

**CARTER COUNTY SCHOOL DISTRICT
BOARD OF EDUCATION**

**FINANCIAL REPORT
JUNE 30, 2012**

**Carter County School District
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For the Year Ended June 30, 2012**

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DONALD R. GOSSETT & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Carter County Board of Education
Grayson, Kentucky

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

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

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

In accordance with *Government Auditing Standards*, I have also issued my report dated November 12, 2012, on my consideration of Carter County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 my audit.

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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 6 and 13 through 14 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Carter County School District's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

Donald R. Gossett

Donald R. Gossett & Company, LLC
Certified Public Accountant

Ironton, Ohio
November 12, 2012

CARTER COUNTY SCHOOL DISTRICT-GRAYSON, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FISCAL YEAR ENDED JUNE 30, 2012

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

FINANCIAL HIGHLIGHTS

- For the year ending June 30, 2012, Governmental Activities Net Position decreased \$1,645,567. The district attributes this decrease during the year to a decrease in Federal Funding in the form of less "American Recovery & Reinvestment Act", ARRA received during the year. Carter County's Governmental type funds received \$7,531,250 in Fiscal Year 2011 and \$5,185,184 in Fiscal Year 2012.
- The board issued \$11,367,090 in new debt during the 2012 fiscal year to fund the two new elementary schools. The net effect on the District's total debt of these issuance, combined with scheduled payments, was an increase of \$10,021,060 in outstanding balances during the current fiscal year.
- During the 2012 Fiscal Year Carter County Board of Education expended \$7,104,470 for the construction of 2 new Elementary Schools. Both Schools are expected to be complete and placed in service for the 2013 school year.
- Daily fundable average daily attendance slightly decreased from prior year. The fundable average daily attendance for the Fiscal Year ended June 30, 2011 was 4,201. The fundable average daily attendance decreased to 4,180 for the 2012 Fiscal Year.

OVERVIEW OF FINANCIAL OF STATEMENTS

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

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

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

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

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

The governmental-wide financial statements can be found on pages 7 and 8 of this report.

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

The basic governmental fund financial statements can be found on pages 9 through 19 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$20,107,976 million as of June 30, 2012.

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

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

Net Position for the period ending June 30, 2012

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current Assets	\$ 21,473,372	\$ 18,423,462
Noncurrent Assets	43,186,674	37,870,088
Total Assets	<u>\$ 64,660,046</u>	<u>\$ 56,293,550</u>

Current Liabilities	\$ 4,927,938	\$ 3,717,263
Noncurrent Liabilities	39,624,130	29,972,789
Total Liabilities	<u>\$ 44,552,068</u>	<u>\$ 33,690,052</u>
Net Assets		
Investment in capital assets(net of debt)	\$ 2,615,654	\$ 6,133,384
Restricted	18,218,909	13,052,648
Unrestricted	(726,585)	3,417,466
Total Net Assets	<u>\$ 20,107,978</u>	<u>\$ 22,603,498</u>

The following table presents a summary of revenue and expense on a government-wide basis for the fiscal years ended June 30, 2012 and 2011, respectively.

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>
Revenues:		
Taxes	\$ 5,776,310	\$ 5,469,748
State Aid-Formula Grants	28,861,305	27,101,418
Grants and Contributions	11,983,212	13,809,177
Charges for Services	391,977	526,725
Investment Earnings	116,114	116,103
Other	390,665	247,656
Total revenues	<u>\$ 47,519,583</u>	<u>\$ 47,270,827</u>
Expenses:		
Instruction	27,077,223	27,377,117
Student Support Services	2,013,783	1,923,911
Staff Support	1,905,825	1,426,710
District Administration	672,521	696,504
School Administration	1,991,919	2,146,159
Business Support	709,358	747,041
Plant Operations	5,183,675	4,999,536
Student Transportation	3,712,627	3,648,676
Food Service Operations	2,671,920	2,517,292
Community Support	447,137	466,302
Other	2,857,046	939,674
Total expenses	<u>49,243,034</u>	<u>46,888,922</u>
Revenue over (under) expenses	<u>\$ (1,723,451)</u>	<u>\$ 381,905</u>

Revenue

The majority of revenue was derived from state-aid formula grants funding (61%) with local taxes making up 12% of total revenue.

School Allocation

Regular Instruction accounts 55% for of the school level expenditures.

Comments on Budget Comparisons

- The District's total revenue for the fiscal year ended June 30, 2012 and 2011, net of interfund Transfers and bond proceeds, was \$47.5 million and \$47.2 million, respectively.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$6,453,980 more than budget. General fund budget compared to actual expenditures varied from line item to line item with the ending actual balance being \$6,921,975 more than budget. The significant difference in line items for both revenues and expenditures was a result of unbudgeted on-behalf payments made by the State of Kentucky for employee health insurance and retirement benefits. These are recorded as both revenue from the state and expenditure for our employee's benefits. The amount we recorded both revenue and expenditure was \$6,974,837. The total cost of all programs and services was net of debt service and fund transfers.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$1.075 million in contingency in the current 2012 school year. Significant Board action that impacts the finances includes .5% increase for certified and classified salary schedules.

Questions regarding this report should be directed to the Superintendent, Ronnie Dotson, (606) 474-6696, or to Jerry A. Lyons, Business Office Manager, (606) 474-6696, or by mail at 228 South Carol Malone Blvd., Grayson, KY 41143.

**Carter County School District
Statement of Net Position
June 30, 2012**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
<u>Current assets</u>			
Cash and equivalents	\$ 19,427,637	\$ 647,744	\$ 20,075,381
Accounts receivable:			
Taxes	174,698	-	174,698
Fiduciary	993,266	-	993,266
Prepaid expense	172,875	-	172,875
Inventories	-	57,152	57,152
Total current assets	<u>20,768,476</u>	<u>704,896</u>	<u>21,473,372</u>
<u>Noncurrent Assets</u>			
Nondepreciated capital assets:			
Land	1,689,724	-	1,689,724
Construction in process	8,621,535	-	8,621,535
Depreciated capital assets			
Land improvements	248,262	-	248,262
Buildings and improvements	47,189,620	-	47,189,620
Furniture and equipment	7,544,654	593,650	8,138,304
Less: accumulated depreciation	(22,798,166)	(506,535)	(23,304,701)
Bond issuance cost	638,802	-	638,802
Less: accumulated amortization	(34,872)	-	(34,872)
Total Noncurrent Assets	<u>43,099,559</u>	<u>87,115</u>	<u>43,186,674</u>
Total Assets	<u>\$ 63,868,035</u>	<u>\$ 792,011</u>	<u>\$ 64,660,046</u>
LIABILITIES			
<u>Current Liabilities</u>			
Accounts payable	\$ 412,899	\$ 32,305	\$ 445,204
Unamortized bond premium	58,042	-	58,042
Accrued payroll and related expenses	223,289	-	223,289
Deferred revenues	1,647,606	-	1,647,606
Interest payable	245,629	-	245,629
Current portion of bond obligations	2,035,636	-	2,035,636
Current portion of capital lease obligations	29,146	-	29,146
Current portion of accrued sick leave	243,386	-	243,386
Total current liabilities	<u>4,895,633</u>	<u>32,305</u>	<u>4,927,938</u>
<u>Noncurrent Liabilities</u>			
Non current portion of bond obligations	37,931,454	-	37,931,454
Noncurrent portion of accrued sick leave	1,692,676	-	1,692,676
Total noncurrent liabilities	<u>39,624,130</u>	<u>-</u>	<u>39,624,130</u>
Total liabilities	<u>44,519,763</u>	<u>32,305</u>	<u>44,552,068</u>
NET POSITION			
Invested in capital assets, net of related debt	2,528,539	87,115	2,615,654
Restricted for:			
Capital projects	18,218,909	-	18,218,909
Unrestricted	(1,399,176)	672,591	(726,585)
Total Net Position	<u>\$ 19,348,272</u>	<u>\$ 759,706</u>	<u>\$ 20,107,978</u>

The accompanying notes to the financial statements are an integral part of this statement.

**Carter County School District
Statement of Activities
For the Year Ended June 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental Activities:							
Instructional	\$ 27,077,223	\$ -	\$ 5,718,453	\$ -	\$ (21,358,770)	\$ -	\$ (21,358,770)
Student support services	2,013,783	-	32,765	-	(1,981,018)	-	(1,981,018)
Staff support services	1,905,825	-	139,974	-	(1,765,851)	-	(1,765,851)
District administration	672,521	-	-	-	(672,521)	-	(672,521)
School administration	1,991,919	-	-	-	(1,991,919)	-	(1,991,919)
Business support services	709,358	-	21,214	-	(688,144)	-	(688,144)
Plant operation and maintenance	5,183,675	34,756	51,960	-	(5,096,959)	-	(5,096,959)
Student transportation	3,712,627	-	22,439	420,126	(3,270,062)	-	(3,270,062)
Food services	1,883	-	-	-	(1,883)	-	(1,883)
Community service operations	447,137	-	442,147	-	(4,990)	-	(4,990)
Facility acquisition and construction	1,504,053	-	-	2,899,415	1,395,362	-	1,395,362
Interest on long-term debt	1,324,421	-	-	-	(1,324,421)	-	(1,324,421)
Amortization bond issue cost	26,689	-	-	-	(26,689)	-	(26,689)
Total governmental activities	<u>46,571,114</u>	<u>34,756</u>	<u>6,428,952</u>	<u>3,319,541</u>	<u>(36,787,865)</u>	<u>-</u>	<u>(36,787,865)</u>
Business-type activities:							
Food Service	2,671,920	357,221	2,234,719	-	-	(79,980)	(79,980)
Total business-type activities	<u>2,671,920</u>	<u>357,221</u>	<u>2,234,719</u>	<u>-</u>	<u>-</u>	<u>(79,980)</u>	<u>(79,980)</u>
Total primary government	<u>\$ 49,243,034</u>	<u>\$ 391,977</u>	<u>\$ 8,663,671</u>	<u>\$ 3,319,541</u>	<u>\$ (36,787,865)</u>	<u>\$ (79,980)</u>	<u>\$ (36,867,845)</u>
General revenues:							
Taxes					\$ 5,776,310	\$ -	\$ 5,776,310
State grants					28,861,305	-	28,861,305
Investment earnings					113,656	2,458	116,114
Miscellaneous					380,868	-	380,868
Gains (loss) on sales of fixed assets					9,797	-	9,797
Total general revenues, special items, and transfers					<u>35,141,936</u>	<u>2,458</u>	<u>35,144,394</u>
Change in net position					(1,645,929)	(77,522)	(1,723,451)
Net position - beginning of year, as previously reported					21,593,239	1,010,259	22,603,498
Prior period adjustment					(599,038)	(173,031)	(772,069)
Net position-reinstated					<u>20,994,201</u>	<u>837,228</u>	<u>21,831,429</u>
Net position - ending					<u>\$ 19,348,272</u>	<u>\$ 759,706</u>	<u>\$ 20,107,978</u>

The accompanying notes to the financial statements are an integral part of this statement.

**Carter County School District
Balance Sheet
Governmental Funds
June 30, 2012**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 1,872,448	\$ (793,781)	\$ 18,270,923	\$ 78,047	\$ 19,427,637
Accounts receivable					
Taxes	174,698	-	-	-	174,698
Fiduciary	16,472	976,794	-	-	993,266
Prepaid expense	172,875	-	-	-	172,875
Total assets	<u>\$ 2,236,493</u>	<u>\$ 183,013</u>	<u>\$ 18,270,923</u>	<u>\$ 78,047</u>	<u>\$ 20,768,476</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 252,568	\$ 108,317	\$ 52,014	\$ -	\$ 412,899
Accrued payroll and related expenses	223,289	-	-	-	223,289
Deferred revenue	-	74,696	-	-	74,696
Sick leave payable	243,386	-	-	-	243,386
Total liabilities	<u>719,243</u>	<u>183,013</u>	<u>52,014</u>	<u>-</u>	<u>954,270</u>
Fund balances:					
Assigned	-	-	-	-	-
Restricted	-	-	18,218,909	-	18,218,909
Non-spendable	-	-	-	-	-
Unassigned	1,517,250	-	-	-	1,517,250
Committed	-	-	-	78,047	78,047
Total fund balances	<u>1,517,250</u>	<u>-</u>	<u>18,218,909</u>	<u>78,047</u>	<u>19,814,206</u>
Total liabilities and fund balances	<u>\$ 2,236,493</u>	<u>\$ 183,013</u>	<u>\$ 18,270,923</u>	<u>\$ 78,047</u>	<u>\$ 20,768,476</u>

The accompanying notes to the financial statements are an integral part of this statement.

Carter County School District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2012

Total fund balance, governmental funds	\$ 19,814,206
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in this fund financial statement.	42,495,629
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	603,930
Some liabilities, including bonds payable, are not due and payable in the current period and are not included in this fund financial statement.	<u>(43,565,493)</u>
Net Position of Governmental Activities	<u><u>\$ 19,348,272</u></u>

Carter County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 4,874,044	\$ -	\$ -	\$ 902,266	\$ 5,776,310
Earnings on investments	17,856	78	51,990	11,791	81,715
Intergovernmental - state	28,861,305	1,401,408	-	3,319,541	33,582,254
Intergovernmental - federal	182,859	5,002,324	-	-	5,185,183
Other sources	62,575	25,142	6,000	-	93,717
Total revenues	<u>33,998,639</u>	<u>6,428,952</u>	<u>57,990</u>	<u>4,233,598</u>	<u>44,719,179</u>
EXPENDITURES					
Instruction	21,305,769	5,802,097	-	-	27,107,866
Student support services	1,970,158	32,765	-	-	2,002,923
Staff support services	1,416,815	139,974	-	-	1,556,789
District administration	593,647	-	-	-	593,647
School administration	1,990,309	-	-	-	1,990,309
Business support services	688,144	21,214	-	-	709,358
Plant operation and maintenance	3,882,033	51,960	-	-	3,933,993
Student transportation	3,979,678	22,439	-	-	4,002,117
Food services	1,883	-	-	-	1,883
Community service operations	4,990	442,147	-	-	447,137
Facilities acquisition and construction	-	-	8,608,522	-	8,608,522
Debt service:					
Principal	-	-	-	1,568,012	1,568,012
Interest	-	-	-	1,189,052	1,189,052
Total Expenditures	<u>35,833,426</u>	<u>6,512,596</u>	<u>8,608,522</u>	<u>2,757,064</u>	<u>53,711,608</u>
Excess (deficiency) of revenues over expenditures	<u>(1,834,787)</u>	<u>(83,644)</u>	<u>(8,550,532)</u>	<u>1,476,534</u>	<u>(8,992,429)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	535,483	84,596	14,371,163	1,931,124	16,922,366
Transfers out	(118,809)	(952)	-	(16,692,131)	(16,811,892)
Total other financing sources and uses	<u>416,674</u>	<u>83,644</u>	<u>14,371,163</u>	<u>(14,761,007)</u>	<u>110,474</u>
SPECIAL ITEM					
Proceeds from sale of bonds	-	-	-	12,873,894	12,873,894
Proceeds from sale of equipment	9,796	-	-	-	9,796
Net change in fund balances	<u>(1,408,317)</u>	<u>-</u>	<u>5,820,631</u>	<u>(410,579)</u>	<u>4,001,735</u>
Fund balance - beginning	2,925,567	-	12,398,278	488,626	15,812,471
Fund balance - ending	<u>\$ 1,517,250</u>	<u>\$ -</u>	<u>\$18,218,909</u>	<u>\$ 78,047</u>	<u>\$ 19,814,206</u>

The accompanying notes to the financial statements are an integral part of this statement.

Carter County School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds: \$ 4,001,735

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlay exceeded depreciation in the current period. 5,973,102

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

Amortization of bond issue cost (26,446)
Long-term portion of accrued sick leave (349,036)

Bond and capital lease proceeds are recognized as revenues of current financial resources in the fund financial statements, but are increases in liabilities in the statement of net position. (12,842,472)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position. 1,568,012

In the statement of activities certain operating expenses such as interest are measured by the amounts earned during the year. In the governmental funds however, expenditures for these items are measured by the amount of financial resources used.

Interest earned exceeded the amount paid 29,176

Change in net position of governmental activities \$ (1,645,929)

Carter County School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original/Draft</u>	<u>Final/Working</u>		<u>Final Budget</u>
REVENUES				<u>favorable/</u>
				<u>(unfavorable)</u>
Taxes:				
Taxes	\$ 4,973,000	\$ 4,970,000	\$ 4,874,044	\$ (95,956)
Earnings on investments	70,000	63,000	17,856	(45,144)
Other local sources	-	-	-	
Intergovernmental - state	22,358,483	21,906,159	28,861,305	6,955,146
Intergovernmental - indirect federal	287,000	436,000	182,859	(253,141)
Intergovernmental federal	-	-	-	-
Charges for services	-	-	-	-
Other sources	157,500	169,500	62,575	(106,925)
Miscellaneous	-	-	-	
Total revenues	<u>27,845,983</u>	<u>27,544,659</u>	<u>33,998,639</u>	<u>6,453,980</u>
EXPENDITURES				
Current:				
Instruction	17,583,221	16,605,695	21,305,769	(4,700,074)
Student support services	1,554,794	1,522,274	1,970,158	(447,884)
Staff support services	1,021,569	1,003,953	1,416,815	(412,862)
District administration	539,839	559,417	593,647	(34,230)
School administration	1,742,464	1,734,345	1,990,309	(255,964)
Business support services	600,992	634,240	688,144	(53,904)
Plant operation and maintenance	3,731,330	3,657,763	3,882,033	(224,270)
Student transportation	2,604,055	3,191,464	3,979,678	(788,214)
Food services	2,280	2,300	1,883	417
Community service operations	-	-	4,990	(4,990)
Total Expenditures	<u>29,380,544</u>	<u>28,911,451</u>	<u>35,833,426</u>	<u>(6,921,975)</u>
Excess (deficiency) of revenues over expenditures	(1,534,561)	(1,366,792)	(1,834,787)	(467,995)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	-	-	-	
Proceeds from sale of assets	-	-	9,796	9,796
Transfers in	-	-	535,483	535,483
Transfers out	(130,234)	(135,235)	(118,809)	16,426
Total other financing sources and uses	<u>(130,234)</u>	<u>(135,235)</u>	<u>426,470</u>	<u>561,705</u>
Net change in fund balances	(1,664,795)	(1,502,027)	(1,408,317)	93,710
Fund balances - beginning	<u>519,850</u>	<u>2,925,567</u>	<u>2,925,567</u>	
Fund balances - ending	<u>\$ (1,144,945)</u>	<u>\$ 1,423,540</u>	<u>\$ 1,517,250</u>	<u>\$ 93,710</u>

The accompanying notes to the financial statements are an integral part of this statement.

Carter County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (with Variances)
Special Revenue Fund
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
				<u>Favorable</u>
REVENUES				
Earnings on investments	\$ -	\$ 42	\$ 78	\$ 36
Intergovernmental - state	1,358,191	1,590,118	1,401,408	(188,710)
Intergovernmental - federal	2,388,081	4,469,524	5,002,324	532,800
Other sources		20,507	25,142	4,635
Total revenues	<u>3,746,272</u>	<u>6,080,191</u>	<u>6,428,952</u>	<u>348,761</u>
EXPENDITURES				
Current:				
Instruction	3,092,590	5,573,522	5,802,097	(228,575)
Student support services	-	-	32,765	(32,765)
Staff support services	25,112	21,114	139,974	(118,860)
District administration	-	-	-	-
School administration	100	-	-	-
Business support services	20,000	24,225	21,214	3,011
Plant operation and maintenance	71,366	60,370	51,960	8,410
Student transportation	-	49,119	22,439	26,680
Food services	182,912	-	-	-
Community service operations	454,192	436,437	442,147	(5,710)
Total Expenditures	<u>3,846,272</u>	<u>6,164,787</u>	<u>6,512,596</u>	<u>(347,809)</u>
Excess (deficiency) of revenues over expenditures	<u>(100,000)</u>	<u>(84,596)</u>	<u>(83,644)</u>	<u>952</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	-	-
Transfers in	100,000	84,596	84,596	-
Transfers out	-	-	(952)	(952)
Total other financing sources and uses	<u>100,000</u>	<u>84,596</u>	<u>83,644</u>	<u>(952)</u>
Net change in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to the financial statements are an integral part of this statement.

**Carter County School District
Statement of Net Position
Proprietary Funds
June 30, 2012**

	Enterprise Fund
	Food Service Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 647,744
Inventories	57,152
Total current assets	704,896
Non-current assets:	
Capital Assets	593,650
Less Accumulated depreciation	(506,535)
Total non-current assets	87,115
Total assets	\$ 792,011
 LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 32,305
Total current liabilities	32,305
Total liabilities	32,305
 NET POSITION	
Invested in capital assets, net of related debt	87,115
Unrestricted	672,591
Total net position	\$ 759,706

The accompanying notes to the financial statements are an integral part of this statement.

Carter County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2012

	<u>Enterprise Fund</u>
	<u>Food Service</u> <u>Fund</u>
REVENUES	
Lunchroom sales	\$ 357,221
Total operating revenues	<u>357,221</u>
OPERATING EXPENSES	
Salaries and wages	1,266,782
Contractual services	55,576
Materials and supplies	1,184,347
Other operating expenses	24,860
Depreciation	29,881
Total Operating Expenses	<u>2,561,446</u>
Operating income (loss)	<u>(2,204,225)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	2,457
State grants	282,760
Federal grants	1,951,959
Total non-operating revenue (expenses)	<u>2,237,176</u>
Income (loss) before contributions and transfers	32,951
Transfers in	3,930
Transfers out	(114,403)
Change in net position	<u>(77,522)</u>
Net position - beginning of year, as previously reported	1,010,259
Prior period adjustment	(173,031)
Net position-reinstated	<u>837,228</u>
Net position - ending	<u>\$ 759,706</u>

The accompanying notes to the financial statements are an integral part of this statement.

**Carter County School District
Statement of Cash Flows
For the Year Ended June 30, 2012**

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from:	
Lunchroom sales	\$ 367,013
Cash paid to/for:	
Employees	(1,266,782)
Supplies	(1,039,910)
Other activities	(206,287)
Net cash used in operating activities	<u>(2,145,966)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Government grants	2,234,718
Transfers in	3,930
Transfers out	(114,403)
Net cash provided by non-capital financing activities	<u>2,124,245</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>2,457</u>
Net cash provided by investing activities	<u>2,457</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,264)
Balance, beginning of year	<u>667,008</u>
Balance, end of year	<u>\$ 647,744</u>
Reconciliation of operating income(loss) to net cash provided (used) by operating activities	
Operating Loss	\$ (2,204,225)
Adjustments to reconcile operating income (loss) to cash used for operating activities:	
Depreciation	29,881
Changes in assets and liabilities:	
Accounts receivable	9,792
Inventories	421
Accounts payable	18,165
Net cash used in operating activities	<u>\$ (2,145,966)</u>

The accompanying notes to the financial statements are an integral part of this statement.

Carter County School District
Statement of Net Assets
Fiduciary Funds
June 30, 2012

	<u>Private Purpose</u> <u>Trust Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 186,767	\$ 322,179
Total assets	<u>186,767</u>	<u>322,179</u>
LIABILITIES		
Due to student groups	-	-
Total liabilities	-	-
NET POSITION		
Held in trust for benefits and other purposes	<u>\$ 186,767</u>	<u>\$ 322,179</u>

The accompanying notes to the financial statements are an integral part of this statement.

Carter County School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	<u>Private Purpose</u> <u>Trust Funds</u>
ADDITIONS	
Fees and collections	\$ 2,872
Transfers in	-
Total other additions	2,872
Total additions	2,872
 DEDUCTIONS	
Scholarships	4,680
Transfers out	49
Total deductions	4,729
Change in net assets	(1,857)
Net assets - beginning	188,624
Net assets - ending	\$ 186,767

The accompanying notes to the financial statements are an integral part of this statement.

CARTER COUNTY SCHOOL DISTRICT
CARTER COUNTY, KENTUCKY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 – REPORTING ENTITY

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

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

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

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

Carter County School District Finance Corporation - On August 14, 1989, the Carter County, Kentucky, Board of Education resolved to authorize the establishment of the Carter County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Carter County Board of Education also comprise the Corporation’s Board of Directors.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Carter County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide statements – provide information about the primary government (the District). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Fund financial statements –provide information about the District’s funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

- A. 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 a major fund of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for 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 and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Funds are used to account for the accumulation of resources for, and 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.

II. Proprietary Fund Type (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service Fund is a major fund.

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

III. Fiduciary Fund Type (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*. The trust funds account for funds restricted for scholarship purposes.

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.

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

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

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

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

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business property located in the district.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In-kind

Local contributions, which include contributed services provided by individuals, private Districts and local governments, are used to match federal and state administered funding on various grants. The District also receives commodities from U.S.D.A. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory at cost, on the first-in, first-out basis, using the accrual basis of accounting.

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interfund Balances

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

Budget

The District is required by state law to adopt annual budgets for the general fund, special revenue fund, capital outlay fund and the food service fund. Each budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

Net Assets

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

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.

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 general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank 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 depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC) insurance.

At June 30, 2012, the carrying amount of the District's cash and cash equivalents was \$20,573,416 and the bank balance was \$24,004,717. Of the total cash balance, \$260,911 was covered by Federal Depository Insurance Corporation, with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the district's name.

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

	<u>Bank Balance</u>	<u>Book Balance</u>
First National Bank	\$ 23,993,806	\$ 20,573,416
Commercial Bank of Grayson	10,911	10,911
	<u>24,004,717</u>	<u>20,584,327</u>
Governmental Funds		19,427,637
Proprietary Funds		647,744
Activity Funds		508,946
		<u>20,584,327</u>

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Education Building Fund, Special Revenue (Grant) Funds, Bond and Interest Redemption Fund, School Food Service Funds, and School Activity Funds.

NOTE 4 – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance</u> June 30, 2011	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> June 30, 2012
Capital Assets, Not Depreciated:				
Land	\$ 1,535,033	\$ 163,400	\$ 8,709	\$ 1,689,724
Construction in process	1,680,465	6,941,070	-	8,621,535
Capital Assets, Depreciated:				
Land improvements	248,261	-	-	248,262
Buildings and improvements	47,194,413	-	4,793	47,189,620
Technology equipment	3,068,771	-	1,951,517	1,117,254
Machinery and equipment	474,019	44,763	331,027	187,755
Vehicles	6,172,353	695,340	628,048	6,239,645
Totals at historical cost	<u>60,373,315</u>	<u>7,844,573</u>	<u>2,924,094</u>	<u>65,293,795</u>
Less: accumulated depreciation				
Land	-	-	-	-
Land improvements	153,338	10,080	-	163,418
Buildings and improvements	16,632,544	1,202,433	816	17,834,161
Technology equipment	1,876,402	199,559	1,460,013	615,948
Machinery and equipment	313,874	15,594	236,180	93,288
Vehicles	4,275,593	443,806	628,048	4,091,351
Total accumulated depreciation	<u>23,251,751</u>	<u>1,871,472</u>	<u>2,325,057</u>	<u>22,798,166</u>
Government Activities				
Capital Assets-Net	<u>\$ 37,121,564</u>	<u>\$5,973,101</u>	<u>\$ 599,037</u>	<u>\$ 42,495,629</u>

NOTE 4 – CAPITAL ASSETS (Continued)

Business-Type Activities

Capital Assets, Depreciated:

Food service equipment	\$ 1,188,341	\$ -	\$ 594,691	\$ 593,650
Less: accumulated depreciation				
Food service equipment	<u>898,316</u>	<u>29,881</u>	<u>421,662</u>	<u>506,535</u>
Business-Type Activities				
Capital Assets-Net	<u>\$ 290,025</u>	<u>\$ (29,881)</u>	<u>\$ 173,029</u>	<u>\$ 87,115</u>

Depreciation expense was allocated to governmental functions as follows:

Instructional	\$ 124,594
Student support services	10,860
District administration	78,874
School administration	1,611
Plant operation and maintenance	1,249,682
Student transportation	<u>405,851</u>
	<u>\$ 1,871,472</u>

NOTE 5 – DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the Districts future obligations to make lease payments relating to the bonds issued by the Carter County School District Financial Corporation and the Kentucky School Construction Commission aggregating \$47,357,090.

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

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

<u>Issue Date</u>	<u>Original Amount</u>	<u>Rates</u>
2001	3,210,000	4.00%
2005	4,445,000	3.50%
2006	6,630,000	3.40%
2008	1,375,000	2.80%
2009	6,115,000	2.50%
2011	12,590,000	1.00%
2011	6,092,090	0.00%
2011	1,815,000	2.00%
2012	<u>3,460,000</u>	1.00%
	<u>\$47,357,090</u>	

NOTE 5 – DEBT OBLIGATIONS (Continued)

A summary of long-term debt and other long-term liabilities is as follows:

	Balance June 30, 2011	Additions	Retired	Balance June 30, 2012
General obligation bonds-				
\$47,357,090 originally issued with interest rates ranging from 1.0% to 4%	\$30,140,000	\$ 11,367,090	\$ 1,540,000	\$ 39,967,090
KISTA	57,158	-	28,012	29,146
Accumulated unpaid sick leave benefits	1,714,080	221,982	-	1,936,062
	<u>\$31,911,238</u>	<u>\$ 11,589,072</u>	<u>\$ 1,568,012</u>	<u>\$ 41,932,298</u>

The District has entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

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

Year	CARTER COUNTY SCHOOL DISTRICT		KY SCHOOL CONSTRUCTION COMMISSION		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,537,522	\$ 989,655	\$ 498,114	\$ 264,891	\$ 2,035,636	\$ 1,254,546
2014	1,570,219	953,839	465,417	250,899	2,035,636	1,204,738
2015	1,604,842	919,243	475,794	237,684	2,080,636	1,156,927
2016	1,645,464	882,493	490,172	223,784	2,135,636	1,106,277
2017	1,682,877	841,788	497,759	208,335	2,180,636	1,050,123
2018	1,731,593	796,325	514,043	191,394	2,245,636	987,719
2019	1,779,096	748,736	531,540	173,897	2,310,636	922,633
2020	1,733,987	692,334	306,649	154,749	2,040,636	847,083
2021	1,787,993	641,940	317,643	143,745	2,105,636	785,685
2022	1,840,515	586,166	330,121	131,264	2,170,636	717,430
2023	1,902,310	527,283	343,326	118,059	2,245,636	645,342
2024	1,963,576	465,630	357,060	104,326	2,320,636	569,956
2025	2,034,058	400,443	371,578	89,808	2,405,636	490,251
2026	2,103,704	331,155	386,932	74,454	2,490,636	405,609
thereafter	7,976,227	890,133	1,186,959	180,876	9,163,186	1,071,009
	<u>\$ 32,893,983</u>	<u>\$ 10,667,163</u>	<u>\$ 7,073,107</u>	<u>\$ 2,548,165</u>	<u>\$ 39,967,090</u>	<u>\$ 13,215,328</u>

NOTE 6 - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2012, this amount

totaled \$1,936,062. Sick leave benefits are accrued as a liability using the termination payment

NOTE 6 - ACCUMULATED UNPAID SICK LEAVE BENEFITS (Continued)

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 accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The Noncurrent portion of the liability is not reported.

NOTE 7 - INTERFUND TRANSFERS

Interfund transfers at June 30, 2012, consisted of the following:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology	\$ 84,026
Operating	General	Special Revenue	Grant Match	570
Operating	General	Food Service	Food Service	3,930
Operating	General	Debt Service	KISTA Loan	30,283
Operating	Food Service	General Fund	Indirect Cost	114,405
Operating	Special Revenue	General Fund	Indirect Cost	952
Operating	Capital Outlay	General Fund	Operating	420,126

NOTE 8 - CAPITAL LEASE PAYABLE

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

Year ending June 30:	
2013	\$ 30,283
2014	-
2015	-
2016	-
2017	-
Total minimum lease payments	30,283
Less: Amount representing interest	1,137
Present value of net minimum lease payments	<u>\$ 29,146</u>

NOTE 9 - RETIREMENT PLANS

Kentucky Teachers Retirement System:

Plan Descriptions – The Carter County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky.

NOTE 9 - RETIREMENT PLANS (Continued)

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes statements and the required supplementary information for the defined benefit pension plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Rd., Frankfort, Kentucky 40601.

Funding for KTRS is provided by eligible employees who contribute 10.355% (if they were a member before July 1, 2008) and 10.855% (if they were a member on/after July 1, 2008) of their salary through payroll deductions and by the Commonwealth of Kentucky through matching contributions at the rate of 13.105% (if they were a member before July 1, 2008) and 14.105% (if they were a member on/after July 1, 2008). The contribution requirements of KTRS members and the District are established and may be amended by Kentucky Revised Statutes and the KTRS Board of Trustees. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE).

The District's total payroll for the year was \$27,163,410. They payroll for employees covered under KTRS was \$20,543,154. For the years ended June 30, 2012, 2011, and 2010, the Commonwealth of Kentucky contributed \$2,368,860, \$2,260,108, and \$2,069,400, respectively, KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ended June 30, 2012, 2011, and 2010 were \$437,204, \$510,950, and \$371,264, respectively.

County Employee's Retirement System

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly.

Funding for the plan is provided through payroll withholdings of 5.000% and a district contribution of 18.96% of the employee's total compensation subject to contribution. Members who were hired after September 1, 2008 are required to contribute 6.000% of their salaries to CERS. The District's contributions to CERS for the years ending June 30, 2012, 2011, and 2010 were \$855,748, \$1,052,673, and \$1,131,607, respectively, equal to the required contributions for the year.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Rd., Frankfort, Kentucky, 40601, or by calling (502)564-4646.

NOTE 10 – CONTINGENCIES AND COMMITMENTS

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

The District has outstanding construction commitments of approximately \$18,218,909 at June 30, 2012. The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

NOTE 11 - 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 Fund. These public entity risk pools operate as common risk management and insurance program 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 member 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

NOTE 12 – COBRA

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

NOTE 13- ON-BEHALF PAYMENTS

For fiscal year 2012, the Commonwealth of Kentucky contributed payments on behalf of the Carter County School District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 2,368,860
Health and Life Insurance Plans	5,249,610

NOTE 14- LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

NOTE 15- CHANGE IN ACCOUNTING PRINCIPLE

The district adopted a new capitalization policy. Fixed asset threshold changed from equal to or greater than \$1,000 to equal to or greater than \$5,000. As a result, the cumulative effect of applying the new threshold decreased beginning net assets by \$772,069.

Carter County School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Capital Outlay Fund	Building Fund	Debt Service Fund	Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 7,709	\$ 70,338	\$ 78,047
Investments	-	-	-	-
Accounts receivable				
Taxes	-	-	-	-
Intergovernmental - state	-	-	-	-
Other	-	-	-	-
Due from other funds	-	-	-	-
Inventories	-	-	-	-
Prepaid expenses	-	-	-	-
Total assets	\$ -	\$ 7,709	\$ 70,338	\$ 78,047
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Accrued payroll and related expenses	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-
Total liabilities	-	-	-	-
Fund balances:				
Assigned	-	-	-	-
Restricted	-	-	-	-
Non-spendable	-	-	-	-
Unassigned	-	7,709	70,338	78,047
Committed	-	-	-	-
Total fund balances	-	7,709	70,338	78,047
Total liabilities and fund balances	\$ -	\$ 7,709	\$ 70,338	\$ 78,047

Carter County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Capital Outlay	Building Fund	Debt Service Fund	Total-Other Governmental Funds
REVENUES				
From local sources				
Taxes	\$ -	\$ 902,266	\$ -	\$ 902,266
Earnings on investments	-	-	11,791	11,791
Intergovernmental - state	420,126	2,125,248	774,167	3,319,541
Intergovernmental - federal	-	-	-	-
Other sources	-	-	-	-
Total revenues	<u>420,126</u>	<u>3,027,514</u>	<u>785,958</u>	<u>4,233,598</u>
EXPENDITURES				
Plant operation and maintenance	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Debt service:				
Principal	-	-	1,568,012	1,568,012
Interest	-	-	1,189,052	1,189,052
Total Expenditures	<u>-</u>	<u>-</u>	<u>2,757,064</u>	<u>2,757,064</u>
Excess (deficiency) of revenues over expenditures	<u>420,126</u>	<u>3,027,514</u>	<u>(1,971,106)</u>	<u>1,476,534</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	-	-	12,873,894	12,873,894
Transfers in	-	-	1,931,124	1,931,124
Transfers out	(420,126)	(3,445,841)	(12,826,164)	(16,692,131)
Total other financing sources and uses	<u>(420,126)</u>	<u>(3,445,841)</u>	<u>1,978,854</u>	<u>(1,887,113)</u>
Net change in fund balances	-	(418,327)	7,748	(410,579)
Fund balances - beginning		426,036	62,590	488,626
Fund balances - ending	<u>\$ -</u>	<u>\$ 7,709</u>	<u>\$ 70,338</u>	<u>\$ 78,047</u>

**Carter County School District
Statement of Changes in Assets and Liabilities
School Activity and Trust Funds
For the Year Ended June 30, 2012**

	Cash Balances July 1, 2011	Receipts	Disbursements	Transfers	Cash Balances June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012	Deposits Held in Custody for Students June 30, 2012
ACTIVITY FUNDS:									
East Carter High School	\$ 69,670	\$ 263,071	\$ 268,737	\$ (1,132)	\$ 62,872	\$ -	\$ -	\$ -	\$ 62,872
West Carter High School	74,163	240,734	251,729	1,107	64,275	-	-	-	64,275
Carter Elementary School	1,945	5,427	5,384	-	1,988	-	-	-	1,988
Heritage Elementary School	20,096	54,711	62,598	-	12,209	-	-	-	12,209
Olive Hill Elementary School	21,085	44,507	39,627	-	25,965	-	-	-	25,965
Prichard Elementary School	24,870	32,008	27,680	-	29,198	-	-	-	29,198
Star Elementary School	5,343	3,071	4,321	-	4,093	-	-	-	4,093
Upper Tygart Elementary School	11,369	23,839	29,902	-	5,306	-	-	-	5,306
Vocational School	13,080	30,088	30,506	-	12,662	-	-	-	12,662
East Middle School	47,549	136,624	136,253	-	47,920	-	-	-	47,920
West Middle School	35,808	150,674	153,111	-	33,371	-	-	-	33,371
East & West Elem. Basketball	3,910	7,205	9,279	-	1,836	-	-	-	1,836
Community Education	4,770	1,826	6,319	74	351	-	-	-	351
Central Account	16,965	56,538	53,370	-	20,133	-	-	-	20,133
	<u>350,623</u>	<u>1,050,323</u>	<u>1,078,816</u>	<u>49</u>	<u>322,179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>322,179</u>
TRUST FUNDS:									
McDavid Hicks Scholarship	17,467	25	750	-	16,742	-	-	16,742	-
Hamilton Mem. Scholarship	122,994	177	1,000	-	122,171	-	-	122,171	-
McKenzie Mem. Scholarship	6,419	9	-	-	6,428	-	-	6,428	-
Samantha Holbrook Mem. Fund	182	-	-	-	182	-	-	182	-
Thompson K. Bonzo Estate	10,862	98	-	(49)	10,911	-	-	10,911	-
John "Hop" Brown Scholarship	28,220	198	500	-	27,918	-	-	27,918	-
Bill Ticknor Mem. Camp	2,355	2,365	2,360	-	2,360	-	-	2,360	-
Mohrman Mem. Fund	-	-	-	-	-	-	-	-	-
Peggy Owens Mem. Fund	55	-	70	-	(15)	-	-	(15)	-
Sandy Clayton Mem. Fund	70	-	-	-	70	-	-	70	-
	<u>188,624</u>	<u>2,872</u>	<u>4,680</u>	<u>(49)</u>	<u>186,767</u>	<u>-</u>	<u>-</u>	<u>186,767</u>	<u>-</u>
TOTAL SCHOOL ACTIVITY AND TRUST FUNDS	<u>\$ 539,247</u>	<u>\$ 1,053,195</u>	<u>\$ 1,083,496</u>	<u>\$ -</u>	<u>\$ 508,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 186,767</u>	<u>\$ 322,179</u>

sburusements, and Fund Balances (Continued)
For the Year Ended June 30, 2012

ACCOUNTS:	Cash Balance July 1, 2011	Receipts	Disbursements	Transfers	Cash Balance June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Deposits Held in Custody For Students June 30, 2012
4-H CLUB	\$ 389	\$ -	\$ -	\$ -	\$ 389	\$ -	\$ -	\$ 389
ACADEMIC CLUB	40	-	-	-	40	-	-	40
ADVANCE P.E.	33	-	-	-	33	-	-	33
ART CLUB	228	-	-	-	228	-	-	228
BAND	-	-	(1,041)	1,041	-	-	-	-
BETA CLUB	1,148	644	(624)	-	1,168	-	-	1,168
CENTRAL	7,465	17,862	(12,957)	(241)	12,129	-	-	12,129
CHORUS	2,982	5,522	(7,146)	-	1,358	-	-	1,358
CULINARY ART	477	-	-	-	477	-	-	477
DRAMA CLUB	-	833	(778)	-	55	-	-	55
EC PRODUCTIONS	36	-	-	(36)	-	-	-	-
FBLA	53	2,552	(2,564)	-	41	-	-	41
FCA	43	-	-	-	43	-	-	43
FCCLA	67	3,051	(3,118)	-	-	-	-	-
FFA	388	6,817	(7,327)	245	123	-	-	123
FMD	1,547	2,184	(2,254)	-	1,477	-	-	1,477
FRENCH ACCOUNT	718	524	(1,208)	-	34	-	-	34
FEA	32	298	(346)	16	-	-	-	-
GIFTED	-	-	-	-	-	-	-	-
GUIDANCE	314	126	(126)	-	314	-	-	314
JAMES E. RILEY ART	894	1	(200)	-	695	-	-	695
JROTC	189	6,264	(6,155)	-	298	-	-	298
KY JR HISTORICAL SOCIETY	207	-	-	-	207	-	-	207
LIBRARY	808	521	(926)	-	403	-	-	403
MATH DEPT	596	1,380	(1,376)	-	600	-	-	600
PARKING FEE ACCOUNT	3,340	210	(727)	-	2,823	-	-	2,823
PEP CLUB	-	-	-	-	-	-	-	-
PHYSICS CLUB	142	-	-	-	142	-	-	142
RAIDER NEWSPAPER	131	-	-	-	131	-	-	131
RAIDER ROCK CAFÉ	58	-	-	(58)	-	-	-	-
SADD	2,038	3,670	(4,353)	-	1,355	-	-	1,355
SCIENCE CLUB	532	-	-	-	532	-	-	532
SENIOR FAREWELL	1,739	33,166	(34,616)	-	289	-	-	289
SKATETIME PROGRAM	81	-	-	(81)	-	-	-	-
SPANISH CLUB	537	-	-	(537)	-	-	-	-
STUDENT COUNCIL	5	6,951	(6,933)	-	23	-	-	23
TEACHERS LOUNGE	3,244	2,098	(4,122)	(345)	875	-	-	875
TEXTBOOKS	1,470	57	-	-	1,527	-	-	1,527
WEIRD SCIENCE	149	2,878	(2,330)	426	1,123	-	-	1,123
YEARBOOK	10,205	7,081	(7,728)	-	9,558	-	-	9,558
TEENS FOR CHRIST	-	-	-	-	-	-	-	-
SPECIAL ED RESOURCE	126	160	(98)	-	188	-	-	188
FRESHMEN ACADEMY	339	-	-	(339)	-	-	-	-
SHIRT ACCOUNT	1	-	-	(1)	-	-	-	-
CLASS OF 2010	273	-	-	-	273	-	-	273
CLASS OF 2011	367	25	(144)	-	248	-	-	248
CLASS OF 2012	3,693	2,523	(6,334)	118	-	-	-	-
AWARD ACCOUNT	1,235	983	(1,138)	-	1,080	-	-	1,080
COMPUTER LAB	87	-	-	(87)	-	-	-	-
ASTRONOMY CLUB	60	-	-	-	60	-	-	60
INTERIOR DESIGN CLASS	-	-	-	-	-	-	-	-
HOSPITALITY SERVICES	92	1,831	(1,822)	(74)	27	-	-	27
YOUTH CRIME WATCH	45	-	-	(45)	-	-	-	-
HEALTH & P.E.	1,477	3,360	(3,308)	-	1,529	-	-	1,529
AP CLASS	2,837	-	-	-	2,837	-	-	2,837
ENTREPRENEURSHIP CLASS	544	-	-	-	544	-	-	544
DECA	383	-	-	-	383	-	-	383
16TH REGION PRINCIPALS	809	50	-	(859)	-	-	-	-
EMBROIDERY DESIGNS	20	-	-	-	20	-	-	20
CLASS OF 2013	514	10,728	(7,320)	(206)	3,716	-	-	3,716
CLASS OF 2014	-	1,625	-	-	1,625	-	-	1,625
CLASS OF 2015	-	-	-	-	-	-	-	-
CLASS OF 2016	-	-	-	-	-	-	-	-
SP ED LIFE SKILLS CLASS	50	-	-	-	50	-	-	50
ATHLETICS	1,871	8,022	(6,399)	(3,094)	400	-	-	400
BASEBALL	1	12,939	(12,935)	-	5	-	-	5
BASEBALL TOURNAMENT	-	-	-	-	-	-	-	-
BASKETBALL-BOYS	-	21,363	(23,940)	2,577	-	-	-	-
BASKETBALL-GIRLS	4	11,220	(12,935)	1,711	-	-	-	-
CHEERLEADERS	524	6,574	(7,098)	-	-	-	-	-

**Carter County School District
East Carter High School
Statement of Receipts, Disbursements, and Fund Balances (Concluded)
For the Year Ended June 30, 2012**

ACCOUNTS:	Cash Balance July 1, 2011	Receipts	Disbursements	Transfers	Cash Balance June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Deposits Held in Custody For Students June 30, 2012
CROSS COUNTRY	791	3,061	(2,218)	-	1,634	-	-	1,634
EKC TOURNAMENT-EAST	-	1,710	(1,710)	-	-	-	-	-
FOOTBALL	2	31,532	(38,371)	6,837	-	-	-	-
GOLF-BOYS	1,990	2,383	(2,576)	-	1,797	-	-	1,797
GOLF-GIRLS	1,276	979	(355)	-	1,900	-	-	1,900
SOCCER-BOYS	3,939	3,863	(5,670)	(1,001)	1,131	-	-	1,131
SOCCER-GIRLS	1,789	11,025	(6,150)	(6,663)	1	-	-	1
SOFTBALL	-	6,093	(4,231)	-	1,862	-	-	1,862
SPORTS MEDICINE	470	-	-	-	470	-	-	470
TENNIS	8	2,236	(1,344)	-	900	-	-	900
TRACK-BOYS	-	1,844	(977)	-	867	-	-	867
TRACK-GIRLS	365	1,844	(1,826)	-	383	-	-	383
VOLLEYBALL-GIRLS	1,363	5,151	(5,961)	(100)	453	-	-	453
DISTRICT FOOTBALL	-	5,257	(4,922)	(336)	(1)	-	-	(1)
	<u>\$ 69,670</u>	<u>\$ 263,071</u>	<u>\$ (268,737)</u>	<u>\$ (1,132)</u>	<u>\$ 62,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,872</u>

Carter County School District
West Carter High School
Statement of Receipts, Disbursements and Fund Balances
School Activity Funds
June 30, 2012

	Cash Balance June 30, 2011	Receipts	Disbursements	Transfer	Cash Balance June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Deposits Held in Custody For Students June 30, 2012
ACCOUNTS:								
4-H CLUB	\$ 54	\$ -	\$ -	\$ (54)	\$ -	\$ -	\$ -	\$ -
ACADEMIC CLUB	94	3,928	(3,858)	380	544	-	-	544
ART	-	-	-	-	-	-	-	-
BAND	203	1,040	(336)	-	907	-	-	907
BETA CLUB	-	1,876	(2,211)	335	-	-	-	-
CADET ACCOUNT	772	687	(775)	-	684	-	-	684
CENTRAL	1,732	4,011	(5,582)	549	710	-	-	710
CHORUS	27	-	-	-	27	-	-	27
DRAMA CLUB	285	-	-	(285)	-	-	-	-
ENVIRONMENTAL CLUB	56	-	-	(56)	-	-	-	-
FBLA	451	752	(716)	-	487	-	-	487
FCA	214	-	-	-	214	-	-	214
FCCLA	282	1,271	(1,664)	111	-	-	-	-
FFA	41,792	38,467	(35,041)	-	45,218	-	-	45,218
GIFTED NY	-	-	(82)	82	-	-	-	-
GUIDANCE	-	1,365	(1,340)	-	25	-	-	25
JOURNALISM	1,019	1,311	(2,169)	-	161	-	-	161
KUNA	112	969	(2,029)	948	-	-	-	-
LIBRARY	2,186	7,273	(9,488)	29	-	-	-	-
MATH DEPT	179	79	(196)	-	62	-	-	62
PEER LISTENERS	17	-	-	(17)	-	-	-	-
PEP CLUB	-	-	-	-	-	-	-	-
PROM ACCOUNT	742	-	(4,108)	4,500	1,134	-	-	1,134
SEEK CLUB	45	-	-	-	45	-	-	45
SENIOR FAREWELL	2,131	19,740	(21,456)	(415)	-	-	-	-
SPANISH CLUB	-	5,893	(4,412)	-	1,481	-	-	1,481
TEACHERS LOUNGE	323	114	(298)	(100)	39	-	-	39
TEXTBOOKS	821	-	-	-	821	-	-	821
YEARBOOK	5,281	5,383	(9,890)	-	774	-	-	774
SPECIAL ED	165	-	-	-	165	-	-	165
STOCK MARKET ACCT	-	-	-	-	-	-	-	-
CLASS OF 2010	435	-	-	(435)	-	-	-	-
CLASS OF 2011	1,133	-	(1,005)	(128)	-	-	-	-
CLASS OF 2012	2,168	8,438	(7,334)	(3,272)	-	-	-	-
AP CLUB	459	690	(855)	-	294	-	-	294
16th REGION PRINCIPALS	-	850	(610)	909	1,149	-	-	1,149
BIGGEST LOSER	25	-	-	(25)	-	-	-	-
CLASS OF 2013	1,234	3,836	(1,299)	(1,848)	1,923	-	-	1,923
CLASS OF 2014	889	488	(50)	-	1,327	-	-	1,327
CLASS OF 2015	-	7,075	(4,365)	-	2,710	-	-	2,710
ATHLETICS	86	4,367	(3,803)	(650)	-	-	-	-
BASEBALL	0	3,845	(5,922)	923	(1,154)	-	-	(1,154)
BASKETBALL-BOYS	4,714	25,248	(31,063)	-	(1,101)	-	-	(1,101)
BASKETBALL-GIRLS	-	18,109	(15,654)	-	2,455	-	-	2,455
CHEERLEADERS	-	1,416	(1,416)	-	-	-	-	-
CROSS COUNTRY	142	1,100	(326)	(916)	-	-	-	-
DISTRICT VOLLEYBALL	-	353	(626)	273	-	-	-	-
EKC TOURNAMENT-WEST	-	3,280	(3,010)	(270)	-	-	-	-
FOOTBALL	1,452	33,758	(35,624)	470	56	-	-	56
GOLF-BOYS	105	1,000	(1,096)	-	9	-	-	9
GOLF-GIRLS	102	2,275	(2,523)	146	-	-	-	-
SOCCER-BOYS	-	2,995	(3,292)	297	-	-	-	-
SOCCER-GIRLS	-	5,039	(4,820)	-	219	-	-	219
SOFTBALL	-	5,223	(5,223)	-	-	-	-	-
SPORTS MEDICINE	1,636	1,000	(1,985)	-	651	-	-	651
TENNIS	15	1,300	(721)	-	594	-	-	594
TRACK-BOYS	-	1,700	(1,176)	-	524	-	-	524
VOLLEYBALL-GIRLS	5	4,267	(4,099)	(173)	-	-	-	-
ARCHERY TEAM	406	8,244	(7,684)	-	966	-	-	966
DEARFIELD	174	679	(497)	(201)	155	-	-	155
	<u>\$ 74,163</u>	<u>\$ 240,734</u>	<u>\$ (251,729)</u>	<u>\$ 1,107</u>	<u>\$ 64,275</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,275</u>

Carter County School District
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

<u>Federal Grantor/Pass Through Grant/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Program Expenditures</u>
UNITED STATES DEPARTMENT OF AGRICULTURE			
Passed through Kentucky Department of Education:			
Child Nutrition Clusters:			
Cash Assistance:			
NATIONAL SCHOOL LUNCH PROGRAM	10.555	7750002 11	\$ 306,792
NATIONAL SCHOOL LUNCH PROGRAM	10.555	7750002 12	998,549
NATIONAL SCHOOL BREAKFAST PROGRAM	10.553	7760005 11	111,872
NATIONAL SCHOOL BREAKFAST PROGRAM	10.553	7760005 12	373,997
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	7690024 11	890
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	7740023 11	8,536
Cash Assistance Subtotal			<u>1,800,636</u>
Non-Cash Assistance (Food Distribution):			
NATIONAL SCHOOL LUNCH PROGRAM	10.555	7760005 12	<u>151,323</u>
Passed through State Department of Agriculture:			
DISTANCE LEARNING AND TELEMEDICINE GRANT	10.855	KY 720-B16	<u>12,177</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>1,964,136</u>
UNITED STATES DEPARTMENT OF EDUCATION			
Passed through State Department of Education:			
TITLE ONE GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3100002 10	224,551
TITLE ONE GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3100002 11	1,578,821
TITLE ONE GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3100202 09	23,709
TITLE ONE GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3100202 10	153,260
			<u>1,980,341</u>
Special Education Cluster (IDEA)			
SPECIAL EDUCATION GRANTS TO STATES-IDEA	84.027	3810002 10	175,014
SPECIAL EDUCATION GRANTS TO STATES-IDEA	84.027	3810002 11	669,092
SPECIAL ED- PRESCHOOL	84.173	3800002 10	7,508
SPECIAL ED- PRESCHOOL	84.173	3800002 11	55,005
			<u>906,619</u>
CAREER AND TECHNICAL EDUCATION	84.048	4621032 09	2,309
CAREER AND TECHNICAL EDUCATION	84.048	4621110 10	458
CAREER AND TECHNICAL EDUCATION	84.048	4621132 10	45,007
CAREER AND TECHNICAL EDUCATION	84.048	4621232 11	54,086
CAREER AND TECHNICAL EDUCATION	84.048	4621210 11	410
			<u>102,270</u>
FEDERAL TECHNOLOGY	84.318	3210002 10	2,218
RURAL EDUCATION	84.358	3410002 09	546
RURAL EDUCATION	84.358	3410002 10	50,258
RURAL EDUCATION	84.358	3410002 11	102,353
			<u>153,157</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	3230002 10	10,193
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	3230002 11	286,413
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	3230002 10	853
			<u>297,459</u>
STRIVING READERS	84.371	3180001 09	156
FEDERAL TECHNOLOGY-ARRA	84.386A	4210002 09	3,991
ENHANCING EDUCATION THROUGH TECHNOLOGY	84.386A	4210002 09	1,631
ARRA-SCHOOL IMPROVEMENT	84.388A	4100302 09	902,576
EDUJOBS	84.410	EJOB00 10	<u>391,660</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>4,742,078</u>

Carter County School District
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended June 30, 2012

Federal Grantor/Pass Through Grant/Program Title	Federal CFDA Number	Pass Through Grantor Number	Program Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Kentucky Department of Education:			
SCHOOL HEALTH PROGRAMS	93.938	2000001 11	150
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>150</u>
U.S. DEPARTMENT OF DEFENSE			
Direct Program			
ROTC	12.000	ROTC	131,270
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>131,270</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,837,634</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Carter County School District under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Carter County School District, it is not intended and does not present the financial position, and changes in net position or cash flows of the District.

NOTE B- SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

DONALD R. GOSSETT & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANT

**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
Carter County School District
Grayson, Kentucky

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Carter County School District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 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 Organization*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements and Appendix II of the Independent Auditor's Contract – State Audit Requirements and Appendix III of 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 the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

P.O. BOX 112
IRONTON, OHIO 45638
(740) 646-0774

Compliance and Other Matters

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

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

Donald R. Gossett

Donald R. Gossett & Company, LLC
Certified Public Accountant

Ironton, Ohio
November 12, 2012

DONALD R. GOSSETT & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANT

**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
School District Audits
Members of the Board of Education
Carter County School District

Grayson, Kentucky

Compliance

I have audited Carter County School District's (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 the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of 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 District's management. My responsibility is to express an opinion on the District's compliance based on my audit.

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

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

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the District's internal control over

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compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Donald R. Gossett

Donald R. Gossett & Company, LLC
Certified Public Accountant

Ironton, Ohio
November 12, 2012

CARTER COUNTY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Carter County School District.
2. Significant deficiency (ies) identified that are not considered to be material weaknesses:
None reported.
3. Instances of noncompliance material to the financial statements of Carter County School Districts: **None were disclosed during the audit.**
4. Significant deficiency in internal control over major federal award programs: **None reported.**
5. An unqualified opinion was issued on compliance over major programs.
6. Audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133: **None reported.**
7. The programs tested as major programs included:
 - Edu Jobs Program (84.410)
 - ARRA-School Improvement (84.388A)
 - Improving Teacher Quality (84.367)
 - Rural Education (84.358)
 - Child Nutrition (10.555, 10.553, 10.559)
8. The dollar threshold used for distinguishing Types A and B programs was \$300,000.
9. The Carter County School District was determined to be low-risk auditee.

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

The audit did not disclose any audit findings related to the financial statements.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

The audit did not disclose any audit finding related to federal awards.

CARTER COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012

None noted in prior year.

CARTER COUNTY SCHOOL DISTRICT

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2012**

There were no findings requiring corrective action.

District contact person:

Jerry A. Lyons, Financial Officer
Carter County Schools
228 South Carol Malone Blvd.
Grayson, Kentucky 41143
(606) 474-6696
EIN- 61-6001284

Name and address of Independent
Accounting firm:

Donald R. Gossett & Company, LLC
Certified Public Accountant
PO Box 112
Ironton, Ohio 45638
(740)646-0774
EIN-26-2520608

DONALD R. GOSSETT & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Carter County Board of Education
Grayson, Kentucky

In planning and performing my audit of the financial statements of Carter County School District (the "District") for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion of 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 my audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding these matters. This letter does not affect my report dated November 12, 2012, on the financial statements of the District.

I will review the status of these comments during my next audit engagement. I have already discussed these comments and suggestions with various District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Donald R. Gossett

Donald R. Gossett & Company, LLC
Certified Public Accountant

Ironton, Ohio
November 12, 2012

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(740) 646-0774

CARTER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2012

2012-1 SCHOOL ACTIVITY FUNDS

Statement of Condition: We noted several instances where school activity funds had a deficit balance at the end of the school year.

Criteria for Condition: No school activity fund shall end the fiscal year (June 30) or begin a fiscal year (July 1) with a deficit balance. (KRS 160.550)

Cause of Condition: Oversight

Effect of the Condition: The board is responsible for all financial obligations of the district, including those incurred by school principals or their agents.

Recommendation for Correction: Funds need to be transferred to cover deficit balance and shall be reimbursed when funds are available.

Management Response: This will be corrected immediately.

Follow-up on Prior Year Recommendations

None noted.