

**WEBSTER COUNTY SCHOOL DISTRICT**  
**GENERAL PURPOSE FINANCIAL STATEMENTS**  
**AND**  
**SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**WEBSTER COUNTY SCHOOL DISTRICT**  
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**for the year ended June 30, 2012**

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Providence, KY 42450

## INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits  
Members of the Board of Education  
Webster County School District  
Dixon, Kentucky

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Webster County School District, as of June 30, 2012 and for the year then ended, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Webster County School District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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; the provisions of Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I (*General Audit Requirements*), Appendix II (*State Audit Requirements*), and Appendix III (*Electronic Submission*) of the *Independent Auditor's Contract*. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

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

In accordance with *Government Auditing Standards*, I have also issued a report dated December 3, 2012 on my consideration of Webster County School District's internal control over financial reporting and my 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 my 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 *Governmental Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis on pages 3 through 9 and budgetary comparison information on pages 37 through 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Webster County School District's basic financial statements. The combining statements and

individual non major fund schedules as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. 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 States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Webster County School District. The combining statements and individual fund schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Michael L. Overby CPA, PLLC  
December 3, 2012

**WEBSTER COUNTY SCHOOL DISTRICT  
DIXON, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
FOR THE YEAR ENDING JUNE 30, 2012**

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

**FINANCIAL HIGHLIGHTS**

1. The beginning Governmental Fund Balance for the District was \$1,737,505. The ending balance was \$1,499,964, which was a decrease of \$237,541, which was the result of the general fund expenditures exceeding budget amounts.
2. At June 30, 2012, the school district had \$15,054,129 in bonds outstanding, of which \$7,257,008 is to be paid from the SFCC funding provided by the Commonwealth of Kentucky. \$902,090 in principal and interest will be required to service the outstanding bonds during the next year.
3. The Webster County School District Finance Corporation issued school building refunding revenue bonds Series 2011 on October 20, 2011. The proceeds were used to replace the roofs at Clay and Providence Elementary Schools.

**Overview of Financial Statements**

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

**Government-wide Financial Statements**

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the district include instruction, support services, operation and maintenance of plant, student transportation and operation of non-institutional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10-11 of this report.

**Fund Financial statements** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. This is a state mandated uniform

system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three (3) categories: governmental, proprietary, and fiduciary. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is for food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements will be found on pages 12-15 of this report.

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 21-36 of this report.

### GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

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

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

#### Net Assets for the year ending June 30, 2012

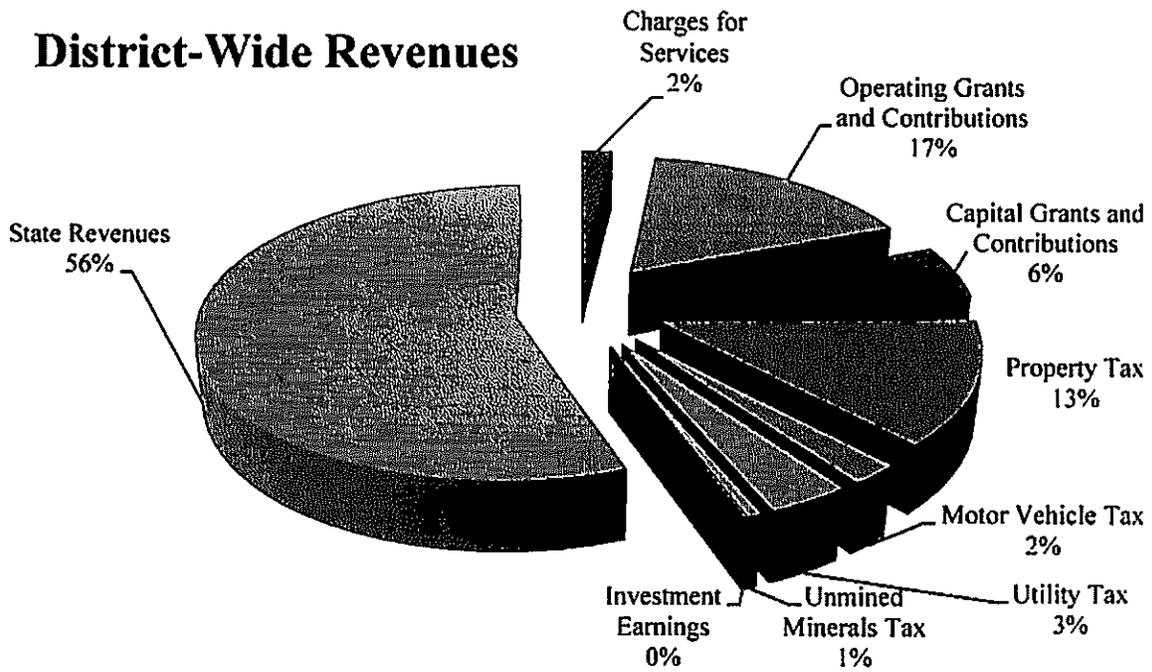
	2012	2011	2012 Change
Current Assets	\$ 2,836,251	\$ 2,914,598	\$ (78,347)
Noncurrent Assets	21,797,207	22,460,048	(662,841)
<b>Total Assets</b>	<u>24,633,458</u>	<u>25,374,646</u>	<u>(741,188)</u>
Current Liabilities	1,862,571	1,506,307	356,264
Noncurrent Liabilities	14,836,146	15,672,401	(836,255)
<b>Total Liabilities</b>	<u>16,698,717</u>	<u>17,178,708</u>	<u>(479,991)</u>
<b>Net Assets</b>			
Investment in Capital Assets (net of debt)	6,286,126	6,044,417	241,709
Restricted	130,060	471,782	(341,722)
Unreserved Fund Balance	1,518,555	1,679,739	(161,184)
<b>Total Net Assets</b>	<u>\$ 7,934,741</u>	<u>\$ 8,195,938</u>	<u>\$ (261,197)</u>

**Changes in Net Assets for the year ending June 30, 2012**

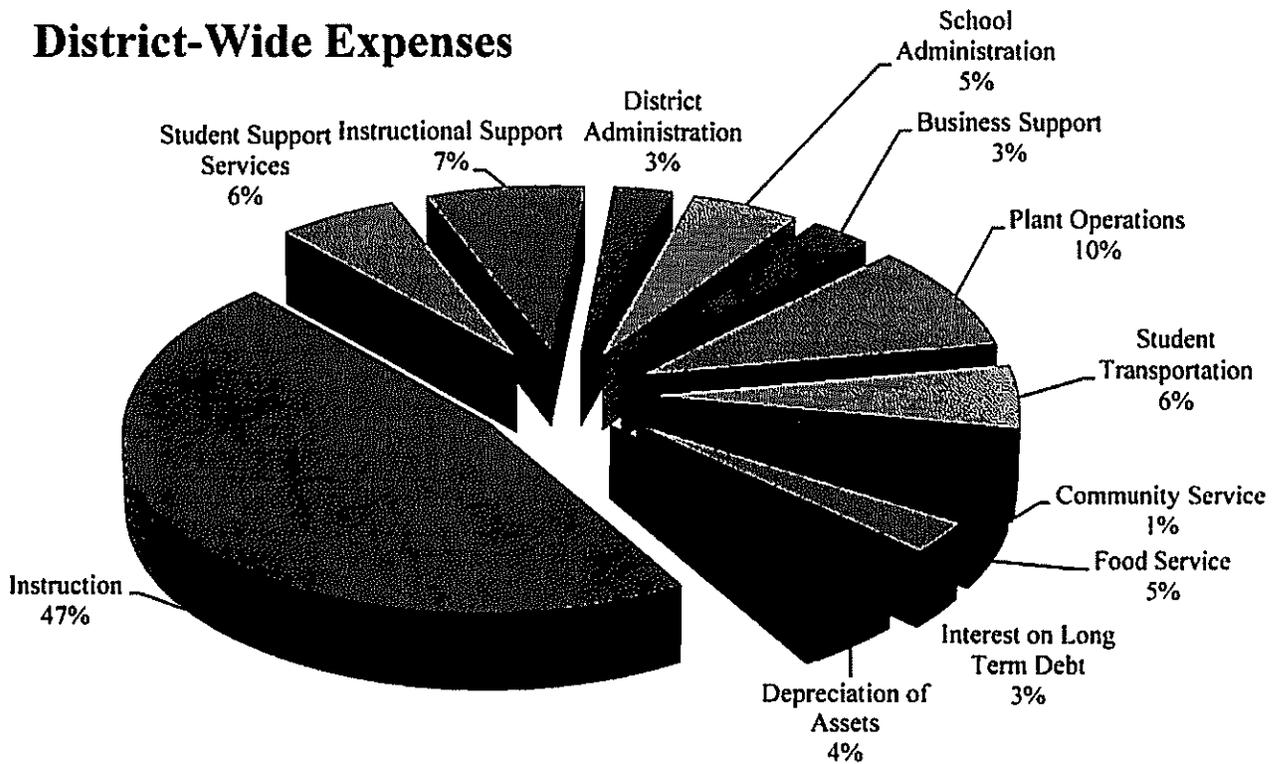
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Revenues</b>			
Charges for Services	\$ -	\$ 417,256	\$ 417,256
Operating Grants and Contributions	2,800,736	850,487	3,651,223
Capital Grants and Contributions	1,248,777	-	1,248,777
Property Tax	2,852,419	-	2,852,419
Motor Vehicle Tax	463,802	-	463,802
Utility Tax	769,736	-	769,736
Unmined Minerals Tax	127,483	-	127,483
Investment Earnings	6,947	988	7,935
State Revenues	11,964,968	-	11,964,968
Other	87,136	-	87,136
<b>Total Revenues</b>	<u>20,322,004</u>	<u>1,268,731</u>	<u>21,590,735</u>
<b>Expenses</b>			
Instruction	10,094,115	-	10,094,115
Student Support Services	1,221,743	-	1,221,743
Instructional Support	1,623,503	-	1,623,503
District Administration	615,259	-	615,259
School Administration	1,113,359	-	1,113,359
Business Support	623,736	-	623,736
Plant Operations	2,068,379	-	2,068,379
Student Transportation	1,224,568	-	1,224,568
Community Service	196,380	-	196,380
Food Service	-	1,134,805	1,134,805
Interest on Long Term Debt	631,964	-	631,964
Depreciation of Assets	991,035	-	991,035
Transfers	(40,402)	40,402	-
<b>Total Expenses</b>	<u>20,363,639</u>	<u>1,175,207</u>	<u>21,538,846</u>
<b>Net Change in Assets</b>	<u>\$ (41,635)</u>	<u>\$ 93,524</u>	<u>\$ 51,889</u>

- The District's total revenues were \$21,590,735 and the total expenditures were \$21,538,846, which resulted in a net increase in Assets of \$51,889 for the year.
- State and Federal Revenues accounted for 78% of total revenues and local taxes account for 20%.

## District-Wide Revenues



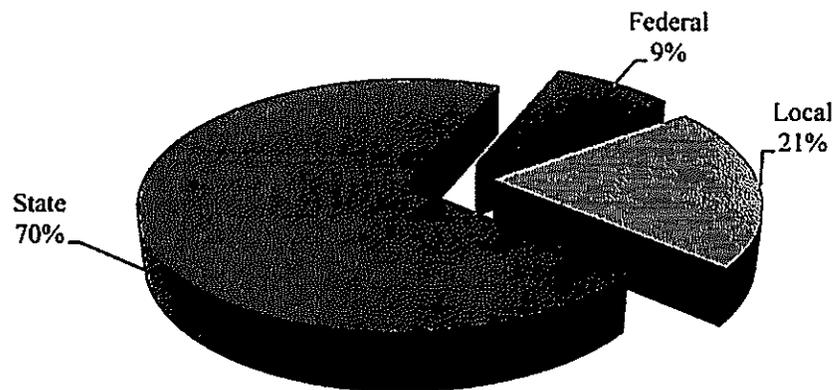
## District-Wide Expenses



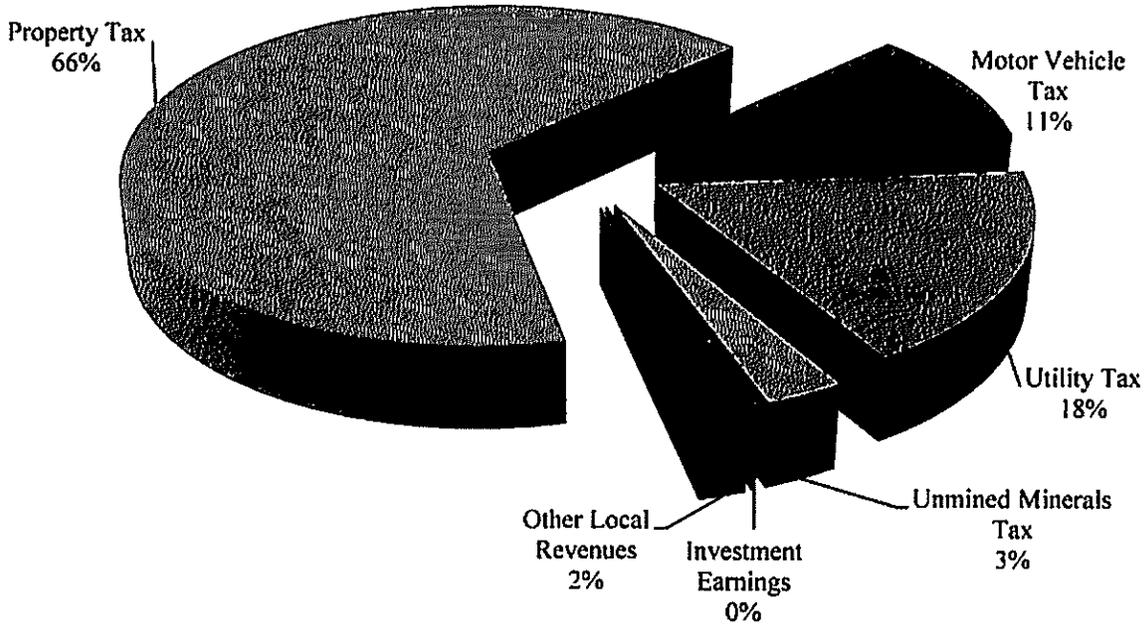
## GOVERNMENTAL FUNDS HIGHLIGHTS

- The General Fund revenues for the year were \$16,031,062, with \$12,068,656 of this coming from state and federal revenues and the remaining \$3,962,406 from local sources.
- Total General Fund Expenditures were \$16,187,422, with instruction cost being the largest area at \$8,871,024.
- The net excess of expenses over revenues was \$156,360 and resulting in a decrease in fund balance of \$292,659.
- The Special Revenue fund expenditures for the year were \$2,697,946. The two major sources of revenues for these grants were State Grants totaling \$1,036,355 and Federal Grants totaling \$1,660,693.
- The Other Governmental Funds included Facility construction costs totaling \$241,684.
- The Other Governmental Funds also included Debt Service payments of \$1,646,495, broken down as \$1,014,531 for principal payments, \$631,964 for interest and bank fees.
- The total ending fund balances at June 30, 2012 were \$1,326,018 in the General Fund and \$173,946 in Other Governmental funds for a total of \$1,499,964.

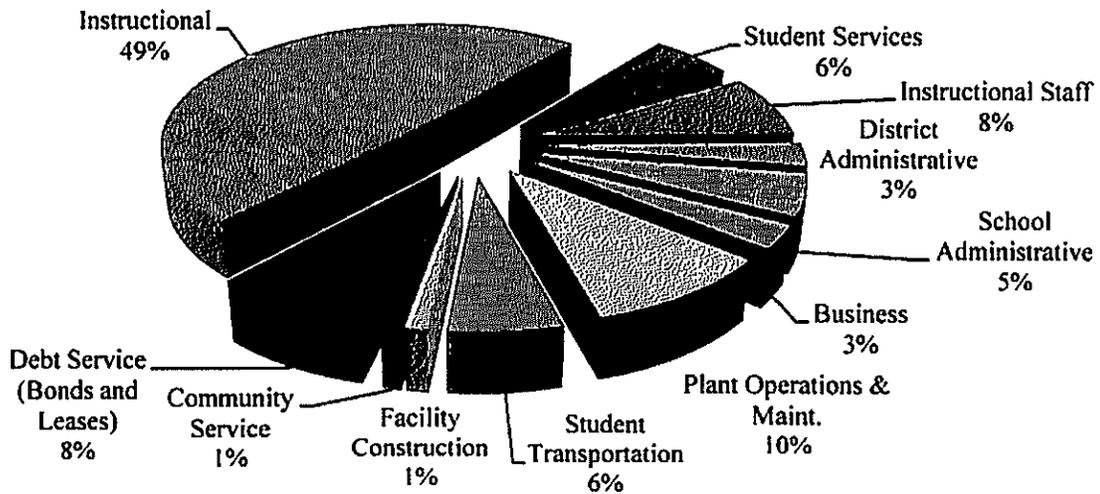
### Governmental Fund Revenues Total of \$20.31 Million



## Local Revenues: Total of \$4.3 Million



## Governmental Fund Expense: Total of \$20.8 Million



## **COMMENTS ON GENERAL FUND BUDGET COMPARISONS**

- The actual Revenues and Expenses both include \$3,278,597 of On-Behalf payments that are not included in the original or final budgets. These represent payments for employee benefits paid at the state level on behalf of the local school district. The comments below are net of these on-behalf payments.
- The total revenues were \$3.3 Million better than the final budget. The major revenue line items better than budget were \$3.3 Million in state revenue. 190 Thousand in utility taxes.
- Total expenditures were over budget by 2.3 Million. However, the actual included 3.3 Million of On-Behalf expenses with no corresponding budget. Actual expenses were .9 Million better than budget excluding these two items.
- The majority of this favorable expenses variance was in Instruction at 127 Thousand, followed by Instructional Staff at 145 Thousand below budget. There were no functional areas over budget when the on-behalf expenses are considered.

## **FUTURE BUDGETARY IMPLICATIONS**

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2012-2013 with a 3% contingency. However, the current economic conditions are a major concern. The local budget contingency includes reserved funds for state economic shortfalls which will be used, if necessary, to protect the current level of direct classroom instruction.

## **REPORT PURPOSE AND CONTACT INFORMATION:**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, these inquiries should be directed to:

Dr. James Kemp, Superintendent  
Webster County Schools at 28 St Rt 1340 in Dixon, KY 42409  
Phone: 270-639-0101 or Email: [james.kemp@webster.kyschools.us](mailto:james.kemp@webster.kyschools.us)

**WEBSTER COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

<b>Assets</b>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 1,235,637	\$ 406,405	\$ 1,642,042
Inventory	-	90,265	90,265
Receivables:			
Taxes	192,668	-	192,668
Accounts Receivable	23,605	7,955	31,560
Intergovernmental - State	850	-	850
Intergovernmental - Federal	267,009	-	267,009
Intergovernmental - Indirect Federal	-	35,526	35,526
Restricted Cash	576,331	-	576,331
<b>Total Current Assets</b>	<u>2,296,100</u>	<u>540,151</u>	<u>2,836,251</u>
<b>Noncurrent Assets</b>			
Capital Assets, Net of Accumulated Depreciation	<u>21,697,420</u>	<u>99,787</u>	<u>21,797,207</u>
<b>Total Noncurrent Assets</b>	<u>21,697,420</u>	<u>99,787</u>	<u>21,797,207</u>
<b>Total Assets</b>	<u>23,993,520</u>	<u>639,938</u>	<u>24,633,458</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	102,287	-	102,287
Deferred Revenue	693,849	-	693,849
Current Portion of Bond Obligations	902,090	-	902,090
Current Portion of Capital Lease Obligations	112,650	-	112,650
Current Portion of Accrued Sick Leave	50,195	1,500	51,695
<b>Total Current Liabilities</b>	<u>1,861,071</u>	<u>1,500</u>	<u>1,862,571</u>
<b>Noncurrent Liabilities</b>			
Noncurrent Portion of Bond Obligations	14,152,039	-	14,152,039
Noncurrent Portion of Capital Lease Obligations	344,302	-	344,302
Noncurrent Portion of Accrued Sick Leave	326,805	13,000	339,805
<b>Total Noncurrent Liabilities</b>	<u>14,823,146</u>	<u>13,000</u>	<u>14,836,146</u>
<b>Total Liabilities</b>	<u>16,684,217</u>	<u>14,500</u>	<u>16,698,717</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	6,186,339	99,787	6,286,126
Restricted for:			
Debt Service	60	-	60
Other Purposes	130,000	-	130,000
Unrestricted	992,904	525,651	1,518,555
<b>Total Net Assets</b>	<u>\$ 7,309,303</u>	<u>\$ 625,438</u>	<u>\$ 7,934,741</u>

The accompanying notes are an integral part of these financial statements.

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

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>							
<b>Governmental Activities:</b>							
Instruction	\$ (10,094,115)	\$ -	\$ 1,430,206	\$ -	\$ (8,663,909)	\$ -	\$ (8,663,909)
Support Services:							
Student	(1,221,743)	-	60,126	-	(1,161,617)	-	(1,161,617)
Instruction Staff	(1,283,221)	-	1,015,550	-	(267,671)	-	(267,671)
District Administrative	(615,259)	-	-	-	(615,259)	-	(615,259)
School Administrative	(1,113,359)	-	-	-	(1,113,359)	-	(1,113,359)
Business	(623,736)	-	-	-	(623,736)	-	(623,736)
Plant Operation and Maintenance	(2,068,379)	-	-	-	(2,068,379)	-	(2,068,379)
Student Transportation	(1,224,568)	-	101,754	-	(1,122,814)	-	(1,122,814)
Facilities Acquisition and Construction	-	-	-	1,248,777	1,248,777	-	1,248,777
Community Service Activities	(196,380)	-	193,100	-	(3,280)	-	(3,280)
Interest on Long-Term Debt	(631,964)	-	-	-	(631,964)	-	(631,964)
Depreciation	(991,035)	-	-	-	(991,035)	-	(991,035)
<b>Total Governmental Activities</b>	<b>(20,063,759)</b>	<b>-</b>	<b>2,800,736</b>	<b>1,248,777</b>	<b>(16,014,246)</b>	<b>-</b>	<b>(16,014,246)</b>
<b>Business-Type Activities:</b>							
Food Service	(1,134,805)	417,256	850,487	-	-	132,938	132,938
<b>Total Business-Type Activities</b>	<b>(1,134,805)</b>	<b>417,256</b>	<b>850,487</b>	<b>-</b>	<b>-</b>	<b>132,938</b>	<b>132,938</b>
<b>Total Primary Government</b>	<b>\$ (21,198,564)</b>	<b>\$ 417,256</b>	<b>\$ 3,651,223</b>	<b>\$ 1,248,777</b>	<b>(16,014,246)</b>	<b>132,938</b>	<b>(15,881,308)</b>
			<b>General Revenues:</b>				
			Taxes:				
			Property Taxes		2,852,419	-	2,852,419
			Motor Vehicle Taxes		463,802	-	463,802
			Unmined Mineral Taxes		127,483	-	127,483
			Utility Taxes		769,736	-	769,736
			Investment Earnings		6,947	988	7,935
			Other Local Revenue		78,848	-	78,848
			State and Formula Grants		11,964,968	-	11,964,968
			Sale of Property		8,288	-	8,288
			Transfers		40,402	(40,402)	-
			Change in Net Assets		298,647	93,524	392,171
			Net Assets - Beginning		7,010,656	531,914	7,542,570
			Net Assets - Ending		\$ 7,309,303	\$ 625,438	\$ 7,934,741

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and Cash Equivalents	\$ 1,235,637	\$ -	\$ -	\$ -	\$ 1,235,637
Receivables:					
Taxes	192,668	-	-	-	192,668
Accounts Receivable	-	-	-	23,605	23,605
Intergovernmental - State	-	850	-	-	850
Intergovernmental - Federal	-	267,009	-	-	267,009
Restricted Cash	-	425,990	19,412	130,929	576,331
<b>Total Assets</b>	<u>\$ 1,428,305</u>	<u>\$ 693,849</u>	<u>\$ 19,412</u>	<u>\$ 154,534</u>	<u>\$ 2,296,100</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 102,287	\$ -	\$ -	\$ -	\$ 102,287
Deferred Revenue	-	693,849	-	-	693,849
<b>Total Liabilities</b>	<u>102,287</u>	<u>693,849</u>	<u>-</u>	<u>-</u>	<u>796,136</u>
<b>Fund Balances</b>					
Restricted:					
SFCC Escrow	-	-	19,412	154,474	173,886
Committed:					
Sick Leave	130,000	-	-	-	130,000
Assigned:					
Purchase Obligation	35,830	-	-	-	35,830
Debt Service	-	-	-	60	60
Unassigned	<u>1,160,188</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,160,188</u>
<b>Total Fund Balances</b>	<u>1,326,018</u>	<u>-</u>	<u>19,412</u>	<u>154,534</u>	<u>1,499,964</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,428,305</u>	<u>\$ 693,849</u>	<u>\$ 19,412</u>	<u>\$ 154,534</u>	<u>\$ 2,296,100</u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Total fund balances - governmental funds		\$ 1,499,964
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 funds:		
Cost	\$ 36,430,766	
Accumulated depreciation	<u>(14,733,346)</u>	21,697,420
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in governmental funds:		
Bonds payable	\$ (15,054,129)	
Capital lease obligations	(456,952)	
Accrued sick leave	<u>(377,000)</u>	<u>(15,888,081)</u>
Net assets of governmental activities		<u>\$ 7,309,303</u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER 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>Construction Fund</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
From Local Sources:					
Taxes:					
Property	\$ 2,516,488	\$ -	\$ -	\$ 335,931	\$ 2,852,419
Motor Vehicle	463,802	-	-	-	463,802
Unmined Mineral	127,483	-	-	-	127,483
Utility	769,736	-	-	-	769,736
Earnings on Investments	6,049	898	-	-	6,947
Other Local Revenues	78,848	-	-	-	78,848
Intergovernmental - State	11,964,968	1,036,355	-	1,248,777	14,250,100
Intergovernmental - Indirect Federal	103,688	1,660,693	-	-	1,764,381
<b>Total Revenues</b>	<u>16,031,062</u>	<u>2,697,946</u>	<u>-</u>	<u>1,584,708</u>	<u>20,313,716</u>
<b>Expenditures</b>					
Current:					
Instruction	8,871,024	1,327,417	-	-	10,198,441
Support Services:					
Student	1,161,618	60,125	-	-	1,221,743
Instruction Staff	607,953	675,268	-	-	1,283,221
District Administrative	615,259	-	-	-	615,259
School Administrative	1,113,359	-	-	-	1,113,359
Business	623,736	-	-	-	623,736
Plant Operation and Maintenance	2,068,379	-	-	-	2,068,379
Student Transportation	1,122,814	101,754	-	-	1,224,568
Community Service Activities	3,280	193,100	-	-	196,380
Capital Outlay:					
Facilities Acquisition and Construction	-	-	241,684	-	241,684
Debt Service:					
Principal	-	-	-	1,014,531	1,014,531
Interest	-	-	-	631,964	631,964
<b>Total Expenditures</b>	<u>16,187,422</u>	<u>2,357,664</u>	<u>241,684</u>	<u>1,646,495</u>	<u>20,433,265</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(156,360)</u>	<u>340,282</u>	<u>(241,684)</u>	<u>(61,787)</u>	<u>(119,549)</u>
<b>Other Financing Sources (Uses)</b>					
Bond Proceeds	-	-	173,600	-	173,600
Sale of Property	8,288	-	-	-	8,288
Transfers In	40,402	-	34,928	946,035	1,021,365
Transfers Out	(184,989)	-	-	(795,974)	(980,963)
<b>Total Other Financing Sources (Uses)</b>	<u>(136,299)</u>	<u>-</u>	<u>208,528</u>	<u>150,061</u>	<u>222,290</u>
<b>Net Change in Fund Balance</b>	<u>(292,659)</u>	<u>340,282</u>	<u>(33,156)</u>	<u>88,274</u>	<u>102,741</u>
<b>Fund Balance, July 1, 2011</b>	<u>1,618,677</u>	<u>(340,282)</u>	<u>52,568</u>	<u>66,260</u>	<u>1,397,223</u>
<b>Fund Balance, June 30, 2012</b>	<u>\$ 1,326,018</u>	<u>\$ -</u>	<u>\$ 19,412</u>	<u>\$ 154,534</u>	<u>\$ 1,499,964</u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER 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 \$ 102,741

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

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:

Capital outlays	\$ 346,010	
Depreciation expense	<u>(991,035)</u>	(645,025)

The issuance of long-term debt provides current financial resources to governmental  
funds, while the repayment of the principal of long-term debt consumes the  
current financial resources of governmental funds. Neither transaction, however,  
has any effect on net assets.

Proceeds from issuance of bonds	(173,600)	
Principal payments on bonds	858,409	
Principal payments on lease obligations	<u>156,122</u>	<u>840,931</u>

Change in net assets of governmental activities \$ 298,647

The accompanying notes are an integral part of these financial statements.

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

	<u>Food Service Fund</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 406,405
Inventory	90,265
Accounts Receivable	7,955
Intergovernmental - Indirect Federal	<u>35,526</u>
<b>Total Current Assets</b>	<u>540,151</u>
<b>Noncurrent Assets</b>	
Capital Assets	848,112
Less: Accumulated Depreciation	<u>(748,325)</u>
<b>Total Noncurrent Assets</b>	<u>99,787</u>
<b>Total Assets</b>	<u>639,938</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accrued Sick Leave	<u>1,500</u>
<b>Total Current Liabilities</b>	<u>1,500</u>
<b>Noncurrent Liabilities</b>	
Accrued Sick Leave	<u>13,000</u>
<b>Total Noncurrent Liabilities</b>	<u>13,000</u>
<b>Total Liabilities</b>	<u>14,500</u>
<b>Net Assets</b>	
Invested in Capital Assets	99,787
Unrestricted	<u>525,651</u>
<b>Total Net Assets</b>	<u>\$ 625,438</u>

The accompanying notes are an integral part of these financial statements.

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

	<u>Food Service Fund</u>
<b>Operating Revenues:</b>	
Lunchroom Sales	\$ 390,369
Special Functions	26,514
Other Operating Revenues	<u>373</u>
<b>Total Operating Revenues</b>	<u>417,256</u>
<b>Operating Expenses:</b>	
Salaries and Wages	417,048
Employee Benefits	209,983
Contract Services	39,860
Materials and Supplies	445,721
Depreciation	17,817
Other Operating Expenses	<u>4,376</u>
<b>Total Operating Expenses</b>	<u>1,134,805</u>
<b>Operating Loss</b>	<u>(717,549)</u>
<b>Nonoperating Revenues (Expenses):</b>	
Federal Grants	751,156
State Grants	99,331
Interest Income	988
Transfers to General Fund	<u>(40,402)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>811,073</u>
<b>Income (Loss)</b>	93,524
<b>Net Assets, July 1, 2011</b>	<u>531,914</u>
<b>Net Assets, June 30, 2012</b>	<u><u>\$ 625,438</u></u>

The accompanying notes are an integral part of these financial statements.

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

**Cash Flows from Operating Activities**

Cash Received from:	
Lunchroom Sales	\$ 390,369
Government Grants	763,706
Other Activities	26,887
Cash Paid To/For:	
Employees	(627,031)
Supplies	(401,964)
Other Activities	(4,376)
	<u>147,591</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>147,591</b>

**Cash Flows from Non Capital Financing Activities**

Transfers to General Fund	(40,402)
	<u>(40,402)</u>

**Cash Flows from Investing Activities**

Receipt of Interest Income	988
	<u>988</u>

Net Increase (Decrease) in Cash and Cash Equivalents	108,177
--	---------

Balances, Beginning of Year	298,228
	<u>298,228</u>

Balances, End of Year	\$ 406,405
	<u>406,405</u>

**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities**

Operating Loss	\$ (717,549)
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**Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities**

Depreciation	17,817
Government Grants	850,487
Change in Assets and Liabilities	
Receivables	2,254
Inventory	(5,125)
Accounts Payable	(293)
	<u>866,140</u>

<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 147,591</b>
	<u>147,591</u>

**Schedule of Non-Cash Transactions:**

Donated Commodities Received from Federal Government	\$ 70,534
Benefits Paid by State of Kentucky on Behalf of District	86,781
	<u>157,315</u>

<b>Total Non-Cash Transactions</b>	<b>\$ 157,315</b>
	<u>157,315</u>

The accompanying notes are an integral part of these financial statements.

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

	<u>Fiscal Agent Funds</u>	<u>Agency Funds</u>	<u>Total Fiduciary Net Assets</u>
<b>Assets</b>			
Cash and Cash Equivalent	<u>\$ 9,795</u>	<u>\$ 315,678</u>	<u>\$ 325,473</u>
<b>Total Assets</b>	<u>9,795</u>	<u>315,678</u>	<u>325,473</u>
<b>Liabilities</b>			
Accounts Payable	626	3,855	4,481
Due to Student Groups	<u>-</u>	<u>311,823</u>	<u>311,823</u>
<b>Total Liabilities</b>	<u>626</u>	<u>315,678</u>	<u>316,304</u>
<b>Net Assets Held in Trust</b>	<u><u>\$ 9,169</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,169</u></u>

The accompanying notes are an integral part of these financial statements.

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

	<u>Fiscal Agency Fund</u>
<b>Additions</b>	
State Aid	<u>\$ 56,480</u>
<b>Total Additions</b>	<u>56,480</u>
<b>Deductions</b>	
Salaries and Benefits	44,325
Purchased Services	<u>2,275</u>
<b>Total Deductions</b>	<u>46,600</u>
<b>Changes in Net Assets</b>	9,880
<b>Net Assets, Beginning of Year</b>	<u>10,285</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 20,165</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**1. Reporting Entity**

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

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

These financial statements present the District and its component units, entities for which the District entity is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governmental entity's operations and so data from these units would be combined with data of the primary governmental entity. The Webster County School District has one blended component unit.

Blended Component Unit:

Webster County School District Finance Corporation - The Webster County, Kentucky, Board of Education has established the Webster County School District Finance Corporation (a nonprofit, nonstock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Webster County Board of Education also comprise the Corporation's Board of Directors.

**2. Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All revenues not meeting this definition are reported as nonoperating revenues. The District applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

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

The District had the following funds:

**Governmental Fund Types**

- 1) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- 2) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 45 through 46. This is a major fund of the District.
- 3) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a proprietary fund).

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

- (a) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as capital outlay funds and is restricted for use in financing projects identified in the District's facility plan.
  - (b) The Facility Support Program of Kentucky (FSPK) 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.
  - (c) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- 4) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

**Proprietary Fund Type**

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

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

**Fiduciary Fund Types**

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds). The District has no trust funds.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. The Agency Fund consists of activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

**(b) Basis of Accounting**

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the modified accrual basis of accounting, whereby revenues are recognized when they become both measurable and available. Revenues are considered to be "available" when they are collectible within the

**WEBSTER COUNTY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2012**

current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenditures are generally recognized when the related liability is incurred.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include; (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the District must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

**(c) Capital Assets**

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

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

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

<u>Description</u>	<u>Capitalization Thresholds</u>	<u>Estimated Lives For Depreciation</u>
Buildings and Improvements	\$ 25,000	25-50 Years
Land Improvements	\$ 25,000	20-25 Years
Technology Equipment	\$ 1,000	5 Years
Vehicles	\$ 5,000	5-10 Years
Food Service Equipment	\$ 1,000	12 Years
Furniture and Fixtures	\$ 1,000	7-20 Years
Other	\$ 1,000	10-15 Years

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**(d) Cash and Cash Equivalents/Restricted Cash/Investments**

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. Cash is restricted in the special revenue funds per grant and other agreements, in the capital projects funds per state requirements and in debt service funds per debt agreements. (See Note 7 & 8)

Cash balances of the District's funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to the various funds based on the fund's average cash balance. Funds with negative cash balances are not charged interest.

As security for deposits of the District, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the District. In addition, the District's accounts are insured, subject to FDIC coverage terms and limitations. (See Note 4)

State statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. Agencies, certain federal instruments, commercial bank's certificates of deposit, savings and loan deposits, repurchase agreements, and the Commonwealth of Kentucky Investment Pool.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase.

The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

**(e) Inventories/Commodities**

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Inventories are valued at cost or at their estimated fair value at the date of donation, using the first-in, first-out method.

For the purposes of the statement of cash flows, federal grants received does not include noncash commodities received in the amount of \$70,534.

**(f) Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. Bond discounts, premiums and issuance costs are recorded as other assets in the government-wide financial statements and are amortized on a straight line basis over the life of the bonds.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**District-Wide Financial Statements**

When the District incurs an expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first unless unrestricted net assets will have to be returned because they were not used. Net assets on the Statement of Net Assets include the following:

**Investment in Capital Assets, Net of Related Debt** – The component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

**Restricted for Capital Projects** – The component of net assets that reports the financial resources restricted to pay for construction activities.

**Restricted for Debt Service** – The component of net assets that reports the financial resources restricted to pay debt service on capital related debt less current accrual of interest.

**Unrestricted** – The difference between the assets and liabilities that is not reported in Net Assets Invested in Capital Assets, Net of Related Debt, Net Assets Restricted for KETS Program, or Net Assets Restricted for Debt Service.

**Governmental Fund Financial Statements**

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that can be spent only for specific purposes because of the state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** – Amounts that can be used only for specific purposes determined by a formal action by District.
- **Assigned** – Amounts that are designated by the District for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the District.
- **Unassigned** – All amounts not included in other spendable classifications.

**(h) Deferred Revenue**

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

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**(i) Interfund Activity**

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due-to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**(j) Estimates**

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

**(k) Accrued Sick Leave**

The Webster County School District allows employees to accumulate and carry over sick days from year to year. The amount of total days that may be carried over from year to year is unlimited. Upon retirement from the school system, employees will receive an amount up to thirty percent (30%) of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. It is deemed probable that benefits will be paid to certified employees with twenty or more years of experience and classified employees with ten or more years of experience.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accrued sick leave" in the general fund. The noncurrent portion of the liability is not reported.

**3. Property Taxes**

Property taxes collected are recorded as revenues in the Fund for which they were levied. Each year, property taxes are levied on October 1, based on assessments as of January 1 prepared by the Webster County property valuation administrator. The taxes are payable on November 1. The tax rates placed in effect are 54.7 cents per \$100 of assessed valuation on real estate and 54.7 cents per \$100 on personal property, of which 6.0 cents is for participation in the Facility Support Program, and 48.0 cents per \$100 of assessed valuation on motor vehicles.

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**4. Cash and Cash Equivalents**

At June 30, 2012, the carrying amount of the District's cash and cash equivalents was \$2,543,846 and the bank balance was \$2,991,856. As of June 30, 2012, All accounts were covered by the FDIC or securities pledged in the District's name.

The District's cash and cash equivalents at June 30, 2012:

	<u>Bank Balance</u>	<u>Book Balance</u>
United Community Bank	\$ 2,567,590	\$ 2,221,368
Independence Bank	41,783	38,001
Sebree Deposit Bank	16,481	15,746
Dixon Bank	272,849	268,671
JP Morgan	<u>60</u>	<u>60</u>
	<u>\$ 2,991,856</u>	2,543,846
Restricted Cash		<u>576,331</u>
Unrestricted Cash and Cash Equivalents		<u>\$ 1,967,515</u>
Reported in the Financial Statement:		
Governmental Funds		\$ 1,235,637
Proprietary Funds		406,405
Fiduciary Funds		<u>325,473</u>
		<u>\$ 1,967,515</u>

**5. Restricted Cash**

Restricted Cash at June 30, 2012 consists of the following:

Special Revenue	\$ 425,990
Capital Outlay Fund	8,190
Building Fund	122,679
Construction Fund	19,412
Debt Service Fund	<u>60</u>
Total Restricted Cash	<u>\$ 576,331</u>

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**6. Capital Assets**

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
<b>Governmental Activities:</b>				
Not depreciated:				
Land	\$ 544,352	\$ -	\$ -	\$ 544,352
	<u>544,352</u>	<u>-</u>	<u>-</u>	<u>544,352</u>
Depreciated:				
Land Improvements	634,784	46,080	-	680,864
Buildings and improvements	30,411,897	131,991	-	30,543,888
Technology equipment	1,062,407	138,439	(126,928)	1,073,918
Vehicles	2,696,357	-	-	2,696,357
General	861,887	29,500	-	891,387
	<u>35,667,332</u>	<u>346,010</u>	<u>(126,928)</u>	<u>35,886,414</u>
Totals at historical cost	<u>36,211,684</u>	<u>346,010</u>	<u>(126,928)</u>	<u>36,430,766</u>
Less: accumulated depreciation				
Land Improvements	(410,883)	(24,701)	-	(435,584)
Buildings and improvements	(10,039,091)	(657,002)	-	(10,696,093)
Technology equipment	(818,233)	(134,509)	126,928	(825,814)
Vehicles	(2,119,804)	(128,338)	-	(2,248,142)
General	(481,228)	(46,485)	-	(527,713)
	<u>(13,869,239)</u>	<u>(991,035)</u>	<u>126,928</u>	<u>(14,733,346)</u>
Total accumulated depreciation	<u>(13,869,239)</u>	<u>(991,035)</u>	<u>126,928</u>	<u>(14,733,346)</u>
Governmental Activities Capital Assets - Net	<u>\$ 22,342,445</u>	<u>\$ (645,025)</u>	<u>\$ -</u>	<u>\$ 21,697,420</u>
<b>Business-Type Activities:</b>				
Depreciated:				
Food service equipment	\$ 776,083	\$ -	\$ -	\$ 776,083
Technology equipment	54,280	-	-	54,280
Vehicle	17,749	-	-	17,749
	<u>848,112</u>	<u>-</u>	<u>-</u>	<u>848,112</u>
Totals at historical cost	<u>848,112</u>	<u>-</u>	<u>-</u>	<u>848,112</u>
Less: accumulated depreciation				
Food service equipment	(659,391)	(16,905)	-	(676,296)
Technology equipment	(53,368)	(912)	-	(54,280)
Vehicle	(17,749)	-	-	(17,749)
	<u>(730,508)</u>	<u>(17,817)</u>	<u>-</u>	<u>(748,325)</u>
Total accumulated depreciation	<u>(730,508)</u>	<u>(17,817)</u>	<u>-</u>	<u>(748,325)</u>
Business-Type Activities Capital Assets - Net	<u>\$ 117,604</u>	<u>\$ (17,817)</u>	<u>\$ -</u>	<u>\$ 99,787</u>

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**7. Long-Term Debt**

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

<u>Issue Date</u>	<u>Issue Name</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2001	Renovations - Dixon Elementary	\$ 1,550,000	4.60%	2021
2001	91 Refunding	1,070,000	4.00-4.25%	2012
2004R	94 Refunding	2,880,000	1.90-3.625%	2016
2005	HVAC - Clay Elementary	2,085,000	3.90%	2026
2006	Renovations - Slaughters Elementary	900,000	3.90%	2027
2008	Renovations - WCHS	9,995,000	3.00-4.875%	2029
(A)KISTA - 2003	Renovations - Providence Elementary	280,000	1.50-4.70%	2023
(A) - 2004	95 Refunding	410,000	1.30-3.50%	2015
(A) - 2004	Renovations - Restrooms Povidence Elementary	300,000	4.625%	2024
KISTA - 2009R	Refunding	603,191	1.00-3.25%	2019
2010R	Refunding	1,020,000		2021
2011	Roof - Clay & Providence	178,485	1.50-3.50%	2021

(A) These bonds and KISTA loans were assumed by the Webster County School District through the merger agreement dated December 12, 2006

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

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

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

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**7. Long-Term Debt, Continued**

Year	Webster County Board of Education		School Facilities Construction Commission		Total Requirements		Bonds Outstanding
	Interest	Bonds	Interest	Bonds	Interest	Bonds	
2012-2013	303,191	481,322	277,821	420,768	581,012	902,090	\$ 15,054,129
2013-2014	287,118	485,264	265,824	432,051	552,942	917,315	14,152,039
2014-2015	270,697	511,066	253,084	431,002	523,781	942,068	13,234,724
2015-2016	252,375	530,591	239,535	432,924	491,910	963,515	12,292,656
2016-2017	229,513	427,555	224,996	446,046	454,509	873,601	11,329,141
2017-2018	213,441	448,270	209,178	460,666	422,619	908,936	10,455,540
2018-2019	196,611	445,953	192,695	452,166	389,306	898,119	9,546,604
2019-2020	179,147	471,432	176,087	443,568	355,234	915,000	8,648,485
2020-2021	160,738	486,229	159,019	458,771	319,757	945,000	7,733,485
2021-2022	141,311	483,040	141,058	390,445	282,369	873,485	6,788,485
2022-2023	121,664	489,655	124,293	405,345	245,957	895,000	5,915,000
2023-2024	101,259	508,885	106,657	401,115	207,916	910,000	5,020,000
2024-2025	79,627	526,827	88,674	398,173	168,301	925,000	4,110,000
2025-2026	56,688	543,230	70,077	416,770	126,765	960,000	3,185,000
2026-2027	36,038	393,330	50,178	436,670	86,216	830,000	2,225,000
2027-2028	19,838	307,196	29,043	457,804	48,881	765,000	1,395,000
2028-2029	6,271	257,276	9,085	372,724	15,356	630,000	630,000
<b>Total</b>	<b>\$ 2,655,527</b>	<b>\$ 7,797,121</b>	<b>\$ 2,617,304</b>	<b>\$ 7,257,008</b>	<b>\$ 5,272,831</b>	<b>\$ 15,054,129</b>	

During the year ended June 30, 2012, the following changes occurred in long term debt:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
<b>Governmental Activities:</b>					
Revenue Bonds:					
Issue of 2001 <Refunding>	110,000	-	110,000	-	-
Issue of 2004	1,545,000	-	280,000	1,265,000	305,000
Issue of 2005	1,685,000	-	90,000	1,595,000	85,000
Issue of 2006	860,000	-	10,000	850,000	10,000
Issue of 2008	9,525,000	-	245,000	9,280,000	255,000
Issue of 2010 <Refunding>	995,000	-	90,000	905,000	95,000
KISTA - 2003	200,000	-	15,000	185,000	15,000
Issue of 2004 <Refunding>	160,000	-	35,000	125,000	40,000
Issue of 2004	225,000	-	15,000	210,000	15,000
KISTA - 2009 <Refunding>	535,768	-	75,124	460,644	67,090
Issue of 2011	-	178,485	-	178,485	15,000
	<u>15,840,768</u>	<u>178,485</u>	<u>965,124</u>	<u>15,054,129</u>	<u>902,090</u>
Accrued Sick Leave	377,000	-	-	377,000	50,195
	<u>\$ 16,217,768</u>	<u>\$ 178,485</u>	<u>\$ 965,124</u>	<u>\$ 15,431,129</u>	<u>\$ 952,285</u>
<b>Business-Type Activities</b>					
Accrued Sick Leave	<u>\$ 14,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,500</u>	<u>\$ 1,500</u>

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**8. Capital Lease Obligations**

The District has entered into lease agreements with KISTA for financing the acquisitions of school buses. The following is an analysis of leased property under capital lease:

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Vehicles	\$ 1,490,614	\$ 1,106,003

The following is a schedule, by years, of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2012.

	<u>Year Ending</u>	<u>KISTA Leases</u>	<u>Total Payments</u>
	2013	129,255	129,255
	2014	119,669	119,669
	2015	101,672	101,672
	2016	72,410	72,410
	2017	70,874	70,874
	2018	9,730	9,730
Total Minimum Lease Payments		503,610	503,610
Lease Amount Representing Interest		(46,658)	(46,658)
Present Value of Net Minimum Lease Payments		<u>\$ 456,952</u>	<u>\$ 456,952</u>

**Participation Agreement CKEC 2006 Lease:**

The Commonwealth of Kentucky has guaranteed Coal Severance funds will be available to provide assistance in paying lease obligations for a two year period. Receipts from the State are recorded as intergovernmental – state revenue in the debt service fund.

During the year ended June 30, 2012, the following changes occurred in the capital lease obligations:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2012</u>	<u>Due in One Year</u>
KISTA 01	5,850	-	5,850	-	-
KISTA 04	37,253	-	13,665	23,588	11,604
KISTA 05	72,892	-	18,988	53,904	19,658
KISTA 06	171,059	-	27,436	143,623	28,524
KISTA 07	192,205	-	31,132	161,073	32,485
KISTA 03(P)	10,704	-	5,246	5,458	5,458
KISTA 04(P)	17,522	-	6,427	11,095	5,458
KISTA 08	67,378	-	9,167	58,211	9,463
CKEC - P 06	11,903	-	11,903	-	-
CKEC - D 06	7,329	-	7,329	-	-
	<u>\$ 594,095</u>	<u>\$ -</u>	<u>\$ 137,143</u>	<u>\$ 456,952</u>	<u>\$ 112,650</u>

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**9. Retirement Plans**

**KTRS**

The Webster County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members are required to contribute 9.855% and 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% and 14.105% of salaries. The matching contributions are paid by the federal programs for any salaries paid by that program. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). The Webster County School District's total payroll for the year was \$11,953,116. The payroll for employees covered under KTRS was \$8,867,081. For the year ended June 30, 2012, the Commonwealth contributed \$1,090,561 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2012, 2011 and 2010 were \$63,132, \$65,775, and \$75,006, respectively, which represent 100% of the required contributions for those employees covered by federal programs.

**CERS**

Substantially, all other employees (classified personnel) are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Plan members are required to contribute 5% of their annual creditable compensation and the District is required to contribute at an actuarially determined rate. The current rate is 18.96% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2012, 2011 and 2010 were \$543,982, \$505,836, and \$468,498, respectively, equal to the required contributions for each year.

**Other**

The District also offers employees the option to participate in defined contribution plans under Sections 401(k) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

**WEBSTER COUNTY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2012**

**10. Contingencies**

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

As shown in Note 7 above, the Kentucky School Facilities Construction Commission (KSFCC) is assisting the District with the repayment of the Bond Series. In the unlikely event the KSFCC defaults on their portion of the bond series, the District is responsible to repay the amount in full. KSFCC's portion as of June 30, 2012, was \$7,257,008.

**11. Litigation**

The District is involved in a litigation the outcome of which is not determinable at this time. Administration officials and legal counsel do not anticipate that there will be any material effect on the financial statements as a result of this case presently in progress.

**12. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District bought a commercial insurance policy. The District pays an annual premium 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. 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.

**13. 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).

**14. Transfer of Funds**

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>
Capital Projects (FSPK)	Construction	\$ 34,928
Capital Projects (SEEK)	Debt Service	\$ 167,103
Capital Projects (FSPK)	Debt Service	\$ 593,943
Food Service	General	\$ 40,402
General	Debt Service	\$ 184,989

**WEBSTER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**15. On-Behalf Payments**

The Commonwealth of Kentucky made payments on-behalf of the District as follows for the year ended June 30, 2012. The amounts are included in the General Fund and Food Service Fund as Intergovernmental-State revenues. In the General Fund, the retirement payments and the state operated vocational education payments are recorded as additional instruction expense and the health insurance, life insurance and flexible spending (net of fees) payments are allocated to the various expense functions based on a ratio of employees. In the Food Services Fund, all of the payments are recorded as additional employee benefits.

Kentucky Teachers Retirement System	\$ 1,090,561
Health Insurance, Life Insurance, Flexible Spending Plan Net of Administrative Fees	2,188,036
State Operated Vocational Ed Schools	<u>46,743</u>
	<u>\$ 3,325,340</u>

**16. Deficit Operating Fund Balances**

The District had no funds with a deficit operating fund balance as of June 30, 2012.

**WEBSTER COUNTY SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From Local Sources				
Taxes				
Property	\$ 2,497,773	\$ 2,497,773	\$ 2,516,488	\$ 18,715
Motor Vehicle	380,000	380,000	463,802	83,802
Unmined Mineral	40,000	40,000	127,483	87,483
Utility	580,000	580,000	769,736	189,736
Other Taxes	220,000	220,000	-	(220,000)
Earnings on Investments	10,000	10,000	6,049	(3,951)
Tuition	1,000	1,000	-	(1,000)
Other Local Revenues	45,830	45,830	78,848	33,018
Intergovernmental - State	8,878,094	8,878,094	11,964,968	3,086,874
Intergovernmental - Indirect Federal	30,000	30,000	103,688	73,688
<b>Total Revenues</b>	<b>12,682,697</b>	<b>12,682,697</b>	<b>16,031,062</b>	<b>3,348,365</b>
<b>Expenditures</b>				
Current:				
Instruction	6,804,999	6,804,999	8,871,024	(2,066,025)
Support Services:				
Student	898,901	898,901	1,161,618	(262,717)
Instruction Staff	491,963	491,963	607,953	(115,990)
District Administrative	743,002	743,002	615,259	127,743
School Administrative	810,709	810,709	1,113,359	(302,650)
Business	430,421	430,421	623,736	(193,315)
Plant Operation and Maintenance	2,072,889	2,072,889	2,068,379	4,510
Student Transportation	1,055,603	1,055,603	1,122,814	(67,211)
Contingency	513,642	513,642	-	513,642
Community Service Activities	16,187	16,187	3,280	12,907
<b>Total Expenditures</b>	<b>13,838,316</b>	<b>13,838,316</b>	<b>16,187,422</b>	<b>(2,349,106)</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>(1,155,619)</b>	<b>(1,155,619)</b>	<b>(156,360)</b>	<b>999,259</b>
<b>Other Financing Sources (Uses)</b>				
Sale of Property	-	-	8,288	8,288
Operating Transfers In	44,100	44,100	40,402	(3,698)
Operating Transfers Out	(193,627)	(193,627)	(184,989)	8,638
<b>Total Other Financing Sources (Uses)</b>	<b>(149,527)</b>	<b>(149,527)</b>	<b>(136,299)</b>	<b>13,228</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>(1,305,146)</b>	<b>(1,305,146)</b>	<b>(292,659)</b>	<b>1,012,487</b>
<b>Fund Balance, July 1, 2011</b>	<b>1,305,146</b>	<b>1,305,146</b>	<b>1,618,677</b>	<b>313,531</b>
<b>Fund Balance, June 30, 2012</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,326,018</b>	<b>\$ 1,326,018</b>

**WEBSTER COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From Local Sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor Vehicle	-	-	-	-
Unmined Mineral	-	-	-	-
Utility	-	-	-	-
Earnings on Investments	792	792	898	106
Intergovernmental - State	675,023	675,023	1,036,355	361,332
Intergovernmental - Indirect Federal	1,954,938	1,954,938	1,660,693	(294,245)
<b>Total Revenues</b>	<u>2,630,753</u>	<u>2,630,753</u>	<u>2,697,946</u>	<u>67,193</u>
<b>Expenditures</b>				
Current:				
Instruction	1,673,888	1,673,888	1,327,417	346,471
Support Services:				
Student	64,109	64,109	60,125	3,984
Instruction Staff	1,004,772	1,004,772	675,268	329,504
District Administrative	-	-	-	-
School Administrative	-	-	-	-
Business	-	-	-	-
Plant Operation and Maintenance	-	-	-	-
Student Transportation	79,079	79,079	101,754	(22,675)
Community Service Activities	185,884	185,884	193,100	(7,216)
<b>Total Expenditures</b>	<u>3,007,732</u>	<u>3,007,732</u>	<u>2,357,664</u>	<u>650,068</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>(376,979)</u>	<u>(376,979)</u>	<u>340,282</u>	<u>717,261</u>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In	25,292	25,292	-	(25,292)
Operating Transfers Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>25,292</u>	<u>25,292</u>	<u>-</u>	<u>(25,292)</u>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>(351,687)</u>	<u>(351,687)</u>	<u>340,282</u>	<u>691,969</u>
<b>Fund Balance, July 1, 2011</b>	<u>351,687</u>	<u>351,687</u>	<u>(340,282)</u>	<u>(691,969)</u>
<b>Fund Balance, June 30, 2012</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**WEBSTER COUNTY SCHOOL DISTRICT  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR BUDGETARY PROCESS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Budgetary Process**

**Budgetary Basis of Accounting:** Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for on-behalf payments. The Kentucky Department of Education does not permit Kentucky school districts to budget on-behalf payments. All annual appropriations lapse at fiscal year-end.

As required by KRS 160.470, on or before January 31 of each year, the District commences budget preparation for the following fiscal year. Before May 30, a tentative working budget is presented to the Kentucky Department of Education. A final working budget must be prepared and adopted no later than September 30. The budget is periodically amended and adopted by the Board of Education during the fiscal year with a final budget adopted by the Board prior to June 30.

The appropriated budget is prepared by fund unit, function, program, level, object and project. The legal level of budgetary control is the fund level.

**Reconciliation between the Budgetary Basis of Accounting and GAAP**

**General Fund**

A basis difference exists in the general fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments. The Kentucky Department of Education prohibits Kentucky school districts from including on-behalf payments in the budget process. Line item differences are as follows:

Revenues						
Intergovernmental - State	\$	11,964,968	\$	15,203,527	\$	3,238,559
Expenditures:						
Instruction		8,871,024		11,050,672		2,179,648
Support Services:						
Student		1,161,618		1,422,445		260,827
Instructional Staff		607,953		753,519		145,566
District Administration		615,259		666,406		51,147
School Administration		1,113,359		1,373,432		260,073
Business		623,736		690,534		66,798
Plant Operations Maintenance		2,068,379		2,227,996		159,617
Student Transportation		1,122,814		1,237,697		114,883

**Special Revenue Fund**

There were no material variances between GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District.

**WEBSTER COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>FSPK Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>				
Accounts Receivable	\$ 23,605	\$ -	\$ -	\$ 23,605
Restricted Cash	<u>122,679</u>	<u>8,190</u>	<u>60</u>	<u>130,929</u>
<b>Total Assets</b>	<u>\$ 146,284</u>	<u>\$ 8,190</u>	<u>\$ 60</u>	<u>\$ 154,534</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>				
Restricted for Capital Projects	146,284	8,190	-	154,474
Restricted for Debt Service	-	-	60	60
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Fund Balances</b>	<u>146,284</u>	<u>8,190</u>	<u>60</u>	<u>154,534</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 146,284</u>	<u>\$ 8,190</u>	<u>\$ 60</u>	<u>\$ 154,534</u>

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

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>				
From Local Sources:				
Taxes:				
Property	\$ 335,931	\$ -	\$ -	\$ 335,931
Intergovernmental - State	354,623	193,694	700,460	1,248,777
<b>Total Revenues</b>	<u>690,554</u>	<u>193,694</u>	<u>700,460</u>	<u>1,584,708</u>
<b>Expenditures</b>				
Capital Outlay:				
Facilities Acquisition and Construction	-	-	-	-
Debt Service:				
Principal	-	-	1,014,531	1,014,531
Interest	-	-	631,964	631,964
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>1,646,495</u>	<u>1,646,495</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>690,554</u>	<u>193,694</u>	<u>(946,035)</u>	<u>(61,787)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	946,035	946,035
Transfers Out	(628,871)	(167,103)	-	(795,974)
<b>Total Other Financing Sources (Uses)</b>	<u>(628,871)</u>	<u>(167,103)</u>	<u>946,035</u>	<u>150,061</u>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	61,683	26,591	-	88,274
<b>Fund Balance, July 1, 2011</b>	<u>84,601</u>	<u>(18,401)</u>	<u>60</u>	<u>66,260</u>
<b>Fund Balance, June 30, 2012</b>	<u>\$ 146,284</u>	<u>\$ 8,190</u>	<u>\$ 60</u>	<u>\$ 154,534</u>

WEBSTER COUNTY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
 ALL ACTIVITY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

School	Cash Balances	Receipts	Disbursements	Cash Balances	Accounts	Accounts Payable	Fund Balances
	July 1, 2011			June 30, 2012	Receivable June 30, 2012	June 30, 2012	June 30, 2012
Webster County High School	\$ 131,034	\$ 417,103	\$ 371,669	\$ 176,468	\$ -	\$ -	\$ 176,468
Ashmore Scholarship	43,178	337	3,000	40,515	-	-	40,515
Clay Elementary	26,274	59,085	60,656	24,703	-	-	24,703
Dixon Elementary	37,387	60,949	55,129	43,207	-	-	43,207
Providence Elementary	1,882	22,075	21,254	2,703	-	-	2,703
Sebree Elementary	17,295	44,113	45,662	15,746	-	-	15,746
Slaughters Elementary	14,631	24,835	35,611	3,855	-	3,855	-
Waggoner Scholarship	8,914	67	500	8,481	-	-	8,481
<b>TOTAL</b>	<b>\$ 280,595</b>	<b>\$ 628,564</b>	<b>\$ 593,481</b>	<b>\$ 315,678</b>	<b>\$ -</b>	<b>\$ 3,855</b>	<b>\$ 311,823</b>

Note: Included in receipts and disbursements are interfund transfers of \$ 59,121.

**WEBSTER COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
WEBSTER COUNTY HIGH SCHOOL  
FOR THE YEAR ENDED JUNE 30, 2012**

	Cash Balances			Cash Balances	Accounts	Accounts Payable	Fund Balances
	July 1, 2011	Receipts	Disbursements	June 30, 2012	Receivable June 30, 2012	June 30, 2012	June 30, 2012
Academic Team	\$ 419	\$ -	\$ -	419	\$ -	\$ -	\$ 419
Agriculture	499	1,905	1,416	988	-	-	988
Annual	6,201	14,913	6,008	15,106	-	-	15,106
Archery	-	1,750	735	1,015	-	-	1,015
Athletic	23,317	81,206	74,462	30,061	-	-	30,061
Athletic - Boys BB	31	7,456	7,310	177	-	-	177
Athletic - Girls BB	231	6,848	7,046	33	-	-	33
Band	-	150	98	52	-	-	52
Baseball	360	770	1,109	21	-	-	21
Beta	388	1,916	1,933	371	-	-	371
Bookstore	5,187	20,318	17,734	7,771	-	-	7,771
Charitable	-	2,490	2,490	-	-	-	-
Cheerleaders	81	3,105	2,871	315	-	-	315
Class of '13	2,089	7,523	9,612	-	-	-	-
Class of '14	1	3,509	1,639	1,871	-	-	1,871
Clay PTA Scholarship	375	-	375	-	-	-	-
Cross Country - Boys & Girls	933	400	795	538	-	-	538
Culinary Skills	-	1,704	1,287	417	-	-	417
Dance Team	1,559	3,761	4,801	519	-	-	519
Drinks - Teachers Lounge	2,171	1,855	4,026	-	-	-	-
F F A	1,962	33,571	35,521	12	-	-	12
FACS	627	903	1,035	495	-	-	495
FCA	100	2,143	2,070	173	-	-	173
FCCLA	756	4,541	4,026	1,271	-	-	1,271
Football	1,799	21,153	7,770	15,182	-	-	15,182
General Fund	10,196	39,305	40,837	8,664	-	-	8,664
Girls Softball	104	5,327	5,161	270	-	-	270
Golf	-	10,106	3,962	6,144	-	-	6,144
Graduation	566	801	1,137	232	-	-	232
Greenhouse	8,712	5,729	3,184	11,257	-	-	11,257
Guidance	20	2,778	2,237	561	-	-	561
Inst. Science	791	3,935	3,426	1,300	-	-	1,300
Intramural Soccer	239	-	239	-	-	-	-
Lance	793	1,285	2,078	-	-	-	-
Library	1,773	605	569	1,809	-	-	1,809
Middle School Athletics	-	37,877	24,128	13,749	-	-	13,749
Mock Trial	1,864	201	1,383	682	-	-	682
Performing Arts	305	-	305	-	-	-	-
Physical Education	735	553	347	941	-	-	941
Power Lifting	4	-	4	-	-	-	-
Project Graduation	674	14,957	13,414	2,217	-	-	2,217
Quiz Bowl	800	83	820	63	-	-	63
R. C.	5,877	470	1,153	5,194	-	-	5,194
Renaissance	3,935	2,496	1,542	4,889	-	-	4,889
Scholarships	3,303	1,983	1,125	4,161	-	-	4,161
Sebree Scholarships	341	-	341	-	-	-	-
Senior Class Trip	3,995	42,249	41,519	4,725	-	-	4,725
Soccer	71	500	397	174	-	-	174
Student Council	289	-	210	79	-	-	79
Student Rewards	-	1,968	1,205	763	-	-	763
Teachers Lounge-Drinks	-	2,103	1,331	772	-	-	772
Tennis - Boys & Girls	1,323	1,139	978	1,484	-	-	1,484
Track - Boys & Girls	3,318	949	1,950	2,317	-	-	2,317
Trojan Bank Scholarship	271	-	271	-	-	-	-
Volleyball	826	2,357	2,823	360	-	-	360
WC FRYSC Memorial Fund	105	150	-	255	-	-	255
Young Politicians	453	1,853	1,755	551	-	-	551
Youth Experiencing Success	3,630	2,117	2,513	3,234	-	-	3,234
Text Rent Fees	26,110	7,262	11,706	21,666	-	-	21,666
Pep Club	375	1,356	664	1,067	-	-	1,067
Practical Living	150	717	786	81	-	-	81
<b>TOTAL</b>	<b>\$ 131,034</b>	<b>\$ 417,103</b>	<b>\$ 371,669</b>	<b>\$ 176,468</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 176,468</b>

**WEBSTER COUNTY BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR PASS-THROUGH GRANTOR	FEDERAL CFDA#	AGENCY OR PASS-THROUGH NUMBER	FEDERAL DISBURSEMENTS /EXPENDITURES
PROGRAM TITLE			
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	7760005	\$ 206,985
NATIONAL SCHOOL LUNCH PROGRAM	10.555	7750002	505,836
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	7740023	<u>40,165</u>
TOTAL CHILD NUTRITION CLUSTER			<u>752,986</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>752,986</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	3100D	2,988
		3101	119,339
		3101D	45,226
		3101M	478
		3101T	81
		3102	345,589
		3142	10,765
		3202	<u>18,303</u>
			<u>542,769</u>
ARRA - TITLE I PART A	84.389A	3919	58,260
ARRA - TITLE I PART D		3999	<u>(909)</u>
			<u>57,351</u>
TOTAL TITLE I			<u>600,120</u>
MIGRANT EDUCATION STATE GRANT PROGRAM	84.011	3111	33,401
		3112	<u>122,651</u>
			<u>156,052</u>
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES (IDEA, PART B)	84.027	3371	228,648
		3372	233,735
SPECIAL EDUCATION - PRESCHOOL GRANTS (IDEA, PRESCHOOL)	84.173	3430	6,085
		3431	29,682
ARRA - IDEA B	84.391A	4249	42,339
ARRA - IDEA PRESCHOOL	84.392A	4239	<u>10,472</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>550,961</u>

**U.S. DEPARTMENT OF EDUCATION, CONTINUED**

EDUCATION TECHNOLOGY STATE GRANTS	84,318	4251	<u>23</u>
RURAL EDUCATION	84,358	3501	17,602
		3502	<u>29,749</u>
			<u>47,351</u>
ENGLISH LANGUAGE ACQUISITION GRANTS	84,365	3451	16,673
		3452	<u>19,213</u>
			<u>35,886</u>
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84,196	3219	<u>6,542</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATE	84,048	3482	10,200
		3481	13,788
		3481A	583
		3480A	503
		3489	<u>(8,882)</u>
			<u>16,192</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84,367	4012	<u>84,940</u>
SERVICE LEARNING GRANT	94,004	6751	3,739
		6750	<u>1,542</u>
			<u>5,281</u>
EDUCATION JOBS FUND	84,410	4411	<u>157,344</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>1,660,692</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 2,413,678</u>

**Note A: Basis of Presentation**

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

**Note B: Summary of Significant Accounting Policies**

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

**WEBSTER COUNTY SCHOOL DISTRICT  
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL  
JUNE 30, 2012**

<u>Board Members</u>	<u>Address</u>	<u>Term Expires</u>
James Nance Chairman	Sebree, Kentucky	January 1, 2013
Tim McCormick Vice Chairman	Clay, Kentucky	January 1, 2015
Jeff Pettit	Sebree, Kentucky	January 1, 2015
Steve Henry	Providence, Kentucky	January 1, 2013
Dr. E Carolyn Tucker	Dixon, Kentucky	January 1, 2013

Administrative Personnel

Dr. James A. Kemp - Superintendent and Secretary of the Board

Alan Lossner - Assistant Superintendent

Riley Ramsey – Assistant Superintendent

Tonia Duncan – Treasurer



# Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

## 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*

State Committee for School District Audits  
Members of the Board of Education  
Webster County School District  
Dixon, Kentucky

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Webster County School District as of and for the year ended June 30, 2011, which collectively comprise the Webster County School District's basic financial statements and have issued my report thereon dated December 3, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the State Committee for School District Audits, in the *Appendix I (General Audit Requirements)*, *Appendix II (State Audit Requirements)*, and *Appendix III (Electronic Submission) of the Independent Auditor's Contract*.

### Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

I noted certain matters that I reported to management of Webster County School District, in a separate letter dated December 3, 2012.

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

A handwritten signature in black ink, appearing to read "Michael L. Overby CPA, PLLC". The signature is written in a cursive, flowing style.

Michael L. Overby CPA, PLLC  
December 3, 2012



# Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY 42450

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

To the State Committee for School District Audits  
Members of the Board of Education  
Webster County School District  
Dixon, Kentucky

### Compliance

I have audited Webster County School District's compliance with the types of compliance requirement's described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Webster County School District's major federal programs for the year ended June 30, 2012. Webster County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major programs is the responsibility of Webster County School District's management. My responsibility is to express an opinion on Webster County School District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the requirements prescribed by the State Committee for School District Audits, in Appendix I (General Audit Requirements), Appendix II (State Audit Requirements), and Appendix III (Electronic Submission) of the independent auditor's contract. Those standards and OMB Circular A-133 require that I 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 Webster County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Webster County School District's compliance with those requirements.

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

### Internal Control over Compliance

Management of Webster County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Webster County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of Webster County School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, Board of Education, others within the entity, 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.



Michael L. Overby CPA, PLLC  
December 3, 2012

**WEBSTER COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended June 30, 2012**

**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Webster County School District.
2. No significant deficiencies in internal control were disclosed during the audit of the financial statements as reported in the 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*.
3. No instances of noncompliance material to the financial statements of Webster County School District were disclosed during the audit.
4. There are no significant deficiencies in internal control disclosed during the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB A-133.
5. The auditor's report on compliance for the major federal award programs for the Webster County School District expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

- Title I	84,010
Child Nutrition Cluster:	
- National School Lunch	10,555
- School Breakfast	10,553
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Webster County Board of Education was determined not to be a low risk auditee.

**B. Findings-Financial Statements Audit**

None

**C. Findings and Questioned Costs - Major Federal Award Program Audit**

None

**WEBSTER COUNTY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
for the year ended June 30, 2012**

**FINDING AND QUESTIONED COSTS-MAJOR FEDERAL AWARDS PROGRAMS AUDIT**

The audit did not disclose any audit findings that the auditor is required to report under Section 510(a) of Circular A-133.



*Michael L. Overby, CPA, PLLC*

*Certified Public Accountant*

*2201 Westerfield Drive, Suite C*

*Providence, KY 42450*

State Committee for School District Audits  
Members of the Board of Education  
Webster County School District  
Dixon, Kentucky 42409

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

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. A separate report dated December 3, 2012, contains my report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect my report dated December 3, 2012 on the financial statements of the Webster County School District.

I appreciate the opportunity to bring these comments to your attention. I have already discussed many of these comments and suggestions with various District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Michael L. Overby CPA, PLLC  
December 3, 2012

**WEBSTER COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Current Year Management Letter Points**

1) **Purchase Orders**

I noted instances of purchase orders not being prepared properly. Purchase orders are to be used as documentation that a purchase is properly authorized, not merely an additional form to be attached to an invoice indicating approval. Except for purchases made on the same day, purchase orders should pre-date the vendor's invoice and the check date. Not only does the proper use of purchase orders and in the control of school expenses, it also protects purchases from the possibility of being denied reimbursements of purchases for school purposes. It was also discovered that the purchase request and purchase orders were signed by the principal. (Relates to all schools). There has been a significant improvement over prior years.

Recommendation: I recommend that purchase orders be utilized and properly completed as required by the "Red Book."

Response: Schools will be directed to comply with all rules of the "Red Book" in relation to purchase orders. Specifically, they will be directed to issue purchase orders before invoices and payments.

2) **Required Forms**

The KDOE "Red Book" requires use of specific forms (or reasonable facsimiles) for certain activities such as: (1) Multiple receipts, (2) Fundraising, (3) Inventory control, (4) Internal account – budgets, (5) Transfers, (6) Ticket sales, and (7) Annual financing reports. I noted instances where it appeared that these forms were either not completed or completed incorrectly. There has been a significant improvement over prior years.

**Multiple Receipts:** Many completed by teachers (All Schools)

Recommendation: I recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these forms.

Response: Individual schools will be directed to follow all requirements of "Red Book" in relation to these required forms.

3) **Fixed Assets**

Governmental accounting standards require that the District record and account for changes in its fixed assets, including depreciation. I noted deficiencies in the recording of fixed assets, specifically, the incorporation of the fixed assets from the Providence Independent School District following the merger, and fixed assets not being recorded on the fixed asset schedule. Also, the tagging of the fixed assets has been inconsistent with the numerical sequence of the tags. A fixed asset policy has been adopted to provide for the asset policy and controls include guidelines and procedures for centralized recording of additions and deletions to the District's fixed asset. Noncompliance with the policy and its internal controls provides opportunities for the undetected loss of assets.

**Recommendation:** I recommend strict adherence to the District's fixed asset procedures. I also recommend all fixed assets be retagged using a consistent system of number with the corresponding school location numbers being incorporated into the number.

**Response:** The area of fixed assets is improving, however, the board is making a consciences effort to adhere to this policy.

**WEBSTER COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Prior Year Management Letter Points**

1) **Purchase Orders**

I noted instances of purchase orders not being prepared properly. Purchase orders are to be used as documentation that a purchase is properly authorized, not merely an additional form to be attached to an invoice indicating approval. Except for purchases made on the same day, purchase orders should pre-date the vendor's invoice and the check date. Not only does the proper use of purchase orders and in the control of school expenses, it also protects purchases from the possibility of being denied reimbursements of purchases for school purposes. It was also discovered that the purchase request and purchase orders were not signed by the teacher requesting the purchase. (Relates to all schools).

**Recommendation:** I recommend that purchase orders be utilized and properly completed as required by the "Red Book."

**Response:** Schools will be directed to comply with all rules of the "Red Book" in relation to purchase orders. Specifically, they will be directed to issue purchase orders before invoices and payments.

**See comment FYE 6/30/2012**

2) **Required Forms**

The KDOE "Red Book" requires use of specific forms (or reasonable facsimiles) for certain activities such as: (1) Multiple receipts, (2) Fundraising, (3) Inventory control, (4) Internal account – budgets, (5) Transfers, (6) Ticket sales, and (7) Annual financing reports. I noted instances where it appeared that these forms were either not completed or completed incorrectly.

**Multiple Receipts:** Many completed by teachers (All Schools)

**Fundraising:** Same forms were either not used or used incorrectly. (Clay, Dixon)

**Inventory Control:** Some forms were either not used or used incorrectly. (Dixon)

**Recommendation:** I recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these forms.

**Response:** Individual schools will be directed to follow all requirements of "Red Book" in relation to these required forms.

**See comment FYE 6/30/2012**

3) **Fixed Assets**

Governmental accounting standards require that the District record and account for changes in its fixed assets, including depreciation. I noted deficiencies in the recording of fixed assets, specifically, the incorporation of the fixed assets from the Providence Independent School District following the merger, and fixed assets not being recorded on the fixed asset schedule. Also, the tagging of the fixed assets has been inconsistent with the numerical sequence of the tags. A fixed asset policy has been adopted to provide for the asset policy and controls include guidelines and procedures for centralized recording of additions and deletions to the District's fixed asset.

Noncompliance with the policy and its internal controls provides opportunities for the undetected loss of assets.

**Recommendation:** I recommend strict adherence to the District's fixed asset procedures. I also recommend all fixed assets be retagged using a consistent system of number with the corresponding school location numbers being incorporated into the number.

**Response:** A full-time employee has been hired to be responsible for all recording of fixed asset additions and deletions and for the consistency of tags being used.

See finding 2010-1 – Significant Deficiency