave liability obligation will be approximately \$335,622. The entire sick leave liability is reported on the government-wide financial statements.

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

NOTE 5 – LONG-TERM OBLIGATIONS – CONTINUED

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

	Beginning Balance July 1, 2011	Additions	Reductions	Ending Balance June 30, 2012	Amounts Due Within One Year
Governmental Activities					
Revenue Bonds Payable	\$ 6,680,000	\$ 1,840,000	\$ 2,385,000	\$ 6,135,000	\$ 745,000
Accrued Sick Leave	335,622	71,678	76,310	330,990	67,595
Governmental Activities					
Long-term Liabilities	<u>\$ 7,015,622</u>	<u>\$ 1,911,678</u>	<u>\$ 2,461,310</u>	<u>\$ 6,465,990</u>	<u>\$ 812,595</u>

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

NOTE 6 – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2012 as follows:

Year ending June 30:

2013	\$ 18,420
2014	8,688
2015	<u>2,896</u>

Total Minimum Payments \$ 30,004

Rent expense for the year ended June 30, 2012 was \$75,238.

NOTE 7 – RETIREMENT PLANS

KENTUCKY TEACHER’S RETIREMENT:

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

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.355% of their salaries to KTRS for members established before July 1, 2008 and 10.855% for members established after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members established before July 1, 2008 and 14.105% for member established after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

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

NOTE 7 – RETIREMENT PLANS- CONTINUED

During the years ended June 30, 2012, 2011 and 2010, contributions of \$1,259,983, \$1,213,674, and \$1,236,220 were made by the State of Kentucky and \$184,726, \$171,497 and \$127,765 in contributions were passed through the District's federally funded programs. The employee contribution rates of 10.355 % and 10.855% are actuarially determined and withheld by the District. Such withholdings during the years ended June 30, 2012, 2011 and 2010 totaled \$1,134,695, \$1,110,170 and \$1,025,945 and were paid by the District to the State of Kentucky as required. The District has no other liability under the plan. The District's total payroll for all employees during the years ended June 30, 2012, 2011 and 2010 was \$14,284,076, \$13,861,697 and \$14,638,200 and \$10,925,229, \$10,956,262 and \$10,401,225 of such amounts related to employees covered by the retirement plan. All payments were made to the retirement system in the amount of the annually required contributions.

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

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution for the years ended June 30, 2012, 2011 and 2010 of 18.96%, 16.93% and 16.16% of the employee's total compensation subject to contribution. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended June 30, 2012, 2011 and 2010 was \$577,253, \$491,889 and \$500,827 from the District and \$155,719, \$147,010 and \$163,656 from employees. The total covered payroll for CERS during the years ended June 30, 2012, 2011 and 2010 was \$3,358,847, \$2,905,435 and \$3,099,177. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents. All payments were made to the retirement system in the amount of the annually required contributions.

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

DEFERRED COMPENSATION:

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

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving a ninety (90) day notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

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

NOTE 13 – ON-BEHALF PAYMENTS

The District receives on-behalf payments for fringe benefits from the Commonwealth of Kentucky. For the year ended June 30, 2012, total payments were \$3,661,005. The following amounts were recognized as on behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities:

Kentucky Teacher's Retirement System	\$	1,259,983
Vocational Education		26,496
Health Insurance		2,351,128
Life Insurance		5,699
Administrative Fees		26,848
Flexible Plans		146,037
Technology		64,569
Less: Federal Reimbursements		<u>(219,755)</u>
 Total	 \$	 <u><u>3,661,005</u></u>

NOTE 14 – 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 combined financial statements as a result of the cases presently in progress.

NOTE 15 – RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$211,925 of restricted net assets, of which \$162,740 is restricted by enabling legislation.

NOTE 16 - SUBSEQUENT EVENTS

Management has reviewed subsequent events through November 9, 2012. There are no material subsequent events to disclose.

SUPPLEMENTARY SCHEDULES

TAYLOR COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 As of June 30, 2012

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS AND RESOURCES				
Cash and Cash Equivalents	\$ -	\$ 161,497	\$ -	\$ 161,497
Accounts Receivable	-	-	-	-
TOTAL ASSETS AND RESOURCES	<u>\$ -</u>	<u>\$ 161,497</u>	<u>\$ -</u>	<u>\$ 161,497</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES				
Restricted - KSFCC Escrow Prior Year	-	24,738	-	24,738
Restricted - Debt Service	-	136,759	-	136,759
TOTAL FUND BALANCES	<u>-</u>	<u>161,497</u>	<u>-</u>	<u>161,497</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 161,497</u>	<u>\$ -</u>	<u>\$ 161,497</u>

TAYLOR COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS - NON-MAJOR FUNDS
 For the Year Ended June 30, 2012

	SEEK Capital Outlay Fund	Building Fund	Debt Service Fund	Total Other Governmental Funds
REVENUES				
Taxes	\$ -	\$ 408,806	\$ -	\$ 408,806
Earnings on Investments	-	855	-	855
Intergovernmental – State	242,794	444,661	94,496	781,951
TOTAL REVENUES	242,794	854,322	94,496	1,191,612
EXPENDITURES				
Support services				
Plant operation and management	39,122	-	-	39,122
Facilities Acquisition and Construction	-	-	-	-
Building Improvements	-	-	-	-
Debt Service				
Principal	-	521,613	74,811	596,424
Interest	-	195,950	25,436	221,386
Other	-	-	30,940	30,940
TOTAL EXPENDITURES	39,122	717,563	131,187	887,872
Excess (Deficit) of Revenues Over Expenditures	203,672	136,759	(36,691)	303,740
OTHER FINANCING SOURCES (USES)				
Proceeds of Refunding Bond	-	-	1,833,460	1,833,460
Payment to Refunded Bond Escrow Agent	-	-	(1,796,769)	(1,796,769)
Operating Transfers In	-	-	-	-
Operating Transfers Out	(203,672)	-	-	(203,672)
TOTAL OTHER FINANCING SOURCES (USES)	(203,672)	-	36,691	(166,981)
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	136,759	-	136,759
Fund Balance June 30, 2011	-	24,738	-	24,738
Fund Balance June 30, 2012	<u>\$ -</u>	<u>\$ 161,497</u>	<u>\$ -</u>	<u>\$ 161,497</u>

SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
SCHOOL ACTIVITY FUNDS

TAYLOR COUNTY SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
 FOR ACTIVITY FUNDS
 For the Year Ended June 30, 2012

	Cash Balance July 31, 2011	Actual Receipts	Actual Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2012
	\$	\$	\$	\$	\$	\$	\$
Academic Team	5	1,153	871	287	-	-	287
Agriculture Greenhouse	7,858	5,919	3,600	10,178	-	-	10,178
Art	170	1,734	1,764	140	-	-	140
Athletics	3,182	93,151	93,244	3,089	-	-	3,089
20th District Tournament	-	14,209	14,209	-	-	-	-
G/B Regional Bowling	-	1,214	1,214	-	-	-	-
Band	428	29,788	30,123	93	-	-	93
Beta Club	875	14,572	11,425	4,023	-	-	4,023
Business Department	2,298	754	1,886	1,166	-	-	1,166
Cardinal Financial CTR	400	105	237	268	-	-	268
Cardinal Kroger	2,151	17,643	19,042	752	-	-	752
Cheerleading	3	-	-	3	-	-	3
Chorus	7,047	57,475	63,253	1,269	-	-	1,269
Concessions - Students	1,479	3,207	3,244	1,441	-	-	1,441
Concessions - Athletics	565	441	682	323	-	-	323
Concessions - Lounge	256	1,610	1,723	143	-	-	143
Creative Writer's Club	177	-	-	177	-	-	177
Club International	844	60	805	99	-	-	99
Dance Team	610	1,069	1,284	395	-	-	395
DECA	584	12,407	11,084	1,907	-	-	1,907
Region III DECA	-	1,018	96	922	-	-	922
Drama	846	1,211	1,544	513	-	-	513
English	35	1,286	1,240	81	-	-	81
Future Educators	251	333	583	1	-	-	1
Faculty Flower Fund	14	600	578	35	-	-	35
Family/Consumer	649	3,497	3,171	975	-	-	975
Foreign Language	30	-	27	3	-	-	3
Class of 2015	-	-	-	-	-	-	-
FBLA	68	315	383	-	-	-	-
FCA	624	1,720	2,300	44	-	-	44
FFA	4,189	40,905	42,376	2,718	-	-	2,718
FCCLA (FHA)	6,057	14,385	11,028	9,414	-	-	9,414
Floral Designs	10	2,301	2,311	-	-	-	-
General	5,989	13,382	16,341	3,030	-	-	3,030

TAYLOR COUNTY SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
 FOR ACTIVITY FUNDS - CONTINUED
 For the Year Ended June 30, 2012

	Cash Balance July 31, 2011	Actual Receipts	Actual Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2012
	\$	\$	\$	\$	\$	\$	\$
Greenhouse Entrepreneur	341	5,654	3,902	2,093	-	-	2,093
Guidance	411	15,444	15,444	778	-	-	778
Health & PE	130	4,690	4,760	60	-	-	60
Industrial Technology	175	1,142	1,067	249	-	-	249
Class of 2013	123	18,730	13,941	4,912	-	-	4,912
Class of 2012	659	362	1,021	-	-	-	-
Lady Cards Little League	58	675	240	493	-	-	493
Library	6	2,437	2,297	145	-	-	145
TCES Boys Youth Baseball	-	2,285	2,285	-	-	-	-
Math	24	808	832	-	-	-	-
TCES Football	1,588	10,266	11,207	647	-	-	647
TCHS Outdoors Club	2,121	2,253	3,326	1,048	-	-	1,048
Pep Club	82	805	783	105	-	-	105
Radio	20,630	14,362	19,115	15,877	-	-	15,877
Science Club	122	-	122	-	-	-	-
Toshiba America Foundation	-	4,848	3,544	1,304	-	-	1,304
Science Department	1,740	5,139	5,260	1,619	-	-	1,619
Aviation Science	-	3,044	3,044	-	-	-	-
Senior Trip	-	1,600	1,600	-	-	-	-
Class of 2014	-	744	-	744	-	-	744
Social Studies Dept	-	700	-	700	-	-	700
Student Government	1,078	850	1,880	48	-	-	48
TCHS Touchdown Club	-	8,139	4,140	3,999	-	-	3,999
TCHS Weight Room	-	4,350	1,345	3,005	-	-	3,005
Technology Fund	7,703	-	7,703	-	-	-	-
Tech. Students Association	351	52	208	195	-	-	195
Text Books	-	11,526	6,687	4,839	-	-	4,839
Yearbook	4,063	2,412	4,805	1,670	-	-	1,670
Y Club	258	3,780	4,034	3	-	-	3
Young Historians	1,198	2,086	1,752	1,532	-	-	1,532
Less: Interfund Transfers	-	-	-	-	-	-	-
Taylor County High School	90,554	467,013	468,013	89,554	-	-	89,554
Taylor County Middle School	36,067	167,579	180,438	23,208	-	-	23,208
Taylor County Elementary	13,769	183,183	181,143	15,809	-	-	15,809
Total	\$ 140,389	\$ 817,775	\$ 829,593	\$ 128,571	\$ -	\$ -	\$ 128,571

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TAYLOR COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Disbursements</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through the Kentucky Department of Education:			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010A	3101	\$ 151,195
Title I Grants to Local Educational Agencies	84.010A	3101D	11,182
Title I Grants to Local Educational Agencies	84.010A	3101M	3,576
Title I Grants to Local Educational Agencies	84.010A	3102	416,543
Title I Grants to Local Educational Agencies	84.010A	3102D	61,790
Title I Grants to Local Educational Agencies	84.010A	3102M	3,100
Title I Grants to Local Educational Agencies	84.010A	3102T	2,654
Title I - School Improvement	84.010A	3201	12,662
ARRA - Title I	34.389A	3919	10,176
Total Title I, Part A Cluster			<u>672,878</u>
Special Education Cluster			
Special Education - Grants to States	84.027A	3370	14,225
Special Education - Grants to States	84.027A	3371	33,497
Special Education - Grants to States	84.027A	3372	500,495
Special Education - Preschool Grants	84.173A	3430	3,845
Special Education - Preschool Grants	84.173A	3431	25,876
Special Education - Preschool Grants	84.173A	3432	34,949
Total Special Education Cluster			<u>612,887</u>
Vocational Education-Basic Grants to States			
Vocational Education-Basic Grants to States	84.048	3480A	667
Vocational Education-Basic Grants to States	84.048	3481A	1,222
Vocational Education-Basic Grants to States	84.048	3482	25,556
			<u>27,445</u>
Vocational Rehabilitation Grants to States			
Vocational Rehabilitation Grants to States	84.126	3762	22,939
Safe and Drug-Free Schools and Communities- National Prog.			
Safe and Drug-Free Schools and Communities- National Prog.	84.184A	5341A	98,344
Fund for the Improvement of Education			
Fund for the Improvement of Education	84.215K	2702	1,500
Twenty-first Century Community Learning Centers			
Twenty-first Century Community Learning Centers	84.287	5500E	60,973
Twenty-first Century Community Learning Centers	84.287	5500H	8,802
Twenty-first Century Community Learning Centers	84.287	5500M	48,917
Twenty-first Century Community Learning Centers	84.287	5500Q	3,283
Twenty-first Century Community Learning Centers	84.287	5500Z	51,715
Twenty-first Century Community Learning Centers	84.287	5501E	101,634
Twenty-first Century Community Learning Centers	84.287	5501H	138,242

TAYLOR COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Disbursements</u>
Twenty-first Century Community Learning Centers	84.287	5501J	\$ 1,000
Twenty-first Century Community Learning Centers	84.287	5501M	83,787
Twenty-first Century Community Learning Centers	84.287	5501S	694
Twenty-first Century Community Learning Centers	84.287	5501X	<u>29,386</u>
			528,433
 Title IV Rural & Low Income	 84.358B	 3502	 55,211
 Improving Teacher Quality State Grant	 84.367	 4011	 37,377
Improving Teacher Quality State Grant	84.367	4012	<u>82,241</u>
			119,618
 ARRA - Education for Homeless Children & Youth	 84.387A	 3219	 3,798
 ARRA - School Improvement Grants	 84.388A *	 5600A	 24,282
ARRA - School Improvement Grants	84.388A *	5600B	<u>93,994</u>
			118,276
 Education Jobs Fund	 84.410A *	 4411	 <u>391,124</u>
 TOTAL U.S. DEPARTMENT OF EDUCATION			 2,652,451
 U.S. DEPARTMENT OF ENERGY Passed through the Kentucky Dept. for Energy Development & Independence:			
ARRA - State Energy Program	81.041	5691	2,332
State Energy Program	81.041	5692	<u>2,637</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			4,969
 U.S. DEPARTMENT OF AGRICULTURE Passed through the Kentucky Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555 *	7750002 11	139,940
National School Lunch Program	10.555 *	7750002 12	472,513
School Breakfast Program	10.553 *	7760005 11	44,483
School Breakfast Program	10.553 *	7760005 12	162,899
Summer Food Service Program for Children	10.559 *	7690024 11	747
Summer Food Service Program for Children	10.559 *	7740023 11	<u>7,189</u>
Total Child Nutrition Cluster			827,771

TAYLOR COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Disbursements</u>
Passed through the Kentucky Department of Agriculture Food Distribution	10.565	51	<u>\$ 41,073</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>868,844</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 3,526,264</u>

* Denotes Major Program

The accompanying notes are an integral part of this schedule.

TAYLOR COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – FOOD DISTRIBUTION

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

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

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.410A	Education Jobs Fund Program
10.553, 10.555, 10.559	Child Nutrition Cluster
84.388A	ARRA – School Improvement

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

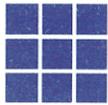
No matters were reported

Section III – Federal Award Findings and Questioned Costs

No matters were reported

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

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



WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
JEFFREY G. SPROWLES, CPA

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Taylor County Board of Education
Campbellsville, Kentucky 42718

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 Taylor County School District as of and for the year ended June 30, 2012, which collectively comprise the Taylor County School District's basic financial statements and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, *Audits of States, Local Governments, and Non-Profit organizations* and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III & IV of the *Independent Auditor's Contract*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Members of the Board of Education
Taylor County School District
Page 2

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

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

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Certified Public Accountants
Campbellsville, Kentucky

November 9, 2012



WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
JEFFREY G. SPROWLES, CPA

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Taylor County Board of Education
Campbellsville, Kentucky 42718

Compliance

We have audited the compliance of Taylor County School District with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct effect and material effect on each of Taylor County School District's major federal programs for the year ended June 30, 2012. Taylor County School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Taylor County School District's management. Our responsibility is to express an opinion on Taylor County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Taylor County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Taylor County School District's compliance with those requirements.

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

Internal Control over Compliance

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

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

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

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

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Certified Public Accountants
Campbellsville, Kentucky

November 9, 2012

MANAGEMENT LETTER



WISE, BUCKNER, SPROWLES

& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
JEFFREY G. SPROWLES, CPA

November 9, 2012

Members of the Board of Education
Taylor County Board of Education
Campbellsville, Kentucky

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

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

The management letter from the previous fiscal year discussed four points with respect to strengthening internal controls within the school activity funds.

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

FIDUCIARY FUNDS

Taylor County Elementary School

Condition: Several Purchase Orders were found dated after the date of invoice.

Observation: Current year audit procedures revealed only two occurrences that P.O.'s were dated after the purchase.

Taylor County High School

Condition: Booster club annual financial reports for the Band Boosters, the Touchdown Club and Cheerleading were not submitted to the principal by July 25 as required by "Red Book".

Observation: Band Boosters financial report was submitted timely. The Touchdown Club is now an activity fund for the High School. The booster club for cheerleading was not submitted to the High School by July 25th along with five other booster clubs. All booster clubs that were late in submitting the financial reports subsequently submitted them within a few days after July 25th.

Condition: Timely submitted booster club annual financial reports were submitted by Girls Soccer, Girls Basketball, Boys Basketball, Softball, Volleyball, Men's and Lady's Bowling but without the proper documentation as required by the "Red Book".

Observation: Booster club financial reports were submitted with proper documentation.

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Taylor County School District
Page 2

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

Sincerely,

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Certified Public Accountants
Campbellsville, Kentucky

UNCORRECTED PRIOR YEAR COMMENTS

FIDUCIARY FUNDS

Taylor County High School

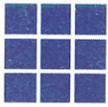
Condition: FFA had a fundraiser in which the Fundraiser Worksheet was used but an audit trail of receipts and disbursements could not be followed because of the lack of proper documentation on the Fundraiser Worksheet. The Fundraiser Worksheet sections 3 & 4 contains cells to document individual daily receipts and individual expense checks so that the activity can be traced from the worksheet to the activity fund ledger

Observation: FFA held a Truck and Tractor Pull fundraiser in which the revenue could not be traced to the ledger due to lack of individual deposits for fundraiser being properly documented.

CENTRAL OFFICE:

Condition: Multiple Purchase Orders were found dated after the date of invoice. This is almost exclusively concerning the maintenance department.

Observation: Audit procedures revealed two occurrences where purchases were made before approval that exceeded the Superintendent's verbal threshold approval amount of \$500.



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& ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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State Committee for School District Audits
Members of the Board of Education
Taylor County School District
Campbellsville, 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 the Taylor County School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated November 9, 2012. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III & IV of the *Independent Auditor's Contract*.

As stated in our engagement letter dated June 26, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we consider Taylor County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also consider internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining assurance about whether Taylor County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Taylor County School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Taylor County School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Taylor County School District's compliance with those requirements.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Taylor County School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changing during the fiscal year ended June 30, 2012. We noted no transactions entered into by the governmental unit during the year which there is a lack of authoritative guidance or State Committee for School District Audits consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the accrued sick leave is based on expected future employee retirements. We evaluated the key factors and assumptions used to develop the accrued sick leave estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a matter whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 9, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended solely for the use of members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

Wise, Buckner, Sprowles & Associates, PLLC

Wise, Buckner, Sprowles & Associates, PLLC
Certified Public Accountants

November 9, 2012