

CLOVERPORT INDEPENDENT SCHOOL DISTRICT

**REPORT ON AUDIT OF COMPREHENSIVE
ANNUAL FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

FOR THE YEAR ENDED JUNE 30, 2012

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Cloverport Independent School District
Cloverport, Kentucky

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *U.S. 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 Requirement*, 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*. These require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis - Unaudited on pages 3 through 9 and budgetary comparison information on pages 38 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The supplementary information shown on pages 41 through 43 and the accompanying Schedule of Expenditures of Federal Awards, required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information shown on pages 41 through 43 and the accompanying Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

October 5, 2012

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2012**

The discussion and analysis of Cloverport Independent School District's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to review the school district's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the school district's financial performance.

Financial and District Highlights

- The district enrollment continued to increase to its largest number of students in over a decade.
- In May/June 2012, the district continued its "Apples for Aces" initiative by purchasing iPads for every 5th through 12th grade student in the school district for use in the upcoming 2012-13 school year. The investment expenditure was paid in full. Certified staff members' iPads were upgraded to a newer version during this process.
- The district had its very first student selected to attend the "Gatton Academy of Math and Science" at Western Kentucky University during the 2011-12 school year. The student will spend his junior and senior year studying at WKU and have two years of college completed at time of graduation. He is the first student from Cloverport and Breckinridge County to be selected.
- The district completed a new Crisis/Emergency Response Plan through an organized effort with the Green River Region Education Cooperative. All staff members were trained and a new, organized flip chart was posted in every classroom and the main office areas.
- A new district website was developed for implementation at the beginning of the 2012-13 school year.
- Volleyball was introduced as a sport for the girls' middle/high school students. The boys' and girls' high school basketball teams improved in their performance over previous years.
- Frederick Fraize High School was recognized by U.S. News and World Report as "One of America's Best High Schools". This is the third time the high school has received a bronze ranking.
- The district purchased a new bus for its regular route fleet.
- The district completed its first year of operating a 21st Century Community Learning Center (CCLC) grant, which served students from each of the three schools in afterschool enrichment and academic support programs.
- General revenues accounted for \$853,213 in revenue, or 20.4 percent of all governmental revenues. Program specific revenues in the form of grants and contributions accounted for \$3,328,114 or 79.6 percent of total governmental revenues of \$4,181,327.
- The school district had \$3,802,970 in expenses related to governmental activities; only \$3,328,114 of these expenses were offset by program specific grants, and contributions. General revenues (primarily local taxes and state SEEK allocations) and fund balances carried forward were adequate to provide for these programs.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2012**

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Cloverport Independent School District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The **Statement of Net Assets and Statement of Activities** provide information about the activities of the whole school district, presenting both an aggregate view of the school district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the school district's major funds. The major funds for the Cloverport Independent School District are the General Fund and Special Revenue Fund.

Reporting the School District as a Whole

One of the most important notes on the district is how did the district do financially during 2012. The **Statement of Net Assets** and the **Statement of Activities**, which appear first in the school district's financial statements, report information on the school district as a whole and its activities in a way that helps clarify the status. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector entities. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received and paid.

These two statements report the school district's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the school district as a whole, the financial position of the school district either improved or diminished. However, the school district's goal is to provide services to our students, not to generate profits as a commercial entity. One must consider many other non-financial factors, such as the school district's property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs and other necessary factors.

In the Statement of Net Assets and the Statements of Activities, the school district is divided into two distinct kinds of activities:

- **Governmental Activities** – most of the school district's programs and services are reported here including instruction, business support services, instructional support services, operation and maintenance of plant, pupil transportation and other activities.
- **Business-Type Activities** – these services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The school district's food service and GED programs are reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the school district's major funds begins on page 12. Fund financial reports provide detailed information about the school district's major funds. The school district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the school district's major funds.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2012**

Reporting the School District's Most Significant Funds - Continued

- **Governmental Funds** – most of the school district's activities are reported in governmental funds, which focus on how money flows in and out of those funds and the resulting balances left at year end and available for spending in future periods. These funds are reported using an accounting method called accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the school district's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** – proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund have a similar format.

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 - 37 of this report.

**(Table 1)
Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets						
Current and Other Assets	\$1,221,596	\$1,265,876	\$ 10,667	\$ 10,191	\$1,232,263	\$1,276,067
Capital Assets	<u>6,606,575</u>	<u>6,577,545</u>	<u>188,376</u>	<u>217,327</u>	<u>6,794,951</u>	<u>6,794,872</u>
Total Assets	<u><u>7,828,171</u></u>	<u><u>7,843,421</u></u>	<u><u>199,043</u></u>	<u><u>227,518</u></u>	<u><u>8,027,214</u></u>	<u><u>8,070,939</u></u>
Liabilities						
Long-Term Liabilities	5,720,482	6,094,261	-	-	5,720,482	6,094,261
Other Liabilities	<u>535,484</u>	<u>555,312</u>	<u>8,063</u>	<u>18,639</u>	<u>543,547</u>	<u>573,951</u>
Total Liabilities	<u><u>6,255,966</u></u>	<u><u>6,649,573</u></u>	<u><u>8,063</u></u>	<u><u>18,639</u></u>	<u><u>6,264,029</u></u>	<u><u>6,668,212</u></u>
Net Assets						
Invested in Capital Assets						
Net of Debt	901,676	534,640	188,376	217,327	1,090,052	751,967
Restricted	35,270	157,851	-	-	35,270	157,851
Unrestricted	<u>635,259</u>	<u>501,357</u>	<u>2,604</u>	<u>(8,448)</u>	<u>637,863</u>	<u>492,909</u>
Total Net Assets	<u><u>\$1,572,205</u></u>	<u><u>\$1,193,848</u></u>	<u><u>\$190,980</u></u>	<u><u>\$208,879</u></u>	<u><u>\$1,763,185</u></u>	<u><u>\$1,402,727</u></u>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2012**

Reporting the School District's Most Significant Funds – Continued

Total assets decreased \$15,250. Total net assets increased by \$378,357 due to increase in capital assets and retirement of debt.

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 \$1,572,205 for Governmental Activities and \$190,980 for Business Type Activities 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, technology, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**(Table 2)
Change in Net Assets**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Operating Grants/Contribution	\$3,328,114	\$3,379,988	\$218,823	\$185,276	\$3,546,937	\$3,565,264
General Revenues:						
Taxes	388,863	370,177	-	-	388,863	370,177
State aid-formula grants	416,988	398,620	-	-	416,988	398,620
Other income	47,362	89,408	-	-	47,362	89,408
Charges for services	-	-	53,706	60,262	53,706	60,262
Transfers	-	-	10,350	5,977	10,350	5,977
Total Revenues and Transfers	<u>4,181,327</u>	<u>4,238,193</u>	<u>282,879</u>	<u>251,515</u>	<u>4,464,206</u>	<u>4,489,708</u>
Expenses:						
Instruction	2,073,536	2,253,338	-	-	2,073,536	2,253,338
Support Services:						
Student	147,829	103,953	-	-	147,829	103,953
Instructional Staff	241,189	299,624	-	-	241,189	299,624
District Administration	291,637	324,851	-	-	291,637	324,851
School Administration	166,912	149,907	-	-	166,912	149,907
Business	200,654	247,290	-	-	200,654	247,290
Facility Operations/ Maintenance	249,055	286,540	-	-	249,055	286,540
Student Transportation	150,002	140,744	-	-	150,002	140,744
Food Service	15,849	1,890	293,384	246,941	309,233	248,831
Community Services	38,989	39,100	7,394	7,583	46,383	46,683
Bond Costs Amortization	6,551	6,551	-	-	6,551	6,551
Interest on Long-Term Debt	220,767	226,866	-	-	220,767	226,866
Transfers	-	5,977	-	-	-	5,977
Total Expenses and Transfers	<u>3,802,970</u>	<u>4,086,631</u>	<u>300,778</u>	<u>254,524</u>	<u>4,103,748</u>	<u>4,341,155</u>
Increase or (Decrease) in Net Assets	<u>\$ 378,357</u>	<u>\$ 151,562</u>	<u>\$(17,899)</u>	<u>\$ (3,009)</u>	<u>\$ 360,458</u>	<u>\$ 148,553</u>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2012**

Reporting the School District's Most Significant Funds – Continued

Governmental Activities - Instruction comprises 54.5% of governmental program expenses. Support services expenses make up 38.1% of governmental expenses. Food service, community services, amortization, and interest accounts for the remaining 7.4% of the total governmental expense.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements. The total cost of services includes state on-behalf payments in the amount of \$416,988 for 2012.

. (Table 1)
Net Assets

	Total Cost of Services		Net Cost of Services	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Instruction	\$2,073,536	\$2,253,338	(\$1,254,578)	(\$1,126,650)
Support Services	1,447,278	1,552,909	1,447,278	1,552,909
Food Service	15,849	1,890	15,849	1,890
Community Services	38,989	39,100	38,989	39,100
Bond Costs Amortization	6,551	6,551	6,551	6,551
Interest on Long Term Debt	<u>220,767</u>	<u>226,866</u>	<u>220,767</u>	<u>226,866</u>
Total Expenses	<u><u>\$3,802,970</u></u>	<u><u>\$4,080,654</u></u>	<u><u>\$474,856</u></u>	<u><u>\$700,666</u></u>

Business-Type Activities - The business-type activities are food service and adult education programs. These programs had revenues of \$282,879 and expenses of \$300,778 for fiscal year 2012. Of the revenues, \$64,056 was charges for services and \$218,823 was from state and federal grants. Business activities receive no support from tax revenues. The school district will continue to monitor the charges and costs of these activities. If it becomes necessary, the school district will increase the charges for these activities.

The School District's Major Funds - Information about the school district's major funds begins on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources and uses of \$3,767,548 and expenditures of \$3,778,443. Net changes in fund balances for the year was most significant in the General Fund totaling \$111,686.

General Fund-Budget Highlights

The school district's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The Kentucky Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2012**

General Fund-Budget Highlights - Continued

A variance comparison is presented between the final budgeted amounts and the actual (GAAP) basis amounts. The General Fund revenues were budgeted at \$2,024,579, with actual amounts of \$2,292,559, a favorable balance of \$267,980. Budgeted expenditures of \$2,495,013 compare with actual expenditures of \$2,230,455, a difference of \$264,558. The source of a portion of both the revenue and expense budget variances is related to state on-behalf payments totaling \$504,423, which KDE requires school districts to exclude from their budget. Budgeted other financing sources and uses were (\$7,564), with actual financing sources of \$49,582. The net increase in the General Fund balance is \$111,686.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the school district had \$6,794,951 invested in land, buildings, and equipment, \$6,606,575 in governmental activities, and \$188,376 in business-type activities. Table 4 shows fiscal year 2012 balances compared to 2011.

**(Table 4)
Net Assets
Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 146,550	\$ 146,550	\$ -	\$ -	\$ 146,550	\$ 146,550
Land improvements	5,525	6,375	-	-	5,525	6,375
Buildings and improvements	5,921,917	6,002,681	-	-	5,921,917	6,002,681
Technology equipment	282,171	142,389	6,666	253	288,837	142,389
Vehicles	160,153	182,996	-	-	160,153	182,996
General equipment	<u>90,259</u>	<u>96,552</u>	<u>181,710</u>	<u>217,074</u>	<u>271,969</u>	<u>313,879</u>
Total	<u>\$6,606,575</u>	<u>\$6,577,543</u>	<u>\$188,376</u>	<u>\$217,327</u>	<u>\$6,794,951</u>	<u>\$6,794,870</u>

Debt

At June 30, 2012, the school district had \$5,890,804 in bonds outstanding, of which \$4,755,119 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$323,589 is due within one year.

District Challenges for the Future

Cloverport Independent School District's financial status has improved during the last fiscal year. This improvement is the result of continued increases in both local and state funding. The District's financial status is stable, but at risk due to the potential continuing loss of state funding. This is the result of two factors: continued student growth without increased state funding for the growth; and a general decrease in the percentage of state funding for K-12 public education.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2012**

District Challenges for the Future – Continued

The school district has experienced an annual growth in student enrollment each year for the last five years. The school district has prepared for the unexpected increase in enrollment by building a new school and renovating and adding to the existing elementary school and Sportscenter. These new facilities come with more efficient utility costs and additional personnel cost (both administrative and support staffs). These new buildings also have a cost for computers, library books, instructional materials, and other items that can only be paid from the General Fund.

In the past, the costs associated with growth due to increased student enrollment have been offset by additional state funding, and continued increases in business and residential property subject to taxation within the school district. Our property tax base continues to grow; however our school district, like all Kentucky school districts, is limited to a 4% annual growth in property tax revenue on existing property.

Another factor facing our school district is that of inadequate state funding. In recent years, the state has placed percentage salary increase mandates on Kentucky school districts, yet adequate funding for those mandates has not been provided. This practice can, over time, place a severe strain on the District's resources without adequate state funding. The district maintains a contingency plan to deal with state funding shortfalls, but this will only be effective for the short-term. A long-term solution at the state level must be determined and enacted by the state legislature to ensure adequate funding for Kentucky's public school districts.

With careful planning and monitoring of our finances, the goal of the Cloverport Independent School District is to continue to provide a quality education for our students and a secure financial future for the school district.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the school district's finances and to show the school district's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Stephen Clark, Finance Officer, at Cloverport Independent Public Schools, 214 West Main Street, P.O. Box 37, Cloverport, KY 40111, or email at Stephen.Clark@cloverport.kyschools.us.

CLOVERPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 657,065	\$ 2,488	\$ 659,553
Accounts receivable	129,106	8,179	137,285
Due from other funds	2,035	-	2,035
Total Current Assets	<u>788,206</u>	<u>10,667</u>	<u>798,873</u>
Noncurrent Assets			
Restricted assets	324,362	-	324,362
Unamortized bond discount	109,028	-	109,028
Capital assets	8,757,800	288,616	9,046,416
Less: accumulated depreciation	<u>(2,151,225)</u>	<u>(100,240)</u>	<u>(2,251,465)</u>
Total Noncurrent Assets	<u>7,039,965</u>	<u>188,376</u>	<u>7,228,341</u>
Total Assets	<u>\$ 7,828,171</u>	<u>\$ 199,043</u>	<u>\$ 8,027,214</u>
Liabilities and Net Assets			
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	\$ 9,777	\$ 6,028	\$ 15,805
Accrued salaries and wages payable	103,228	-	103,228
Accrued interest payable	72,955	-	72,955
Due to other funds	-	2,035	2,035
Deferred revenues	8,134	-	8,134
Current portion of bond obligations	323,589	-	323,589
Current portion of capital lease payable	<u>17,801</u>	<u>-</u>	<u>17,801</u>
Total Current Liabilities	<u>535,484</u>	<u>8,063</u>	<u>543,547</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	5,567,215	-	5,567,215
Noncurrent portion of capital lease payable	119,883	-	119,883
Noncurrent portion of accrued sick leave	<u>33,384</u>	<u>-</u>	<u>33,384</u>
Total Noncurrent Liabilities	<u>5,720,482</u>	<u>-</u>	<u>5,720,482</u>
Total Liabilities	<u>6,255,966</u>	<u>8,063</u>	<u>6,264,029</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	901,676	188,376	1,090,052
Restricted for compensated absences	20,637	-	20,637
Restricted for capital projects	14,633	-	14,633
Unrestricted	<u>635,259</u>	<u>2,604</u>	<u>637,863</u>
Total Net Assets	<u>\$ 1,572,205</u>	<u>\$ 190,980</u>	<u>\$ 1,763,185</u>

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities						
Instruction	\$ 2,073,536	\$ -	\$ 3,328,114	\$ 1,254,578	\$ -	\$ 1,254,578
Support Services:						
Student	147,829	-	-	(147,829)	-	(147,829)
Instructional staff	241,189	-	-	(241,189)	-	(241,189)
District administration	291,637	-	-	(291,637)	-	(291,637)
School administration	166,912	-	-	(166,912)	-	(166,912)
Business	200,654	-	-	(200,654)	-	(200,654)
Plant operations and maintenance	249,055	-	-	(249,055)	-	(249,055)
Student transportation	150,002	-	-	(150,002)	-	(150,002)
Food service	15,849	-	-	(15,849)	-	(15,849)
Community services	38,989	-	-	(38,989)	-	(38,989)
Bond costs amortization	6,551	-	-	(6,551)	-	(6,551)
Interest on long-term debt	220,767	-	-	(220,767)	-	(220,767)
Total Governmental Activities	3,802,970	-	3,328,114	(474,856)	-	(474,856)
Business-type Activities						
Food services	293,384	53,706	218,823	-	(20,855)	(20,855)
Community services	7,394	10,350	-	-	2,956	2,956
Total Business-type Activities	300,778	64,056	218,823	-	(17,899)	(17,899)
Total Primary Government	\$ 4,103,748	\$ 64,056	\$ 3,546,937	\$ (474,856)	\$ (17,899)	\$ (492,755)
			General Revenues			
			Taxes:			
			Property	169,452	-	169,452
			Motor vehicle	48,467	-	48,467
			Utility	89,449	-	89,449
			Other	81,495	-	81,495
			State aid - formula grants	416,988	-	416,988
			Other income	47,362	-	47,362
			Total General Revenues	853,213	-	853,213
			Changes in Net Assets	378,357	(17,899)	360,458
			Net Assets - July 1, 2011	1,193,848	208,879	1,402,727
			Net Assets - June 30, 2012	\$ 1,572,205	\$ 190,980	\$ 1,763,185

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 642,432	\$ -	\$ 14,633	\$ 657,065
Investments	324,362	-	-	324,362
Due from other funds	119,098	-	-	119,098
Accounts receivable	3,210	125,896	-	129,106
Total Assets	<u>\$ 1,089,102</u>	<u>\$ 125,896</u>	<u>\$ 14,633</u>	<u>\$ 1,229,631</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts payable	\$ 9,078	\$ 699	\$ -	\$ 9,777
Due to other funds	-	117,063	-	117,063
Accrued payroll and liabilities	103,228	-	-	103,228
Deferred revenues	-	8,134	-	8,134
Total Liabilities	<u>112,306</u>	<u>125,896</u>	<u>-</u>	<u>238,202</u>
<u>Fund Balances</u>				
Nonspendable	324,362	-	-	324,362
Restricted	20,637	-	14,633	35,270
Unassigned	631,797	-	-	631,797
Total Fund Balances	<u>976,796</u>	<u>-</u>	<u>14,633</u>	<u>991,429</u>
Total Liabilities and Fund Balances	<u>\$ 1,089,102</u>	<u>\$ 125,896</u>	<u>\$ 14,633</u>	<u>\$ 1,229,631</u>

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Governmental Fund Balances	\$ 991,429
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	6,606,575
Bond discounts and issue costs are financial uses and are reported as expenditures in governmental funds. This amount is capitalized in the district-wide financial statements and expensed over the life of the bond.	109,028
Certain liabilities, such as bond obligations, capital leases, accrued sick leave, and interest payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(6,134,827)</u>
Total Net Assets of Governmental Activities	<u><u>\$ 1,572,205</u></u>

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

CLOVERPORT INDEPENDENT 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>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
From local sources:				
Taxes:				
Property	\$ 151,459	\$ -	\$ 17,993	\$ 169,452
Motor vehicle	48,467	-	-	48,467
Utility	54,560	-	34,889	89,449
Other	-	81,495	-	81,495
Earnings (loss) on investments	(10,767)	-	337	(10,430)
Donations	1,570	-	-	1,570
Other local revenue	59,431	-	-	59,431
Intergovernmental:				
State	2,438,395	221,585	103,607	2,763,587
Indirect federal	18,537	510,660	-	529,197
Direct federal	35,330	-	-	35,330
Total Revenues	<u>2,796,982</u>	<u>813,740</u>	<u>156,826</u>	<u>3,767,548</u>
Expenditures				
Current:				
Instruction	1,364,889	534,726	725	1,900,340
Support Services:				
Student	131,566	-	-	131,566
Instructional staff	58,661	174,158	-	232,819
District administration	287,739	-	350	288,089
School administration	160,407	-	-	160,407
Business	166,413	27,525	-	193,938
Plant operations and maintenance	226,232	7,746	-	233,978
Student transportation	117,719	5,480	-	123,199
Food service	15,849	-	-	15,849
Community services	-	37,880	-	37,880
Debt Service:				
Principal	17,434	-	71,889	89,323
Interest	4,489	-	41,334	45,823
Capital outlay	183,480	35,635	106,117	325,232
Total Expenditures	<u>2,734,878</u>	<u>823,150</u>	<u>220,415</u>	<u>3,778,443</u>
Excess (Deficiency) of Revenues over Expenditures	<u>62,104</u>	<u>(9,410)</u>	<u>(63,589)</u>	<u>(10,895)</u>
Other Financing Sources (Uses)				
Operating transfers in	57,308	7,726	99,138	164,172
Operating transfers out	(7,726)	-	(156,446)	(164,172)
Total Other Financing Sources (Uses)	<u>49,582</u>	<u>7,726</u>	<u>(57,308)</u>	<u>-</u>
Net Changes in Fund Balances	111,686	(1,684)	(120,897)	(10,895)
Fund Balances - July 1, 2011	865,110	1,684	135,530	1,002,324
Fund Balances - June 30, 2012	<u>\$ 976,796</u>	<u>\$ -</u>	<u>\$ 14,633</u>	<u>\$ 991,429</u>

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Changes in Fund Balances - Total Governmental Funds \$ (10,895)

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 useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	32,239
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	89,323
Bond discounts and issue costs are reported as financing uses in governmental funds and thus contribute to the change in fund balance. In the Statement of Activities, these costs are capitalized and amortized over the life of the respective bond.	(6,551)
The loss from the book value of capital assets retired is included with other income in the Statement of Activities.	(3,207)
The increased amount of interest reported in the Statement of Activities is the result of the following:	
Interest is recorded as an expenditure when due in governmental funds and as it accrues in the Statement of Activities.	5,927
In the Statement of Activities, the portion of interest paid by the School Facility Construction Commission is included in program expenses.	(180,871)
In the Statement of Activities, sick leave is measured by the amount earned during the year. In governmental funds, however, expenditures for this item are measured by the amount actually paid.	35,404
In the Statement of Activities, the portion of debt paid by the School Facility Construction Commission is included in program revenue.	416,988
Change in Net Assets of Governmental Activities	<u><u>\$ 378,357</u></u>

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	Food Service Fund	GED Testing Center Fund	Total Proprietary Funds
<u>Assets</u>			
Current Assets			
Cash	\$ 2,488	\$ -	\$ 2,488
Accounts receivable	4,219	3,960	8,179
	<u>6,707</u>	<u>3,960</u>	<u>10,667</u>
Total Noncurrent Assets			
Noncurrent Assets			
Capital assets	288,616	-	288,616
Less: accumulated depreciation	<u>(100,240)</u>	<u>-</u>	<u>(100,240)</u>
	<u>188,376</u>	<u>-</u>	<u>188,376</u>
Total Noncurrent Assets			
	<u>\$ 195,083</u>	<u>\$ 3,960</u>	<u>\$ 199,043</u>
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	\$ 5,963	\$ 65	\$ 6,028
Due to other funds	<u>-</u>	<u>2,035</u>	<u>2,035</u>
	<u>5,963</u>	<u>2,100</u>	<u>8,063</u>
Total Current Liabilities			
<u>Net Assets</u>			
Invested in capital assets	188,376	-	188,376
Unrestricted	<u>744</u>	<u>1,860</u>	<u>2,604</u>
	<u>189,120</u>	<u>1,860</u>	<u>190,980</u>
Total Net Assets			
	<u>\$ 195,083</u>	<u>\$ 3,960</u>	<u>\$ 199,043</u>
Total Liabilities and Net Assets			

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

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

	Food Service Fund	GED Testing Center Fund	Total Proprietary Funds
Operating Revenues			
Lunchroom sales	\$ 53,706	\$ -	\$ 53,706
GED test fees	-	10,350	10,350
Total Operating Revenues	<u>53,706</u>	<u>10,350</u>	<u>64,056</u>
Operating Expenses			
Salaries and wages	109,172	4,328	113,500
Contract services	5,874	-	5,874
Materials and supplies	136,624	3,066	139,690
Depreciation	38,724	-	38,724
Other operating expenses	2,990	-	2,990
Total Operating Expenses	<u>293,384</u>	<u>7,394</u>	<u>300,778</u>
Operating Income (Loss)	<u>(239,678)</u>	<u>2,956</u>	<u>(236,722)</u>
Non-operating Revenues			
Federal grants	177,505	-	177,505
State grants	29,192	-	29,192
Donated commodities	10,211	-	10,211
Other non-operating revenue	1,915	-	1,915
Total Non-operating Revenues	<u>218,823</u>	<u>-</u>	<u>218,823</u>
Change in Net Assets	<u>(20,855)</u>	<u>2,956</u>	<u>(17,899)</u>
Total Net Assets (Deficit) - July 1, 2011	<u>209,975</u>	<u>(1,096)</u>	<u>208,879</u>
Total Net Assets - June 30, 2012	<u><u>\$ 189,120</u></u>	<u><u>\$ 1,860</u></u>	<u><u>\$ 190,980</u></u>

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

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

	<u>Food Service Fund</u>	<u>GED Testing Center Fund</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities			
Cash received from user charges	\$ 53,706	\$ 11,840	\$ 65,546
Cash payments to employees for services	(109,172)	(4,328)	(113,500)
Cash payments for contract services	(5,874)	(4,446)	(10,320)
Cash payments to suppliers for materials, supplies, and other	(135,532)	(3,066)	(138,598)
Net Cash Used by Operating Activities	<u>(196,872)</u>	<u>-</u>	<u>(196,872)</u>
Cash Flows from Investing Activities			
Purchase of equipment	(9,773)	-	(9,773)
Cash Flows from Capital and Related Financing Activities			
Federal grants	178,026	-	178,026
State grants	29,192	-	29,192
Other non-operating revenue	1,915	-	1,915
Net Cash Provided by Capital and Related Financing Activities	<u>209,133</u>	<u>-</u>	<u>209,133</u>
Net Change in Cash and Cash Equivalents	2,488	-	12,261
Cash and Cash Equivalents - Beginning of Year	-	-	-
Cash and Cash Equivalents - End of Year	<u>\$ 2,488</u>	<u>\$ -</u>	<u>\$ 12,261</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities			
Operating income (loss)	\$ (239,678)	\$ 2,956	\$ (236,722)
Depreciation	38,724	-	38,724
Commodities used	10,211	-	10,211
Net changes in assets and liabilities:			
Accounts receivable	-	1,490	1,490
Accounts payable	(3,035)	(75)	(3,110)
Due to other funds	(3,094)	(4,371)	(7,465)
Net Cash Used by Operating Activities	<u>\$ (196,872)</u>	<u>\$ -</u>	<u>\$ (196,872)</u>
Schedule of Non-cash Transactions			
Donated commodities received from federal government	<u>\$ 10,211</u>	<u>\$ -</u>	<u>\$ 10,211</u>

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS -
FIDUCIARY FUNDS
JUNE 30, 2012**

	<u>School Accounts</u>	<u>Other</u>	<u>Total</u>
<u>Assets</u>			
Current Assets			
Cash in bank	\$ 37,771	\$ -	\$ 37,771
Investments	-	88,419	88,419
Accounts receivable	686	-	686
Total Current Assets	38,457	88,419	126,876
<u>Liabilities</u>			
Current Liabilities			
Accounts payable	441	-	441
Due to students and teachers	38,016	-	38,016
Due to scholarship recipients	-	88,419	88,419
Total Current Liabilities	38,457	88,419	126,876
Net Assets Held in Trust	\$ -	\$ -	\$ -

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Cloverport Board of Education (Board), a five-member group, is the level of government that has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Cloverport Independent 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. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies that may influence operations, and primary accountability for fiscal matters.

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

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

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

Cloverport Independent School District Finance Corporation

On October 1, 1989, the Cloverport Board of Education resolved to authorize the establishment of the Cloverport Independent School District Finance Corporation (Corporation) (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency for the District for financing the costs of school building facilities. The board members of the Cloverport Board of Education also comprise the Corporation's Board of Directors.

The accounting policies of the Cloverport Independent School District Finance Corporation substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

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

The District has the following funds:

I. Governmental Funds

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- (B) The Special Revenue (Grant) Fund accounts for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing projects identified in the district's facility plan. This is not a major fund.
 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is not a major fund.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is not a major fund.

II. Proprietary Fund (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 District operates an adult education program. As funding is provided through tuition and test fees, the program is a proprietary fund.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to the Proprietary Fund 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.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Concluded)

III. Fiduciary Fund (Agency Fund)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The student activities are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds* (Redbook). The other agency fund is composed of assets set aside for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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

Operating revenues are those revenues that are generated directly from the primary activity of the Proprietary Funds. Those revenues are primarily charges for meals and related items provided by the schools and tuition fees from adult education students. Nonoperating revenues of the Proprietary Funds include grants, donations, and interest income.

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.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Concluded)

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings, which are mailed by November 1, are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. A discount is offered through November 30 and a penalty is assessed after December 31. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.617 per \$100 valuation for real and business personal property and \$.519 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the school district, of telephonic communication services, cablevision services, electric power, water, and natural gas.

Receivables

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the Proprietary Fund. 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 Fund are reported both in the business-type activities column of the government-wide Statement of Net Assets and in the fund financial statements.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Concluded)

All capital assets are carried at historical cost. Where cost cannot be determined from the available records, estimated historical cost has been used to record the estimated value of the assets. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000; however, there is no threshold for technology items. The District does not possess any infrastructure. Improvements are capitalized, but the costs 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 except land and construction in progress 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:

<u>Description</u>	<u>Estimated Lives</u>
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	7 years
Land improvements	10-20 years
Buildings	25-50 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due to/due from other funds. These generally arise from payments made from the General Fund checking account, which may not have the legal liability for the expenditure, so a payable from the fund having the legal liability is established at such time. Unless there are net residual amounts due between governmental and business-type activities, these amounts are eliminated in the Statement of Net Assets.

Accumulated Unpaid Sick Leave Benefits

The District's policies regarding sick leave permits employees to accumulate earned but unused sick leave. See Note I for additional information.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of goods or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are included in assigned fund balance at June 30, 2012.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than accounting principles generally accepted in the United States of America (GAAP). The major differences between the budgetary basis and the GAAP basis are:

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

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.

Inventory

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

Payables, Accrued Liabilities, and Long-Term Obligations

Payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and in the Proprietary Fund financial statements.

In general, payables, accrued liabilities, and long-term obligations that will be paid from governmental funds are reported on the government-wide financial statements regardless of whether they will be liquidated with current resources. However, these amounts are not recognized as liabilities in the fund financial statements until due.

Net Assets

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Interfund Transfers

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 and expenses in proprietary funds.

Fund Equity

During the fiscal year ended June 30, 2011, the District implemented GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory and prepayments) 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 a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

The District establishes (and modifies or rescinds) fund balance commitments by passage of a board order, which is done through motions made by the board of education members. Assigned fund balance is established by the Superintendent through adoption or amendment of the budget as intended for a specific purpose. Unrestricted and unassigned fund balances are reduced first, unless expenditures are incurred for a specific purpose for which fund balance has been restricted, committed, or assigned.

NOTE B - ESTIMATES

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE C - CAPITAL ASSETS

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities				
Not Depreciated:				
Land	\$ 146,550	\$ -	\$ -	\$ 146,550
Depreciated:				
Land improvements	17,000	-	-	17,000
Buildings	7,187,251	100,260	-	7,287,511
Technology equipment	330,060	213,247	8,538	534,769
Vehicles	442,589	3,960	49,474	397,075
General equipment	370,902	7,765	3,772	374,895
Subtotal	<u>8,347,802</u>	<u>325,232</u>	<u>61,784</u>	<u>8,611,250</u>
Less accumulated depreciation for:				
Land improvements	10,625	850	-	11,475
Buildings	1,184,570	181,024	-	1,365,594
Technology equipment	187,671	70,258	5,331	252,598
Vehicles	259,593	26,803	49,474	236,922
General equipment	274,350	14,058	3,772	284,636
Subtotal	<u>1,916,809</u>	<u>292,993</u>	<u>58,577</u>	<u>2,151,225</u>
Capital Assets - Net	<u>\$6,577,543</u>	<u>\$ 32,239</u>	<u>\$ 3,207</u>	<u>\$6,606,575</u>
Business-Type Activities				
Depreciated:				
Technology equipment	\$ 800	\$ 6,683	\$ -	\$ 7,483
General equipment	278,043	3,090	-	281,133
Subtotal	<u>278,843</u>	<u>9,773</u>	<u>-</u>	<u>288,616</u>
Less accumulated depreciation for:				
Technology equipment	546	271	-	817
General equipment	60,970	38,453	-	99,423
Subtotal	<u>61,516</u>	<u>38,724</u>	<u>-</u>	<u>100,240</u>
Capital Assets - Net	<u>\$ 217,327</u>	<u>\$ (28,951)</u>	<u>\$ -</u>	<u>\$ 188,376</u>

Governmental depreciation expense was charged to functions in the Statement of Activities as follows:

Instruction	\$208,602
Support services:	
Student	16,263
Instructional staff	8,370
District administration	3,548
School administration	6,505
Business	6,716
Plant operations and maintenance	15,077
Student transportation	26,803
Community services	1,109
	<u>\$292,993</u>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE C - CAPITAL ASSETS (CONCLUDED)

In 2009 and 2011 the District acquired school buses through capital leases. Amortization expense of \$26,803 is included with depreciation. The original cost of these assets was \$170,631 and the book value of these assets at year-end was \$127,973.

NOTE D - CASH AND CASH EQUIVALENTS

At June 30, 2012, the reported amount of the District's deposits was \$785,743 and the bank balance was \$876,805.

Cash and cash equivalents at June 30, 2012, consisted of the following:

	Bank Balance	Book Balance
Governmental and proprietary funds	\$750,370	\$659,553
Fiduciary funds	126,435	126,190
	\$876,805	\$785,743

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At year-end, the deposits of the District were either insured or collateralized with securities held by the pledging financial institution.

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

NOTE E - INVESTMENTS

The District is the only beneficiary of the Cornelia W. Fraize Charitable Trust, which has been in existence for more than 70 years. The terms of the trust require that the earnings be used to provide a science program for the school.

The principal of the trust is invested in mutual funds not held for trading purposes. Due to the number of years of activity, it is not possible to determine the cost basis. The fair value at year-end was \$324,362, estimated based on unadjusted quoted market prices for identical assets. The value at the beginning of the fiscal year was \$350,469, with current year investment loss of \$11,054. Distributions were received in the amount of \$15,054.

While such investments are not in conformity with state law or District policy, the assets are in trust, and the trustee makes all investment decisions.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE F - BOND OBLIGATIONS

A portion of the amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Cloverport School District Finance Corporation.

The District is obligated to make payments through the General Fund, the FSPK Building Fund, and the SEEK Capital Outlay Fund in amounts sufficient to satisfy debt service requirements on bonds issued by the Cloverport School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The original amount of the bond issues, the issue dates, interest rates, and outstanding balances at June 30, 2012 are summarized below:

<u>Bond Series</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Bond Maturity</u>	<u>Original Issue</u>	<u>Outstanding Balance</u>
2004	9/1/04	1.15% to 4.4%	9/1/23	\$ 1,190,000	\$ 530,000
2008	2/1/08	3.25% to 3.85%	2/1/28	\$ 5,000,000	\$ 4,310,000
2009	12/1/09	1% to 3.25%	12/1/18	\$ 248,246	\$ 187,787
2010	6/17/10	1.8% to 4%	8/1/30	\$ 885,000	\$ 863,017

On October 1, 2004, the District entered into a loan agreement with the Kentucky School Construction Commission (Commission) to refinance bonds issued in 1989 and 1995 and to raise revenue for renovations of school properties.

On February 1, 2008, the District issued \$5,000,000 in School Building Revenue Bonds with an average interest rate of 3.55%. The proceeds were used to provide for construction of a new school building and facilities.

On December 1, 2009, the District entered a loan agreement with the Commission in the amount of \$248,246 with an average interest rate of 2.125%. The proceeds were used to refund the 1999 issue for a net present value savings of \$20,299.

On June 17, 2010, the District issued School Building Revenue Bonds in the amount of \$885,000 to be used for renovation of the Cloverport Sports Center. The average interest rate is 2.9%.

The District has "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the government-wide financial statements.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE F - BOND OBLIGATIONS (CONCLUDED)

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 for debt service (principal and interest) are as follows:

Year	DISTRICT		COMMISSION		TOTAL
	Principal	Interest	Principal	Interest	Principal
2012-13	\$ 80,658	\$ 36,042	\$ 242,931	\$ 173,869	\$ 323,589
2013-14	82,946	33,294	250,111	166,640	333,057
2014-15	83,933	30,399	257,619	159,117	341,552
2015-16	85,404	27,270	264,873	151,212	350,277
2016-17	45,141	29,452	274,563	138,353	319,704
2017-22	324,527	140,624	1,755,081	621,245	2,079,608
2023-28	327,138	53,427	1,612,862	208,610	1,940,000
2029-31	<u>105,938</u>	<u>5,883</u>	<u>97,079</u>	<u>6,117</u>	<u>203,017</u>
	<u>\$1,135,685</u>	<u>\$356,391</u>	<u>\$4,755,119</u>	<u>\$1,625,163</u>	<u>\$5,890,804</u>

NOTE G - COMMITMENTS UNDER LEASES

In 2009 and 2011, the District entered into capital lease agreements with Kentucky Interlocal School Transportation for the acquisition of new school buses. See note C for assets recorded under capital leases. The repayment schedule is as follows:

Year Ending	Governmental Activities
2012-13	\$ 21,894
2013-14	20,320
2014-15	20,388
2015-16	20,328
2016-17	20,330
2017-21	<u>55,080</u>
Future Minimum Payments	\$158,340
Less Interest	<u>(20,656)</u>
Present Value of Future Minimum Payments	<u>\$137,684</u>

NOTE H - CHANGES IN LONG-TERM DEBT

Changes in long-term debt (including current portion) were as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due in One Year
Bond obligations	\$6,198,810	-	\$ 308,006	\$5,890,804	\$323,589
Capital lease obligations	155,118	-	17,434	137,684	17,801
Accrued sick leave	<u>68,790</u>	<u>10,213</u>	<u>45,619</u>	<u>33,384</u>	<u>-</u>
	<u>\$6,422,718</u>	<u>\$ 10,213</u>	<u>\$ 371,059</u>	<u>\$6,061,872</u>	<u>\$341,390</u>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE I - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a qualified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

NOTE J - BUDGET VIOLATIONS

During the 2012 fiscal year, the District incurred line item expenditures in excess of budget. These expenditures were within the General Fund and the Special Revenue Fund.

NOTE K - DEFERRED COMPENSATION

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

NOTE L - RETIREMENT PLANS

Teachers' Retirement System of Kentucky

Plan description - The Cloverport Independent School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer, defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that its members occupy a position requiring either a four-year college degree or certification by the Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE L - RETIREMENT PLANS (CONTINUED)

Funding policy - Contribution rates are established by KRS. Members who have established an account in the retirement system administered by the Commonwealth prior to July 1, 2008 are required to contribute 10.355% of their salaries to KTRS. Members hired on or after July 1, 2008 contribute 10.855%.

The Commonwealth of Kentucky and employers required to pay matching contribute 13.605% of salaries for members hired before July 1, 2008. For members hired on or after July 1, 2008, the employer matching rate is 14.105%. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

Funding policy - The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who become members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay .5% of members' salary for the 2011-2012 fiscal year.

The Cloverport Independent School District's total payroll for the year was \$2,182,977. The payroll for employees covered under KTRS was \$1,571,201. For the year ended June 30, 2012, the Commonwealth contributed \$168,534 to KTRS for the benefit of the District's participating employees. The School District's contributions to KTRS for the year ended June 30, 2012 were \$39,810, which represents those employees covered by federal programs.

Fiscal Year Ended June 30,	Total Payroll Subject to KTRS	Contributions		Total
		Employee	Employer	
2012	\$1,571,201	\$165,474	\$39,810	\$205,284
2011	\$1,488,742	\$173,423	\$25,398	\$198,821
2010	\$1,501,433	\$154,459	\$17,109	\$171,568

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE L - RETIREMENT PLANS (CONTINUED)

County Employee's Retirement System

Plan Description - Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a defined benefit plan sponsored by the Commonwealth of Kentucky. CERS is a cost-sharing multiple-employer public employee retirement system that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county and city, non-certified school board employees, and any additional eligible local agencies electing to participate in CERS. At June 30, 2011, there were 1,402 local governments participating in CERS, which provides for retirement, disability, and death benefits. The Kentucky Retirement System (KRS) issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601.

Funding Policy - Funding for the plan is provided through payroll withholdings and participating employers are required to contribute at an actuarially determined rate. For the year ended June 30, 2012, non-hazardous plan employees who began participating with KRS prior to October 1, 2008 contributed 5% of creditable compensation to CERS. Employees who began participating with KRS on or after October 1, 2008 contributed 6%, with the additional 1% going to a health insurance account. Employer contribution rates, determined by the Board of Trustees of the Kentucky Retirement Systems, are intended to fund the CERS's normal cost on a current basis plus fund an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Participating employers contributed 18.96% of members' non-hazardous compensation for the year ended June 30, 2012.

The District's contributions to CERS for the past three years are listed below. The actual contributions were equal to the required contributions for each year.

Fiscal Year Ended June 30,	Total Payroll Subject to CERS	Contributions		
		Employee	Employer	Total
2012	\$608,123	\$30,573	\$111,523	\$142,096
2011	\$794,043	\$37,027	\$122,581	\$159,608
2010	\$722,236	\$36,767	\$115,642	\$152,409

As the District is only one of several employers participating in the plan, it is not practical to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the plan assets.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. Changes made to the medical plan may be made by the Kentucky Retirement Systems' Board of Trustees and the General Assembly. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE L - RETIREMENT PLANS (CONCLUDED)

To be eligible for medical benefits, the member must have retired either for service or disability. The amount funded by the insurance fund depends on the months of service. The insurance fund shall continue the same level of coverage for a recipient who was a member of the CERS after the age of 65 as before the age of 65, if the recipient is not eligible for Medicare coverage.

Funding policy - The post-retirement healthcare provided by CERS is financed wholly or partly from funds contributed by the recipient of a retirement allowance, by the Kentucky Retirement Systems insurance fund, or by another state-administered retirement system under a reciprocal agreement. Also, any premiums collected from retirees and investment interest help with the medical expenses of the plan.

Benefits under both KTRS and CERS will vary based on final compensation, years of service and other factors as fully described in the plan documents.

NOTE M - COMMITMENTS AND CONTINGENCIES

As referenced in Note L, the District's employees are enrolled in KTRS. Based on the most recent information available, at June 30, 2011, KTRS had unfunded actuarial accrued liabilities of \$11.061 billion for pension funds and \$3.128 billion for medical insurance funds. The non-university KTRS employer contribution rates for 2012-2013 is 14.105%.

In addition, the District's employees are enrolled in the County Employees' Retirement System (CERS). Based on the most recent information available, at June 30, 2011, non-hazardous CERS had unfunded actuarial accrued liabilities of \$3.288 billion for pension funds and \$1.641 billion for insurance funds. The Kentucky General Assembly made significant changes to CERS on June 27, 2008 to benefits and funding; nevertheless, future contributions by employers may be dramatically higher. The non-hazardous CERS employer contribution rate for 2011-2012 is 19.55%.

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

NOTE N - INSURANCE AND RELATED ACTIVITIES

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

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE O - 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 Fund (Trust).

These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four 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 other reason by giving ninety 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE P - COBRA

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

NOTE Q - INTERFUND ACTIVITY

Most program costs in the Special Revenue Fund must be paid for by District funds before reimbursement is requested from the Federal Government. The General Fund temporarily covered program expenditures, so an interfund balance resulted from the time lag between the dates expenditures were made and the date that grant funds were received. An advance made to the GED Testing Center in a prior year had not been repaid at June 30, 2012.

Interfund receivables and payables at year-end were as follows:

From Fund	To Fund	Amount
Special Revenue	General	\$117,063
GED Testing Center	General	2,035
Total		\$119,098

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE Q - INTERFUND ACTIVITY (CONCLUDED)

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Special Revenue	\$ 7,726	Fund local projects
FSPK	Construction	26,205	Equipment
Capital Outlay	General	42,191	Debt service
Construction	General	15,117	Buildings
Capital Outlay	Construction	72,933	Buildings
		<u>\$164,172</u>	

NOTE R - DEFICIT OPERATING/FUND BALANCES

While not having a deficit balance, the Special Revenue, FSPK, Capital Outlay, Construction, and Food Service Funds had operations that resulted in a current year deficit of revenues over expenditures/expenses and a corresponding reduction of fund balance/net assets.

NOTE S - RESTRICTED FUND BALANCES

In accordance with state regulations, \$20,637 of the General Fund balance was restricted for sick leave. The entire capital project fund balances are restricted by their funding agreements for debt service and capital improvements.

NOTE T - ON-BEHALF PAYMENTS

For the year ended June 30, 2012, total net payments of \$504,423 were made for life insurance, health insurance, KTRS matching, and administrative fees by the Commonwealth of Kentucky on behalf of the District. These on-behalf payments were recorded as intergovernmental revenue and expenses/expenditures in the government-wide, General Fund, and Proprietary Fund financial statements. In addition, debt service payments made by the SFCC on behalf of the District totaled \$416,988. This amount is included as revenues in the Statement of Activities and the amount attributed to interest expense is included as expenses. On-behalf payments are not budgeted and therefore are not included in the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund.

NOTE U - NEW ACCOUNTING STANDARDS

During the fiscal year, the District implemented the following Governmental Accounting Standards Board (GASB) statement:

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53" - The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. There was no current effect on the financial statements as a result of implementing this statement.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
From local sources:				
Taxes:				
Property	\$ 139,200	\$ 146,320	\$ 151,459	\$ 5,139
Motor vehicle	30,000	40,500	48,467	7,967
Utility	48,000	48,000	54,560	6,560
Other	-	13,500	-	(13,500)
Earnings (loss) on investments	8,000	10,000	(10,767)	(20,767)
Donations	800	800	1,570	770
Other local revenue	27,500	19,000	59,431	40,431
Intergovernmental:				
State	1,635,321	1,714,459	1,933,972	219,513
Indirect federal	-	21,000	18,537	(2,463)
Direct federal	10,000	11,000	35,330	24,330
Total Revenues	<u>1,898,821</u>	<u>2,024,579</u>	<u>2,292,559</u>	<u>267,980</u>
Expenditures				
Current:				
Instruction	881,121	967,771	1,003,517	(35,746)
Support Services:				
Student	108,857	109,307	98,093	11,214
Instructional staff	47,427	48,027	43,027	5,000
District administration	422,104	439,944	247,835	192,109
School administration	133,210	135,718	129,290	6,428
Business	169,133	145,770	143,994	1,776
Plant operations and maintenance	274,464	287,571	226,232	61,339
Student transportation	144,545	153,545	117,215	36,330
Food service	-	21,000	15,849	5,151
Debt Service:				
Principal	22,000	62,000	17,434	44,566
Interest	-	-	4,489	(4,489)
Capital outlay	14,960	124,360	183,480	(59,120)
Total Expenditures	<u>2,217,821</u>	<u>2,495,013</u>	<u>2,230,455</u>	<u>264,558</u>
Excess (Deficiency) of Revenues (over) Expenditures	<u>(319,000)</u>	<u>(470,434)</u>	<u>62,104</u>	<u>532,538</u>
Other Financing Sources (Uses)				
Operating transfers in	-	-	57,308	57,308
Operating transfers out	(6,000)	(7,564)	(7,726)	(162)
Total Other Financing Sources (Uses)	<u>(6,000)</u>	<u>(7,564)</u>	<u>49,582</u>	<u>57,146</u>
Net Changes in Fund Balance	<u>(325,000)</u>	<u>(477,998)</u>	<u>111,686</u>	<u>589,684</u>
Fund Balance - July 1, 2011	<u>325,000</u>	<u>477,998</u>	<u>865,110</u>	<u>387,112</u>
Fund Balance - June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 976,796</u>	<u>\$ 976,796</u>

See accompanying notes to required supplementary information.

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

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable) Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources:				
Other taxes	\$ 79,064	\$ 80,000	\$ 81,495	\$ 1,495
Intergovernmental:				
State	278,129	211,651	221,585	9,934
Indirect federal	356,938	353,784	510,660	156,876
Total Revenues	<u>714,131</u>	<u>645,435</u>	<u>813,740</u>	<u>168,305</u>
Expenditures				
Current:				
Instruction	400,782	343,539	534,726	(191,187)
Support Services:				
Instructional staff	178,611	173,651	174,158	(507)
Business	74,463	68,528	27,525	41,003
Plant operations and maintenance	5,128	5,128	7,746	(2,618)
Student transportation	-	-	5,480	(5,480)
Community services	37,722	38,546	37,880	666
Capital outlay	23,425	23,607	35,635	(12,028)
Total Expenditures	<u>720,131</u>	<u>652,999</u>	<u>823,150</u>	<u>(170,151)</u>
Deficiency of Revenues over Expenditures	(6,000)	(7,564)	(9,410)	(1,846)
Other Financing Sources				
Operating transfers in	6,000	7,564	7,726	162
Net Changes in Fund Balance	-	-	(1,684)	(1,684)
Fund Balance - July 1, 2011	-	-	1,684	1,684
Fund Balance - June 30, 2012	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>

See accompanying notes to required supplementary information.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - BUDGETARY BASIS OF ACCOUNTING

The District's budgetary basis of accounting used for budget versus actual reporting differs from accounting principles generally accepted in the United States of America (GAAP). The budget and all transactions are presented in accordance with the District's budgetary basis in the budgetary comparison schedules for the General Fund and Special Revenue Fund to provide a meaningful comparison of actual results with the budget. The major difference between budgetary and GAAP bases for the General Fund is the exclusion of on-behalf payments in budget amounts. There are no major differences between budgetary and GAAP bases for the Special Revenue Fund.

A reconciliation of the different bases of revenue and expenditure recognition for the year ended June 30, 2012 is as follows:

<u>General Fund</u>	
Revenues, GAAP basis	\$2,796,982
<i>Deduct:</i>	
On-behalf payments	<u>504,423</u>
Revenues, budgetary basis	<u>\$2,292,559</u>
Expenditures, GAAP basis	\$2,734,878
<i>Deduct:</i>	
On-behalf payments	<u>504,423</u>
Expenditures, budgetary basis	<u>\$2,230,455</u>

SUPPLEMENTARY INFORMATION

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012**

	<u>Capital Project Funds</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>FSPK Fund</u>	<u>Construction Fund</u>	<u>Capital Outlay Fund</u>	
<u>Assets</u>				
Cash and cash equivalents	<u>\$ 12,027</u>	<u>\$ -</u>	<u>\$ 2,606</u>	<u>\$ 14,633</u>
<u>Liabilities and Fund Balances</u>				
<u>Fund Balances</u>				
Restricted	<u>\$ 12,027</u>	<u>\$ -</u>	<u>\$ 2,606</u>	<u>\$ 14,633</u>

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

	Capital Project Funds			Total Nonmajor Governmental Funds
	FSPK Fund	Construction Fund	Capital Outlay Fund	
Revenues				
From local sources:				
Taxes:				
Property	\$ 17,993	\$ -	\$ -	\$ 17,993
Motor vehicle	-	-	-	-
Utility	-	-	34,889	34,889
Earnings (loss) on investments	-	337	-	337
State	103,607	-	-	103,607
Total Revenues	121,600	337	34,889	156,826
Expenditures				
Current:				
Instruction	-	-	725	725
Support Services:				
District administration	350	-	-	350
Debt Service:				
Principal	71,889	-	-	71,889
Interest	40,988	-	346	41,334
Capital outlay	-	106,117	-	106,117
Total Expenditures	113,227	106,117	1,071	220,415
Excess (Deficiency) of Revenues over Expenditures	8,373	(105,780)	33,818	(63,589)
Other Financing Sources (Uses)				
Operating transfers in	-	99,138	-	99,138
Operating transfers out	(26,205)	(15,117)	(115,124)	(156,446)
Total Other Financing Sources (Uses)	(26,205)	84,021	(115,124)	(57,308)
Net Changes in Fund Balances	(17,832)	(21,759)	(81,306)	(120,897)
Fund Balances - July 1, 2011	29,859	21,759	83,912	135,530
Fund Balances - June 30, 2012	\$ 12,027	\$ -	\$ 2,606	\$ 14,633

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

Accounts:	Cash Balances July 1, 2011	Receipts	Disbursements	Transfers In (Out)	Cash Balances June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012
Ace Academy	\$ -	\$ 300	\$ 535	\$ 237	\$ 2	\$ -	\$ -	\$ 2
ACES Organization	303	3,061	3,183	-	181	-	-	181
ASAP Grant Fund	15	-	-	-	15	-	-	15
Athletic Account	3,981	15,284	21,622	8,542	6,185	123	-	6,308
Backpack Food Program	2,308	1,020	1,451	-	1,877	-	-	1,877
Band/Music	319	1,031	1,300	-	50	-	-	50
Beta Club	182	-	-	-	182	-	-	182
Box Tops for Education	32	17	49	-	-	-	-	-
Boys will be Boys	188	-	167	-	21	-	-	21
Class of 2011	1,303	-	1,303	-	-	-	-	-
Class of 2012	988	1,602	1,070	-	1,520	-	-	1,520
Class of 2013	50	126	-	-	176	-	-	176
Class of 2014	-	441	20	-	421	-	-	421
Cliburn Room Account	99	1,500	1,329	244	514	-	-	514
Community Education	109	112	221	-	-	-	-	-
Concession Stand	4,635	11,640	10,274	(5,001)	1,000	-	-	1,000
Cupstacking	66	-	-	-	66	-	-	66
District Account	-	10,056	7,122	(2,934)	-	-	-	-
Eighth Grade	180	181	303	-	58	-	-	58
Elementary Academic	143	96	96	-	143	-	-	143
Elementary Snacks	1,000	10,705	4,671	(6,034)	1,000	-	-	1,000
Emmick Club	79	-	29	-	50	-	-	50
Family Resource	1,218	2,883	2,174	-	1,927	-	-	1,927
Fifth Grade	5	321	496	170	-	-	-	-
First Grade	202	1,605	1,930	231	108	-	-	108
Flower Fund	228	580	190	(30)	588	-	-	588
Fourth Grade	-	185	180	143	148	-	-	148
Gifted/Talented	4	-	-	(4)	-	-	-	-
Girl Power	463	532	120	-	875	-	-	875
H. S. Special Education	217	57	-	-	274	-	-	274
High School Academic	130	-	116	-	14	-	-	14
High School Cheerleaders	128	3,816	2,946	(110)	888	-	-	888
Industrial Arts	507	-	-	-	507	-	-	507
Journalism	1,194	3,983	5,736	559	-	-	-	-
Kindergarten	148	2,004	1,828	115	439	-	-	439
Library	998	4,776	5,624	-	150	-	-	150
Middle School Academic	20	-	-	-	20	-	-	20
Nature Club	-	5,293	5,293	-	-	-	-	-
Operating Account	12,135	8,904	15,314	5,480	11,205	-	441	10,764
Preschool	61	2,084	1,844	153	454	-	-	454
Project Graduation	2,664	3,085	4,027	-	1,722	500	-	2,222
Raffle	-	603	603	-	-	-	-	-
Second Grade	-	409	514	216	111	-	-	111
Seventh Grade	553	85	-	-	638	-	-	638
Sixth Grade	105	140	167	-	78	-	-	78
Staff Generated	-	1,964	1,543	30	451	63	-	514
Student Government	717	2,991	131	(1,537)	2,040	-	-	2,040
Stull Room Account	-	132	162	30	-	-	-	-
Technology Club	853	-	-	-	853	-	-	853
Third Grade	78	259	415	234	156	-	-	156
Tournament Account	-	5,897	5,163	(734)	-	-	-	-
Track	-	590	186	-	404	-	-	404
Y Club	347	4,663	4,750	-	260	-	-	260
Totals	\$ 38,955	\$ 115,013	\$ 116,197	\$ -	\$ 37,771	\$ 686	\$ 441	\$ 38,016



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

Kentucky State Committee for School District Audits
Members of the Board of Education
Cloverport Independent School District
Cloverport, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cloverport Independent 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 October 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *U.S. 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 Requirement*, 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*.

Internal Control over Financial Reporting

Management of Cloverport Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 12-1 and 12-2 to be material weaknesses.

Compliance and Other Matters

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

The results of our tests disclosed no instances of material noncompliance with specific state statutes or regulations identified in Appendix II of the *Independent Auditor's Contract - State Audit Requirements*.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

We noted certain matters that we reported to management of the Cloverport Independent School District in a separate letter dated October 5, 2012.

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

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

October 5, 2012



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

Kentucky State Committee for School District Audits
Members of the Board of Education
Cloverport Independent School District
Cloverport, Kentucky

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *OMB Circular A-133, Audits of States, Local 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 Requirement*, 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*. These require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in Finding 12-3 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding activities allowed and allowable costs that are applicable to its 21st Century Community Learning Center grant. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 12-3 to be a material weakness.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

October 5, 2012

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Local Code	Grant or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture				
Passed Through Kentucky Department of Education:				
Child Nutrition Cluster*:				
School Breakfast Program*	10.553	203X	7760005	\$ 49,973
National School Lunch Program (Cash Assistance)*	10.555	205X	7750002	127,532
National School Lunch Program (Noncash Assistance)*	10.555	205X	7750002	10,211
Summer Food Service Program for Children*	10.559	209X	7740023	9,527
Total Child Nutrition Cluster*				<u>197,243</u>
Child and Adult Care Food Program	10.558	510X	7800016	15,849
Total U.S. Department of Agriculture				<u>213,092</u>
U.S. Department of Labor				
Passed Through Lincoln Trail Area Development District:				
WIA Youth Activities	17.259	370X	370X	5,257
U.S. Department of Education				
Passed Through Kentucky Department of Education:				
Special Education Cluster*:				
Special Education - Grants to States (IDEA Part B)*	84.027	337X	3810002	100,884
Special Education - Preschool Grants (IDEA Preschool)*	84.173	343X	3800002	13,597
ARRA - Special Education - Grants to States, Recovery Act*	84.391	424X	4810002	1,671
Total Special Education Cluster*				<u>116,152</u>
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	84.010	337X	3100002	89,741
ARRA - Title I Grants to LEAs, Recovery Act	84.389	391X	4100002	3,192
Total Title I, Part A Cluster				<u>92,933</u>
Improving Teacher Quality State Grants	84.367	401X	3230002	17,473
Rural Education	84.358	346X	3140002	19,716
Adult Education Basic Grants to States	84.002	373X	37315	58,018
21st Century Community Learning Centers*	84.287	550X	3400002	110,970
Educational Technology State Grants Cluster:				
ARRA - Educational Technology State Grants - Recovery Act	84.386	486X	4210002	3,911
ARRA - Education Jobs Fund	84.410	441X	EJOB00	45,462
Passed Through Green River Regional Educational Cooperative:				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	697X	397X	40,768
Total U.S. Department of Education				<u>505,403</u>
Total Federal Financial Assistance Expenditures				<u>\$ 723,752</u>

* Denotes major program

See accompanying notes to Schedule of Expenditures of Federal Awards.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards was prepared on the accrual basis of accounting.

NOTE B - FOOD DONATION

Non-monetary assistance in the form of commodities received and disbursed, which is equivalent to a fair market value of \$10,211, is included in the schedule under National School Lunch Program (CFDA 10.555).

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section I: Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- | | | |
|---|---|---|
| Any material weakness(es) identified? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |
| Any significant deficiency(ies) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> none reported |
| Any noncompliance material to financial statements noted? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |

Federal Awards

Internal control over major programs:

- | | | |
|---|---|---|
| Any material weakness(es) identified? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |
| Any significant deficiency(ies) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> none reported |

Type of auditors' report issued on compliance for major programs: Qualified

- | | | |
|--|---|-----------------------------|
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no |
|--|---|-----------------------------|

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
•Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
•Special Education Cluster (IDEA)	
Special Education – Grants to States (IDEA Part B)	84.027
Special Education – Preschool Grants (IDEA Preschool)	84.173
ARRA - Special Education – Grants to States, Recovery Act	84.391
•21 st Century Community Learning Centers	84.287

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

- | | | |
|--|------------------------------|--|
| Auditee qualified as low-risk auditee? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

Section II: Financial Statement Findings

Findings 12-1 and 12-2.

Section III: Federal Awards Finding

Finding 12-3.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Finding: 12-1 (Repeat)

<i>Condition:</i>	The District failed to account for a portion of its property acquisition in a manner consistent with the requirements of generally accepted accounting principles.
<i>Criteria:</i>	The District is required to account for the purchase of property as expenditures in its governmental funds and in its District-wide financial statements, as fixed assets with corresponding depreciation expense and gains and losses on disposition.
<i>Cause:</i>	While the District now has the expertise to properly classify capitalized assets, it simply overlooked material expenditures related to completion of its gym renovation project.
<i>Effect:</i>	Although total fund-level expenditures were not affected, the breakdown between current and capital expenditures was misstated. At the government-wide level, fixed assets, accumulated depreciation, and depreciation expense were understated.
<i>Recommendation:</i>	As District personnel now understand the capitalization criteria, we recommend that all expenditures be reviewed at year end to ensure that all fixed assets are included.
<i>Management Response:</i>	<i>Two existing construction projects were finalized by the end of Fiscal Year 2012. The remaining final architect fees and construction costs will be added to account for the total costs of these facilities in the fixed asset module in MUNIS. This will complete both projects for accounting purposes. We have followed the auditor's recommendation and this is now resolved in the FY 12 AFR.</i>

Finding: 12-2 (Repeat)

<i>Condition:</i>	Certain material adjustments were required as part of the audit process.
<i>Criteria:</i>	Audit adjustments are indicative of a deficiency in the internal controls over financial reporting.
<i>Cause:</i>	The most substantial adjustment resulted from correcting the effect of finding 12-1 above. Due to time constraints, the District concentrated on making typical adjustments and could not extend its procedures to less common accounts, particularly loss on investments, beginning fund balances, and debt transactions.
<i>Effect:</i>	Assets, liabilities, revenues, and expenditures were overstated or understated.
<i>Recommendation:</i>	Prior to releasing its annual financial report, the District should evaluate the ending balances in all funds and make any necessary adjustments to ensure that all account balances are complete and accurate.
<i>Management Response:</i>	<i>The District understands that the majority of the material adjustments were a result of omitted fixed asset additions (architect fees/construction costs). All audit adjustments received from the auditor have been corrected and entered into our MUNIS system and are also reflected in the final AFR.</i>

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Finding: 12-3

Program: 21st Century Learning Grant

CFDA # 84.287

<i>Condition:</i>	The District did not maintain complete documentation of employee time and effort for those employees working solely on a single federal program. In addition, inadequate time records were maintained for those employees who allocate time over various activities.
<i>Criteria:</i>	OMB Circular A-87, Attachment B, states that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared semi-annually and signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Staff with duties covering multiple programs must allocate time based on actual time worked.
<i>Cause:</i>	There appears to be a lack of understanding of the federal requirements for the certification. While a form was designed for single program staff, its use was inconsistent, and multiple-program administrators were unaware of the need for substantiation of time.
<i>Effect:</i>	Charges to particular federal programs may have been overstated or understated.
<i>Recommendation:</i>	As the District administers over \$700,000 in federal funds, it is essential that it become thoroughly familiar with the cost principles and documentation requirements of OMB Circular A-87.
<i>Management Response:</i>	<i>See corrective action plan.</i>

**CLOVERPORT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Finding: 11-1

Status: The District made major strides in the area of fixed assets. The issue was partially corrected. Except for the failure to capitalize final architectural fees and construction costs on a prior-year gym renovation, other property and equipment expenditures were properly classified.

Finding: 11-2

Status: As much improvement was noted in the need for extensive audit adjustments, this issue was partially corrected. Additional fixed asset capitalization noted above was required, as well as correcting beginning fund balances through transfers.

Finding: 11-3

Status: This finding was fully corrected, as bank statements were reconciled accurately and on a timely basis.

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

Reference Number:	Management Response:
12-3	<i>A new time sheet form with a certification statement was implemented; however there were a few instances where someone used an old time sheet. The certified staff member that serves as program director did certify her time each semester and perform all work; however, a more detailed record of actual time worked will be maintained. The District will be more cautious to adhere to OMB Circular A-87 and implement the auditor's recommendations.</i>
Name of Contact Persons:	John Millay, PhD, Superintendent Stephen Clark, District Finance Officer
Completion Date:	October 5, 2012

MANAGEMENT LETTER POINTS



DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA
SHEILA A. BRANDENBURG, CPA

Telephone (270) 756-5704
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Members of the Board of Education
Cloverport Independent School District
Cloverport, Kentucky

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

However, during our audit we became aware of matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 5, 2012 contains our report on internal control. This letter does not affect our report dated October 5, 2012 on the basic financial statements of the Cloverport Independent School District.

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

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

October 5, 2012

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2012**

SCHOOL ACTIVITY FUNDS

Prior Year

Annual Report

The 2010-11 audit report noted that the annual report did not include a list of accounts receivable. No accounts receivable were due for the current year. We have no further recommendations.

Cash Receipts

The concessions item tested was supported by the correct form but was missing a signature. All forms should be reviewed to ensure that all required signatures are present.

Cash Disbursements

While improvement was noted, some payments continued to be made without a purchase order. Most disbursements were supported by a receiving report. All payments should be accompanied by a purchase order and evidence of receipt.

Current Year

Cash Receipts

One fundraiser was not supported by a worksheet or evidence of approval. All fundraisers require advance approval and completion of the required worksheet.

Cash Disbursements

Most standard invoices were marked as "paid"; however a number of vendor invoices were not marked as such. Failure to cancel an invoice could result in a duplicate payment. Accordingly, both standard and vendor invoices should be defaced in a manner to make them unavailable for processing a second time.

Management Response:

All fundraising activities will be monitored timely for any required approvals. When both standard and vendor invoices exist, attention will be given to make sure that both invoices are marked "paid" accordingly. Auditor's recommendations will be implemented.

CENTRAL OFFICE

Prior Year

Cash Disbursements

As in the previous year, some disbursements were made with no written receiving report. Also, in many instances, only the standard invoice was marked as paid, rather than the original vendor invoice. Improvement was noted in obtaining individual "tickets" rather than paying from a summary invoice for local vendors. As noted for the school disbursements, we recommend that vendor invoices be marked to prevent possible duplicate payment.

**CLOVERPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2012**

Management Response:

Steps have already been taken to make sure that invoices paid are for items that have been verified and received on either a packing slip or verification by written correspondence from a District employee. Auditor's recommendations will be implemented.