

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SCHOOL DISTRICT**

**For The Year Ended
June 30, 2012**

TABLE OF CONTENTS

PAGE

| | |
|---|----|
| INDEPENDENT AUDITOR’S REPORT..... | 1 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) | 3 |
| STATEMENT OF NET ASSETS | 11 |
| STATEMENT OF ACTIVITIES | 12 |
| BALANCE SHEET - GOVERNMENTAL FUNDS | 15 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS | 17 |
| STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS..... | 18 |
| RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES..... | 20 |
| STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND..... | 22 |
| STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND | 23 |
| STATEMENT OF CASH FLOWS - PROPRIETARY FUND..... | 24 |
| STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS..... | 26 |
| STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS | 27 |
| NOTES TO THE FINANCIAL STATEMENTS | 28 |
| BUDGETARY COMPARISON SCHEDULES – GENERAL FUND | 49 |
| BUDGETARY COMPARISON SCHEDULES – SPECIAL REVENUE FUNDS | 50 |
| RECONCILIATION OF BUDGETARY SCHEDULE TO STATEMENT OF REVENUES, EXPENDITURE, AND CHANGES IN FUND BALANCE – GENERAL FUND | 51 |
| COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS | 53 |
| COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS | 54 |
| COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS – CAPITAL PROJECT FUNDS | 55 |
| COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS – CAPITAL PROJECT FUNDS | 56 |
| COMBINING STATEMENT OF REVENUES, DISBURSEMENTS, AND DUE TO STUDENTS SCHOOL ACTIVITY FUNDS (AGENCY FUNDS)..... | 57 |
| WASHINGTON COUNTY HIGH SCHOOL ACTIVITY FUNDS SCHEDULE OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENTS | 58 |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 60 |
| NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 61 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING | 62 |
| REPORT ON COMPLIANCE WITH REQUIREMENTS | 65 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 70 |



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Independent Auditor's Report

Members of the Board
Washington County School District
Springfield, 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 Washington County School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the District's Management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund of 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 general accepted in the United states of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (Unaudited) on pages 3 through 9 and the budgetary comparison information on pages 49 through 51 be presented to supplement the basic financial statements. Such Information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our 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 to provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statement as a whole. The combining nonmajor fund financial and the Agency Funds financial information on pages 54 through 58 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements and the Agency Funds financial information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all the material aspects in relation to the financial statements as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2012 on our consideration of the 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.

Simon CPA & Company PSC

Louisville, Kentucky
November 15, 2012

**Washington County School District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2012**

The discussion and analysis of Washington County School District (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to review the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Government, issued in June 1999.

Financial Highlights.

- The beginning general fund balance for the District was \$3,534,069. The ending general fund balance was \$2,854,785.
- The District earned \$251,049 of interest.
- General fund receipts increased by \$551,610, or 5% primarily due to an increase in SEEK funding.
- The general fund had \$13 million in revenue, which primarily consisted of the SEEK funds received by the state, as well as property, utilities, and motor vehicle taxes. Excluding transfers expenditures were \$12.8 million in the general fund.
- On August 15, 2011, the District purchased 69.5 acres of land located on the new Highway 150 bypass in the city limits for the site of the new high school. The cost of the land was \$701,500. On June 19, 2012, the Washington County School District Finance Corporation was issued \$15 million in bonds to be used toward the construction. The total cost for the new high school is \$21 million. Construction is expected to be completed by January 2014.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 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.

**Washington County School District
Management's Discussion and Analysis (Unaudited)
June 30, 2012
(Continued)**

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 government's net assets changed during the 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.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The District's governmental activities include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. The District has two business type activities – Food Service and Day Care.

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. The District, like other Kentucky public school districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three broad categories: *governmental, proprietary, and fiduciary*.

**Washington County School District
Management's Discussion and Analysis (Unaudited)
June 30, 2012
(Continued)**

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Washington County maintains (6) six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The Capital Projects Fund consists of the Capital Outlay Fund, Building Fund and Construction Fund combined, as these funds service one main purpose.

Major Funds:

- General Fund
- Special Revenue Fund
- Capital Projects Fund

Non-major Funds:

- Debt Service Fund

The District adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund and Special Revenue Fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Food Service Fund and Day Care Fund.

Fiduciary Funds Financial Statements. These funds are used to account for resources held for custodial purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the programs of the District. The accounting used for fiduciary funds is much like that used for proprietary funds. The District's fiduciary funds are the Private Purpose Trust Funds and Agency Fund.

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.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of the District's financial position.

Washington County School District
Management's Discussion and Analysis (Unaudited)
June 30, 2012
(Continued)

Changes in Net Assets.

Table 1
Washington County's Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|---------------|--------------------------|------------|---------------|---------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Assets | | | | | | |
| Current and other assets | \$ 23,293,822 | \$ 9,508,270 | \$ 231,581 | \$ 135,115 | \$ 23,525,403 | \$ 9,643,385 |
| Net Capital Assets | 15,866,375 | 13,781,726 | 60,572 | 46,379 | 15,926,947 | 13,828,105 |
| Total Assets | 39,160,197 | 23,289,996 | 292,153 | 181,494 | 39,452,350 | 23,471,490 |
| Liabilities | | | | | | |
| Current and other Liabilities | 1,811,508 | 1,139,568 | | | 1,811,508 | 1,139,568 |
| Long-term Liabilities | 19,961,359 | 5,405,195 | | | 19,961,359 | 5,405,195 |
| Total Liabilities | 21,772,867 | 6,544,763 | | | 21,772,867 | 6,544,763 |
| Net Assets | | | | | | |
| Invested in Capital Assets, Net of Related Debt | (4,345,287) | 8,111,726 | 60,572 | 46,379 | (4,284,715) | 8,158,105 |
| Restricted | 18,978,916 | 721,050 | | | 18,978,916 | 721,050 |
| Unrestricted | 2,753,701 | 7,912,457 | 231,581 | 135,115 | 2,985,282 | 8,047,572 |
| Total Net Assets | \$ 17,387,330 | \$ 16,745,233 | \$ 292,153 | \$ 181,494 | \$ 17,679,483 | \$ 16,926,727 |

Total Assets increased \$15,980,860 while Total Net Assets increased by \$752,756. The rationale for the increase is discussed in the financial highlights on page 3.

Governmental Activities. The District's net assets increased by \$642,097 during the fiscal year ended June 30, 2012. Key elements of this are as follows:

- Current assets and cash increased \$13,785,552, due to bonds issued at year-end.
- Investment in capital assets and infrastructure, net of related debt decreased \$12,457,013 causing a deficient due to bonds issued and construction of the new high school just beginning.

Business-type Activities. The District's net assets increased by \$110,659 during the fiscal year ended June 30, 2012. Key elements are as follows:

- Day Care was transferred from general fund operations to its own fund.

Washington County School District
Management's Discussion and Analysis (Unaudited)
June 30, 2012
(Continued)

Changes in Net Assets. (Continued)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|-------------------|----------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Program Revenues | | | | | | |
| Charges for | | | | | | |
| Services | \$ 18,875 | \$ 42,121 | \$ 377,398 | \$ 321,283 | \$ 396,273 | \$ 363,404 |
| Grants & Contributions | 2,684,350 | 2,809,238 | 766,385 | 681,719 | 3,450,735 | 3,490,957 |
| Capital Grants & Contributions | 1,838,352 | 661,100 | | | 1,838,352 | 661,100 |
| General Revenues | | | | | | |
| Taxes | 3,888,246 | 3,936,735 | | | 3,888,246 | 3,936,735 |
| State Aid & Other | 8,808,144 | 9,209,158 | 7,452 | 10,204 | 8,815,596 | 9,219,362 |
| Total Revenue | <u>17,237,967</u> | <u>16,658,352</u> | <u>1,151,235</u> | <u>1,013,206</u> | <u>18,389,202</u> | <u>17,671,558</u> |
| Expenses | | | | | | |
| Instructional | 9,737,042 | 9,246,486 | | | 9,737,042 | 9,246,486 |
| Student Support Services | 405,397 | 629,643 | | | 405,397 | 629,643 |
| Instructional Staff District Administration | 460,197 | 623,622 | | | 460,197 | 623,622 |
| School Administration | 613,825 | 956,347 | | | 613,825 | 956,347 |
| Business Administration | 585,980 | 774,764 | | | 585,980 | 774,764 |
| | 664,090 | 761,415 | | | 664,090 | 761,415 |
| Plant Operations & Maintenance | 898,847 | 1,420,688 | | | 898,847 | 1,420,688 |
| Student Transportation | 953,277 | 914,815 | | | 953,277 | 914,815 |
| Community Services | 312,785 | 17 | | | 312,785 | 17 |
| Facilities Acquisition & Construction | 1,630,487 | 301,342 | | | 1,630,487 | 301,342 |
| Interest on Long-term Debt | 324,465 | 209,573 | | | 324,465 | 209,573 |
| Food Services | | | 952,810 | 951,308 | 952,810 | 951,308 |
| Day Care | | | 129,467 | | 129,467 | |
| Total Expenses | <u>16,586,392</u> | <u>15,838,712</u> | <u>1,082,277</u> | <u>951,308</u> | <u>17,668,669</u> | <u>16,790,020</u> |
| Change In Net Assets | 651,574 | 819,640 | 68,958 | 61,898 | 720,533 | 881,538 |
| Net Assets - Beginning (Restated for 2011) | <u>16,735,756</u> | <u>15,916,108</u> | <u>223,196</u> | <u>161,298</u> | <u>16,958,952</u> | <u>16,077,406</u> |
| Net Assets - Ending | <u>\$ 17,387,330</u> | <u>\$ 16,735,748</u> | <u>\$ 292,154</u> | <u>\$ 223,196</u> | <u>\$ 17,679,485</u> | <u>\$ 16,958,944</u> |

**Washington County School District
Management's Discussion and Analysis (Unaudited)
June 30, 2012
(Continued)**

Financial Analysis of the District's Funds.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of the District governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of June 2012 fiscal year, the combined ending fund balances of District governmental funds were \$17,387,330, which consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The General Fund is the chief operating fund of the District. At the end of the June 30, 2012 fiscal year, unrestricted fund balance of the General Fund was \$2,654,391, which was the total fund balance. The District received \$3,298,292 in property, motor vehicle, and other taxes and \$9,523,118 in state-aid for approximately 25% and 73%, respectively, of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 2% of revenues.

Proprietary Funds Overview. The District's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

The District has (2) two enterprise-type proprietary funds:

- Food Service Fund
- Day Care Fund

The Food Service's unrestricted net assets as of June 30, 2012, amounted to \$194,400 and total net assets were \$254,972.

The Day Care's unrestricted and total net assets as of June 30, 2012 amounted to \$37,181.

General Fund Budgetary Highlights. The District's general fund budget for expenditures was amended during the fiscal year increasing the budgeted amount by \$322,210. The primary amendments were to increase SEEK funding and to transfer funds to the Construction Fund for the replacement of the Washington County High School HVAC system.

Capital Assets and Debt Administration.

Capital Assets. The District's investment in capital assets for its government and business type activities as of June 30, 2012, amount to \$15,926,947 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and technology. The District has elected to report capital assets in accordance with the provisions of GASB 34.

Additional information on the District's capital assets can be found in Note E of this report.

**Washington County School District
Management's Discussion and Analysis (Unaudited)
June 30, 2012
(Continued)**

Capital Assets and Debt Administration. (Continued)

**Table 3
Washington County's Capital Assets, Net of Accumulated Depreciation**

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------|-------------------------|----------------------|--------------------------|------------------|----------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Assets | | | | | | |
| Land | \$ 1,280,702 | \$ 579,102 | \$ | \$ | \$ 1,280,702 | \$ 579,102 |
| Construction in Progress | 1,873,248 | 386,088 | | | 1,873,248 | 386,088 |
| Buildings | 11,137,846 | 11,137,176 | | | 11,137,846 | 11,137,176 |
| Land Improvements | 84,082 | 98,308 | | | | |
| Technology | 440,504 | 490,892 | 150 | 509 | 440,654 | 491,401 |
| Vehicles | 689,067 | 720,282 | | | 689,067 | 720,282 |
| Equipment | 360,926 | 360,393 | 60,422 | 46,080 | 421,348 | 406,473 |
| Total Net Capital Assets | \$ 15,866,375 | \$ 13,772,241 | \$ 60,572 | \$ 46,589 | \$ 15,926,947 | \$ 13,818,830 |

Long-Term Debt. At the end of the fiscal year ended June 30, 2012, The District had total bonded debt outstanding of \$20,211,662. Of this amount \$2,809,540 is to be paid from Kentucky School Facility Construction Commission funding provided by the Commonwealth of Kentucky. A total of \$400,000 is due within one year. On June 1, 2012 new bonds were issued for \$15,185,000 for the construction of the new high school. Additional information on the District's long-term debt can be found in Note H of this report.

Other Matters. The following factors are expected to have a significant effect on the District's financial position or results of operations and were taken into account in developing the budget for the fiscal year ending June 30, 2012:

Economic factors indicated softness for new housing, expansion of existing business, and the development of new business for the City of Springfield and the County of Washington.

Requests For Information. This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this financial report or requests for additional financial information should be addressed to Robin Cochran, Superintendent, or to Judy Spalding, Director of Financial Services, by calling (859) 336-5470 or by mail at P.O. Box 72, Springfield, Kentucky 40069.

**WASHINGTON COUNTY SCHOOL DISTRICT
DISTRICT-WIDE FINANCIAL STATEMENTS**

WASHINGTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012

| | Governmental | Business-Type | |
|---|----------------------|----------------------|----------------------|
| | Activities | Activities | Totals |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 22,690,244 | \$ 199,406 | \$ 22,889,650 |
| Accounts Receivable, net | 410,171 | 6,005 | 416,176 |
| Inventory | | 26,170 | 26,170 |
| Bond Issuance Cost | 252,899 | | 252,899 |
| Less: Accumulated Amortization | (59,492) | | (59,492) |
| Nondepreciated Capital Assets | 3,153,950 | | 3,153,950 |
| Depreciable Capital Assets | 20,880,424 | 340,949 | 21,221,373 |
| Less: Accumulated Depreciation | (8,167,999) | (280,377) | (8,448,376) |
| Total Assets | 39,160,197 | 292,153 | 39,452,350 |
| LIABILITIES | | | |
| Accounts Payable | \$ 922,675 | \$ | \$ 922,675 |
| Accrued Liabilities | 78,892 | | 78,892 |
| Deferred Revenue | 272,663 | | 272,663 |
| Accrued Interest | 109,249 | | 109,249 |
| Bond Obligations | 400,000 | | 400,000 |
| Compensated Absences | 28,029 | | 28,029 |
| Noncurrent Liabilities: | | | |
| Bond Obligations | 19,811,662 | | 19,811,662 |
| Compensated Absences | 149,697 | | 149,697 |
| Total Liabilities | 21,772,867 | | 21,772,867 |
| NET ASSETS | | | |
| Invested in Capital Assets, | | | |
| Net of Related Debt | (4,345,287) | 60,572 | (4,284,715) |
| Restricted For: | | | |
| Capital Projects | 18,893,966 | | 18,893,966 |
| SBDM | 35,544 | | 35,544 |
| Debt Service | 49,406 | | 49,406 |
| Unrestricted | 2,753,701 | 231,581 | 2,985,282 |
| Total Net Assets | 17,387,330 | 292,153 | 17,679,483 |
| Total Liabilities and Net Assets | \$ 39,160,197 | \$ 292,153 | \$ 39,452,350 |

**WASHINGTON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2012**

| Functions/Programs | <u>Program Revenues Received</u> | | | |
|---------------------------------------|----------------------------------|-----------------------------|---|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Governmental Activities: | | | | |
| Instruction | \$ 9,737,042 | \$ 18,875 | \$ 2,450,674 | |
| Support Services | | | | |
| Student | 405,397 | | | |
| Instructional Staff | 460,197 | | 5,106 | |
| District Administration | 613,825 | | | |
| School Administration | 585,980 | | | |
| Business | 664,090 | | 116,736 | |
| Plant Operations & Maintenance | 898,847 | | | |
| Student Transportation | 953,277 | | 46,596 | |
| Community Services | 312,785 | | 65,238 | |
| Facilities Acquisition & Construction | 1,630,487 | | | 1,838,352 |
| Interest on Long-term Debt | 324,465 | | | |
| Total Governmental Activities | <u>16,586,393</u> | <u>18,875</u> | <u>2,684,350</u> | <u>1,838,352</u> |
| Business-type Activities: | | | | |
| Food Services | 952,810 | 302,276 | 717,906 | |
| Day Care | 129,467 | 75,122 | 48,479 | |
| | <u>1,082,277</u> | <u>377,398</u> | <u>766,385</u> | |
| Total Primary Government | <u>\$ 17,668,670</u> | <u>\$ 396,273</u> | <u>\$ 3,450,735</u> | <u>\$ 1,838,352</u> |

General Revenues:

Taxes:

Property
Motor Vehicle
Utilities
Franchise
Other

State Aid

Investment Earnings

Other

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

WASHINGTON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2012
(Continued)

| <u>Net (Expenses) Revenues and Changes in Net Assets</u> | | |
|--|-------------------------------------|----------------------|
| <u>Primary Government</u> | | |
| <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Totals</u> |
| \$ (7,267,493) | \$ | \$ (7,267,493) |
| (405,397) | | (405,397) |
| (455,091) | | (455,091) |
| (613,825) | | (613,825) |
| (585,980) | | (585,980) |
| (547,354) | | (547,354) |
| (898,847) | | (898,847) |
| (906,681) | | (906,681) |
| (247,547) | | (247,547) |
| 207,865 | | 207,865 |
| (324,465) | | (324,465) |
| <u>(12,044,816)</u> | | <u>(12,044,816)</u> |
| | 67,372 | 67,372 |
| | (5,866) | (5,866) |
| | <u>61,506</u> | <u>61,506</u> |
| <u>(12,044,816)</u> | 61,506 | <u>(11,983,310)</u> |
| 2,666,882 | | |
| 369,222 | | |
| 681,098 | | |
| 119,070 | | |
| 51,974 | | |
| 8,338,011 | | |
| 251,049 | 7,452 | |
| 219,084 | | |
| <u>12,696,390</u> | <u>7,452</u> | |
| 651,574 | 68,958 | 720,532 |
| <u>16,735,756</u> | <u>223,196</u> | <u>16,958,952</u> |
| <u>\$ 17,387,330</u> | <u>\$ 292,154</u> | <u>\$ 17,679,484</u> |

**WASHINGTON COUNTY SCHOOL DISTRICT
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**WASHINGTON COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Capital Project Fund</u> |
|--|-------------------------|-------------------------------------|-------------------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 2,879,758 | \$ (24,084) | \$ 19,785,164 |
| Accounts Receivable, net | 103,167 | 307,004 | |
| Total Assets | <u>\$ 2,982,925</u> | <u>\$ 282,920</u> | <u>\$ 19,785,164</u> |
| LIABILITIES and FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts Payable | \$ 21,220 | \$ 10,257 | \$ 891,198 |
| Accrued Liabilities | 106,920 | | |
| Deferred Revenues | | 272,663 | |
| Total Liabilities | <u>128,140</u> | <u>282,920</u> | <u>891,198</u> |
| FUND BALANCES | | | |
| Fund Balances: | | | |
| Restricted: | | | |
| Capital Projects Fund | | | 18,893,966 |
| Debt Service Funds | | | |
| Committed: | | | |
| SBDM Carryforward | 35,544 | | |
| Sick Leave Payable | 149,697 | | |
| Assigned: | | | |
| Encumbrances | 15,153 | | |
| Unassigned | 2,654,391 | | |
| Total Fund Balances | <u>2,854,785</u> | | <u>18,893,966</u> |
| Total Liabilities and Fund Balances | <u>\$ 2,982,925</u> | <u>\$ 282,920</u> | <u>\$ 19,785,164</u> |

**WASHINGTON COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012
(Continued)**

| <u>Non- Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---|
| \$ 49,406 | \$ 22,690,244 410,171 |
| <u>\$ 49,406</u> | <u>\$ 23,100,415</u> |

| | |
|----|----------------------------------|
| \$ | \$ 922,675 106,920 272,663 |
| | <u>1,302,258</u> |

| | |
|------------------|----------------------|
| | 18,893,966 |
| 49,406 | 49,406 |
| | 35,544 |
| | 149,697 |
| | 15,153 |
| | <u>2,654,391</u> |
| <u>49,406</u> | <u>21,798,156</u> |
| <u>\$ 49,406</u> | <u>\$ 23,100,415</u> |

**WASHINGTON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

| | |
|--|---------------|
| Total Fund Balances | \$ 21,798,156 |
| Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because: | |
| Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Governmental Funds | 24,034,374 |
| Accumulated Depreciation | (8,167,999) |
| Bond Issuance Costs Are Not Financial Resources And Therefore Are Not Reported in the Governmental Funds | 252,899 |
| Accumulated Amortization | (59,492) |
| Long-term Liabilities Are Not Due and Payable in the Current Period and, Therefore, Are Not Reported in the Governmental Funds: | |
| Bonds Payable | (20,211,662) |
| Accrued Interest | (109,249) |
| Compensated Absences | (149,697) |
| | (20,470,610) |
| Net Assets Of Governmental Activities | \$ 17,387,330 |

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

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Capital Project Fund</u> |
|---|-------------------------|-------------------------------------|-------------------------------------|
| REVENUES | | | |
| From Local Sources | | | |
| Taxes | | | |
| Property | \$ 2,076,928 | \$ | \$ 589,954 |
| Motor Vehicle | 369,222 | | |
| Utilities | 681,098 | | |
| Franchise | 119,070 | | |
| Other | 51,974 | | |
| Tuition and Fees | 18,875 | | |
| Earnings on Investments | 158,771 | 536 | 42,343 |
| Other Local Revenue | 84,032 | 135,052 | |
| Intergovernmental - State | 9,523,120 | 725,702 | 656,805 |
| Intergovernmental - Federal | 1,237 | 1,837,115 | |
| Total Revenues | <u>13,084,326</u> | <u>2,698,405</u> | <u>1,289,102</u> |
| EXPENDITURES | | | |
| Instruction | 7,354,844 | 2,048,909 | |
| Support Services | | | |
| Student | 704,565 | 5,078 | |
| Instructional Staff | 369,713 | 226,675 | |
| District Administration | 575,845 | 148,921 | |
| School Administration | 934,687 | | |
| Business | 723,335 | 8,957 | |
| Plant Operations and Maintenance | 1,235,362 | | |
| Student Transportation | 918,800 | | |
| Community Services | 1,891 | 307,311 | |
| Debt Service | | | |
| Principal | | | |
| Interest and Other Charges | | | |
| Bond Issuance Cost | | | |
| Land Improvement | | | 747,121 |
| Facilities Acquisition and Construction | | | 2,084,966 |
| Total Expenditures | <u>12,819,043</u> | <u>2,745,851</u> | <u>2,832,087</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>265,283</u> | <u>(47,446)</u> | <u>(1,542,985)</u> |
| Other Financing Sources (Uses) | | | |
| Proceeds from Issuance of Bonds | | | |
| Discount on Bonds | | | |
| Transfers From Other Funds | 2,879 | 47,446 | 21,032,919 |
| Transfers To Other Funds | (947,446) | | (5,463,796) |
| Total Other Financing Sources (Uses) | <u>(944,567)</u> | <u>47,446</u> | <u>15,569,123</u> |
| Net Change in Fund Balances | (679,284) | (0) | 14,026,138 |
| Fund Balances - Beginning (Restated) | 3,534,069 | | 4,867,828 |
| Fund Balances - Ending | <u>\$ 2,854,785</u> | <u>\$ (0)</u> | <u>\$ 18,893,966</u> |

WASHINGTON COUNTY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS

For The Year Ended June 30, 2012

(Continued)

| Non- Major Governmental Funds | Total Governmental Funds |
|--|--------------------------------|
| \$ | \$ 2,666,882 |
| | 369,222 |
| | 681,098 |
| | 119,070 |
| | 51,974 |
| | 18,875 |
| 49,399 | 251,049 |
| | 219,084 |
| 116,736 | 11,022,363 |
| | 1,838,352 |
| <u>166,135</u> | <u>17,237,968</u> |
| | 9,403,753 |
| | 709,643 |
| | 596,388 |
| | 724,766 |
| | 934,687 |
| | 732,292 |
| | 1,235,362 |
| | 918,800 |
| | 309,202 |
| 380,000 | 380,000 |
| 192,077 | 192,077 |
| 86,240 | 86,240 |
| | 747,121 |
| | 2,084,966 |
| <u>658,317</u> | <u>19,055,298</u> |
| <u>(492,182)</u> | <u>(1,817,330)</u> |
| 15,185,000 | 15,185,000 |
| (263,338) | (263,338) |
| 163,420 | 21,246,664 |
| <u>(14,835,422)</u> | <u>(21,246,664)</u> |
| <u>249,660</u> | <u>14,921,662</u> |
| (242,522) | 13,104,332 |
| 291,928 | 8,693,825 |
| <u>\$ 49,406</u> | <u>\$ 21,798,157</u> |

**WASHINGTON 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 in Fund Balances - Total Governmental Funds | \$ 13,104,332 |
| <p>Amounts Reported for Governmental Activities In The Statement of Activities Are Different Because:</p> | |
| <p>Governmental Funds Report Capital Outlays as Expenditures. However, In The Statement of Activities the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p> | |
| Capital Outlay | 2,852,479 |
| Depreciation Expense | (732,135) |
| Book Value - Disposed Capital Assets | (26,210) |
| <p>The Issuance of Long-term Liabilities (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal On Long-term Liabilities Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.</p> | |
| Bond Proceeds | (15,185,000) |
| Less Bond Discount | 263,338 |
| Bond Payments | 380,000 |
| Bond Issuance Cost | 75,419 |
| Accrued Interest Payable | (46,148) |
| Compensated Absences | (34,501) |
| | (15,185,000) |
| Change in Net Assets of Governmental Activities | \$ 651,574 |

**WASHINGTON COUNTY SCHOOL DISTRICT
PROPRIETARY FUNDS FINANCIAL STATEMENTS**

**WASHINGTON COUNTY SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
June 30, 2012**

| | Enterprise Fund | | |
|-------------------------------|------------------|-----------|------------|
| | Food Services | Day Care | Totals |
| Assets | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 168,192 | \$ 31,214 | \$ 199,406 |
| Accounts Receivable, net | 38 | \$ 5,967 | 6,005 |
| Inventories for Consumption | 26,170 | | 26,170 |
| Total Current Assets | 194,400 | 37,181 | 231,581 |
| Noncurrent Assets: | | | |
| Capital Assets: | | | |
| Technology Equipment | 5,390 | | 5,390 |
| Other Machinery & Equipment | 335,559 | | 335,559 |
| Less Accumulated Depreciation | (280,377) | | (280,377) |
| Total Noncurrent Assets | 60,572 | | 60,572 |
| Total Assets | 254,972 | 37,181 | 292,153 |
| Fund Net Assets | | | |
| Invested in Capital Assets | 60,572 | | 60,572 |
| Unrestricted | 194,400 | 37,181 | 231,581 |
| Total Fund Net Assets | \$ 254,972 | \$ 37,181 | \$ 292,153 |

WASHINGTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
For The Year Ended June 30, 2012

| | <u>Enterprise Fund</u> | | |
|---|-------------------------|------------------|-------------------|
| | <u>Food Service</u> | <u>Day Care</u> | <u>Totals</u> |
| Operating Revenues | | | |
| Lunchroom Sales | \$ 302,276 | \$ | \$ 302,276 |
| Tuition and Fees | | 75,122 | 75,122 |
| Total Operating Revenues | <u>302,276</u> | <u>75,122</u> | <u>377,398</u> |
| Operating Expenses | | | |
| Salaries and Wages | 499,438 | 121,857 | 621,295 |
| Contract Services | 4,689 | 1,615 | 6,304 |
| Materials and Supplies | 435,897 | 5,247 | 441,144 |
| Other Operating Expenses | 2,787 | 748 | 3,535 |
| Depreciation | 9,999 | | 9,999 |
| Total Operating Expenses | <u>952,810</u> | <u>129,467</u> | <u>1,082,277</u> |
| Operating Income | <u>(650,534)</u> | <u>(54,345)</u> | <u>(704,879)</u> |
| Nonoperating Revenues (Expenses) | | | |
| State Grants | 72,607 | 48,479 | 121,086 |
| Federal Grants | 585,140 | | 585,140 |
| Donated Commodities | 60,159 | | 60,159 |
| Interest Revenue | 6,106 | 1,346 | 7,452 |
| Total Nonoperating Revenues (Expenses) | <u>724,012</u> | <u>49,825</u> | <u>773,837</u> |
| Change In Fund Net Assets | 73,478 | (4,520) | 68,958 |
| Total Net Assets - Beginning | 181,494 | 41,702 | 223,196 |
| Total Net Assets - Ending | <u>\$ 254,972</u> | <u>\$ 37,182</u> | <u>\$ 292,154</u> |

**WASHINGTON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For The Year Ended June 30, 2012**

| | <u>Enterprise Funds</u> | | |
|--|-------------------------|--------------------|---------------------|
| | <u>Food Service</u> | <u>Day Care</u> | <u>Totals</u> |
| Cash Flows From Operating Activities | | | |
| Receipts From User Charges | \$ 315,012 | \$ 69,155 | \$ 384,167 |
| Payments to Employees for Services | (436,367) | (121,857) | (558,224) |
| Payments for Contract Services | (4,689) | (1,615) | (6,304) |
| Payments to Suppliers for Goods and Services | (375,738) | (5,247) | (380,985) |
| Payments for Other Operating Expenses | (2,787) | (748) | (3,535) |
| Net Cash Used By Operating Activities | <u>(504,569)</u> | <u>(60,312)</u> | <u>(564,881)</u> |
| Cash Flows From Noncapital Financing Activities | | | |
| Grants Received | <u>594,676</u> | <u>48,479</u> | <u>643,155</u> |
| Cash Flows From Capital and Related Financing Activities | | | |
| Capital Assets Purchased | <u>(24,192)</u> | | <u>(24,192)</u> |
| Cash Flows From Investing Activities | | | |
| Interest Earned | <u>6,106</u> | <u>1,346</u> | <u>7,452</u> |
| Net Decrease in Cash and Cash Equivalents | 72,021 | (10,487) | 61,534 |
| Cash and Cash Equivalents - July 1, 2011 | <u>96,171</u> | <u>41,702</u> | <u>137,873</u> |
| Cash and Cash Equivalents - June 30, 2012 | <u>\$ 168,192</u> | <u>\$ 31,215</u> | <u>\$ 199,407</u> |
| Reconciliation of Operating Income to Net Cash | | | |
| Net Cash Provided by Operating Activities | | | |
| Operating Income | \$ (650,534) | \$ (54,345) | \$ (704,879) |
| Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities: | | | |
| Depreciation Expense | 9,999 | | 9,999 |
| Commodities Used | 60,159 | | 60,159 |
| On-Behalf Payments Received | 63,071 | | 63,071 |
| Changes in Assets and Liabilities: | | | |
| Receivables | <u>12,736</u> | <u>(5,967)</u> | <u>6,769</u> |
| Total Cash Provided By Operating Activities | <u>\$ (504,569)</u> | <u>\$ (60,312)</u> | <u>\$ (564,881)</u> |
| Noncash Activities: | | | |
| Commodities Used | 60,159 | | |
| On-Behalf Payments Received | 63,071 | | |

**WASHINGTON COUNTY SCHOOL DISTRICT
FIDUCIARY FUNDS FINANCIAL STATEMENTS**

WASHINGTON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
June 30, 2012

| | Private Purpose Trust Fund | Agency Fund |
|---------------------------|---|------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 22,513 | \$ 125,561 |
| Investments | 6,683 | |
| Total Assets | 29,196 | 125,561 |
| Liabilities | | |
| Accounts Payable | | 130 |
| Due to Students | | 125,431 |
| Total Liabilities | | 125,561 |
| Net Assets | | |
| Total Net Assets | \$ 29,196 | \$ 0 |

**WASHINGTON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012**

| | Private Purpose Trust Fund |
|----------------------------------|---|
| Additions | |
| Interest on Investments | \$ 1,120 |
| Miscellaneous | 253 |
| Total Assets | 1,373 |
| Deductions | |
| Benefits Paid | 3,000 |
| Change in Net Assets | (1,627) |
| Net Assets, July 1, 2011 | 30,822 |
| Net Assets, June 30, 2012 | \$ 29,195 |

**INDEX FOR
NOTES TO THE FINANCIAL STATEMENTS**

| | |
|---|----|
| NOTE A – REPORTING ENTITY | 29 |
| NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES | 29 |
| NOTE C. – CASH AND INVESTMENTS | 38 |
| NOTE D. – RECEIVABLES..... | 39 |
| NOTE E. – CAPITAL ASSETS | 40 |
| NOTE F. – COMMITMENTS | 41 |
| NOTE G. – SUBSEQUENT EVENTS..... | 41 |
| NOTE H. – GENERAL LONG-TERM OBLIGATIONS | 41 |
| NOTE I. – ACCUMULATED UNPAID SICK LEAVE BENEFITS..... | 43 |
| NOTE J. – RETIREMENT PLANS | 43 |
| NOTE K. – ON-BEHALF PAYMENTS..... | 45 |
| NOTE L. – CONTINGENCIES | 45 |
| NOTE M. – INSURANCE AND RISK MANAGEMENT | 45 |
| NOTE N. – LITIGATION | 46 |
| NOTE O. – TRANSFER OF FUNDS..... | 46 |
| NOTE P. – COBRA..... | 46 |
| NOTE Q. – PRIOR PERIOD ADJUSTMENT..... | 46 |

**WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE A – REPORTING ENTITY

The Washington County Board of Education (the “Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Washington County School District (the “District”). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. 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 operation, and primary accountability for fiscal matters.

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

The financial statements of the District include those of separately administered organizations that are controlled by or dependent upon the District. 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.

Washington County School District Finance Corporation – The Washington County, Kentucky, Board of Education has established the Washington County School District Finance Corporation (the “Corporation”) (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of Washington County Board of Education also comprise the Corporations’ Board of Directors.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

District-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the District as a whole. They include all funds of the District except for the fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The District-Wide Financial Statements are prepared using the economic 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 District-Wide Financial Statements and the statements for governmental funds.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

The District-Wide Financial Statements of Activities presents a comparison between direct expense 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 with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and charges paid by the recipient of the goods or services offered by the program. Revenues 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. The District allocates certain indirect costs to be included in the program expenses reported for individual functions and activities in the District-Wide Statement of Activities.

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

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b) Total assets, liabilities, revenues, or expenditures/expense of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined
- c) Funds may be reported as a major fund if the District considers them significant to the users of the financial statements.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a 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 sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on an economic resources measurements focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. The Statement of Changes in Fund Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

The fiduciary funds are reported using the economic resources measurements focus.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

Expenditures (including capital outlay) are recorded when the related fund liability is incurred, excepted for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used.

The funds of the financial reporting entity are described below:

I. Governmental Funds

Major funds

- A. The General fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. This is a budgeted fund and any unrestricted fund balances are considered to be resources available for use. Reservations have been placed on the fund balance for outstanding encumbrances, allocation to the schools' site based decision making councils, and accrued sick leave.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. It includes federal financial assistance programs where unused balances are returned to the grantor at the closes of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. The Kentucky Department of Education has deemed this fund to always be classified as a major fund.
- C. Capital Project Fund is classified as a major fund and is used account for financial resources restricted for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The District's Capital Project Fund includes:
 1. The Support Education Excellence in Kentucky ("SEEK") Capital Outlay Fund – This 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.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

2. The Facility Support Program of Kentucky ("FSPK") Fund – This fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund – This fund accounts for proceeds from sales of bonds and other revenues to be used authorized construction.

Nonmajor Funds

- A. The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal, interest, and related costs on the general long-term debt of the District, including the payment of interest on general obligation notes payable, as required by Kentucky law.
- B. The Permanent Fund accounts for assets held by the District pursuant to a trust agreement. The principal portion of this fund must remain intact, but the earning may be used to achieve the objectives of the fund.

II. Proprietary Funds

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The District's enterprise funds are the School Food Service Fund and the Day Care operated out of Washington County High School. The School Food Service fund is used to account for the financial transactions related to the food service operations of the District.

The District applies all Governmental Accounting Standards Board ("GASB") pronouncements to proprietary funds as well as the Accounting Principles Board and the Financial Accounting Standards Board Accounting Standards Codifications ("ASC") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Funds

Agency Funds

Agency funds account for assets held by the District in a purely custodial capacity. Since agency funds are custodial in nature (i.e. assets equal liabilities), and they do not involve the measurement of results of operations.

- A. The School Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education Publication Uniform Program of Accounting for School Activity Funds.

Private-Purpose Trust Funds

The Private-Purpose Trust funds can only be used to purchase textbooks for needy students and for the award of scholarships.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

▪ **BASIS OF ACCOUNTING**

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

▪ **CASH AND CASH EQUIVALENTS**

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

▪ **ACCOUNTS RECEIVABLE**

Receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include federal and state funding and taxes. Amounts on the District-Wide Statement of Net Assets and the Governmental Funds Balance Sheet are net of allowance for doubtful accounts.

▪ **INVESTMENTS**

Investments consist of a money market account recorded at fair value and are restricted at June 30, 2012

▪ **INVENTORIES**

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the Proprietary Fund. Inventory consists of donated and purchased foods held for resale and are expensed when used. Purchased food is valued at cost (first-in, first-out method) and U.S. government donated commodities value is determined by the U.S. Department of Agriculture.

▪ **CAPITAL ASSETS**

District-Wide Financial Statements

In the District-Wide Financial Statements, capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The District maintains a capitalization threshold of \$1,000 with exception of computers and technology equipment for which there is no threshold. The cost of normal maintenance and repairs that do not add value of materially extend an asset's life are expensed.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the District-Wide Statement of Activities, with accumulated depreciation reflected in the District-Wide Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | Useful Life (Years) |
|-----------------------------|------------------------|
| Land Improvements | 20 |
| Buildings and Improvements | 25-50 |
| Technology Equipment | 5 |
| Vehicles | 5-10 |
| Other Machinery & Equipment | 5-12 |

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operation are accounted for as expenditures of the General Fund. Capital assets used in Proprietary Fund operations are accounted for the same as in the District-Wide Financial Statements.

▪ **LONG-TERM DEBT**

District-Wide Financial Statements

All long-term debt to be repaid from governmental resources is reported as liabilities in the District-Wide Statement of Net Assets. The long-term debt consists primarily of bond obligations and compensated absences.

Fund Financial Statements

Long-term debt is not reported as liabilities in the Governmental Funds Balance Sheet. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. There are no long-term debt obligations recorded in the Proprietary Funds as these funds are not responsible for paying the debt.

▪ **ACCRUED SICK LEAVE**

The District's policies regarding sick leave permit employees to accumulate earned but unused sick leave.

The entire compensated absence liability is reported on the District-Wide Statement of Net Assets. The Current portion of this debt is estimated based on employees who have twenty-seven years of services as of June 30, 2012 and is calculated at thirty percent of their total accumulated sick leave.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

In the Governmental Funds Balance Sheets, The current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. The noncurrent portion of the liability is not reported. No liability is accrued in the Proprietary Fund.

▪ **EQUITY CLASSIFICATIONS**

District-Wide Financial Statements

Equity is classified as net assets and displayed in three components:

- Invested in Capital Assets, Net of Related Debt – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors or laws or regulations, or 2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements

In accordance with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, fund balance is separated into five categories, as follows:

- Nonspendable – Permanently nonspendable by decree of the donor, such as an endowment, or items which may not be used for another purpose, such as amounts used to prepay future expenses or already purchased inventory on hand
- Restricted – Legally restricted under federal or state law, bond authority, or grantor contract
- Committed – Commitments passed by the Board
- Assigned – Funds assigned to management priority including issued encumbrances
- Unassigned – Funds available for future operations

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

▪ **ENCUMBRANCE ACCOUNTING**

Encumbrances are not liabilities and, therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are appropriated in the next year. Accordingly, no difference exist between accrual results and the applicable budgetary data presented in the accompany Required Supplementary Information. Encumbrances are considered a managerial assignment of fund balance at June 30, 2012 in the Governmental Funds Balance Sheet.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

▪ **REVENUES-EXCHANGE AND NON-EXCHANGE TRANSACTIONS**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, utility taxes, grants, entitlements and donations.

In addition, the District levies a utility tax to residents of Washington County for services provided within Washington County School District boundaries. Utility tax revenues are not susceptible to accrual because generally they are not measurable until received in cash.

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

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

▪ **DEFERRED REVENUE**

Deferred revenue arises when assets are recognized before a revenue recognition criterion has been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

In order to present the Special Revenue Fund on the accrual basis of accounting, and because the awards are not yet available as assets, cash awards received in advance for the 2012-2013 school year have been classified as deferred revenues. Likewise, all awards requested as a result of 2011-2012 expenditures have been classified as receivables. Revenues of the Special Revenue Fund are considered earned when reimbursable expenditures are made or obligations are incurred, and of an equal amount.

▪ **OPERATING AND NONOPERATING REVENUES**

Operating revenues are those revenues that are generated directly from the primary activity of the Proprietary Funds. Those revenues are primarily charges for meals provided by the various schools and for childcare services provided. Nonoperating revenues of the Proprietary Funds included grants, donations and interest income.

▪ **DONATED COMMODITIES**

The fair value of donated commodities received during the year is reported in the Proprietary Fund Statement of Revenues, Expenses and Changes in the Net Assets as an expense and as donated commodities revenue (nonoperating revenue).

**WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

▪ **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 within the Washington County School District boundaries. The tax rate is generally agreed to by the Board in the following September and contingent upon state approval. The billings are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending 30 days after the tax bill mailing. Property taxes are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2012 were \$0.549 per \$100 valuation for Real property and for business personal property. Motor vehicle tax was \$0.55 for \$100 valuation of motor vehicles.

The following is the District's Property tax calendar:

| <u>Date Event</u> | |
|----------------------------|-----------------------------------|
| January 1, year of levy | Assessment date |
| October 1, year of levy | Taxes levied |
| October 31, year of levy | 2% discount allowed |
| December 31, year of levy | Gross amount due |
| January 1, following year | Delinquent date, 5% penalty added |
| February 1, following year | 21% penalty added |

The District levies a 3.0% utility tax on all businesses and households within Washington County School District boundaries.

▪ **ESTIMATES**

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

▪ **BUDGETARY PRINCIPLES**

The District's budgetary process accounts for certain transactions on the modified accrual basis of accounting which differs from GAAP. The major difference 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 (budgetary) as opposed to when the obligation is incurred (GAAP).

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

▪ **INTERFUND RECEIVABLES AND PAYABLES**

Each fund is a separate fiscal and accounting entity, and thus interfund transactions are recorded in each fund affected by a transaction. Interfund receivables and payables for the Board arise generally from two types of transactions: 1) all funds are initially received into the General Fund, thus a payable and receivable are established in the appropriate funds; and 2) payments are from the General Fund checking account, which may not have the legal liability for the expenditure, thus a payable from the fund having the legal liability is established at such time. Typically, interfund receivables and liabilities are resolved monthly, and all of these balances should be resolved within a year. All interfund receivables and payables have been eliminated on the District-Wide Statement of Net Assets.

▪ **ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

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

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, capital leases, compensated absences 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 financial resources. School building revenue 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.

NOTE C. – CASH AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2012, the carry amount of the District's total cash and cash equivalents was \$9,887,656. Of the total cash balance, \$250,000 was covered by Federal Depository insurance with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name. (Governmental Funds \$9,540,176, Proprietary Funds \$199,406, Private-Purpose Trust \$22,513, and Agency Funds \$125,561)

Cash accounts of the School Construction Fund and the Debt Service fund are held in trust by local financial institutions with normally insignificant amounts in non-trust accounts.

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government; obligations backed by the full faith and credit of the United States government; certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investments is insured by the FDIC or guaranteed by the pledge of direct United States government obligations; bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities; securities issued by any state or local government of the United States rated in one of the three highest category by a nationally recognized rating agency; certain mutual funds; commercial paper rated in the highest category by a nationally recognized rating agency; or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

GASB No. 40, Deposits and Investment Risk Disclosures, require the District to address the following risks related to its investments:

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk. All investments held by the District are insured or collateralized with securities held by the District or by the financial institution in the District's name.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Concentration of Credit Risk – The District's Investment Policy places no limit on the amount the District may invest in any one issuer.

NOTE D. – RECEIVABLES

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

| | Governmental Funds | Proprietary Funds | Total |
|---|-----------------------|----------------------|------------|
| Accounts and Grants Receivable From Outside Sources: | | | |
| Accounts Receivable | \$ 103,167 | \$ 6,005 | \$ 109,172 |
| Grants Receivable | 307,004 | | 307,004 |
| Total Receivables | \$ 410,171 | \$ 6,005 | \$ 416,176 |

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

Financial instruments which potentially subject the District to concentrations of credit risk consist principally of taxes receivable and receivables from federal and state governments.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE E. – CAPITAL ASSETS

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

| | Reporting Entity | | | |
|---|------------------------------------|---------------------|---------------------|----------------------|
| | (Restated) Beginning Balance | Increases | Decreases | Ending Balance |
| Primary Government: | | | | |
| <u>Governmental Activities:</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 579,102 | \$ 701,600 | \$ | \$ 1,280,702 |
| Construction In Progress | 386,088 | 1,873,248 | (386,088) | 1,873,248 |
| Total Capital Assets Not Being Depreciated | <u>965,190</u> | <u>2,574,848</u> | <u>(386,088)</u> | <u>3,153,950</u> |
| Capital Assets, Being Depreciated: | | | | |
| Land Improvements | 481,972 | | | 481,972 |
| Buildings and Improvements | 15,824,859 | 366,800 | | 16,191,659 |
| Technology Equipment | 1,917,908 | 148,483 | (602,943) | 1,463,448 |
| Vehicles | 1,837,581 | 86,679 | (9,925) | 1,914,335 |
| Other Machinery & Equipment | 1,013,573 | 61,757 | (246,320) | 829,010 |
| Total Capital Assets Being Depreciated | <u>21,075,893</u> | <u>663,719</u> | <u>(859,188)</u> | <u>20,880,424</u> |
| Less Accumulated Depreciation For: | | | | |
| Land Improvements | \$ (383,664) | \$ (14,226) | | \$ (397,890) |
| Buildings and Improvements | (4,687,683) | (366,130) | | (5,053,813) |
| Technology Equipment | (1,427,016) | (188,290) | 592,362 | (1,022,944) |
| Vehicles | (1,117,299) | (117,894) | 9,925 | (1,225,268) |
| Other Machinery & Equipment | (653,180) | (45,595) | 230,691 | (468,084) |
| Total Accumulated Depreciation | <u>(8,268,842)</u> | <u>(732,135)</u> | <u>832,978</u> | <u>(8,167,999)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>12,807,051</u> | <u>(68,416)</u> | <u>(26,210)</u> | <u>12,712,425</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 13,772,241</u> | <u>\$ 2,506,432</u> | <u>\$ (412,298)</u> | <u>\$ 15,866,375</u> |
| <u>Business-Type Activities:</u> | | | | |
| Capital Assets, Being Depreciated: | | | | |
| Technology Equipment | \$ 12,578 | \$ | \$ (7,188) | \$ 5,390 |
| Other Machinery & Equipment | 338,434 | 23,982 | (26,857) | 335,559 |
| Total Capital Assets Being Depreciated | <u>351,012</u> | <u>23,982</u> | <u>(34,045)</u> | <u>340,949</u> |
| Less Accumulated Depreciation For: | | | | |
| Technology Equipment | (12,069) | (359) | 7,188 | (5,240) |
| Other Machinery & Equipment | (292,354) | (9,640) | 26,857 | (275,137) |
| Total Accumulated Depreciation | <u>(304,423)</u> | <u>(9,999)</u> | <u>34,045</u> | <u>(280,377)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>46,589</u> | <u>13,983</u> | | <u>60,572</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 46,589</u> | <u>\$ 13,983</u> | <u>\$ 0</u> | <u>\$ 60,572</u> |

**WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Depreciation expense was charged to functions/programs governmental activities as follows:

Governmental Activities:

| | | |
|--|--------|-------------|
| Instruction | \$ | 517,319 |
| Support Services: | | |
| Student | | 6,364 |
| Instructional Staff | | 19,114 |
| District Administration | | 9,863 |
| School Administration | | 17,234 |
| Business | | 7,217 |
| Plant Operations and Maintenance | | 30,285 |
| Student Transportation | | 121,156 |
| Community Services | | 3,583 |
| Total Depreciation Expense - Governmental Activities | \$ | 732,135 |

NOTE F. – COMMITMENTS

- School Construction and Related Bonds

Washington County High School

In August 2011, the District purchased 69.5 acres of land located on the new highway bypass in the city limits for the site of the new high school. The cost of the land was \$701,500. On June 19, 2012, the Washington County School District Finance Corporation (the "Corporation") issued bonds of \$15,185,000 to finance the construction of the new high school. Projected costs to complete the construction are \$21,000,000. Construction is expected to be completed by January 2014.

NOTE G. – SUBSEQUENT EVENTS

In preparing these financial Statements, the Board has evaluated events and transactions for potential recognition or disclosure through November 15, 2012, the date the financial statements were available to be issued.

NOTE H. – GENERAL LONG-TERM OBLIGATIONS

The amount shown in the accompanying District-wide financial statements as bond obligations represents the District's future obligations to make lease payments relating to school building revenue bonds issued by the Corporation on behalf of the District for purposes of school facility construction. These amounts are not reflected on the governmental fund financial statements.

The General Fund, SEEK Capital Outlay Fund, and the FSPK Building Fund are obligated to make lease payments. The lease agreements provide, among other things, for lease payments sufficient to satisfy debt service requirements on bonds issued by the Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises will become the property of the District. The District is also obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

In connection with the school building revenue bonds issued after May 1, 1996, the District entered into "participating agreements" with the Kentucky School Facilities Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The Commission will remit a stated amount of bond principal and interest payments annually, subject to biennial approval by the Kentucky General Assembly. Approval has been received for the biennial fiscal period ended June 30, 2012. Should approval not be received in future periods, the District remains obligated for the full amount of the bond principal and interest payments. Therefore, the liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the District-wide financial statements.

On June 1, 2012, the District issued \$15,185,000 in School Building Revenue Bonds with an interest rate of 2.0% to 3.5% and combines with the \$1,405,000 outstanding 2003 Series Bonds with rates of 2.0% to 4.3%, the \$3,425,000 outstanding 2008A Series Bonds with rates of 2.5% to 4.0%, and the \$460,000 outstanding 2008B Series Bonds with rates of 2.3% to 3.2%.

Following are aggregate obligations existing at June 30, 2012:

| Year Ending June 30 | School Building Revenue Bonds | | Kentucky School Facility Construction Commission | | Total Debt Service |
|---------------------------|-------------------------------|---------------------|---|-------------------|-----------------------|
| | Principal | Interest | Principal | Interest | |
| 2013 | 310,053 | 357,942 | 89,947 | 77,602 | 835,544 |
| 2014 | 643,045 | 521,980 | 171,955 | 98,310 | 1,435,290 |
| 2015 | 658,460 | 506,307 | 176,540 | 92,378 | 1,433,685 |
| 2016 | 673,654 | 490,151 | 181,346 | 86,178 | 1,431,329 |
| 2017 | 697,594 | 473,264 | 182,406 | 79,754 | 1,433,018 |
| 2018 | 711,764 | 455,387 | 143,236 | 73,820 | 1,384,207 |
| 2019 | 733,935 | 436,661 | 141,065 | 68,373 | 1,380,034 |
| 2020 | 754,696 | 415,386 | 130,304 | 62,685 | 1,363,071 |
| 2021 | 780,304 | 391,376 | 134,696 | 56,705 | 1,363,081 |
| 2022 | 810,767 | 366,226 | 139,233 | 50,510 | 1,366,736 |
| 2023 | 836,012 | 339,992 | 143,988 | 43,988 | 1,363,980 |
| 2024 | 865,869 | 312,839 | 139,131 | 37,120 | 1,354,959 |
| 2025 | 895,695 | 285,632 | 104,305 | 32,057 | 1,317,689 |
| 2026 | 922,520 | 258,358 | 107,480 | 28,881 | 1,317,239 |
| 2027 | 949,189 | 229,808 | 110,811 | 25,551 | 1,315,359 |
| 2028 | 980,684 | 199,772 | 114,316 | 22,047 | 1,316,819 |
| 2029 | 1,016,982 | 167,923 | 118,018 | 18,343 | 1,321,266 |
| 2030 | 1,048,051 | 134,104 | 121,949 | 14,414 | 1,318,517 |
| 2031 | 1,083,911 | 98,521 | 126,089 | 10,273 | 1,318,794 |
| 2032 | 1,119,501 | 60,638 | 130,499 | 5,862 | 1,316,500 |
| 2033 | 1,172,774 | 20,524 | 102,226 | 1,789 | 1,297,313 |
| Totals | <u>\$ 17,665,460</u> | <u>\$ 6,522,791</u> | <u>\$ 2,809,540</u> | <u>\$ 986,639</u> | <u>\$ 27,984,430</u> |

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---------------------------------|----------------------|----------------------|-------------------|----------------------|------------------------|
| Governmental Activities: | | | | | |
| <u>Bonds Payable</u> | | | | | |
| School Building Revenue Bonds | \$ 5,670,000 | \$ 15,185,000 | \$ 380,000 | \$ 20,475,000 | \$ 400,000 |
| Less Deferred Discounts | | 263,338 | | 263,338 | |
| Total Bonds Payable | <u>5,670,000</u> | <u>14,921,662</u> | <u>380,000</u> | <u>20,211,662</u> | <u>400,000</u> |
| <u>Other Liabilities:</u> | | | | | |
| Accrued Sick Leave | 162,742 | 66,918 | 51,934 | 177,726 | 28,029 |
| Total Long-Term Obligations | <u>\$ 5,832,742</u> | <u>\$ 14,988,580</u> | <u>\$ 431,934</u> | <u>\$ 20,389,388</u> | <u>\$ 428,029</u> |

NOTE I. – ACCUMULATED UNPAID SICK LEAVE BENEFITS

Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 30% of the value of accumulated sick leave. In accordance with GAAP, the District has recorded approximately 592,419 in accrued sick leave as a liability in the District-Wide Statement of Net Assets since the majority of these liabilities are not expected to be liquidated with expendable available financial resources. Of the \$592,419, \$177,726 is reflected as a liability on the District-Wide Statement of Net Assets, as the amount is for those certified employees with twenty-seven or more years of experience. Additionally, the Governmental Fund Balance Sheet reflects the current portion of accrued sick leave of \$28,029. This is the amount anticipated to be funded with current year's economic financial resources.

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 District's past experience of making termination payments.

NOTE J. – RETIREMENT PLANS

▪ **KENTUCKY TEACHERS' RETIREMENT**

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

KTRS was created by Kentucky General Assembly and is governed by Chapter 161 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.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Funding Policy – Contribution rates are established by KRS. Members before July 1, 2008 are required to contribute 10.355% (10.855% for new hires effective July 1, 2008) of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% for members before July 1, 2008 (14.105% for new hires effective July 1, 2008) of salaries. The federal program of any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

Funding Policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, 1.5% of the gross annual payroll of all members before July 1, 2008 is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from State appropriation. Members joining the Plan after July 1, 2008 contribute an additional 1% to the medical insurance fund. Also, the premiums collected from retirees as described in the Plan description and investment interest help meet the medical expenses of the Plan.

The District's total payroll for the year was \$10,187,196. The payroll for employees covered under KTRS was \$7,599,984. For the year ended June 30, 2012, the Commonwealth contributed \$ to KTRS for the benefit of participating employees, which is recorded in the accompanying financial statements as both revenues and expenses/expenditures. The District's contributions to KTRS for the year ended June 30, 2012 were \$155,959, which represents those employees covered by federal programs. The District's contributions were \$81,801 and \$62,436 for the years ended June 30, 2011 and June 30, 2010, respectively.

▪ **COUNTY EMPLOYEES' RETIREMENT SYSTEM:**

Classified employees (substantially all full-time District employees other than certified employees) are covered by the County Employees' Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death benefits to Plan members and beneficiaries. CER provides for retirement, disability, and death benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature. Under the provisions of the KRS Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5% of their annual salary through payroll deductions and the District is required to contribute at an actuarially determined rate. All new members hired after August 31, 2008 are required to contribute 6% at an actuarially determined rate. The current rate is 18.96% of the employee total covered compensation. The District's contributions to CERS for the year ended June 30, 2012 were \$454,384 equal to the required contribution for that year. The District's contributions were \$533,544 and \$405,183 for the years ended June 30, 2011 and June 30, 2010 respectively.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE K. – ON-BEHALF PAYMENTS

For the year ended June 30, 2012, the Commonwealth of Kentucky contributed estimated payments on-behalf of the District's employees of \$2,450,674 of KTRS, the health insurance carriers and the flexible spending account vendors. GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, establishes accounting and reporting standards for on-behalf payments. In accordance with the standard, the District recognized an expense/expenditure and revenue for these on-behalf payments on the District's financial statements. These revenues and expenses/expenditures are not budgeted by the District.

NOTE L. – CONTINGENCIES

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

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress of the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional burden to comply with a change.

NOTE M. – INSURANCE AND RISK MANAGEMENT

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

The District is also exposed to various risks of loss related to torts, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts 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.

**WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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

NOTE N. – LITIGATION

The District is subject to various 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 of the financial statements as a result of the cases presently in progress.

NOTE O. – TRANSFER OF FUNDS

Although each fund is its own distinct reporting entity, periodically, funds have cause to transfer their revenues to other funds. The most common reasons necessitating interfund transfers are for debt service payments and grant matching funds. Debt service payments may be paid from revenues in the Capital Outlay Fund, Building Fund, or Construction Fund, but the expenditures are recorded in the Debt Service Fund with transfers recorded to keep the funds in balance. At times, the Board receives grants which require an amount of matching funds. Usually, General Fund supplies this match offset by operating transfers to the Special Revenue Fund.

Interfund transfers are eliminated in the government and business-type activities columns of the District-Wide Statements of Not Assets. As reflected on the governmental fund financial statements, the following transfers were made during the year:

| From Fund | To Fund | Purpose | Amount |
|-------------------|----------------------|----------------------|------------|
| General Fund | Special Revenue Fund | Technology Match | \$ 47,446 |
| General Fund | Debt Service | Debt Service | 163,420 |
| General Fund | Construction Fund | Construction Project | 733,701 |
| FSPK Fund | Construction Fund | Construction Project | 4,166,968 |
| SEEK Fund | Construction Fund | Construction Project | 1,296,828 |
| Debt Service Fund | Construction Fund | Construction Project | 14,835,422 |

NOTE P. – COBRA

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

NOTE Q. – PRIOR PERIOD ADJUSTMENT

District Wide Statements:

During the year ended June 30, 2012, the District determined that certain construction cost totally \$9,485 incurred prior to June 30, 2011 were not properly depreciated on the District Wide Statement of Net Assets. The District identified these costs and restated the beginning accumulated depreciation account balance and the beginning net asset balance on the District Wide Statement of Net Assets and the District Wide Statement of Revenues, Expenditures and Changes in Fund Balance.

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Governmental Statements:

During the year ended June 30, 2012, the District determined the Debt Service Fund had a small cash account of \$8 prior to June 30, 2011. The Debt Service beginning fund balance has been restated for this amount.

**WASHINGTON COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

**WASHINGTON COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULES – GENERAL FUND
Required Supplementary Information
For The Year Ended June 30, 2012**

| | GENERAL FUND | | | |
|---|---------------------|--------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Local and Intermediate Sources | \$ 3,368,000 | \$ 3,371,985 | \$ 3,559,969 | \$ 187,984 |
| State Programs | 6,672,279 | 6,990,504 | 7,072,446 | 81,942 |
| Federal Programs | | | 1,237 | 1,237 |
| Total Revenues | <u>10,040,279</u> | <u>10,362,489</u> | <u>10,633,652</u> | <u>271,163</u> |
| EXPENDITURES | | | | |
| Instruction | 6,250,616 | 6,076,764 | 5,640,530 | 436,234 |
| Support services | | | | |
| Student | 584,600 | 622,518 | 561,340 | 61,178 |
| Instructional Staff | 326,547 | 308,867 | 285,938 | 22,929 |
| District Administration | 758,398 | 787,447 | 531,508 | 255,939 |
| School Administration | 783,065 | 766,389 | 757,455 | 8,934 |
| Business | 584,805 | 589,261 | 581,570 | 7,691 |
| Plant Operations and Maintenance | 1,535,232 | 1,493,240 | 1,174,440 | 318,800 |
| Student Transportation | 837,211 | 887,700 | 833,843 | 53,857 |
| Community Services | 4,960 | 4,960 | 1,745 | 3,215 |
| Contingency | 780,930 | 1,257,148 | | 1,257,148 |
| Total Expenditures | <u>12,446,364</u> | <u>12,794,294</u> | <u>10,368,369</u> | <u>2,425,925</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(2,406,085)</u> | <u>(2,431,805)</u> | <u>265,283</u> | <u>2,697,088</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers From Other Funds | | | 2,879 | 2,879 |
| Transfers To Other Funds | (789,550) | (939,550) | (947,446) | (7,896) |
| Total Other Financing Sources (Uses) | <u>(789,550)</u> | <u>(939,550)</u> | <u>(944,567)</u> | <u>(5,017)</u> |
| Net Changes in Fund Balance | (3,195,635) | (3,371,355) | (679,284) | 2,692,071 |
| Fund Balance - Beginning | 3,195,635 | 3,371,355 | 3,534,069 | 162,714 |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 2,854,785</u> | <u>\$ 2,854,785</u> |

WASHINGTON COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULES – SPECIAL REVENUE FUNDS
Required Supplementary Information
For The Year Ended June 30, 2012

| | SPECIAL REVENUE FUND | | | |
|---|-----------------------------|-------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Local and Intermediate Sources | \$ 13,497 | \$ 215,700 | \$ 135,588 | \$ (80,112) |
| State Programs | 520,599 | 612,283 | 725,702 | 113,419 |
| Federal Programs | 1,200,698 | 1,273,781 | 1,837,115 | 563,334 |
| Total Revenues | <u>1,734,794</u> | <u>2,101,764</u> | <u>2,698,405</u> | <u>596,641</u> |
| EXPENDITURES | | | | |
| Instruction | 1,248,621 | 1,588,405 | 2,048,909 | (460,504) |
| Support services | | | | |
| Student | 9,997 | | 5,078 | (5,078) |
| Instructional Staff | 80,467 | 180,466 | 226,675 | (46,209) |
| District Administration | 75,000 | 12,388 | 148,921 | (136,533) |
| Business | 80,100 | 59,879 | 8,957 | 50,922 |
| Community Services | 280,159 | 301,900 | 307,311 | (5,411) |
| Total Expenditures | <u>1,774,344</u> | <u>2,143,038</u> | <u>2,745,851</u> | <u>(602,813)</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(39,550)</u> | <u>(41,274)</u> | <u>(47,446)</u> | <u>(6,172)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Financing Proceeds | | | | |
| Transfers From Other Funds | 39,550 | 34,672 | 47,446 | 12,774 |
| Total Other Financing Sources (Uses) | <u>39,550</u> | <u>34,672</u> | <u>47,446</u> | <u>12,774</u> |
| Net Changes in Fund Balance | | (6,602) | 0 | 6,602 |
| Fund Balance - Beginning | | | | |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ (6,602)</u> | <u>\$ 0</u> | <u>\$ 6,602</u> |

**WASHINGTON COUNTY SCHOOL DISTRICT
 RECONCILIATION OF BUDGETARY SCHEDULE TO STATEMENT OF REVENUES,
 EXPENDITURE, AND CHANGES IN FUND BALANCE – GENERAL FUND
 June 30, 2012**

**Reconciliation of Budgetary Schedule to Statement of Revenues, Expenditures, and
 Changes In Fund Balances - Governmental Funds - General Fund:**

| | | |
|--|--------------------|---------------------|
| Revenues per Budgetary Schedule | \$ 10,633,652 | |
| On-behalf payments recorded under GAAP basis not included in budget | <u>2,450,674</u> | |
| Ending Fund Balance per Statement of Revenues, Expenditures, and Changes in Fund Balances | | \$ 13,084,326 |
| Expenditures per Budgetary Schedule | (10,368,369) | |
| On-behalf payments recorded under GAAP basis not included in budget | <u>(2,450,674)</u> | |
| | | <u>(12,819,043)</u> |
| Ending Fund Balance per Statement of Revenues, Expenditures, and Changes in Fund Balances | | <u>\$ 265,283</u> |

**WASHINGTON COUNTY SCHOOL DISTRICT
OTHER SUPPLEMENTARY INFORMATION**

**WASHINGTON COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2012**

| | <u>Debt Service Fund</u> | <u>Total Non-Major Governmental Funds</u> |
|---------------------------|----------------------------------|---|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 49,406 | \$ 49,406 |
| Total Assets | <u>\$ 49,406</u> | <u>\$ 49,406</u> |
| FUND BALANCES | | |
| Restricted: | | |
| Debt Service Funds | \$ 49,406 | \$ 49,406 |
| Total Fund Balances | <u>\$ 49,406</u> | <u>\$ 49,406</u> |

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

| | <u>Debt Service Fund</u> | <u>Total Non-Major Governmental Funds</u> |
|---|----------------------------------|---|
| REVENUES | | |
| Intergovernmental - State | \$ 116,736 | \$ 116,736 |
| Interest | 49,399 | 49,399 |
| Total Revenues | <u>166,135</u> | <u>166,135</u> |
| EXPENDITURES | | |
| Debt Service | | |
| Principal | 380,000 | 380,000 |
| Interest | 192,077 | 192,077 |
| Bond Issuance Cost | 86,240 | 86,240 |
| Total Expenditures | <u>658,317</u> | <u>658,317</u> |
| Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(492,182)</u> | <u>(492,182)</u> |
| Other Financing Sources (Uses) | | |
| Proceeds from Issuance of Bonds | 15,185,000 | 15,185,000 |
| Discount on Bonds | (263,338) | (263,338) |
| Transfers From Other Funds | 163,420 | 163,420 |
| Transfers To Other Funds | (14,835,422) | (14,835,422) |
| Total Other Financing Sources (Uses) | <u>249,660</u> | <u>249,660</u> |
| Net Change in Fund Balances | (242,522) | (242,522) |
| Fund Balances - Beginning (Restated) | 291,928 | 291,928 |
| Fund Balances - Ending | <u>\$ 49,406</u> | <u>\$ 49,406</u> |

**WASHINGTON COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET -
 GOVERNMENTAL FUNDS – CAPITAL PROJECT FUNDS
 June 30, 2012**

| | <u>FSPK Fund</u> | <u>SEEK Fund</u> | <u>Construction Fund</u> | <u>Total Capital Project Funds</u> |
|--------------------------------------|----------------------|----------------------|------------------------------|--|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 329,711 | \$ 19,971 | \$ 19,435,482 | \$ 19,785,164 |
| Total Assets | <u>\$ 329,711</u> | <u>\$ 19,971</u> | <u>\$ 19,435,482</u> | <u>\$ 19,785,164</u> |
| LIABILITIES and FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | \$ | \$ | \$ 891,198 | 891,198 |
| Total Liabilities | <u>0</u> | <u>0</u> | <u>891,198</u> | <u>891,198</u> |
| FUND BALANCES | | | | |
| Restricted: | | | | |
| Capital Projects Fund | \$ 329,711 | \$ 19,971 | \$ 18,544,284 | 18,893,966 |
| Total Liabilities and Fund Balances | <u>\$ 329,711</u> | <u>\$ 19,971</u> | <u>\$ 19,435,482</u> | <u>\$ 19,785,164</u> |

WASHINGTON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - CAPITAL PROJECT FUNDS
For The Year Ended June 30, 2012

| | <u>FSPK Fund</u> | <u>SEEK Fund</u> | <u>Construction Fund</u> | <u>Total Capital Project Funds</u> |
|---|----------------------|----------------------|------------------------------|--|
| REVENUES | | | | |
| From Local Sources | | | | |
| Taxes - Property | \$ 589,954 | \$ | \$ | \$ 589,954 |
| Interest on Investments | 42,343 | | | 42,343 |
| Intergovernmental - State | 503,834 | 152,971 | | 656,805 |
| Total Revenues | <u>1,136,131</u> | <u>152,971</u> | | <u>1,289,102</u> |
| EXPENDITURES | | | | |
| Land Improvement | | | 747,121 | 747,121 |
| Building Acquisitions and Construction | | | 1,760,721 | 1,760,721 |
| Building Improvements | | | 324,245 | 324,245 |
| Total Expenditures | | | <u>2,832,087</u> | <u>2,832,087</u> |
| Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>1,136,131</u> | <u>152,971</u> | <u>(2,832,087)</u> | <u>(1,542,985)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers From Other Funds | | | 21,032,919 | 21,032,919 |
| Transfers To Other Funds | (4,166,968) | (1,296,828) | | (5,463,796) |
| Total Other Financing Sources (Uses) | <u>(4,166,968)</u> | <u>(1,296,828)</u> | <u>21,032,919</u> | <u>15,569,123</u> |
| Net Change in Fund Balances | (3,030,837) | (1,143,857) | 18,200,832 | 14,026,138 |
| Fund Balances - Beginning | 3,360,548 | 1,163,828 | 343,452 | 4,867,828 |
| Fund Balances - Ending | <u>\$ 329,711</u> | <u>\$ 19,971</u> | <u>\$ 18,544,284</u> | <u>\$ 18,893,966</u> |

**WASHINGTON COUNTY DISTRICT
 COMBINING STATEMENT OF REVENUES, DISBURSEMENTS, AND DUE TO STUDENTS
 SCHOOL ACTIVITY FUNDS (AGENCY FUNDS)
 For The Year Ended June 30, 2012**

| | Cash | | | Cash | Accounts | Accounts | Due to |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|---------------|------------------|-------------------|
| | Balance | | | Balance | Receivable | Payable | Students |
| | July 1, 2011 | Receipts | Disbursements | June 30, 2012 | June 30, 2012 | June 30, 2012 | June 30, 2012 |
| North Washington Elementary | \$ 21,488 | \$ 109,486 | \$ 115,920 | \$ 15,054 | \$ 0 | \$ 130 | \$ 14,924 |
| Washington County Elementary | 14,325 | 31,337 | 29,634 | 16,028 | | | 16,028 |
| Washington County Middle School | 9,029 | 47,513 | 46,584 | 9,958 | | | 9,958 |
| Washington County High School | 92,973 | 177,517 | 184,099 | 86,391 | | 14,630 | 71,761 |
| Total | \$ 137,815 | \$ 365,853 | \$ 376,237 | \$ 127,431 | \$ 0 | \$ 14,760 | \$ 112,671 |

**WASHINGTON COUNTY SCHOOL DISTRICT
WASHINGTON COUNTY HIGH SCHOOL ACTIVITY FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENTS
For The Year Ended June 30, 2012**

| | Cash | | Disbursements | Transfers | Cash | Accounts | Accounts | Due to |
|---------------------------------|------------------|-------------------|---------------------|-------------|------------------|---------------|------------------|------------------|
| | Balance | Receipts | | | Balance | Receivable | Payable | Students |
| | July 1, 2011 | | | | June 30, 2012 | June 30, 2012 | June 30, 2012 | June 30, 2012 |
| 19th District Baseball/Softball | \$ 350 | \$ | \$ | \$(350) | \$ | \$ | \$ | \$ 865 |
| Academic Team | 1,114 | | (249) | | 865 | | | 27 |
| Afro-American Club | 27 | | | | 27 | | | 1,351 |
| AP Classes | 1,024 | 11,601 | (11,274) | | 1,351 | | | 106 |
| Archery | 300 | 1,750 | (1,944) | | 106 | | | 676 |
| Art | 911 | 4,408 | (4,523) | (120) | 676 | | | 36 |
| Arts and Humanities | 36 | | | | 36 | | | |
| Athletic | 6,246 | 50,107 | (48,311) | 2,175 | 15,216 | | 2,592 | 12,624 |
| Athletic Uniform | 1,219 | | (102) | | 1,117 | | | 1,117 |
| Band | 68 | | (44) | | 24 | | | 24 |
| Band | 68 | | (44) | | 24 | | | 225 |
| Baseball | 353 | | (503) | 375 | 225 | | | |
| BETA Club | 1,302 | 201 | (387) | | 1,116 | | | 1,116 |
| Boys Basketball | 53 | | | | 53 | | | 53 |
| Boys Golf | 139 | | | | 139 | | | 139 |
| C.A.T.S. Assessment | 513 | | | (513) | | | | |
| Castle Club | 8 | | | | 8 | | | 8 |
| Castle Club | 8 | | | | 8 | | | 195 |
| CBWTP | 195 | | | | 195 | | | 457 |
| Cheerleaders | 657 | 280 | (480) | | 457 | | | 249 |
| Choir | 249 | | | | 249 | | | 3,931 |
| Concessions | 8,739 | 11,873 | (9,481) | (7,200) | 3,931 | | | 488 |
| Cytozoology Club | 488 | | | | 488 | | | |
| DECA | 2,532 | 1,670 | (608) | | 3,533 | | 1,099 | 2,434 |
| DECA-Region III | 326 | | (326) | | | | | |
| DECA-Region III | 326 | | (326) | | | | | 1,235 |
| Drama Club | 1,485 | | (500) | 250 | 1,235 | | | 224 |
| English | 224 | | | | 224 | | | 149 |
| English | 224 | | | | 224 | | | 4 |
| Faculty | 333 | | (185) | | 149 | | | 4 |
| FCA | 4 | | | | 4 | | | 59 |
| FCCLA | 1,414 | 23,186 | (24,541) | | 59 | | | 1,667 |
| FFA | 883 | 9,973 | (9,520) | 340 | 1,667 | | | |
| FFA Relay for Life | 40 | | | (40) | | | | |
| Football | 24 | | (275) | | 251 | | | |
| Football Benevolent | 49 | | | (49) | | | | |
| Football Coaches FU | 202 | | | (202) | | | | 180 |
| French Club | 180 | | | | 180 | | | 200 |
| French Club | 180 | | | | 180 | | | 6,286 |
| FRYSC | 174 | 200 | (174) | | 200 | | | 518 |
| General Fund | 3,757 | 6,162 | (3,383) | (250) | 6,286 | | 1,275 | 3 |
| Greenhouse | 3,201 | 7,780 | (8,888) | (300) | 1,793 | | | |
| Jason Curtisinger SC | 3 | | | | 3 | | | 568 |
| Journalism | 634 | | (66) | | 568 | | | 5 |
| KUNA | 5 | | | | 5 | | | 4,645 |
| KUNA | 5 | | | | 5 | | | 8,941 |
| Library | 3,419 | 8,382 | (7,155) | | 4,645 | | | 815 |
| Locker Fees | 6,384 | 3,094 | (538) | | 8,941 | | | 1 |
| Magazine Drive | 815 | | | | 815 | | | 116 |
| Maih | 1 | | | | 1 | | | 92 |
| Maih | 1 | | | | 1 | | | 1,197 |
| National Art Honor Society | 138 | 39 | (61) | | 116 | | | 438 |
| National Honor Society | 195 | 1,271 | (1,374) | | 92 | | | 12 |
| National Honor Society | 195 | 1,271 | (1,374) | | 92 | | | 1,329 |
| Parking Fees | 543 | 1,989 | (1,848) | 513 | 1,197 | | | 3,198 |
| PEP Club | 438 | | | | 438 | | | 1,913 |
| Physical Education | 12 | | | | 12 | | | 159 |
| Physical Education | 12 | | | | 12 | | | 29 |
| Professional Development | 1,770 | | (442) | | 1,329 | | | 98 |
| Professional Development | 1,770 | | (442) | | 1,329 | | | 458 |
| Project Graduation | 554 | 15,057 | (12,414) | | 3,198 | | 169 | 2,314 |
| Project Graduation | 554 | 15,057 | (12,414) | | 3,198 | | 169 | 737 |
| Prom | 5,637 | 5,175 | (8,809) | | 1,913 | | | 49 |
| Resource Room | 159 | | | | 159 | | | 13 |
| Science | 1,484 | | (1,455) | | 29 | | | 527 |
| Senior Kentucky Kingdom | 98 | | | | 98 | | | 101 |
| Soccer | 458 | | | | 458 | | | 777 |
| Soccer | 458 | | | | 458 | | | 45 |
| Softball | 3,695 | 1,273 | (2,485) | | 2,483 | | | 6,366 |
| Spanish/World Language | 737 | | | | 737 | | | 173 |
| Spanish/World Language | 737 | | | | 737 | | | |
| Special Ed | 49 | | | | 49 | | | |
| Special Ed | 49 | | | | 49 | | | |
| Sportsmans Club | 1 | 216 | (204) | | 13 | | | |
| Sportsmans Club | 1 | 216 | (204) | | 13 | | | |
| STLP | 457 | 70 | | | 527 | | | |
| Student Council | 101 | | | | 101 | | | |
| Student Council | 101 | | | | 101 | | | |
| Textbook Fees | 12,266 | 4,609 | (7,181) | | 9,695 | | 8,918 | |
| Textbook Fees | 12,266 | 4,609 | (7,181) | | 9,695 | | 8,918 | |
| Track | 40 | 541 | (581) | | | | | |
| Track | 40 | 541 | (581) | | | | | |
| Volleyball | 3,363 | 3,357 | (6,675) | | 45 | | | |
| Volleyball | 3,363 | 3,357 | (6,675) | | 45 | | | |
| Yearbook | 9,948 | 3,253 | (6,955) | 120 | 6,366 | | | |
| Yearbook | 9,948 | 3,253 | (6,955) | 120 | 6,366 | | | |
| Youth Entrepreneur | 750 | | | | 750 | | 577 | |
| Total | \$ 92,923 | \$ 177,517 | \$ (184,099) | \$ 0 | \$ 86,301 | \$ 0 | \$ 14,630 | \$ 71,761 |

**WASHINGTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**WASHINGTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2012**

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Expenditures |
|--|------------------------|----------------------------------|--------------|
| <u>U.S. Department of Agriculture:</u> | | | |
| Passed-Through KY Dept of Education: | | | |
| Child Nutrition Cluster: | | | 423,188 |
| • National School Lunch Program | 10.555 | | 126,000 |
| • School Breakfast Program | 10.553 | | 12,971 |
| • Summer Food Service Program for Children | 10.559 | | \$ 562,159 |
| Total Child Nutrition Cluster | | | 60,159 |
| Passed-Through KY Dept of Agriculture: | 10.550 | | 622,318 |
| Food Distribution Program | | | |
| Total U.S. Department of Agriculture | | | |
| <u>U.S. Department of Education:</u> | | | |
| Passed-Through KY Dept of Education: | | | |
| Title VI Part B (Subpart 2) Rural and Low-Income Schools | 84.358B | 3502 | 8,890 |
| • Education Jobs Fund | 84.410 | 4411 | 319,129 |
| IDEA B Special Education Cluster: | | | 177,376 |
| Special Education - Grants to States (IDEA, Basic) | 84.027A | 3372 | 53,945 |
| Special Education - Preschool Grants (IDEA, Preschool) | 84.173A | 3432/3432P | (44,228) |
| Special Education - Private School (IDEA, Private) | 84.027A | 3372P | 98,572 |
| Total IDEA B Special Education Cluster | | | 28,143 |
| Special Education - Grants to States (IDEA, Part B), Recovery Act | 84.391A | | 7,225 |
| Special Education - Grants to States (IDEA, Preschool), Recovery Act | 84.392A | | 37,537 |
| Total IDEA B Special Education Recovery Act Cluster | | | 26,871 |
| Title I Part A School Improvement Section 1003(a) | 84.010A | 3202 | 264,996 |
| Title I Grants to Local Educational Agencies, Recovery Act (LEAs) | 84.389A | | 25,000 |
| • Title I Grants to Local Educational Agencies, (LEAs) | 84.010 | | 47,815 |
| • Title I Grants to Local Educational Agencies, (LEAs) | 84.010 | 3102 | 20,333 |
| • Title I Grants to Local Educational Agencies, (LEAs) | 84.010 | | 219,300 |
| Title I Part C Migrant Education | 84.011 | | 6,861 |
| Title I Professional Development Grants | 84.010A | 3102D | 8,934 |
| Title I-C Perkins Vocational & Technical Education Art | 84.084 | 3481A/3482 | 663 |
| Title II Part A - Teacher Quality Enhancement Grants | 84.367A | 4012 | 21,485 |
| Title II Part D - Education Technology | 84.318 | | 6,651 |
| Title III - Limited English Proficiency | 84.365 | | 127,819 |
| Title IV - Safe and Drug Free Schools | 84.186 | | 51,435 |
| Community Based Work Transition | 84.234 | | 9,834 |
| Enhancing Education Through Technology | 84.318 | | 3,778 |
| Justice - Drug Free Community Support | 93.276 | | 51,735 |
| NWES 21st CCLC Best | 84.287 | 5501 | 9,834 |
| NWES 21st CCLC Summer Extra | 84.287 | | 3,778 |
| Service Learning Grant | 84.287 | | 51,735 |
| WCES 21st CCLC Springboard | 84.287 | | 26,808 |
| WCES 21st CCLC Supplemental | 84.287 | | 5,000 |
| WCES 21st CCLC Youth Self Assessment | 84.287 | | 1,837,115 |
| Total U.S. Department of Education | | | \$ 2,459,433 |
| Total Expenditures of Federal Awards | | | |

*** Tested as Major Programs

WASHINGTON COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2012

NOTE A – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Washington 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 financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at fair value of the commodities received and disbursed. During the fiscal year ended June 30, 2012, the District received donated food commodities valued at \$60,159 in inventory.

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



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

Members of the Board
Washington County School District
Springfield, Kentucky

We have audited the financial statements of the Washington County School District (the "District") as of and for the year ended June, 30 2012, and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribe 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 Auditors Contract - Instructions for Submission of the Audit Report.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed test 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 statements 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 test disclosed no material instances of noncompliance with specific state statutes or regulations identified in Appendices I, II, III, and IV of the Independent Auditor's Contract.

We noted certain other matters that we reported to management of the District in a separate letter dated November 15, 2012.

This report is intended solely for the information and use of the members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the District, 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.

Simon CPA & Company PSC

Louisville, Kentucky
November 15, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133,
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



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**Independent Auditors' Report on Compliance
with Requirements That Could Have a Direct and
Material Effect on Each Major
Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133, and on
the Schedule of expenditures of Federal Awards**

Members of the Board
Washington County School Board
Springfield, Kentucky

Compliance

We have audited Washington County School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the Summary of Audit Results Section of the accompanying Schedule of Findings and Questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

A deficiency in internal control over compliance exist when the design or operation of the 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 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 the 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 basic financial statements taken as a whole.

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

Simon CPA & Company PSC

Louisville, Kentucky
November 15, 2012

**WASHINGTON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Washington County School District (the "District").
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for the District expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs of the District that are required to be reported in Part C of this schedule.
7. The program tested as a major programs was:

U.S. Department of Agriculture:

Passed-Through KY Dept of Education:

Child Nutrition Cluster:

| | |
|--|--------|
| * National School Lunch Program | 10.555 |
| * School Breakfast Program | 10.553 |
| * Summer Food Service Program for Children | 10.559 |
| Total Child Nutrition Cluster | |

U.S. Department of Education:

Passed-Through KY Dept of Education:

| | |
|--|--------|
| * Education Jobs Fund | 84.410 |
| * Title I Grants to Local Educational Agencies, (LEAs) | 84.010 |
| * Title I Grants to Local Educational Agencies, (LEAs) | 84.010 |
| * Title I Grants to Local Educational Agencies, (LEAs) | 84.010 |

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The District was determined to be a high-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2011-1: Finding

U.S. Department of Education
84.173 Special Education – Preschool Grants (IDEA Preschool)
Kentucky Department of Education

Criteria:

The use of IDEA funds, including ARRA funds, for the acquisition of equipment or construction or alteration of facilities must be approved by ED based on a determination by ED that the program would be improved by allowing funds to be used for these purposes (20 USC 1404). – OMB A-133 Compliance Supplement: U.S. Department of Education

Condition:

IDEA Special Ed Preschool monies were expended on playground equipment and construction without direct authorization from the U.S. Department of Education.

Questioned Costs:

\$25,599 were spent on playground equipment and construction.

Context:

Auditor selected a sample of disbursements related to the IDEA program cluster for compliance and internal control testing. Prior to the commencement of this test, materiality over compliance for the major program was determined as required by *OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations*. During the testing of the transactions selected, auditor discovered multiple disbursements totaling \$25,599 that were expended on playground equipment and site preparation. Upon further investigation, it was determined that the District failed to obtain specific approval from the U.S. Department of Education as required for this type of expenditure within this program.

Effect:

The use of funds without proper authorization or review of compliance requirements resulted in material noncompliance and questioned costs for the program.

Cause:

Although the purchase requests specifically noting the use of these funds for these expenditures were reviewed and approved by the Program Director and the Director of Finance, there was a failure by both parties to review the specific compliance requirements for these grant funds prior to approving the purchase requests. Due to the fact that the disbursements questioned were initiated with multiple purchase requests, this is viewed to be a systematic problem.

Recommendation:

Auditor recommends that prior to expending federal grant funds that a meeting be held between the finance officer and all grant directors to review program compliance requirements. In addition, the finance officer should provide each director with a copy of Circular A-133 Compliance Supplement for their respective programs to ensure a full understanding of the program compliance requirements.

View of responsible officials and planned corrective action:

Compliance requirements for the funding of the playground project were reviewed by District staff prior to approving the purchase requests. This review resulted in correspondence with the Kentucky Department of Education (KDE) notifying them that the District wanted to purchase playground equipment with costs exceeding \$5,000 in order to allow for greater accessibility for Special Education preschool students. Since the District did not get immediate approval, it was decided in a meeting with the Director of Special Education, Assistant Finance Officer, and the Director of Finance to proceed using state preschool monies. Unfortunately, at that point, the federal grant was coded in error on the purchase order. The District disagrees with this finding because it was not our intent to use federal funding to pay for the playground. Subsequently, we were notified by the KDE through the Division of Learning Services that the department would have approved the use of IDEA Preschool funds (ARRA or traditional) because the playground gives better access to students with disabilities to the equipment.

The District will provide training to review program compliance requirements with District staff overseeing federal programs, and a copy of the Circular A-133 Compliance Supplement has already been provided to the directors over federal programs. In addition, the Director of Finance has implemented new purchasing procedures in which the program directors review all purchase orders will be forwarded to the Assistant Finance Officer who will review for proper coding, compliance, and approval. If there are any concerns related to the purchase, she will notify the program director and the Director of Finance. The program director is encouraged to seek written guidance from the grant oversight agency if the guidance is not clear. Once cleared, the purchase order will be forwarded to the Director of Finance for a final review. Also, each director will be required to complete a monthly monitoring form indicating a review of their programs' finance report for accuracy and compliance. The form will be returned to the Director of Finance to ensure any changes or corrections are made within a timely manner.

Current Year's Auditor's Comments: This finding has been corrected during the fiscal year ended June 30, 2012.

2011-2: Finding

U.S. Department of Education
84.410 Education Jobs Fund – ARRA
Kentucky Department of Education

Criteria:

An LEA must use its funds only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services. An LEA may use the funds to pay the salaries of teachers and other employees who provide school-level educational and related services. In addition to teachers, employees supported with program funds may include, among others, principals, assistant principals, academic coaches, in-service teacher trainers, classroom aides, counselors, librarians, secretaries, social workers, psychologists, interpreters, physical therapists, speech therapists, occupational therapists, information technology personnel, burses, athletic coaches, security officers, custodians, maintenance workers, bus drivers, and cafeteria workers. – OMB A-133 Compliance Supplement: U.S. Department of Education

Condition:

Washington County School District expended Education Jobs Fund funds that did not meet the above criteria. More specifically, funds were improperly used for professional development registration fees, employee travel, supplies, and technology hardware.

Questioned Costs:

\$26,871 were spent on unallowable items as described above.

Context:

Auditor selected a sample of disbursements related to the Education Jobs Fund program for compliance and internal control testing. Prior to the commencement of this test, materiality over compliance for the major program was determined as required by *OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations*. Materiality over compliance for this grant was determined to be \$5,000. During the testing of the transactions selected, auditor discovered multiple disbursements totaling \$26,871 that were expended on unallowable costs.

Effect:

The use of funds without proper review of compliance requirements resulted in material noncompliance and questioned costs for the program.

Cause:

This was a new program with new compliance requirements. The Kentucky Department of Education provided school districts with adequate guidance to allow districts to make a reasonable determination of allowable costs in the fall of 2010. Further, the United States Office of Management and Budget also published guidance for this program. Washington County School District improperly expended federal funds throughout the school year for this program. Only after a federal cash request was denied by KDE did the district take action to adequately review the compliance requirements for this grant.

Recommendation:

Auditor recommends that prior to expending federal grant funds that a meeting be held between the finance officer and the grant director to ensure compliance requirements are understood by all necessary parties. In addition, the finance officer and grant director should review the OMB Circular A-133 Compliance Supplement for the respective program(s) to ensure a full understanding of the program compliance requirements.

View of the responsible officials and planned corrective action:

The Education Jobs Fund was a misunderstanding of allowable costs by the District staff and was a regrettable error. The District will provide training to review program compliance requirements with District staff overseeing federal programs, and a copy of the Circular A-133 Compliance Supplement has already been provided to the directors over federal programs. In addition, the Director of Finance has implemented new purchasing procedures in which the program directors' review all purchase orders for proper coding and all applicable compliance requirements. The approved purchase order will be forwarded to the Assistant Finance Officer who will review for proper coding, compliance, and approval. If there are any concerns related to the purchase, she will notify the program director and the Director of Finance. The program director is encouraged to seek written guidance from the grant oversight agency if the guidance is not clear. Once cleared, the purchase order will be forwarded to the Director of Finance for a final review. Also, each director will be required to complete a monthly monitoring form indicating a review of their programs' finance report for accuracy and compliance. The form will be returned to the Director of Finance to ensure any changes or corrections are made within a timely manner.

Current Year's Auditor's Comments: This finding has been corrected during the fiscal year ended June 30, 2012.

2011-3: Finding

Material weakness in internal controls over compliance

Criteria:

A material weakness in internal control over compliance is a deficiency, or a 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.

Condition:

Purchase requests for playground equipment and construction were approved without adequate review to ensure compliance with IDEA Preschool allowable costs compliance requirements. Further, expenditures were made under the Education Jobs Fund program without adequate review of the allowable costs compliance requirements.

Context:

Auditor selected two samples of disbursements, one related to the IDEA program cluster and one for the Education Jobs Fund, for compliance and internal control testing. Upon testing, it was determined that the purchase requests had been approved by the Program Director and the Director of Finance. However, neither of these individuals reviewed the purchase requests adequately to ensure the purchases were in compliance with the programs' allowable costs compliance requirements.

Effect:

The use of funds without proper review of compliance requirements resulted in material noncompliance and questioned costs for two programs.

Cause:

Although the purchase requests specifically noting the use of these funds for these expenditures were approved by the Program Director and the Director of Finance, there was a failure by both parties to review the specific compliance requirements for these grant funds prior to approving the purchase requests. Due to the fact that the disbursements questioned were initiated with multiple purchase requests for two separate programs, this is viewed to be a systematic problem.

Recommendation:

Auditor recommends that proper review and approval processes be implemented to ensure that the allowable costs and cost principles compliance requirements over federal awards are examined prior to approving purchase requests and expending federal funds.

View of responsible officials and planned corrective action:

Compliance requirements for the funding of the playground project were reviewed by District staff prior to approving the purchase requests. This review resulted in correspondence with the Kentucky Department of Education (KDE) notifying them that the District wanted to purchase playground equipment with costs exceeding \$5,000 in order to allow for greater accessibility for Special Education preschool students. Since the District did not get immediate approval, it was decided in a meeting with the Director of Special Education, Assistant Finance Officer and the Director of Finance to proceed using state preschool monies. Unfortunately, at that point, the federal grant was coded in error on the purchase order.

The Education Jobs Fund was a misunderstanding of allowable costs by the District staff and was a regrettable error.

The District will provide training to review program compliance requirements with District staff overseeing federal programs, and a copy of the Circular A-133 Compliance Supplement has already been provided to the directors over federal programs. In addition, the Director of Finance has implemented new purchasing procedures in which the program directors review all purchase orders for proper coding and all applicable compliance requirements. The approved purchase order will be forwarded to the Assistant Finance Officer who will review for proper coding, compliance, and approval. If there are any concerns related to the purchase, she will notify the program director and the Director of Finance. The program director is encouraged to seek written guidance from the grant oversight agency if the guidance is not clear. Once cleared, the purchase order will be forwarded to the Director of Finance for a final review. Also, each director will be required to complete a monthly monitoring form indicating a review of their programs' finance report for accuracy and compliance. The form will be returned to the Director of Finance to ensure any changes or corrections are made within a timely basis.

Current Year's Auditor's Comments: This finding has been corrected during the fiscal year ended June 30, 2012.