

CARLISLE COUNTY SCHOOL DISTRICT



FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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Independent Auditor's Report

Kentucky State Committee For School
District Audits
Members of the Board
Carlisle County School District
Bardwell, Kentucky

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 Carlisle County School District as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012, on our consideration of Carlisle County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Carlisle County School District's financial statements as a whole. The additional information shown on pages 36 through 45 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards on pages 46 and 47 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams, Williams + Lentz, LLP

November 5, 2012

REQUIRED SUPPLEMENTARY INFORMATION

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

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

FINANCIAL HIGHLIGHTS

- On July 1, 2011, the beginning cash balance including investments for all District funds was \$1,167,503. This total does not include agency or activity funds held at the school level.
- On June 30, 2012, the ending cash balance, including investments for all District funds, was \$3,005,905, an increase of \$1,838,402. This increase is due to bond proceeds from the cafeteria project.
- Total revenues for the District General Fund were \$6,090,931. The primary source of these revenues was the state SEEK program and local taxes.
- Total expenditures for the District General Fund were \$6,156,736. Of these expenses, 38.3% were instructional salary costs, which were raised by \$100 for certified employees and \$.10 per hour for classified employees.
- The ending balance for the District General Fund was \$813,204, a decrease from the prior year of \$65,805. This decrease is due to major maintenance work done during the school year.
- Ending carryover balance for the District General Fund was \$778,717. This includes contingency in the amount of \$387,000 and Unassigned Funds of \$391,717.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The District's basic financial statements are comprised of three components:

1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information.

Government-wide financial statements: The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of a private-sector business.

The *statement of net assets* provides information concerning the District's assets and liabilities, with net assets being the difference between the two. A long-term trend of increasing or decreasing net assets may be an indicator of District financial stability. However, one must take into consideration that the primary purpose of a school district is to provide quality educational services to all students, not to generate profits. Many factors over which the District has no control have a significant influence on the financial position of the District. Some of these include: property tax wealth, state and federal tax laws, restricted educational program funding, and others.

The *statement of activities* provides a more detailed explanation of the change in net assets over the fiscal year. Revenues and Expenses are recorded when incurred, not when received or paid. Governmental activities are those supported by property taxes and intergovernmental revenues. These activities include: instruction, support services, plant operations and maintenance, transportation, community services, facility acquisition and construction, and interest on long-term debt.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements: A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS accounting software. All of the District's funds can be divided into 3 types: governmental, proprietary, and fiduciary. Food Service is our only proprietary fund. Fiduciary funds are held as trust funds established by benefactors to aide in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 17 of this report.

Notes to the financial statements: The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 18 through 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As previously discussed, net assets may be a long-term indicator of a District's financial position. For the fiscal year ended June 30, 2012, the District's assets exceeded liabilities by 2.79 million. The largest portion (1.91 million) of these assets are capital assets less related debt and funds restricted for capital projects, allocations to Site-Based Council funds required by statute, debt service, and sick leave payable.

Net Assets for the Years Ended June 30

	<u>2012</u>	<u>2011</u>
Current assets	\$ 3,444,227	\$ 1,733,678
Non-current assets	<u>10,378,017</u>	<u>7,755,505</u>
Total assets	<u>13,822,244</u>	<u>9,489,183</u>
Current liabilities	1,355,583	545,568
Non-current liabilities	<u>9,679,444</u>	<u>5,913,073</u>
Total liabilities	<u>11,035,027</u>	<u>6,458,641</u>
Capital investments (less related debt)	685,177	1,526,776
Restricted	1,223,464	468,730
Unrestricted	<u>878,576</u>	<u>1,035,036</u>
TOTAL NET ASSETS	<u>\$ 2,787,217</u>	<u>\$ 3,030,542</u>

As a comparison for the year ended June 30, 2012, total net assets have decreased by \$243,325.

The following is a summary of revenues and expenses for the year ended June 30, 2012, for selected funds.

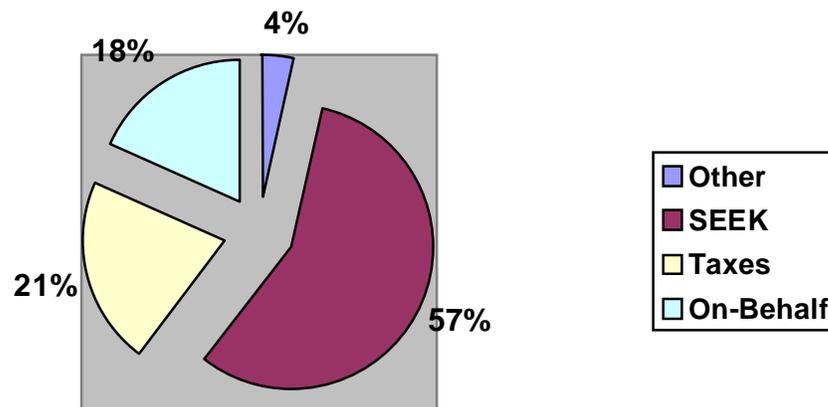
Revenues:	<u>2012</u>	<u>2011</u>
Operating grants and contributions	\$ 1,680,690	\$ 1,942,922
Capital grants and contributions	493,593	422,547
Charges for services	157,816	158,631
Taxes	1,515,589	1,492,335
State aid	4,616,900	4,451,932
Investment earnings	25,611	22,716
Other	94,359	9,412
Loss on sale of equipment	<u>(1,117)</u>	<u>22,248</u>
Total revenues	<u>8,583,441</u>	<u>8,522,743</u>

Expenses:	<u>2012</u>	<u>2011</u>
Instruction	\$ 4,759,364	\$ 4,896,762
Student support services	286,237	211,662
Instructional staff support	195,005	176,832
District administration	389,939	421,307
School administration	374,705	368,859
Business	274,346	101,641
Plant operations and maintenance	955,098	780,933
Student transportation	582,968	579,838
Community service	79,263	77,234
Facility acquisition and construction	94,009	53,804
Interest on long-term debt	359,474	271,203
Food services	<u>476,358</u>	<u>523,095</u>
 Total expenses	 <u>8,826,766</u>	 <u>8,463,170</u>
 CHANGE IN NET ASSETS	 <u>\$ (243,325)</u>	 <u>\$ 59,573</u>

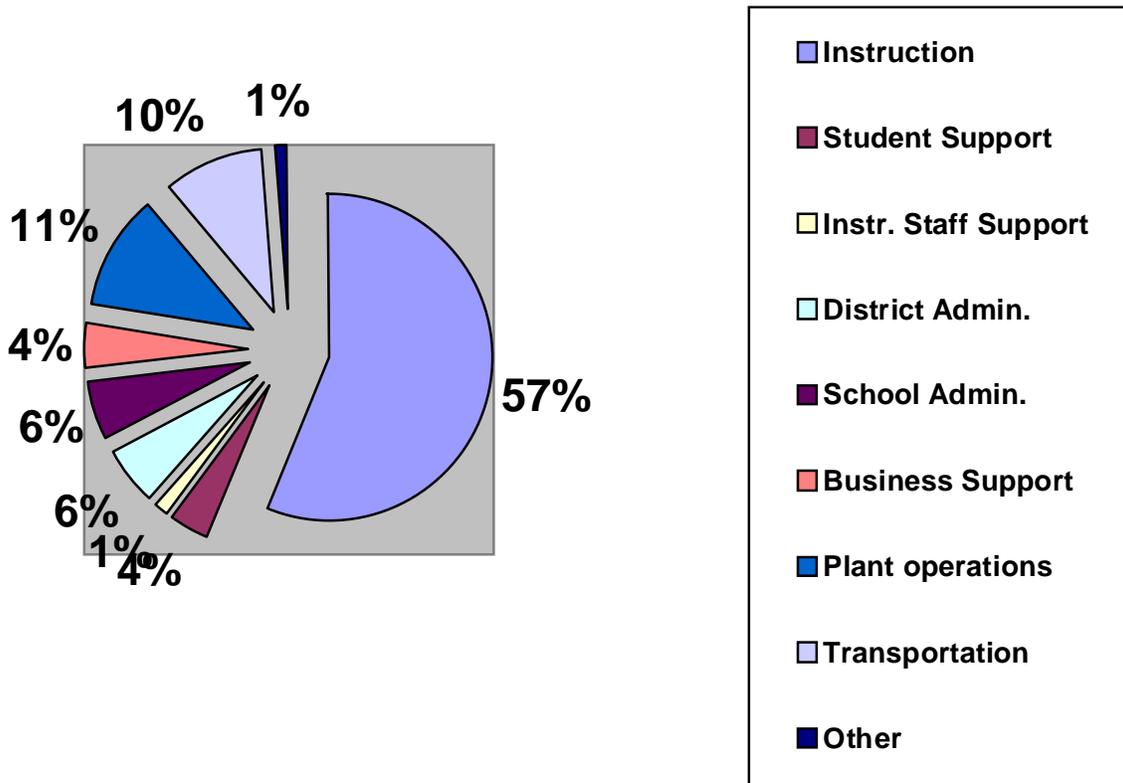
Overview of Fund Activities and Budgets

General Fund

By statute, the District's general fund budget is a three-stage process. The draft budget is prepared in January for the next fiscal year. It is further revised in April as a tentative budget and finalized in September as the working budget. The budget consists of management's best efforts to predict revenues and expenditures for the year. The District's two major sources of revenue come from the state's SEEK program and local tax dollars. The SEEK amounts are set by the Kentucky Legislature based on a per pupil amount. Tax rates are set by the Board of Education in September. Below is an illustration of actual revenues for the period ending June 30, 2012. Total general fund revenues for 2011-2012 are \$6,090,931.



The primary expenditure category for the District is instruction. This is made up of teachers' salaries and benefits, as well as monies allocated to the site-based councils for instructional supplies. All other general fund expenditures fall into the support services category. These include Student support, instructional staff support, district administration, school administration, business support, plant operations and maintenance, and transportation. Total general fund expenditures for 2011-2012 were \$6,156,736. Below is an illustration of the distribution of general fund expenditures.



Comments on Budget Comparison

Excluding on-behalf payments of \$1,123,395, the General Fund budget compared to actual revenue varied slightly with the ending balance being 7.6% or \$352,635 more than budgeted. This is largely due to an increase of \$38,000 in SEEK funds over the forecasted amount used for the working budget as well as an increase of \$159,000 in taxes collected over the budgeted amount. The carryover from the prior year was \$79,000 more than was budgeted as well. A conservative estimate of both SEEK funds and taxes were used to offset any decrease in funding from the state during the school year.

General Fund Expenditures, net of on-behalf payments of \$1,123,395, compared to budgeted expenditures, net of contingency allotments of \$387,000, were \$5,400 more than budgeted. Salary costs were \$126,000 less than budgeted, due to unpaid medical leaves as well as additional funding received from federal sources.

RESTRICTED FUNDS

The Special Revenue fund is made up of state and federal grants. These grants are for specific purposes, such as the various Title programs, Extended School Services, Family Resource and Youth Services Center, Safe Schools, Gifted and Talented, and others. The ending balance in this fund will always be zero.

The Capital Outlay Fund is a state appropriation given for the purpose of new construction and site improvements, as well as debt service payments and may not be used for the general operating expenses of the District. Due to increased flexibility granted by the General Assembly, districts were given the authorization to use capital outlay funds for major maintenance projects, as well as to pay to property and fleet insurance following approval from the Department of Education. During the 2011-2012 year, \$84,449 of capital outlay funds was used to pay for property and fleet insurance.

The FSPK, or Building Fund, is funded through a percentage of local property taxes as well as monies appropriated by the state. The primary expense of this fund is to pay bond principal and interest on long-term debt. FSPK Funds may also be used for new construction and site improvements. During the 2011-2012 school year, \$352,019 was paid out for debt retirement.

The Fiscal Agent Fund is treated as a “pass-through” account. The Board was designated as fiscal agent for the KY-ASAP grant in the amount of \$205,963 to date plus reimbursements from another school district for their shared use of the coordinator.

The Food Service fund is a proprietary fund that is self-sufficient. Its revenues consist of state reimbursements and receipts from the sale of breakfast and lunch.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2012, the District’s capital assets net of related debt totaled \$685,177. The decrease of \$841,599 is largely due to depreciation and debt retirements.

Principal and interest debt payments for 2011-2012 totaled \$409,311 excluding payments made by SFCC. There are currently seven outstanding bond issues, one of which is totally funded by SFCC payments and three capital leases as of June 30, 2012. The total principal to be paid by the School District, exclusive of payments made by the SFCC are as follows:

<u>Project</u>	<u>Amount</u>	<u>Maturity</u>
2007 - Qualified Zone Academy Revenue Bond	\$ 500,000	2022
2008 - Improvements/HVAC High/Middle School	1,571,411	2028
2009 - High School Roof/Grinder/Paving	176,410	2029
2009Ref - Refinancing of 1994 and 1996 Issues	22,215	2017
KISTA - Bus Lease	176,975	2019
2010Ref - Refinancing of 2001 Issue	1,450,000	2021
Musco Lighting Lease	133,046	2021
2011 - Qualified Zone Academy Bond	4,010,000	2029
2012 KISTA - Bus Lease	92,474	2022

See Notes 5 and 6 on pages 26 through 29 for additional detail.

FUTURE BUDGETARY IMPLICATIONS

The fiscal year for all public schools in Kentucky is July 1 - June 30. Many of the grant programs operate on a different calendar, but are reflected in the District’s overall budget.

As state funding to public schools has decreased, the District’s general fund budget as well as many grant programs have become much tighter. When coupled with increasing salary costs as well as the rising costs of utilities and fuel and increased maintenance costs due to the aging of our facilities, the District has been forced to make difficult decisions concerning the most efficient ways of doing business. The District has made HVAC and electrical improvements in two of our schools. Renovations have been made to the interiors of both the middle and high schools. A grinder has been installed in our sewage treatment facility, the high school has received a new roof, and all parking lots have been paved. A new district-wide cafeteria was completed in August 2013. All of these projects should help to extend the useful life of our current campus.

By law, districts must maintain at least a 2% contingency in the general fund. For fiscal year 2012-2013, the Board has approved a 6.4% contingency in the working budget. A \$100 salary increase for all certified employees and an increase of \$.50 per hour for all classified personnel were given for fiscal year 2012-2013.

We continue to strive to find the most cost-effective ways to spend our resources, while still offering the highest quality of education possible to the students of this district.

Any questions concerning this report can be directed to Superintendent Randy McCallon (270-628-3800) or Finance Officer Rachel Bowles (270-628-3800 ext. 7006).

BASIC FINANCIAL STATEMENTS

CARLISLE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
 JUNE 30, 2012

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$ 2,599,693	\$ 75,658	\$ 2,675,351
Accounts receivable:			
Taxes	40,091	-	40,091
Delinquent taxes, net of allowance of \$284,000	85,139	-	85,139
Accounts	39,778	-	39,778
Interest	1,268	346	1,614
Intergovernmental - federal	245,179	1,303	246,482
Investments - prefunded escrow	330,554	-	330,554
Inventories	-	25,218	25,218
Deferred bond issuance cost and discounts	207,631	-	207,631
Nondepreciated capital assets:			
Land	10,500	-	10,500
Construction-in-progress	2,831,113	-	2,831,113
Depreciated capital assets:			
Land improvements	162,619	-	162,619
Buildings	9,059,234	-	9,059,234
Furniture and equipment	3,287,644	260,392	3,548,036
Less: accumulated depreciation	<u>(5,261,120)</u>	<u>(179,996)</u>	<u>(5,441,116)</u>
TOTAL ASSETS	<u>\$ 13,639,323</u>	<u>\$ 182,921</u>	<u>\$ 13,822,244</u>
 <u>LIABILITIES AND NET ASSETS</u> 			
Liabilities:			
Accounts payable	\$ 742,302	\$ 3,828	\$ 746,130
Accrued payroll and related expenses	4,892	-	4,892
Deferred revenues	73,685	-	73,685
Construction retainage	104,609	-	104,609
Long-term obligations:			
Due within one year:			
Bond and lease obligations	346,803	-	346,803
Interest payable	79,464	-	79,464
Due beyond one year:			
Bond and lease obligations	9,649,344	-	9,649,344
Accrued sick leave payable	<u>30,100</u>	<u>-</u>	<u>30,100</u>
Total liabilities	<u>11,031,199</u>	<u>3,828</u>	<u>11,035,027</u>
Net Assets:			
Invested in capital assets, net of related debt	604,781	80,396	685,177
Restricted for:			
Sick leave	8,900	-	8,900
Debt service	346,379	-	346,379
Future construction contracts	868,185	-	868,185
Unrestricted	<u>779,879</u>	<u>98,697</u>	<u>878,576</u>
Total net assets	<u>2,608,124</u>	<u>179,093</u>	<u>2,787,217</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,639,323</u>	<u>\$ 182,921</u>	<u>\$ 13,822,244</u>

See notes to financial statements.

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

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			
Governmental Activities:	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Instruction	\$4,759,364	\$ 24,114	\$1,140,608	\$ -
Support services:				
Student	286,237	-	26,872	-
Instructional staff	195,005	-	99,041	-
District administration	389,939	-	-	-
School administration	374,705	-	-	-
Business	274,346	-	-	-
Plant operations and maintenance	955,098	-	20,286	-
Student transportation	582,968	-	-	-
Community service	79,263	-	78,414	-
Facility acquisition and construction	94,009	-	-	214,981
Interest on long-term debt	359,474	-	-	278,612
	<u>8,350,408</u>	<u>24,114</u>	<u>1,365,221</u>	<u>493,593</u>
Business-type Activities:				
Food services	476,358	133,702	315,469	-
	<u>476,358</u>	<u>133,702</u>	<u>315,469</u>	<u>-</u>
TOTAL SCHOOL DISTRICT	<u><u>\$8,826,766</u></u>	<u><u>\$157,816</u></u>	<u><u>\$1,680,690</u></u>	<u><u>\$493,593</u></u>

General revenue and receipts:

Taxes:

Property
Motor vehicle
Utility
In lieu
Telecommunication
Other

State aid
State aid - on-behalf
Investment earnings
Other

Special items:

Loss from sale of equipment
Transfers

Total general revenue and special items

Change in net assets

Net assets, July 1, 2011

NET ASSETS, JUNE 30, 2012

See notes to financial statements.

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business-type Activities	Total
\$ (3,594,642)	\$ -	\$ (3,594,642)
(259,365)	-	(259,365)
(95,964)	-	(95,964)
(389,939)	-	(389,939)
(374,705)	-	(374,705)
(274,346)	-	(274,346)
(934,812)	-	(934,812)
(582,968)	-	(582,968)
(849)	-	(849)
120,972	-	120,972
(80,862)	-	(80,862)
<u>(6,467,480)</u>	<u>-</u>	<u>(6,467,480)</u>
-	(27,187)	(27,187)
<u>(6,467,480)</u>	<u>(27,187)</u>	<u>(6,494,667)</u>
890,090	-	890,090
243,525	-	243,525
296,251	-	296,251
72,370	-	72,370
13,353	-	13,353
-	-	-
3,443,153	-	3,443,153
1,123,395	50,352	1,173,747
24,692	919	25,611
94,359	-	94,359
(1,117)	-	(1,117)
<u>48,634</u>	<u>(48,634)</u>	<u>-</u>
<u>6,248,705</u>	<u>2,637</u>	<u>6,251,342</u>
(218,775)	(24,550)	(243,325)
<u>2,826,899</u>	<u>203,643</u>	<u>3,030,542</u>
<u>\$ 2,608,124</u>	<u>\$179,093</u>	<u>\$ 2,787,217</u>

CARLISLE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue (Grant) Fund</u>	<u>Construction Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$793,621	\$ (184,197)	\$ 1,831,853	\$ 158,416	\$ 2,599,693
Accounts receivable:					
Taxes	40,091	-	-	-	40,091
Accounts	6,600	33,178	-	-	39,778
Interest	1,268	-	-	-	1,268
Intergovernmental - federal	-	245,179	-	-	245,179
TOTAL ASSETS	<u><u>\$841,580</u></u>	<u><u>\$ 94,160</u></u>	<u><u>\$ 1,831,853</u></u>	<u><u>\$ 158,416</u></u>	<u><u>\$ 2,926,009</u></u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 23,484	\$ 20,475	\$ 693,216	\$ 5,127	\$ 742,302
Accrued payroll and related expenses	4,892	-	-	-	4,892
Deferred revenues	-	73,685	-	-	73,685
Total liabilities	<u>28,376</u>	<u>94,160</u>	<u>693,216</u>	<u>5,127</u>	<u>820,879</u>
Fund Balances:					
Restricted for:					
Sick leave	8,900	-	-	-	8,900
Debt service	-	-	-	105	105
Future construction contracts	-	-	1,138,637	-	1,138,637
Committed for:					
Future construction contracts	-	-	-	137,464	137,464
Contingency	387,000	-	-	-	387,000
Assigned for:					
Debt service	-	-	-	15,720	15,720
Site based carry forward SBDM	25,587	-	-	-	25,587
Unassigned	391,717	-	-	-	391,717
Total fund balances	<u>813,204</u>	<u>-</u>	<u>1,138,637</u>	<u>153,289</u>	<u>2,105,130</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$841,580</u></u>	<u><u>\$ 94,160</u></u>	<u><u>\$ 1,831,853</u></u>	<u><u>\$ 158,416</u></u>	<u><u>\$ 2,926,009</u></u>

See notes to financial statements.

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

Total fund balances per fund financial statement \$ 2,105,130

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost	\$15,351,110	
Accumulated depreciation	<u>(5,261,120)</u>	10,089,990

Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.

Delinquent taxes	85,139	
Investments - prefunded escrow	<u>330,554</u>	415,693

Deferred charges including debt issuance costs are amortized in the governmental activities, but were recognized in full in the governmental funds. 207,631

Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.

Interest payable	(79,464)	
Construction retainage	<u>(104,609)</u>	(184,073)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bond and lease obligations	(9,996,147)	
Accrued sick leave payable	<u>(30,100)</u>	<u>(10,026,247)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 2,608,124**

Note: Nonmajor funds consist of the Capital Outlay, FSPK, and Debt Service.

See notes to financial statements.

CARLISLE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue (Grant) Fund	Construction Fund	Nonmajor Funds	Total Governmental Funds
Revenues:					
Taxes	\$1,294,203	\$ -	\$ -	\$230,320	\$1,524,523
Earnings on investments	11,683	-	-	1	11,684
Intergovernmental - state	3,456,506	437,253	-	414,685	4,308,444
Intergovernmental - on-behalf	1,123,395	-	-	-	1,123,395
Intergovernmental - federal	-	830,588	-	78,908	909,496
Other	94,036	108,494	-	13,322	215,852
Total revenues	5,979,823	1,376,335	-	737,236	8,093,394
Expenditures:					
Current:					
Instruction	3,447,857	1,166,102	-	-	4,613,959
Support services:					
Student	248,227	26,872	-	-	275,099
Instructional staff	82,872	99,041	-	-	181,913
District administration	359,923	-	-	-	359,923
School administration	366,581	-	-	-	366,581
Business	273,864	-	-	-	273,864
Plant operations and maintenance	694,152	20,286	-	-	714,438
Student transportation	613,335	-	-	-	613,335
Community service	-	78,414	-	-	78,414
Facility acquisition and construction	-	-	2,903,796	84,449	2,988,245
Debt service:					
Principal	34,914	-	-	305,000	339,914
Interest and other charges	20,631	-	64,700	272,748	358,079
Total expenditures	6,142,356	1,390,715	2,968,496	662,197	11,163,764
Excess (deficit) of revenues over expenditures	(162,533)	(14,380)	(2,968,496)	75,039	(3,070,370)
Other Financing Sources (Uses):					
Bond proceeds	92,474	-	4,010,000	-	4,102,474
Proceeds from sale of assets	-	-	-	-	-
Operating transfers in	18,634	14,380	96,199	-	129,213
Operating transfers out	(14,380)	-	-	(66,199)	(80,579)
Total other financing sources (uses)	96,728	14,380	4,106,199	(66,199)	4,151,108
Net change in fund balances	(65,805)	-	1,137,703	8,840	1,080,738
Fund balances, July 1, 2011	879,009	-	934	144,449	1,024,392
FUND BALANCES, JUNE 30, 2012	\$ 813,204	\$ -	\$1,138,637	\$153,289	\$2,105,130

See notes to financial statements.

CARLISLE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balances \$1,080,738

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

Depreciation expense	\$ (497,863)	
Capital outlays	<u>3,088,009</u>	2,590,146

Construction retainage payable is not recognized on the fund statements since it does not require the use of current financial resources. The expense is recognized when incurred in the statement of activities.

Construction retainage		(104,609)
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Bond proceeds are reported as financing sources in governmental funds and, thus, contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Bond proceeds	(4,102,474)	
Capital lease	34,914	
Principal paid	<u>305,000</u>	(3,762,560)

Governmental funds report the effect of issuance costs and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.

Bond issue costs deferred on new bond issues	68,010	
Amortization of bond issuance cost and discounts	<u>(24,565)</u>	43,445

Generally, revenue is recognized in this fund financial statement when it becomes both measurable and available to finance expenditures of the current period.

Delinquent taxes	(22,286)	
Prefunded escrow and interest earned	<u>13,007</u>	(9,279)

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources; but, expenses are recognized in the statement of activities when they are incurred. These net differences are as follows:

Loss on sale of equipment	(1,117)	
Accrued sick leave	(10,700)	
Accrued interest expense	<u>(44,839)</u>	<u>(56,656)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ (218,775)</u></u>
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See notes to financial statements.

CARLISLE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

<u>ASSETS</u>	<u>Enterprise Fund Food Services</u>
Current Assets:	
Cash and cash equivalents	\$ 75,658
Interest receivable	346
Intergovernmental receivable - federal	1,303
Inventories	25,218
Total current assets	102,525
Noncurrent Assets:	
Furniture and equipment	260,392
Less accumulated depreciation	(179,996)
Total noncurrent assets	80,396
TOTAL ASSETS	\$ 182,921
<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities:	
Accounts payable	\$ 3,828
Net Assets:	
Invested in capital assets	80,396
Unrestricted	98,697
Total net assets	179,093
TOTAL LIABILITIES AND NET ASSETS	\$ 182,921

See notes to financial statements.

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

	Enterprise Fund Food Services
Operating Revenues:	
Lunchroom sales	\$ 133,702
Operating Expenses:	
Salaries and wages	222,487
In-kind commodities	27,390
Materials and supplies	204,343
Depreciation	14,820
Other operating expenses	7,318
Total operating expenses	476,358
Operating income (loss)	(342,656)
Nonoperating Revenues:	
Federal grants	283,715
Federal grants - in-kind commodities	27,390
State grants	4,364
State grants - on-behalf	50,352
Interest income	919
Total nonoperating revenues	366,740
Operating Transfers:	
Transfer out	(48,634)
Change in net assets	(24,550)
Net assets, July 1, 2011	203,643
NET ASSETS, JUNE 30, 2012	\$ 179,093

See notes to financial statements.

CARLISLE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Enterprise Fund Food Services</u>
Cash Flows from Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 133,702
Cash paid to/for:	
Employees	(222,487)
Supplies	(219,993)
Other activities	(7,318)
	<u>(316,096)</u>
Net cash used by operating activities	<u>(316,096)</u>
Cash Flows from Noncapital Financing Activities:	
Transfer to general fund	(48,634)
Government grants	338,786
	<u>290,152</u>
Net cash provided by noncapital financing activities	<u>290,152</u>
Cash Flows from Investing Activities:	
Receipt of interest income	1,130
	<u>1,130</u>
Net cash provided by investing activities	<u>1,130</u>
Net decrease in cash and cash equivalents	(24,814)
Cash and cash equivalents, July 1, 2011	<u>100,472</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	<u><u>\$ 75,658</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (342,656)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	14,820
Commodities used	27,390
Change in assets and liabilities:	
Inventory	(4,629)
Accounts payable	(11,021)
	<u>(15,810)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (316,096)</u></u>
Schedule of Noncash Transactions:	
Donated commodities received from federal government	<u><u>\$ 27,390</u></u>

See notes to financial statements.

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

	Agency Funds
Assets:	
Cash and cash equivalents	<u>\$173,735</u>
Liabilities:	
Accounts payable	47,921
Due to student groups	44,928
Due to students in general	76,989
Due to teachers	<u>3,897</u>
 Total liabilities	 <u>173,735</u>
 NET ASSETS	 <u>\$ -</u>

See notes to financial statements.

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 - Reporting Entity:

The Carlisle County Board of Education, a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Carlisle County, Kentucky. The Carlisle County School District (District) receives funding from local, state, and federal government sources and must comply with the commitment requirement 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 because 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 District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations nor has any influence over the operation of the organizations.

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

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

Carlisle County School Board Finance Corporation - In 1988, the Carlisle County, Kentucky School District resolved to authorize the establishment of the Carlisle County School Board Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Carlisle County School District also comprise the Corporation's Board of Directors.

Note 2 - Summary of Significant Accounting Policies:

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

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 all 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Basis of Presentation

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

Fund Financial Statements

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and fund balances, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenue and other financing resources) and uses (i.e., expenditures and other uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in total net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resource measurement focus.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

The District has the following funds:

a. Governmental Fund Types

The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of 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. This is a major fund of the District.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan.
2. 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.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund for the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

b. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$27,390 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund for the District.

c. Fiduciary Fund Types

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

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Basis of Accounting

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

Exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means resources are expected to be received within sixty days of the fiscal year end.

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

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

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

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

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending thirty days after the tax bill mailing. For the government-wide financial statements, property taxes collected are recorded as revenues in the fund for which they are levied.

The property tax rates assessed for the year ended June 30, 2012, to finance operations were \$.492 per \$100 valuation for real property, \$.494 per \$100 valuation for business personal property, and \$.478 per \$100 valuation for motor vehicles.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Property Taxes

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

Budgetary Process

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

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Cash and Cash Equivalents

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

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the proprietary fund. Inventory consists of purchased food held for consumption and is expensed when used. The purchased food is valued at cost.

Debt Costs

Unamortized debt issuance costs in the amount of \$103,344 and unamortized discounts of \$104,287 are included in the government-wide statements. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the effective interest method.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Technology assets acquired through E-rate are capitalized at full cost with the portion paid by E-rate being treated as donated assets.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Capital Assets

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both governmental and business-type capital assets:

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

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted a policy of providing at retirement a percentage of their accumulated unused sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts, when applicable, are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

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.

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, 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 liabilities 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 liabilities in the fund financial statements until due.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Fund Balance Classifications

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows the District's Superintendent or his designee to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts, except negative balances, that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. The Board committed funds to ensure fund balance remains above this level. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,223,464 of restricted net assets, of which \$8,900 is restricted by enabling legislation.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

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.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 5, 2012, the date the financial statements were available to be issued.

Note 3 - Estimates:

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

Note 4 - Cash and Cash Equivalents:

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

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 4 - Cash and Cash Equivalents:

At year end, the carrying amount of the District's cash and cash equivalents was \$2,849,086 and the bank balance was \$3,237,775. Deposits were held in two financial institutions located within Carlisle County. Of the bank balance, \$260,307 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. This remaining balance of \$2,977,468 was uninsured and collateralized with securities held by the pledging bank's agent, not in the District's name.

Note 5 - Capital Assets:

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

	Balance			Balance
	July 1, 2011	Additions	Deductions	June 30, 2012
Governmental Activities:				
Land	\$ 10,500	\$ -	\$ -	\$ 10,500
Construction in progress	144,200	2,686,913	-	2,831,113
Land improvements	162,619	-	-	162,619
Buildings and improvements	8,891,502	167,732	-	9,059,234
Technology equipment	613,461	-	33,669	579,792
General equipment	1,468,763	144,200	-	1,612,963
Vehicles	<u>1,005,725</u>	<u>89,164</u>	<u>-</u>	<u>1,094,889</u>
Totals at historical cost	<u>12,296,770</u>	<u>3,088,009</u>	<u>33,669</u>	<u>15,351,110</u>
Less accumulated depreciation:				
Land improvements	130,095	5,634	-	135,729
Buildings and improvements	3,000,313	231,085	-	3,231,398
Technology equipment	503,877	57,468	32,552	528,793
General equipment	516,548	136,368	-	652,916
Vehicles	<u>644,976</u>	<u>67,308</u>	<u>-</u>	<u>712,284</u>
Total accumulated depreciation	<u>4,795,809</u>	<u>497,863</u>	<u>32,552</u>	<u>5,261,120</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS - NET	<u>\$ 7,500,961</u>	<u>\$2,590,146</u>	<u>\$ 1,117</u>	<u>\$10,089,990</u>
Business-type Activities:				
Food service equipment	\$ 231,569	\$ -	\$ -	\$ 231,569
Technology equipment	<u>28,823</u>	<u>-</u>	<u>-</u>	<u>28,823</u>
Totals at historical cost	<u>260,392</u>	<u>-</u>	<u>-</u>	<u>260,392</u>
Less accumulated depreciation:				
Food service equipment	138,515	13,815	-	152,330
Technology equipment	<u>26,661</u>	<u>1,005</u>	<u>-</u>	<u>27,666</u>
Total accumulated depreciation	<u>165,176</u>	<u>14,820</u>	<u>-</u>	<u>179,996</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS - NET	<u>\$ 95,216</u>	<u>\$ (14,820)</u>	<u>\$ -</u>	<u>\$ 80,396</u>

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 5 - Capital Assets:

Depreciation was charged to governmental functions as follows:

Instruction	\$145,405
Support services:	
Student	11,138
Instructional staff	13,092
District administration	19,316
School administration	8,124
Business	482
Plant operations and management	240,660
Student transportation	58,797
Community services	<u>849</u>
 TOTAL DEPRECIATION EXPENSE	 <u>\$497,863</u>

Note 6 - Bond and Lease Obligations:

The amount shown in the accompanying government-wide financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Carlisle County and the Carlisle County School Board Finance Corporation. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, the SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund, is obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court and the Carlisle County School Board Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security for the holders of the bonds.

The KISTA school bus acquisition bonds provide for the title of the equipment (buses) to vest in the District subject to a first lien, and if nonrenewal or default occurs, the title will revert to KISTA. The District leases and rents the equipment from KISTA on an annual basis and has an exclusive option to renew this lease from year to year for the period of time of the pooled bond issue (approximately 10 years). The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to keep the equipment in good repair and provide insurance coverage.

The MUSCO Master Equipment Lease Purchase Agreement provides for the title of equipment (lighting project) and all additions, repairs, replacements or modifications shall vest in the District. If nonrenewal or default occurs, the title will revert to MUSCO. The Master Equipment Lease Purchase Agreement is for a term of 10 years with the option to renew at the end of the original term or any renewal term for an additional renewal term. Principal and interest payments are to be paid annually beginning June 1, 2012.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 6 - Bond and Lease Obligations:

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
August 1, 2007	\$ 565,000	3.70% - 4.125%
September 6, 2007 (QZAB)	500,000	5.860%
May 1, 2008	2,560,000	2.30% - 4.000%
January 1, 2009 (KISTA)	255,609	2.00% - 3.900%
June 1, 2009	735,000	4.150%
July 1, 2009 (Refinancing)	325,000	1.00% - 3.000%
October 1, 2010 (Refinancing)	1,610,000	.800% - 3.000%
April 15, 2011 (MUSCO)	144,200	5.450%
October 1, 2011 (QZAB)	4,010,000	4.60%
January 1, 2012 (KISTA)	92,474	2.00% - 2.625%

The October 2012 bond issue is a \$4,010,000 Qualified Zone Academy Revenue Bond which is a tax credit bond. The District received \$4,010,000, less the issuance cost of \$64,700, to deposit into its construction fund. The District and the Kentucky School Facility Construction Commission are required to make equal annual sinking fund payments to The Bank of New York Mellon Trust Company, an escrow agent, in the amount of \$105,669 and \$72,485, respectively, commencing October 1, 2012 and such amounts shall be held and invested by the escrow agent for payment of principal of \$4,010,000 at the bonds maturity on October 1, 2029. The interest subsidy will be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment.

In October 2010, the District issued bonds to redeem its outstanding November 1, 2001 revenue bonds. The liability for the defeased bond is not included in the District's financial statements. On June 30, 2012, \$1,525,000 of bonds outstanding is considered defeased. In the Statement of Net Assets, the net cost associated with the early debt retirement of the issue is deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the new debt issued to finance the refunding. The total deferred costs were \$27,881. The amortization for the year was \$3,958 and is included as a component of interest expense.

In July 2009, the District issued bonds to redeem its outstanding June 1, 1994, September 1, 1996, and November 1, 1996 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2012, \$305,000 of bonds outstanding is considered defeased. In the Statement of Net Assets, the net costs associated with the early debt retirement of the issues are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the new debt issued to finance the refunding. The total deferred costs were \$4,897. The amortization for the year was \$899 and is included as a component of interest expense.

The September 2007 bond issue is a \$500,000 Qualified Zone Academy Revenue Bond which is a tax credit bond. The District received \$500,000, less the issuance costs of \$15,435, to deposit into its construction fund. The District was required to make a one time payment of \$272,000 into an escrow account to be held by the purchaser of the bonds. The purchaser of the bonds receives a tax credit for purchasing them and guarantees the \$272,000 in escrow plus the compounded interest earned on it over the life of the bonds will equal exactly \$500,000 at September 5, 2022, which is the maturity date. At maturity, the escrow will be transferred back to the District's bond accounts to pay the bonds in full.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

Note 6 - Bond and Lease Obligations:

In 2007, 2008, and 2009, the District entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amounts remains with the District; and, as such, the total principal outstanding has been recorded in the financial statements.

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

Fiscal Year	Carlisle County School District		US Treasury Interest Subsidy	Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Interest	Principal	Interest	
2012-2013	\$ 218,368	\$ 303,439	\$ (184,460)	\$ 128,435	\$ 71,262	\$ 537,044
2013-2014	226,492	299,371	(184,460)	132,513	67,186	541,102
2014-2015	227,054	293,678	(184,460)	102,373	63,188	501,833
2015-2016	240,470	287,404	(184,460)	106,088	59,480	508,982
2016-2017	244,344	280,797	(184,460)	104,515	55,721	500,917
2017-2022	1,176,063	1,290,209	(922,300)	514,432	220,898	2,279,302
2022-2027	1,518,931	1,096,805	(922,300)	626,069	109,259	2,428,764
2027-2030	4,259,461	472,075	(461,150)	170,539	7,956	4,448,881
TOTALS	\$8,111,183	\$4,323,778	\$(3,228,050)	\$1,884,964	\$ 654,950	\$11,746,825

A summary of the lease principal balance activity is as follows:

	Balance July 1, 2011	Issued	Retired	Deferred Cost Reduction	Balance June 30, 2012
District	\$4,218,955	\$4,102,474	\$215,104	\$ 4,858	\$ 8,111,183
Commission	2,009,774	-	124,810	-	1,884,964
TOTALS	\$6,228,729	\$4,102,474	\$339,914	\$ 4,858	\$ 9,996,147

Note 7 – Operating Leases:

On August 12, 1993, the District signed an agreement with the Murray Board of Education to lease physical facilities of the District to conduct Head Start programs. This agreement is renewable for twenty-nine one-year periods.

On March 15, 2012, the District signed a three year lease with an interest rate of 6.91% for sixty iPads from Apple, Inc. The District’s capitalization threshold is \$5,000. If the iPads had been purchased and not leased, these would be expensed in the year of purchase. For this reason, this lease is treated as an operating lease. Total payments on the lease were \$9,798 as of June 30, 2012. The future minimum rental payments are as follows:

2013	\$9,798
2014	\$9,798

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 8 - Retirement Plans:

Plan Descriptions

The Carlisle County School District participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing multiple-employer defined benefit pension plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system and other public educational agencies in Kentucky.

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan administrator.

Plan Descriptions

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800
(502) 573-3266

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601-6124
(502) 564-4646

Funding Policies

Contribution rates are established by the Kentucky Revised Statutes. Plan members of KTRS are required to contribute 10.355% of their annual covered salary if employed before July 1, 2008, and 10.855% if employment began after July 1, 2008, and the State provides a contribution of 13.605% and 14.105%, respectively, except for federal programs. The 13.605% and 14.105% matching contribution for covered salaries of federal programs are paid by those programs. Beginning July 1, 2010, the District contributes an additional .50% for employee medical insurance. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education. Plan members of CERS are required to contribute 5.000% of their annual covered salary, and the Carlisle County School District provides a contribution of 18.96% of that salary. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed by employees to a health insurance account. The District's total payroll for the year was \$4,695,577. The payroll for employees covered under KTRS was \$3,105,597. For the year ended June 30, 2012, the Commonwealth contributed \$424,536 to KTRS for the benefit of participating employees. The District's contribution to KTRS for the year ended June 30, 2012, was \$68,013, which relates to those employees covered by federal programs. The District's contribution to Retiree Medical Insurance fund for the year ended June 30, 2012, was \$15,972. The contribution requirements and the amounts contributed to CERS were \$216,444, \$199,528, and \$194,184, respectively, for the years ended June 30, 2012, 2011, and 2010.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 9 - Benefits Funded by Kentucky State Department of Education:

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2012:

Contributions to Kentucky Teachers' Retirement System	\$ 424,536
Vocational	5,124
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	<u>744,087</u>
TOTAL	<u>\$1,173,747</u>

These payments are recorded in the General and School Food Service Funds as revenue and expenditures. The District is not legally responsible for these contributions. These payments are not budgeted by the District.

On-behalf contributions were charged to governmental functions as follows:

Instruction	\$ 862,279
Support services:	
Student	18,838
District administration	56,516
School administration	84,774
Business	18,838
Plant operations and management	9,420
Student transportation	72,730
Food services	<u>50,352</u>
TOTAL ON-BEHALF CONTRIBUTIONS	<u>\$1,173,747</u>

Note 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 governmental agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

The District is currently a defendant in three separate legal proceedings stemming from a May 16, 2011 bus crash. The District's insurance carrier has hired an attorney to handle the cases. In one of these proceedings, a demand was made for \$4.2 million with a counteroffer of a structured settlement by the District that would cost the insurance carrier \$1.6 million. There have been no demands or offers made in the other two cases. As the result of a guilty verdict against the bus driver, it is apparent that the District will be required to pay out some funds to settle these law suits. However, the District does not anticipate reaching the demand previously made without going to trial. The effect on the financial position, changes in financial position or cash flows of the District is still unknown at this time.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 11 - Insurance and Related Activities:

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

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

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, including the coverage listed on page 44 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 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 District at risk for a substantial loss (contingency).

Note 14 - Excess of Expenditures over Appropriations:

The District has no fund with a deficit fund balance. The general and special revenue funds had excess current year expenditures over current year appropriations totaling \$741,836 and \$206,912, respectively. If on-behalf expenditures had been budgeted, current year expenditures would not have exceeded appropriations for the general fund.

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 15 - Transfer of Funds:

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	001	002	Match	\$ 14,380
Operating	320	360	Construction	66,199
Operating	320	400	Debt Service	285,820
Operating	051	360	Construction	30,000
Operating	051	001	Indirect Cost	18,634

Note 16 - Commitments for School Construction:

The District has approved agreement for construction of a new cafeteria and kitchen. The estimated cost of this project is \$3,930,000. As of the balance sheet date, \$2,917,383 has been spent on construction and is included in the statement of net assets as construction in progress. The cost of construction as of June 30, 2012, has been funded by the 2011 Qualified Zone Academy Bond issue.

Note 17 - Change in Accounting Standards:

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows and deferred inflows of resources. It amends the net asset reporting requirements in GASB Statement No. 34. It will be effective for Carlisle County School District for the fiscal year beginning July 1, 2012. This statement will change the presentation deferred assets and deferred liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$1,100,000	\$1,135,000	\$1,294,203	\$ 159,203
Other	17,000	17,000	105,719	88,719
Intergovernmental - state	3,435,400	3,435,400	3,456,506	21,106
Intergovernmental - on-behalf	-	6,000	1,123,395	1,117,395
Other sources	18,000	21,500	111,108	89,608
Total revenues	4,570,400	4,614,900	6,090,931	1,476,031
Expenditures:				
Instruction	2,613,191	2,690,963	3,447,857	(756,894)
Support services:				
Student	231,709	237,136	248,227	(11,091)
Instructional staff	91,383	92,759	82,872	9,887
District administration	434,646	405,196	359,923	45,273
School administration	284,265	292,007	366,581	(74,574)
Business	166,387	169,287	273,864	(104,577)
Plant operations and maintenance	577,663	635,124	713,573	(78,449)
Student transportation	478,852	502,043	649,459	(147,416)
Other	342,304	390,385	14,380	376,005
Total expenditures	5,220,400	5,414,900	6,156,736	(741,836)
Net change in fund balances	(650,000)	(800,000)	(65,805)	734,195
Fund balances, July 1, 2011	650,000	800,000	879,009	79,009
FUND BALANCES, JUNE 30, 2012	\$ -	\$ -	\$ 813,204	\$ 813,204

Note 1 - Benefits Funded by Kentucky State Department of Education:

The budget presented above does not include on-behalf payments provided by the Kentucky State Department of Education. If on-behalf payments had been included, budgetary total revenues would equal \$5,738,295 and budgetary total expenditures would equal \$6,538,295.

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources	\$ 47,963	\$ 79,107	\$ 108,494	\$ 29,387
Intergovernmental - state	310,374	437,499	437,253	(246)
Intergovernmental - federal	468,525	655,197	830,588	175,391
Other sources	12,000	12,000	14,380	2,380
Total revenues	838,862	1,183,803	1,390,715	206,912
Expenditures:				
Instruction	699,189	990,121	1,166,102	(175,981)
Support services:				
Student	41,059	23,874	26,872	(2,998)
Instructional staff	20,264	81,134	99,041	(17,907)
Plant operations and maintenance	-	10,260	20,286	(10,026)
Community service	78,350	78,414	78,414	-
Total expenditures	838,862	1,183,803	1,390,715	(206,912)
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2011	-	-	-	-
FUND BALANCES, JUNE 30, 2012	\$ -	\$ -	\$ -	\$ -

OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION

CARLISLE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

<u>ASSETS</u>	<u>SEEK Capital Outlay Fund</u>	<u>FSPK Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Cash and cash equivalents	<u>\$15,720</u>	<u>\$137,464</u>	<u>\$5,232</u>	<u>\$158,416</u>
TOTAL ASSETS	<u><u>\$15,720</u></u>	<u><u>\$137,464</u></u>	<u><u>\$5,232</u></u>	<u><u>\$158,416</u></u>
 <u>LIABILITIES AND FUND BALANCES</u> 				
Liabilities:				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,127</u>	<u>\$ 5,127</u>
Fund Balances:				
Restricted for:				
Debt service	-	-	105	105
Committed for:				
Future construction contracts	-	137,464	-	137,464
Assigned for:				
Debt service	<u>15,720</u>	<u>-</u>	<u>-</u>	<u>15,720</u>
Total fund balances	<u>15,720</u>	<u>137,464</u>	<u>105</u>	<u>153,289</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$15,720</u></u>	<u><u>\$137,464</u></u>	<u><u>\$5,232</u></u>	<u><u>\$158,416</u></u>

See auditor's report on pages 1-2.

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

	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:				
Taxes	\$ -	\$230,320	\$ -	\$ 230,320
Earnings on investments	-	-	1	1
Intergovernmental - state	72,453	142,528	199,704	414,685
Intergovernmental - federal	-	-	78,908	78,908
Other	-	-	13,322	13,322
	<u>72,453</u>	<u>372,848</u>	<u>291,935</u>	<u>737,236</u>
Total revenues				
	<u>72,453</u>	<u>372,848</u>	<u>291,935</u>	<u>737,236</u>
Expenditures:				
Facilities acquisition and construction	84,449	-	-	84,449
Debt service:				
Principal	-	-	305,000	305,000
Interest and other charges	-	-	272,748	272,748
	<u>84,449</u>	<u>-</u>	<u>577,748</u>	<u>662,197</u>
Total expenditures				
	<u>84,449</u>	<u>-</u>	<u>577,748</u>	<u>662,197</u>
Excess (deficit) of revenues over expenditures	<u>(11,996)</u>	<u>372,848</u>	<u>(285,813)</u>	<u>75,039</u>
Other Financing Sources (Uses):				
Operating transfers in (out)	<u>-</u>	<u>(352,019)</u>	<u>285,820</u>	<u>(66,199)</u>
Net change in fund balances	(11,996)	20,829	7	8,840
Fund balances, July 1, 2011	<u>27,716</u>	<u>116,635</u>	<u>98</u>	<u>144,449</u>
FUND BALANCES, JUNE 30, 2012	<u><u>\$15,720</u></u>	<u><u>\$ 137,464</u></u>	<u><u>\$ 105</u></u>	<u><u>\$ 153,289</u></u>

See auditor's report on pages 1-2.

CARLISLE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO
STUDENT GROUPS AND OTHERS
AGENCY FUNDS
CARLISLE COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Due to Student Groups and Others July 1, 2011	Revenues Actual (1)	Expenditures Actual (1)	Due to Student Groups and Others June 30, 2012
General Fund	\$ 1,412	\$ 30,214	\$ 29,339	\$ 2,287
Arts Guild Fund	228	2,152	2,345	35
Athletic Fund	6,442	95,161	92,591	9,012
Annual Fund	21,695	14,356	31,604	4,447
Beta Club Fund	1,476	470	375	1,571
Business Media Fund	116	-	85	31
Cheerleaders' Fund	2,209	11,366	12,521	1,054
FBLA Fund	81	14,257	14,097	241
FCC Fund	241	1,490	1,529	202
FFA Alumni Fund	23	1,955	1,455	523
FFA Fund	2,563	27,100	25,909	3,754
FCCLA Fund	1,216	2,985	3,608	593
Four Rivers Fees	-	500	500	-
Four Rivers Scholarship Program	2,044	12,195	14,065	174
Greenhouse	3,528	4,822	5,376	2,974
Home Economics Fund	1,098	1,480	1,952	626
Junior and Senior Prom Fund	3,711	7,403	5,925	5,189
Moon Buggy	928	1,859	2,067	720
Pep Club Fund	596	1,220	1,182	634
Shop	187	1,084	1,137	134
Stars Fund	164	191	323	32
Student Council Fund	90	-	-	90
Teachers' Lounge Fund	310	697	729	278
Project Graduation Fund	1,484	16,497	16,594	1,387
Vending	532	3,054	3,544	42
TOTALS	<u>\$52,374</u>	<u>\$252,508</u>	<u>\$268,852</u>	<u>\$36,030</u>

(1) Included in revenues and expenditures are interfund transfers totaling \$900.

CARLISLE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO
STUDENT GROUPS AND OTHERS
AGENCY FUNDS
CARLISLE MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Middle School	Elementary School	Totals
Due to student groups and others, July 1, 2011	\$20,720	\$103,346	\$124,066
Revenues:			
Student activities (1)	80,395	99,041	179,436
Expenditures:			
Student activities (1)	80,434	133,284	213,718
DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2012	\$20,681	\$ 69,103	\$ 89,784

(1) Included in revenues and expenditures for the Middle School are interfund transfers totaling \$112.

CARLISLE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO OTHERS
AGENCY FUND
FISCAL AGENT FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Fiscal Agent Fund
Due to others, July 1, 2011	\$ -
Revenues:	
Student activities	15,400
Expenditures:	
Student activities	15,400
DUE TO OTHERS, JUNE 30, 2012	\$ -

See auditor's report on pages 1-2.

CARLISLE COUNTY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT DIFFERENCES
FOR THE YEAR ENDED JUNE 30, 2012

In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the District has recorded transfers by the Capital Project Funds to debt service accounts as debt service payments. Debt Service Funds, which are not presented in the District's AFR, are included in the financial statements. For reporting purposes, these payments have been reclassified as operating transfers and corresponding operating transfers have been recorded in the Debt Service Funds. The following is a reconciliation of the expenditures reported in the District's AFR with that shown in the financial statements and the supplemental schedules.

FSPK Fund:

Debt service reported to the Department of Education	\$ 285,820
Reclassification to operating transfer out	<u>(285,820)</u>
Amount per supplemental schedule	<u>\$ -</u>
Operating transfer out reported to the Department of Education	\$ -
Reclassification from debt service	<u>285,820</u>
Amount per supplemental schedule	<u>\$ 285,820</u>

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
JUNE 30, 2012

General Fund:

Accounts receivable reported in District's annual financial report to the State Department of Education, Division of Finance

\$24,266

Additional accounts receivable recorded subsequent to the annual financial report:

Kentucky Department of Revenue - Utility Tax

22,011

Citizens Bank - Investment interest

1,082

I Pad refund

600

TOTAL ACCOUNTS RECEIVABLE

\$47,959

See auditor's report on pages 1-2.

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS PAYABLE
JUNE 30, 2012

General Fund:

Accounts payable reported in District's annual financial report to the State Department of Education, Division of Finance

\$ 1,762

Additional accounts payable recorded subsequent to the annual financial report:

Hickman County

\$ 8,088

David Zetter, M.D.

525

West KY Rural Electric

11,546

Miscellaneous

1,563

TOTAL ACCOUNTS PAYABLE

\$23,484

See auditor's report on pages 1-2.

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2012

	<u>Expires</u>	<u>Building</u>	<u>Contents</u>
Fire and Extended Coverage - 90% Co-Insurance:			
Carlisle County Middle School	July 1, 2012	\$ 6,746,300	\$1,087,900
Carlisle County Elementary School	July 1, 2012	5,639,500	773,900
Carlisle County High School	July 1, 2012	7,369,700	943,900
Agriculture and Industrial building	July 1, 2012	1,568,100	234,775
Custodian's house	July 1, 2012	160,219	-
Portable building #1	July 1, 2012	168,168	2,580
Portable building #2	July 1, 2012	308,880	-
Board office	July 1, 2012	372,172	74,646
Bus garage	July 1, 2012	439,462	-
Central storage building	July 1, 2012	414,375	34,875
Guard shack	July 1, 2012	5,525	-
Metal storage building	July 1, 2012	27,625	-
Property in the open	July 1, 2012	447,448	-
TOTALS		<u><u>\$23,667,474</u></u>	<u><u>\$3,152,576</u></u>
Collision, Comprehensive, and Property Damage:			
School buses and other vehicles:		<u>Amount of Coverage</u>	
Property damage	July 1, 2012		\$6,000,000
Comprehensive			ACV
Uninsured and underinsured motorist		\$ 500,000	500,000
General Liability:			
Carlisle County School District, Superintendent and employees	July 1, 2012		6,000,000
Educators' legal liability (errors and omissions)	July 1, 2012		6,000,000
Workmen's compensation			Statutory
Performance bond	August 1, 2012		150,000
Crime Policy	August 1, 2012		100,000
Depository Bond:			
Citizens Deposit Bank of Arlington	June 30, 2012		103% of Current Daily Balances

See auditor's report on pages 1-2.

**MEMBERS OF THE CARLISLE COUNTY BOARD OF EDUCATION
AS OF JUNE 30, 2012**

<u>Name</u>	<u>Address</u>	<u>Date Elected</u>	<u>Term Expires</u>
Brian Grogan, Chairman	284 CR 1202 Arlington, Kentucky	November, 2008	January, 2013
Kevin O'Neill, Vice-Chairman	P.O. Box 95 Bardwell, Kentucky	November, 2008	January, 2013
Steven Draper	489 CR 1127 Arlington, Kentucky	November, 2010	January, 2015
Tiffany Wildharber	P.O. Box 606 Bardwell, Kentucky	November, 2008	January, 2013
John Matt Fourshee	1692 CR 1032 Bardwell, Kentucky	November, 2010	January, 2015

Other Officials:

Keith Shoulders, Superintendent

Rachel Bowles, Treasurer and Secretary of the Board

See auditor's report on pages 1-2.

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Education:			
Passed-through Kentucky Department of Education:			
Special Education - Grants to States (IDEA, Part B)	84.027	3810002 10	\$ 163,997
ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391A	4810002 09	21,738
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002 11	<u>15,202</u>
Special Education Cluster Sub-Total			<u>200,937</u>
Title I Grants to Local Educational Agencies (LEAs)	84.010	3100002 10 3100002 11	184,013
ARRA - Title I Grants to Local Educational Agencies (LEAs), Recovery Act	84.389A	4100002 09	<u>8,587</u>
Title I Cluster Sub-Total			<u>192,600</u>
Education Technology State Grants	84.318X	3210002 09 3210002 10	694
Safe and Drug-Free Schools and Communities State Grants	84.186A	3410002 09	2,147
Improving Teacher Quality State Grants	84.367	3230002 10 3230002 11	49,292
Twenty-First Century Community Learning Centers	84.287	3400001 09 3400002 09 3400002 10	157,107
Rural Education	84.358	3140002 10 3140002 11	24,624
EduJobs	84.410	EJOB00 10	186,826
Passed-through West Kentucky Educational Cooperative:			
Career and Technical Education - Basic Grants to States	84.048	4621032 09 4621210 11 4621132 10 4621232 11	<u>5,536</u>
Total U.S. Department of Education			<u>819,763</u>
U.S. Department of Agriculture:			
Passed-through Kentucky Department of Agriculture:			
National School Lunch Program	10.555	7750002 11 7750002 12	195,084
National School Lunch Program Commodities (1)	10.555	2012	27,390
School Breakfast Program	10.553	7760005 11 7760005 12	86,149
Summer Food Service Program for Children	10.559	7690024 11 7740023 11	<u>2,482</u>
Child Nutrition Cluster Sub-Total			<u>311,105</u>
Total U.S. Department of Agriculture			<u>311,105</u>
U.S. Department of Energy			
Passed-through Kentucky Department of Energy			
ARRA - State Energy Program, Recovery Act	81.041	5691	<u>10,825</u>
Total U.S. Department of Energy			<u>10,825</u>
TOTAL FEDERAL AWARDS			<u><u>\$1,141,693</u></u>

See notes to the schedule of expenditures of federal awards on page 47.

CARLISLE COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

- (1) Expense recognized is the total dollar value of commodities used during the year. Amounts are based on dollar values reported by the Kentucky Department of Agriculture. This amount is included in the combined statement of revenues, expenditures, and changes in net assets.

Note 1 - Basis of Presentation:

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

Note 2 - Federal Interest Subsidy:

In October 2012, the Carlisle County School District issued Qualified Zone Academy Revenue Bonds. The United States Treasury will pay the semi-annual interest on these bonds directly to the issuer or its designee paying agent and be applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Interest subsidy payments are reported as intergovernmental federal revenues and interest expense on the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, they are not required to be reported on the Schedule of Expenditures of Federal Awards.

Federal revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds	\$ 909,496
Federal grants as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Fund	283,715
Federal grants – in-kind commodities as reported on the Statement of Revenues, Expenses, and Changes in fund Net Assets Proprietary Fund	<u>27,390</u>
Total federal expenditures	1,220,601
Less federal interest subsidy	<u>(78,908)</u>
TOTAL FEDERAL AWARDS	<u>\$1,141,693</u>

See auditor's report on pages 1-2.

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**Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Carlisle County School District
Bardwell, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carlisle County School District as of and for the year ended June 30, 2012, which collectively comprise the Carlisle County School District's basic financial statements and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report*.

Internal Control Over Financial Reporting

Management of Carlisle County School District is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered Carlisle County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Carlisle County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Carlisle 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Carlisle County School District in a separate letter dated November 5, 2012.

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

Williams, Williams + Lentz, LLP

November 5, 2012

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**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**

Kentucky State Committee for
Audits of School Districts
Members of the Board of Education
Carlisle County School District
Bardwell, Kentucky

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carlisle County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Carlisle County School District's compliance with those requirements.

In our opinion, Carlisle 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 Carlisle County School District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Carlisle County School District's internal control over compliance with requirements that could have a direct and material

effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Carlisle 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.

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

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

Williams, Williams + Lentz, LLP

November 5, 2012

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Carlisle County School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of the Carlisle County School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the 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.
5. The auditor's report on compliance for the major federal awards programs for the Carlisle County School District expresses an unqualified opinion.
6. There are no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

Name	CFDA
National School Lunch Program	10.555
National School Lunch Program Commodities	10.555
School Breakfast Program	10.553
Summer Food Service Program for Children	10.559

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Carlisle County School District was determined to be a low-risk auditee.

Findings - Financial Statements Audit

None

Findings and Questioned Costs - Major Federal Awards Programs

None

CARLISLE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012

There are no prior year audit findings relative to federal awards to report.

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF AUDIT ADJUSTMENTS
FOR THE YEAR ENDED JUNE 30, 2012

General Fund:		<u>Debit</u>	<u>Credit</u>
1) 10 6153	Accounts Receivable	\$ 22,611.09	
110 1121	Utilities Tax		\$ 22,011.09
0011075 0610	Supplies		600.00
	To adjust accounts receivable.		
2) 10 8770	Unassigned Fund Balance	387,000.00	
10 8747	Committed for Contingency		387,000.00
	To adjust fund balance.		
3) 110 1510	Interest Income	188.98	
10 6114	Interest Receivable	1,081.92	
10 6111	Investment		1,270.90
	To adjust investments and accrued interest.		
4) 110 1990	Other Revenue - Local Sources	1,657.00	
10 6101	Cash in Bank		1,657.00
	To move summer food program receipts to correct fund.		
5) 0001037 0345	Medical Services	525.00	
0001087 0622	Electricity	11,545.56	
0601118 0580 0060	Travel	407.04	
0011080 0610	General Supplies	94.00	
0001071 0343	Legal Services	360.00	
0001087 0349	Other Professional Services	680.00	
0001087 0610	General Supplies	22.17	
0601918 0349	Other Professional Services	2,696.14	
0201918 0349	Other Professional Services	2,696.14	
0401918 0349	Other Professional Services	2,696.14	
10 7421	Accounts Payable		21,722.19
	To record additional accounts payable.		
Special Revenue:			
1) 220 4500 5691	Restricted Fed Thru State	2,345.04	
20 6153	Accounts Receivable		2,345.04
	To correct project 5691 for entry made backwards.		
2) 0002118 0679 5501	Other Student Activities	4,530.40	
20 7421	Accounts Payable		20,475.47
20 6153	Accounts Receivable	4,530.40	
220 4500 5501	Restricted Fed Thru State		4,530.40
0002011 0349 1302	Other Professional Services	15,945.07	
20 7481	Deferred Revenue	15,945.07	
220 3200 1302	Restricted State Revenue		15,945.07
	To record additional accounts payable and correct projects.		
3) 220 1920 CSI	Contributions/Donations	3,000.00	
220 1740 CSI	Student Fees		3,000.00
	To reclassify.		
Capital Outlay Fund:			
1) 31 8738	Restricted - SFCC Escrow-current	27,716.51	
31 8757	Assigned Bond Payments		15,719.99
31 8770	Unassigned Fund Balance		11,996.52
	To reclassify fund balance.		

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF AUDIT ADJUSTMENTS
FOR THE YEAR ENDED JUNE 30, 2012

		Debit	Credit
Building Fund:			
1) 32 8738	Restricted - SFCC Escrow-current	\$ 116,635.00	
32 8770	Unassigned Fund Balance	20,829.18	
32 8745	Committed Future Construction Projects		\$ 137,464.18
	To reclassify fund balance.		
Construction Fund:			
1) 36 8770	Unassigned Fund Balance	1,137,702.95	
36 8735	Restricted - Future Construction Project		1,137,702.95
	To correct GASB 54 fund balances.		
Long-term Debt Account Group:			
1) 90 6303	Amt. Available in Debt Service	21,400.00	
90 8732	Restricted Sick Leave Payable		21,400.00
	To correct for entry made backwards.		
2) 90 6303	Amt. Available in Debt Service	67,347.61	
90 7531	Noncurrent Portion of Capital Leases		46,313.20
90 7511	Bonds Payable (Long-Term)		21,034.41
	To adjust long-term debt.		
Fixed Assets - Gov Assets:			
1) 80 6221	Building & Building Improvements	167,732.09	
80 6241	Vehicles	89,164.00	
80 6251	General Equipment	144,200.00	
80 8710	Investments Governmental Assets		401,096.09
	To record fixed asset additions		
2) 80 6232	Accum Depr. Technology Equipment	32,552.28	
80 6231	Technology Equipment		33,668.98
880 1930	Gain/Loss on Sale of Asset	1,116.70	
	To record disposals of assets.		
3) 8881100 0740	Depreciation Expense	133,352.93	
8882100 0740	Depreciation Expense	9,968.25	
8882200 0740	Depreciation Expense	11,964.54	
8882300 0740	Depreciation Expense	17,724.93	
8882400 0740	Depreciation Expense	7,347.47	
8882500 0740	Depreciation Expense	269.44	
8882600 0740	Depreciation Expense	221,228.66	
8882700 0740	Depreciation Expense	52,974.89	
8883300 0740	Depreciation Expense	838.03	
80 6212	Accum Depr Land Improvements		5,164.65
80 6222	Accum Depr Buildings & Improvements		212,095.69
80 6232	Accum Depr Technology Equipment		52,294.70
80 6242	Accum Depr Vehicles		60,776.47
80 6252	Accum Depr General Equipment		125,337.63
	To record depreciation expense.		
Fixed Assets - Bus Assets:			
0008101 0740	Depreciation Expense	13,485.38	
81 6232	Accum Depr Technology Equipment		921.18
81 6252	Accum Depr General Equipment		12,564.20
	To record depreciation expense.		

(Continued)

CARLISLE COUNTY SCHOOL DISTRICT
SCHEDULE OF AUDIT ADJUSTMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Food Service			<u>Debit</u>	<u>Credit</u>
1)	51 6153 510 4500	Accounts Receivable Federal Restricted Thru State To record receivable for summer food program.	\$ 1,303.00	\$ 1,303.00
2)	51 6114 510 1510 51 6111	Interest Receivable Interest Income Investment To adjust investments and accrued interest.	313.56 54.46	368.02
3)	51 6101 510 4500	Cash in Bank Restricted Fed Thru State To move summer food program receipt to correct fund.	1,657.00	1,657.00
4)	510 4500 510 4950	Restricted Fed Thru State Child Nutrition Program Donated Commodities To reclassify commodities.	27,390.00	27,390.00

Statement of Certification

State Committee for School District Audits

Frankfort, KY

The Carlisle County School District certifies that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report.

SUBMITTED, October 23, 2012

Gary McCallon Superintendent

Rachel Bowles Finance Officer

Original signed statement is due to KDE by close of business on November 15, 2012. Please send to:

Division of District Support
Kentucky Department of Education
500 Mero Street, CPT 15th Floor
Frankfort, KY 40601

CARLISLE COUNTY SCHOOL DISTRICT



MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2012

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Carlisle County Board of Education
Bardwell, Kentucky

In planning and performing our audit of the financial statements of Carlisle County School District as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Carlisle County School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. These comments are summarized as follows:

SEGREGATION OF DUTIES

Finding: The proper segregation of duties does not exist.

Criteria: This District is small and it is not feasible to hire additional staff necessary to provide the proper segregation of duties.

Cause: The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Effect: Weaknesses in internal controls can create the possibility for the misappropriation of asset and/or fraudulent financial reporting.

Recommendation: The Superintendent should periodically review journal entries and MUNIS reports printed to provide some oversight over adjustments made to the general ledger. Lack of internal controls dictates that the board continues to be involved in the financial affairs of the District to provide oversight and independent review functions.

Management's Response: A system will be created to allow the Superintendent to review a set number of journal entries each month in addition to the year-to-date budget reports that he already receives each month.

DISBURSEMENTS

Finding: One disbursement selected for testing was supported with a standard invoice that was not signed by the individual receiving payment.

Criteria: Standard invoices are used in place of a vendor invoice or receipt when the payee is an individual such as an official for games or bus aides.

Cause: The lack of signature was due to a breakdown in internal controls.

Effect: The signature of the payee acts an acknowledgement of services rendered, and therefore, serves as proof of an actual expense and receipt of payment. Unsigned standard invoices could be an indication of fraudulent disbursements.

Recommendation: More care should be used in making sure the proper signatures are obtained on standard invoices prior to issuing payment for services.

Management's Response: We have changed the procedure for bus aide time sheets – the bus aides are marking their own time sheet, signing it and turning it into the bus driver for approval.

All other prior year recommendations appear to have been properly addressed.

ACTIVITY FUNDS

Carlisle County High School

Finding: A proper budget was not available. Although a budget was prepared, no totals were included. The beginning balances should equal the prior year actual ending balances. The columns do not foot. The beginning balance plus receipts less expenditures do not equal the ending balance.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), a budget should be prepared for all activity funds for the school year unless the school has been specifically exempted by regulations of the Board. Budgets provide a guide for the coming year's revenues and expenditures. This helps the principal, central fund treasurer, and corresponding sponsor have an approximation of the funding that will be available so they may plan activities accordingly. Budgets also provide a reasonable estimate that can be compared to the actual numbers and allow for any large discrepancies to be investigated.

Cause: This could be due to a lack of understanding the budgeting process. Adequate time and effort was not spent on preparing the budget.

Effect: The budget in its current format is not useful in determining the funds each activity fund has remaining to spend nor very useful in identifying discrepancies.

Recommendation: The beginning balances should equal the ending actual balances from the prior year. The columns should be totaled. For each individual account and in total, the beginning balance plus budgeted receipts less budgeted expenditures should equal the ending budgeted balance. An excel spreadsheet with formulas would be helpful in preparing the budget.

Management's Response: The school bookkeeper has been instructed on the proper way to construct a budget.

Finding: One disbursement selected for testing lacked an appropriate purchase order.

Criteria: Purchase orders should be completed with the necessary approval signatures prior to making purchases.

Cause: This is due to a break down in the internal controls over purchases.

Effect: Purchase orders act as an estimate of costs expected to be incurred and as an approval mechanism for management. Incomplete or missing purchase orders denote an error in the internal controls and could serve as a way to misappropriate funds.

Recommendation: The individual in charge of purchases should always make sure a signed purchase order is available prior to making purchases.

Management's Response: The school bookkeeper will prepare a purchase order for each purchase made.

* * * * *

We will review the status of these comments during our next audit engagement. We have already discussed many of these comment and suggestions with various District personnel; and, we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. This report is intended solely for the Board, management, and others within the organization as deemed appropriate.

Williams, Williams + Lentz, LLP

November 5, 2012