

**GRAYSON COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Grayson County School District
Leitchfield, 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 **Grayson County School District** as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Grayson County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards* and *OMB Circular A-133*, we have also issued our report dated September 24, 2012 on our consideration of the Grayson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and *OMB Circular A-133* and should be considered in assessing the results of our audit.

Accounting principals generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 34 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Grayson County School District's financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Grayson County School District's financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,



Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
September 24, 2012

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

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

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$18,594,266.
- The board continued the Clarkson School construction project of \$14,125,118 in school year 2012 and started phase II of the high school reroofing project at a cost of \$2,034,687.
- The general fund had \$29,927,914 in revenue, which primarily consisted of the state program (SEEK), property, local, utilities, and motor vehicle taxes. Excluding fund transfers, there was \$28,258,230 in general fund expenditures.
- Most Federal stimulus funding awards are nearing completion. Of the \$982,477 EduJobs funding awarded during school year 2012, only \$50,404 remains available for school year 2013.
- The board is in the process of designing and constructing a new central office with a projected BG-1 cost of \$2.4 million.

OVERVIEW OF FINANCIAL STATEMENTS

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

District-wide financial statements

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

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

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

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

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The district-wide financial statements can be found on pages 6 and 7 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2012**

districts utilizing the MUNIS administrative software. It should be noted that our district migrated to "cloud based" services March 2012. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations and daycare. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 8 through 15 of this report.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 33 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$24,964,137 of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, 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.

Net assets for the periods ending June 30, 2011 and 2012

	<u>6/30/11</u>	<u>6/30/12</u>
Current assets	\$19,802,567	\$ 9,628,437
Non-current assets	42,331,927	43,787,549
Total assets	62,134,494	53,415,986
Current liabilities	3,723,794	3,199,546
Non-current liabilities	34,718,092	25,252,303
Total liabilities	38,441,886	28,451,849
Net assets		
Invested in capital assets (net of debt)	6,996,927	17,877,549
Restricted	15,958,729	6,274,028
Unrestricted fund balance	736,952	812,560
Total net assets	\$23,692,608	\$24,964,137

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2012, were \$29,927,914.

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2012**

- General Fund revenue accounted for 80% of all governmental revenues. Program specific revenues in the form of grants accounted for 15% of total revenues. Other financing sources and construction accounted for 5%.
- The School District had expenditures of \$34,360,039 related to General Fund and Special Revenue Fund activities. Instruction comprised 64% of these expenses. Support service expenses make up 36% of these expenditures, and the expenses for facility acquisition, construction, and improvement and debt service rounded down to 0%.

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2011 and 2012:

Revenues	06/30/11	06/30/12
Charges for services	\$ 784,727	\$ 838,711
Operating grants and contributions	9,160,742	7,685,964
Capital grants and contributions	1,162,967	1,131,645
General revenues	31,174,076	30,692,162
Special items	96,669	70,730
	<u>42,379,181</u>	<u>40,419,212</u>
Expenses		
Instructional	22,045,968	22,203,566
Student support services	1,673,236	1,710,668
Staff support services	2,135,592	2,207,392
District administration	764,970	818,377
School administration	2,079,985	2,130,787
Business support services	333,442	432,682
Plant operation and maintenance	2,973,431	3,125,856
Student transportation	2,287,906	2,450,835
Community service operations	356,873	343,098
Facility acquisition and construction	0	124,744
Other	1,500	2,164
Debt service	3,160,897	961,700
Food service	2,335,741	2,544,087
Daycare	78,554	91,727
Total expenses	<u>40,228,095</u>	<u>39,147,683</u>
Revenues in excess of expenses	<u>\$ 2,151,086</u>	<u>\$ 1,271,529</u>

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 through June 30; other programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The beginning cash balance for the fiscal year was \$18,594,266. Significant Board action that impacts the finances include facility construction projects, bond refinancing, and step pay raises for all eligible employees. Additionally, each year the employer KTRS match increases until it reaches 3% in fiscal year 2016.

Questions regarding this report should be directed to Kerry White, Finance Officer at (270)259-4011 or by mail at P.O. Box 4009, Leitchfield, KY 42755.

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

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 926,376	\$ 404,596	\$ 1,330,972
Investments	7,440,060	0	7,440,060
Interest receivable	1,027	0	1,027
Accounts receivable:			
Accounts	823,839	7,598	831,437
Inventories for consumption	0	24,941	24,941
TOTAL CURRENT ASSETS	9,191,302	437,135	9,628,437
NON-CURRENT ASSETS			
Bond discounts and issue costs, net of accumulated amortization of \$298,586	390,804	0	390,804
Non-depreciated capital assets	3,699,635	0	3,699,635
Depreciated capital assets	59,481,520	1,209,131	60,690,651
Less: Accumulated depreciation	(20,198,714)	(794,827)	(20,993,541)
TOTAL NON-CURRENT ASSETS	43,373,245	414,304	43,787,549
TOTAL ASSETS	52,564,547	851,439	53,415,986
LIABILITIES			
CURRENT LIABILITIES			
Cash overdraft	436,118	0	436,118
Accounts payable	219,409	8,168	227,577
Accrued payroll and related expenses	134,472	0	134,472
Deferred revenues	169,130	0	169,130
Interest payable	932,249	0	932,249
Current portion of bond obligations	1,300,000	0	1,300,000
TOTAL CURRENT LIABILITIES	3,191,378	8,168	3,199,546
NON-CURRENT LIABILITIES			
Non-current sick leave	622,202	20,101	642,303
Bond obligations	25,910,000	0	25,910,000
Less: Current portion of bond obligations	(1,300,000)	0	(1,300,000)
TOTAL NON-CURRENT LIABILITIES	25,232,202	20,101	25,252,303
TOTAL LIABILITIES	28,423,580	28,269	28,451,849
NET ASSETS			
Invested in capital assets, net of related debt	17,463,245	414,304	17,877,549
Restricted for:			
Capital projects	2,528,681	0	2,528,681
Debt service	244,622	0	244,622
Accrued sick leave	370,000	0	370,000
KSFCC escrow	743	0	743
Other purposes	3,533,676	408,866	3,942,542
Unrestricted	0	0	0
TOTAL NET ASSETS	\$ 24,140,967	\$ 823,170	\$ 24,964,137

See accompanying auditors' report and accompanying notes to financial statements.

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

	Expenses	PROGRAM REVENUES			GENERAL AND SPECIAL REVENUES		NET (EXPENSE) REVENUE CHANGES		
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental	Business-Type	Governmental Activities	Business-Type Activities	Total
Governmental activities:									
Instructional	\$ 22,203,566	\$ 41,746	\$ 3,954,843	\$ 0		\$ (18,206,977)		\$ (18,206,977)	
Student support services	1,710,668	102,810	178,444	0		(1,429,414)		(1,429,414)	
Staff support services	2,207,392	0	993,784	0		(1,213,608)		(1,213,608)	
District administration	818,377	0	10,055	0		(808,322)		(808,322)	
School administration	2,130,787	0	117,059	0		(2,013,728)		(2,013,728)	
Business support services	432,682	0	0	0		(432,682)		(432,682)	
Plant operation and maintenance	3,125,856	3,456	93,918	0		(3,028,482)		(3,028,482)	
Student transportation	2,450,835	0	0	0		(2,450,835)		(2,450,835)	
Community service operations	343,098	565	308,056	0		(34,477)		(34,477)	
Facility acquisition and construction	124,744	0	0	1,131,645		1,006,901		1,006,901	
Other	2,164	0	0	0		(2,164)		(2,164)	
Debt service	961,700	0	0	0		(961,700)		(961,700)	
Total governmental activities	36,511,869	148,577	5,656,159	1,131,645		(29,575,488)		(29,575,488)	
Business-type activities:									
Food service	2,544,087	615,773	2,025,728	0			\$ 97,414	97,414	
Daycare	91,727	74,361	4,077	0			(13,289)	(13,289)	
Total business-type activities	2,635,814	690,134	2,029,805	0			84,125	84,125	
Total school district	\$ 39,147,683	\$ 838,711	\$ 7,685,964	\$ 1,131,645		(29,575,488)	84,125	(29,491,363)	
General revenues:									
Property taxes						4,378,924	0	4,378,924	
Delinquent property taxes						82,334	0	82,334	
Motor vehicle taxes						669,540	0	669,540	
Unmined mineral taxes						230,096	0	230,096	
Utility taxes						1,541,775	0	1,541,775	
Other taxes						5,165	0	5,165	
Revenue in lieu of taxes						11,246	0	11,246	
State aid-formula grants						23,424,251	0	23,424,251	
Investment earnings						72,715	1,462	74,177	
Proceeds from bonds						0	0	0	
Miscellaneous						271,210	3,444	274,654	
Special items:									
Gain (loss) on sale of assets						70,730	0	70,730	
Loss compensation						0	0	0	
Transfers						0	0	0	
Total general and special						30,757,986	4,906	30,762,892	
Change in net assets						1,182,498	89,031	1,271,529	
Net assets – Beginning						22,958,469	734,139	23,692,608	
Net assets – Ending						\$ 24,140,967	\$ 823,170	\$ 24,964,137	

See accompanying auditors' report and notes to financial statements.

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

	GENERAL FUND	SPECIAL REVENUE FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ 0	\$ 0	\$ 244,622	\$ 681,754	\$ 926,376
Investments	7,440,060	0	0	0	7,440,060
Interest receivable	1,027	0	0	0	1,027
Accounts receivable:					
Accounts	190,800	633,039	0	0	823,839
TOTAL ASSETS	\$ 7,631,887	\$ 633,039	\$ 244,622	\$ 681,754	\$ 9,191,302
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Cash overdraft	\$ 0	\$ 436,118	\$ 0	\$ 0	\$ 436,118
Accounts payable	187,218	27,791	0	4,400	219,409
Accrued payroll and related expenses	134,472	0	0	0	134,472
Deferred revenues	0	169,130	0	0	169,130
TOTAL LIABILITIES	321,690	633,039	0	4,400	959,129
FUND BALANCE					
Nonspendable	0	0	0	0	0
Restricted for:					
Accrued sick leave	370,000	0	0	0	370,000
KSFCC escrow	0	0	0	743	743
Capital projects	2,125,000	0	0	403,681	2,528,681
Debt service	0	0	244,622	0	244,622
Other	0	0	0	272,930	272,930
Committed	0	0	0	0	0
Assigned	4,002,637	0	0	0	4,002,637
Unassigned	812,560	0	0	0	812,560
TOTAL FUND BALANCE	7,310,197	0	244,622	677,354	8,232,173
TOTAL LIABILITIES AND FUND BALANCE	\$ 7,631,887	\$ 633,039	\$ 244,622	\$ 681,754	\$ 9,191,302

See accompanying auditors' report and notes to financial statements.

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

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

Total governmental fund balance		\$ 8,232,173
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets:		
Non-depreciated capital assets	\$ 3,699,635	
Depreciated capital assets	59,481,520	
Accumulated depreciation	<u>(20,198,714)</u>	42,982,441
Bond discounts and issue costs are financial uses and are reported as expenditures in governmental funds. This amount should be capitalized in the district-wide financial statements and expensed over the life of the bond.		
Bond discounts and issue costs	689,390	
Accumulated amortization	<u>(298,586)</u>	390,804
Certain liabilities (such as bonds payable, accrued interest, and other notes payable) are not reported in the fund financial statements because they are not due and payable, however, they are presented in the statement of net assets.		
Interest payable	(932,249)	
Sick leave payable	(622,202)	
Bond obligations	<u>(25,910,000)</u>	<u>(27,464,451)</u>
TOTAL NET ASSETS - GOVERNMENTAL		<u>\$ 24,140,967</u>

See accompanying auditors' report and notes to financial statements.

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

	GENERAL FUND	SPECIAL REVENUE FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	\$ 6,295,045	\$ 0	\$ 0	\$ 624,035	\$ 6,919,080
Earnings on investments	67,804	316	1,286	3,309	72,715
Other local revenues	140,814	25,901	0	15,517	182,232
State sources	23,355,268	1,666,740	246,981	1,131,645	26,400,634
Federal sources	68,983	3,886,174	93,819	0	4,048,976
Other sources	0	0	0	0	0
TOTAL REVENUES	29,927,914	5,579,131	342,086	1,774,506	37,623,637
EXPENDITURES					
Instructional	18,380,705	3,954,843	0	0	22,335,548
Student support services	1,511,625	178,444	0	0	1,690,069
Staff support services	1,142,668	993,784	0	0	2,136,452
District administration	783,109	10,055	0	0	793,164
School administration	1,410,675	117,059	0	0	1,527,734
Business support services	431,786	0	0	0	431,786
Plant operation and maintenance	2,441,188	93,918	0	0	2,535,106
Student transportation	2,564,918	0	0	0	2,564,918
Community service operations	35,042	308,056	0	0	343,098
Facility acquisition, construction and improvement	0	0	0	2,635,687	2,635,687
Other	2,162	2	0	0	2,164
Debt service	0	0	10,808,153	0	10,808,153
Bond issue costs	0	0	0	0	0
TOTAL EXPENDITURES	28,703,878	5,656,161	10,808,153	2,635,687	47,803,879
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	1,224,036	(77,030)	(10,466,067)	(861,181)	(10,180,242)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of bonds	0	0	0	0	0
Proceeds from sale of assets	23,481	0	0	0	23,481
Bond discount	0	0	0	0	0
Operating transfers in	500,212	77,030	2,262,849	753,442	3,593,533
Operating transfers out	(445,648)	0	0	(3,147,885)	(3,593,533)
TOTAL OTHER FINANCING SOURCES (USES)	78,045	77,030	2,262,849	(2,394,443)	23,481
NET CHANGE IN FUND BALANCES	1,302,081	0	(8,203,218)	(3,255,624)	(10,156,761)
FUND BALANCES – BEGINNING	6,008,116	0	8,447,840	3,932,978	18,388,934
FUND BALANCES – ENDING	\$ 7,310,197	\$ 0	\$ 244,622	\$ 677,354	\$ 8,232,173

See accompanying auditors' report and notes to financial statements.

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

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

Net changes - governmental funds \$ (10,156,761)

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

Depreciation expense	\$ (2,019,744)	
Gain on disposal of assets	47,249	
Capital outlays	3,517,103	1,544,608

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

Bond proceeds	0	
Bond discount	0	
Bond issue costs	0	
Principal paid	9,425,000	9,425,000

Bond discounts and issue costs are reported as financing sources 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.

Amortization expense		(106,878)
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In the statement of activities the change in accumulated sick leave payable and interest payable is reported. Whereas, in the governmental funds this change in liability is not reported. Thus the change in net assets differs from the change in fund balances by the amount of increase or decrease in this account.

Increase in accumulated sick leave payable	55,076	
Increase in interest payable	421,453	476,529

CHANGES – NET ASSETS – GOVERNMENTAL FUNDS \$ 1,182,498

See accompanying auditors' report and notes to financial statements.

GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
JUNE 30, 2012

	FOOD SERVICE	OTHER ENTERPRISE FUNDS (Daycare)	TOTAL
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 365,470	\$ 39,126	\$ 404,596
Accounts receivable:			
Accounts	3,817	3,781	7,598
Inventories for consumption	24,941	0	24,941
TOTAL CURRENT ASSETS	394,228	42,907	437,135
NON-CURRENT ASSETS			
Depreciated capital assets	1,209,131	0	1,209,131
Less: Accumulated depreciation	(794,827)	0	(794,827)
TOTAL NON-CURRENT ASSETS	414,304	0	414,304
TOTAL ASSETS	808,532	42,907	851,439
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	8,009	159	8,168
Cash overdraft	0	0	0
TOTAL CURRENT LIABILITIES	8,009	159	8,168
NON-CURRENT LIABILITIES			
Non-current sick leave	20,101	0	20,101
TOTAL NON-CURRENT LIABILITIES	20,101	0	20,101
TOTAL LIABILITIES	28,110	159	28,269
NET ASSETS			
Invested in capital assets, net of related debt	414,304	0	414,304
Reserved for inventory	24,941	0	24,941
Restricted	341,177	42,748	383,925
TOTAL NET ASSETS	\$ 780,422	\$ 42,748	\$ 823,170

See accompanying auditors' report and notes to financial statements.

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

	FOOD SERVICE	OTHER ENTERPRISE FUNDS (Daycare)	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 615,773	\$ 0	\$ 615,773
Tuition	0	74,361	74,361
TOTAL OPERATING REVENUES	<u>615,773</u>	<u>74,361</u>	<u>690,134</u>
OPERATING EXPENSES			
Salaries and benefits	1,137,260	79,710	1,216,970
Contract services	23,531	1,809	25,340
Materials and supplies	1,344,202	6,502	1,350,704
Depreciation	37,901	0	37,901
Other operating expenses	1,193	3,706	4,899
TOTAL OPERATING EXPENSES	<u>2,544,087</u>	<u>91,727</u>	<u>2,635,814</u>
OPERATING INCOME (LOSS)	(1,928,314)	(17,366)	(1,945,680)
NON-OPERATING REVENUES (EXPENSES)			
Federal grants	1,691,304	0	1,691,304
State grants	25,166	0	25,166
Donated commodities	141,580	0	141,580
On-behalf payments	167,678	4,077	171,755
Interest income	1,462	0	1,462
Miscellaneous revenue	2,294	1,150	3,444
Gain (loss) on disposal of assets	0	0	0
Operating transfers in	0	0	0
Operating transfers out	0	0	0
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>2,029,484</u>	<u>5,227</u>	<u>2,034,711</u>
CHANGE IN NET ASSETS	101,170	(12,139)	89,031
NET ASSETS – BEGINNING	<u>679,252</u>	<u>54,887</u>	<u>734,139</u>
NET ASSETS – ENDING	<u>\$ 780,422</u>	<u>\$ 42,748</u>	<u>\$ 823,170</u>

See accompanying auditors' report and notes to financial statements.

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

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from:	
Lunchroom sales	\$ 648,298
Tuition	76,245
Governmental grants	1,716,470
Operating transfers in	0
Cash paid to/for:	
Salaries and benefits	(1,045,215)
Materials and supplies	(1,209,124)
Contract services	(25,340)
Operating transfers out	0
Other activities	2,660
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	163,994

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Fixed asset activity	(55,790)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(55,790)

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest income	1,462
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,462

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	294,930
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 404,596

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Income (loss)	\$ 87,566
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	37,901
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	34,409
(Increase) decrease in inventories for consumption	4,218
Increase (decrease) in accounts payable	613
Increase (decrease) in accrued sick leave payable	(713)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 163,994

SCHEDULE OF NON-CASH TRANSACTIONS

Donated commodities received from federal government	\$ 141,580
On-behalf payments	\$ 171,755

See accompanying auditors' report and notes to financial statements.

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

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUND</u>
ASSETS		
Cash and cash equivalents	\$ 0	\$ 347,090
Accounts receivable	0	0
Investments	10,292,944	0
TOTAL ASSETS	<u>10,292,944</u>	<u>347,090</u>
LIABILITIES		
Accounts payable	0	13,450
Due to student groups	0	333,640
TOTAL LIABILITIES	<u>0</u>	<u>347,090</u>
NET ASSETS HELD IN TRUST	<u>\$ 10,292,944</u>	<u>\$ 0</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE A - REPORTING ENTITY

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

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

The financial statements of the District include those of separately administered organizations that are controlled by or dependent of 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 are included in the accompanying financial statements:

On June 30, 1991, the Grayson County Board of Education authorized and directed that a corporation be organized and formed pursuant to the provisions of Sections 273.161 through 273.390 of the Kentucky Revised Statutes. The purposes of the corporation are to act as an agency of the Board of Education in the acquisition and financing of any public school project which may be undertaken by the Board, to acquire real estate or any interest therein, and to issue bonds, notes, or other obligations on behalf of the Board for the acquisition and financing of one or more public school projects.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) (when applicable) that do not conflict with or contradict GASB pronouncements.

In June 1999, GASB unanimously approved *Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities, including capital assets.
- A change in the fund financial statements to focus on the major funds.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The District adopted GASB Statement No. 34 in the fiscal year ended June 30, 2003.

Basis of Presentation

District-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 to be business-type activities.

The district-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 fund financial statements are prepared. Fund financial statements therefore include reconciliation with brief explanation to better identify the relationship between the district-wide statements and the statements for governmental funds.

The district-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.

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

Fund financial statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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:

1. Governmental Fund Types

- a. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- b. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 38 through 39. This is a major fund of the District.
- 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).
 - i. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. The SEEK Fund is not a major fund.
 - ii. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is not a major fund of the District.
 - iii. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is not a major fund.
- d. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. The Debt Service Fund is a major fund of the District but is not required to adopt a budget, therefore no budgetary comparison information is presented.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Beginning with fiscal year 2011, the District implemented GASB Statement No. 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 balances more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District did not have any nonspendable resources at June 30, 2012.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified sick leave, KSFCC escrow, capital projects and debt service resources as being restricted.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of June 30, 2012.

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District's manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District had assigned resources as of June 30, 2012.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balances of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

2. Proprietary Fund Types (Enterprise Fund)

- a. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- b. The Family Resource Center Fund is used to account for daycare activities. The Family Resource Center Fund is not a major fund.

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

The District defines operating revenues as revenues derived from proprietary fund operations. All other revenues are considered non-operating.

3. Fiduciary Fund Type (Agency Funds)

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, 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 resource is required to be used or for 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.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual 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 are levied. Property taxes collected are recorded as revenues in the Fund for which they were levied.

Capital Assets

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

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

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	10 years

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Inter-fund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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 district-wide financial statements.

For governmental fund financial statements these amounts are recorded in the account "accumulated sick leave payable" in the general fund.

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Such amendments are not made after fiscal year-end as dictated by law.

Cash and Cash Equivalents

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

Inventories

On district-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

The private purpose trust funds record investments at their quoted market prices.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

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

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

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 of legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues and expenses are those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals or daycare services provided by the various schools.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Inter-fund Activity

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

NOTE C – ESTIMATES

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

NOTE D - CASH AND INVESTMENTS

At year end, the carrying amount of the District's cash and investments was \$8,682,004. Of the total institutional balance of \$9,772,071, \$780,429 was covered by Federal depository insurance. The remaining balance of \$8,991,642 would require collateralization. As of June 30, 2012, \$13,825,000 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

Kentucky Revised Statutes provide for investment of governmental funds into certain investment types including obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. All balances held are considered acceptable and compliant per Kentucky Revised Statutes, however, to be considered fully collateralized by Governmental Accounting Standards, any securities held in a pledging financial institution must be held in the District's name.

Any certificates of deposit or other fixed term investments are purchased in the name of the District. Therefore, these purchases are federally insured up to \$250,000 and/or collateralized with U.S. Government Securities at 110% market value or 100% collateralized (principal and interest) by irrevocable letters of credit issued by the Federal Home Loan Bank of San Francisco.

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012

NOTE D - CASH AND INVESTMENTS, CONCLUDED

Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and federal financial assistance programs, each bank account or fund balance, as applicable, within the following funds is considered to be restricted:

SEEK Capital Outlay Fund	School Construction Fund
Facility Support Program (FSPK)	Grant Fund
Debt Service Fund	School Lunchroom Fund
Daycare Fund	Activity Fund

NOTE E - CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Land	\$ 1,676,739	\$ 0	\$ 0	\$ 1,676,739
Buildings and improvements	47,389,981	1,153,684	85,900	48,457,765
Technology equipment	3,331,275	334,236	311,266	3,354,245
Vehicles	4,163,107	462,137	353,254	4,271,990
General equipment	3,254,462	209,787	66,729	3,397,520
Construction in progress	665,637	2,022,896	665,637	2,022,896
Totals at historical cost	60,481,201	4,182,740	1,482,786	63,181,155
Less: Accumulated depreciation				
Buildings and improvements	12,519,319	1,064,077	84,691	13,498,705
Technology equipment	2,048,507	483,770	310,901	2,221,376
Vehicles	2,384,893	340,957	403,220	2,322,630
General equipment	2,090,649	130,940	65,586	2,156,003
Total accumulated depreciation	19,043,368	2,019,744	864,398	20,198,714
Governmental Activities Capital Assets - Net	\$41,437,833	\$ 2,162,996	\$ 618,388	\$ 42,982,441
<hr style="border: 0.5px solid black;"/>				
Business-Type Activities				
Food service and equipment	\$ 1,143,883	\$ 55,790	\$ 1,800	\$ 1,197,873
Technology equipment	12,049	0	791	11,258
Construction in progress	0	0	0	0
Totals at historical cost	1,155,932	55,790	2,591	1,209,131
Less: Accumulated depreciation				
Food service equipment	753,310	35,807	1,800	787,317
Technology equipment	6,207	2,094	791	7,510
Total accumulated depreciation	759,517	37,901	2,591	794,827
Business-Type Activities Capital Assets - Net	\$ 396,415	\$ 17,889	\$ 0	\$ 414,304

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Grayson County and the City of Leitchfield, Kentucky.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1998A	\$ 2,380,000	4.25% - 4.375%
1998C	1,030,000	4.10%
2001	8,110,000	3.80% - 4.900%
2002A	5,190,000	1.25% - 3.75%
2002B	370,000	1.60% - 3.55%
2008	5,160,000	3.00% - 3.75%
2009	9,095,000	2.25% - 4.375%
2010	8,175,000	2.00% - 3.25%
2011A	1,920,000	4.90%
2011B	500,000	2.00%

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Grayson County Fiscal Court and the City of Leitchfield 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 proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

On February 1, 1998, the Grayson County School District issued \$2,380,000 Series A and \$1,570,000 Series B School Building Revenue Bonds and Refunding Bonds with interest rates ranging from 4.15% to 4.375% to advance refund outstanding revenue bonds issued in 1987, January of 1990, December of 1990, 1991, and 1992. Rates of interest on the refunded bonds range from 6.00% to 7.60%. The net proceeds of \$3,842,202 (after payment of \$49,047 in issuance costs plus \$12,155 in accrued interest) were deposited in the 1998A and 1998B Escrow Fund accounts with PNC Bank to provide for the appropriate future debt service payments on the aforementioned issues. Such proceeds are invested in U.S. Treasury Certificates until needed periodically for debt service payments. The 1998A series bond was paid in full during the current year.

The District advance refunded the aforementioned bonds to reduce its total debt service payments by approximately \$311,923 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$226,856.

On October 4, 2002, the Grayson County School District issued \$5,190,000 Series A and \$370,000 Series B Refunding Bonds with interest rates ranging from 1.25% to 3.75% to refund the outstanding revenue bonds issued in 1993 and 1995. The net proceeds were deposited into the 2002A and 2002B Escrow Fund accounts with Cecilian Bank to provide for the appropriate future debt service payments on the aforementioned issues. Such proceeds are invested in certificates until needed periodically for debt service payments. The refunded portion of the 1995 bond issue (with an original amount of \$8,360,000) was paid in full during 2005.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS, CONTINUED

The District advance refunded the aforementioned bonds to reduce its total debt service payments by approximately \$371,070 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$304,922.

On July 14, 2010, the Grayson County School District issued \$8,175,000 Series 2010 refunding bonds with interest rates ranging from 2.00% to 3.25% to refund the outstanding 2001 bond issue. The net proceeds were deposited into the 2001 Escrow Fund account with the Bank of New York Mellon Trust Company to provide for the appropriate future debt service payments on the aforementioned issue. Such proceeds were invested in U.S Government State and Local Series Securities until periodically needed for debt service payments. The District advance refunded the aforementioned bonds to reduce its total debt service payments by \$632,576 and to obtain an economic gain of \$538,987.

On June 2, 2011, the Grayson County School District issued \$1,920,000 Series A School Building Revenue Bonds with an interest rate of 4.90%. The 2011A bond issues were used to fund construction projects.

On June 2, 2011, the Grayson County School District issued \$500,000 Series B School Building Refunding Revenue Bonds with an interest rate of 2.00% to refund the 1998C bond issue. The net proceeds were deposited into the 1998C Bond Fund account held at the Cecilian Bank to provide for the appropriate future debt service payments on the aforementioned issue. The District advance refunded the aforementioned bonds to reduce its total debt service payments by \$20,944 and to obtain an economic gain of \$19,466. The 1998C series bond was paid in full during the current year.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE F - BONDED DEBT AND LEASE OBLIGATIONS, CONCLUDED

The District has entered into “participation agreements” with the Kentucky School Facility Construction 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 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 amount to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are as follows:

Year Ended	Grayson Co. School District			KY School Construction Commission			Total Interest	Total Principal	Grand Total
	Interest	Principal	Total	Interest	Principal	Total			
12-13	\$ 862,391.88	\$ 1,123,079.00	\$ 1,985,470.88	\$ 69,856.86	\$ 176,921.00	\$ 246,777.86	\$ 932,248.74	\$ 1,300,000.00	\$ 2,232,248.74
13-14	826,546.20	1,160,032.00	1,986,578.20	64,976.31	179,968.00	244,944.31	891,522.51	1,340,000.00	2,231,522.51
14-15	790,446.26	1,190,065.00	1,980,511.26	60,503.74	154,935.00	215,438.74	850,950.00	1,345,000.00	2,195,950.00
15-16	745,948.02	1,221,908.00	1,967,856.02	56,376.98	128,092.00	184,468.98	802,325.00	1,350,000.00	2,152,325.00
16-17	716,414.20	1,244,184.00	1,960,598.20	52,403.30	135,816.00	188,219.30	768,817.50	1,380,000.00	2,148,817.50
17-18	680,984.34	1,286,351.00	1,967,335.34	48,270.66	138,649.00	186,919.66	729,255.00	1,425,000.00	2,154,255.00
18-19	640,335.30	1,318,405.00	1,958,740.30	44,024.70	141,595.00	185,619.70	684,360.00	1,460,000.00	2,144,360.00
19-20	598,416.60	1,365,341.00	1,963,757.60	40,310.90	79,659.00	119,969.90	638,727.50	1,445,000.00	2,083,727.50
20-21	554,254.21	1,402,155.00	1,956,409.21	37,124.54	82,845.00	119,969.54	591,378.75	1,485,000.00	2,076,378.75
21-22	507,293.01	1,448,841.00	1,956,134.01	33,810.74	86,159.00	119,969.74	541,103.75	1,535,000.00	2,076,103.75
22-23	477,245.62	1,210,395.00	1,687,640.62	30,364.38	89,605.00	119,969.38	507,610.00	1,300,000.00	1,807,610.00
23-24	429,567.32	1,256,811.00	1,686,378.32	26,780.18	93,189.00	119,969.18	456,347.50	1,350,000.00	1,806,347.50
24-25	378,867.62	1,307,967.00	1,686,834.62	22,936.14	97,033.00	119,969.14	401,803.76	1,405,000.00	1,806,803.76
25-26	324,854.02	3,283,843.00	3,608,697.02	18,812.24	101,157.00	119,969.24	343,666.26	3,385,000.00	3,728,666.26
26-27	173,943.76	1,419,493.00	1,593,436.76	14,462.48	105,507.00	119,969.48	188,406.24	1,525,000.00	1,713,406.24
27-28	113,965.96	1,474,877.00	1,588,842.96	9,846.56	110,123.00	119,969.56	123,812.52	1,585,000.00	1,708,812.52
28-29	51,627.58	1,180,059.00	1,231,686.58	5,028.66	114,941.00	119,969.66	56,656.24	1,295,000.00	1,351,656.24
	<u>\$ 8,873,101.90</u>	<u>\$23,893,806.00</u>	<u>\$32,766,907.90</u>	<u>\$635,889.37</u>	<u>\$2,016,194.00</u>	<u>\$2,652,083.37</u>	<u>\$9,508,991.27</u>	<u>\$25,910,000.00</u>	<u>\$35,418,991.27</u>

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012

NOTE G - RETIREMENT PLANS

The Grayson County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

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 website at <http://ktrs.ky.gov/>.

Funding Policy - Contribution rates are established by KRS. Members before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS and members after July 1, 2008 contribute 10.855%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 13.605% for members hired before July 1, 2008 and 14.105% for those hired after that date.

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 - In order to fund the post-retirement healthcare benefit, two percent (2.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One percent (1.25%) is paid by member contributions and three fourths percent (.75%) from state appropriation and (.50%) from the employer. Members after July 1, 2008 contribute an additional .50% to the medical insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Grayson County School District's total payroll for the year was \$22,471,674. The payroll for employees covered under KTRS was \$16,974,232. For the year ended June 30, 2012, the Commonwealth contributed \$1,974,437 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ended June 30, 2012 were \$272,194 which represents those employees covered by federal programs.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE G - RETIREMENT PLANS, CONCLUDED

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

Year	Required Contribution	Percentage Contributed
6/30/12	\$ 2,246,631	100%
6/30/11	\$ 2,203,198	100%
6/30/10	\$ 2,307,829	100%

Substantially all other employees (classified personnel) are covered under County Employee's Retirement System (CERS), a cost-sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5.00% or 6.00% and a District contribution of 18.96% of the employee's total compensation subject to contribution.

The total payroll for employees covered under CERS was \$5,091,171. The contribution requirement for CERS for the year ended June 30, 2012 was \$1,224,097 which consisted of \$965,285 from the District and \$258,812 from the employees.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

Year	Required Contribution	Percentage Contributed
6/30/12	\$ 1,224,097	100%
6/30/11	\$ 1,105,456	100%
6/30/10	\$ 1,076,451	100%

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

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons.

KTRS and CERS do not make separate measurements of assets and pension benefits obligations for individual employers.

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their comprehensive annual financial reports.

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

GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012

NOTE H - DEFERRED COMPENSATION PLAN

The District has deferred compensation plans created in accordance with the Internal Revenue Code Section 457. The plans are administered by independent plan administrators through administrative service agreements. The plans are available to all District employees. Employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The deferred compensation plans are accounted for in the Agency Fund. The plans' assets are presented at fair market value and captioned as "investments" with corresponding liabilities captioned "net assets held in trust." All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the plan), subject only to the claims of the District's general creditors. Participants' rights under the plans are equal to those of general creditors of the District in an amount equal to the fair value of the deferred amount for each participant.

NOTE I - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2012, this amount totaled \$642,303 for those employees with 27 or more years of experience.

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.

For fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in "accumulated sick leave payable" in the general and school food service funds. The non-current portion of the liability is not reported.

NOTE J - CONTINGENCIES

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

NOTE K - 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 has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2012**

NOTE L - RISK MANAGEMENT

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

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

NOTE M - DEFICIT OPERATING FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Debt Service Fund	\$ 8,203,218
Construction Fund	3,528,554
Daycare Fund	12,139

NOTE N - COBRA

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

NOTE O - TRANSFER OF FUNDS

During the year, accounting personnel for the District have made several transfers among funds, generally to adjust for recording errors or reclassifications of transactions subsequent to the discovery of more information.

NOTE P - BUDGET VIOLATIONS

During the 2012 fiscal year, the District incurred line item expenditures in excess of budget. These expenditures were within the general fund, special revenue fund, seek capital outlay fund, FSPK building fund, construction fund, debt service fund, school food service fund, and daycare fund.

**GRAYSON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, CONCLUDED
JUNE 30, 2012**

NOTE Q – ON-BEHALF PAYMENTS

During the 2012 fiscal year, the District received on-behalf payments from federal and state sources. These payments are recorded in the district-wide financial statements as both revenues and expenses during the current year. The on-behalf payments received are as follows:

Debt maturities – Principal	\$ 177,451
Debt maturities – Interest	69,530
Technology	84,791
Life insurance fees	9,272
Health reimbursement account	213,150
Administrative fees	43,657
Health insurance	3,934,868
KTRS	1,974,400
Less: Federal reimbursement	<u>(264,732)</u>
	<u>\$ 6,242,387</u>

NOTE R – INVESTMENTS

The investments of the District include the sick leave escrow and certificates of deposit.

NOTE S – SUBSEQUENT EVENT

The District's management has evaluated and considered the need to recognize or disclose subsequent events through September 24, 2012 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2012, have not been evaluated by management.

NOTE T – IMPAIRMENT OF LONG-LIVED ASSETS

The District reviews its property for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended June 30, 2012.

NOTE U – LITIGATION

Legal claims have been asserted against the District. The ultimate liability cannot now be determined because of considerable uncertainties that exist. However, it is in the opinion of legal counsel that the claimant's prospect of success is minimal. It is the opinion of management that possible losses, if any, would not have a material effect on the financial statements. Additionally, management is unaware of any unasserted claims that would have a material impact on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES				
Taxes	\$5,784,511	\$5,830,000	\$6,295,045	\$ 465,045
Earnings on investments	50,000	50,000	67,804	17,804
Other local revenues	55,500	55,500	140,814	85,314
State sources	16,750,000	17,512,029	23,355,268	5,843,239
Federal sources	0	0	68,983	68,983
Other sources	0	0	0	0
TOTAL REVENUES	<u>22,640,011</u>	<u>23,447,529</u>	<u>29,927,914</u>	<u>6,480,385</u>
EXPENDITURES				
Instructional	14,836,713	14,767,508	18,380,705	(3,613,197)
Student support services	1,177,869	1,177,769	1,511,625	(333,856)
Staff support services	909,524	921,989	1,142,668	(220,679)
District administration	963,396	984,896	783,109	201,787
School administration	1,130,709	1,133,376	1,410,675	(277,299)
Business support services	333,128	355,828	431,786	(75,958)
Plant operation and maintenance	3,095,366	3,125,782	2,441,188	684,594
Student transportation	2,633,854	2,658,899	2,564,918	93,981
Community service operations	25,365	25,365	35,042	(9,677)
Facility acquisition, construction and improvement	102,500	102,500	0	102,500
Other	729,335	1,463,677	2,162	1,461,515
Debt service	365,000	365,000	0	365,000
Bond issue costs	0	0	0	0
TOTAL EXPENDITURES	<u>26,302,759</u>	<u>27,082,589</u>	<u>28,703,878</u>	<u>(1,621,289)</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(3,662,748)</u>	<u>(3,635,060)</u>	<u>1,224,036</u>	<u>4,859,096</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	5,000	5,000	23,481	18,481
Bond discount	0	0	0	0
Operating transfers in	0	0	500,212	500,212
Operating transfers out	(49,342)	(77,030)	(445,648)	(368,618)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(44,342)</u>	<u>(72,030)</u>	<u>78,045</u>	<u>150,075</u>
NET CHANGE IN FUND BALANCES	<u>(3,707,090)</u>	<u>(3,707,090)</u>	<u>1,302,081</u>	<u>5,009,171</u>
FUND BALANCES – BEGINNING	<u>3,707,090</u>	<u>3,707,090</u>	<u>6,008,116</u>	<u>2,301,026</u>
FUND BALANCES – ENDING	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$7,310,197</u>	<u>\$ 7,310,197</u>

NOTE: On-behalf payments are not included in original and final budgeted amounts. However, such payments are included in actual revenue and expenditure amounts.

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Earnings on investments	0	0	316	316
Other local revenues	38,000	29,708	25,901	(3,807)
State sources	1,592,882	1,349,091	1,666,740	317,649
Federal sources	3,158,010	3,127,866	3,886,174	758,308
Other sources	0	0	0	0
TOTAL REVENUES	<u>4,788,892</u>	<u>4,506,665</u>	<u>5,579,131</u>	<u>1,072,466</u>
EXPENDITURES				
Instructional	3,379,952	3,290,944	3,954,843	(663,899)
Student support services	144,100	143,749	178,444	(34,695)
Staff support services	733,945	918,098	993,784	(75,686)
District administration	20,349	1,999	10,055	(8,056)
School administration	128,762	123,339	117,059	6,280
Business support services	0	0	0	0
Plant operation and maintenance	72,476	78,464	93,918	(15,454)
Student transportation	36,721	3,575	0	3,575
Community service operations	321,929	23,526	308,056	(284,530)
Facility acquisition, construction and improvement	0	0	0	0
Other	0	1	2	(1)
Debt service	0	0	0	0
Bond issue costs	0	0	0	0
TOTAL EXPENDITURES	<u>4,838,234</u>	<u>4,583,695</u>	<u>5,656,161</u>	<u>(1,072,466)</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(49,342)	(77,030)	(77,030)	0
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Bond discount	0	0	0	0
Operating transfers in	49,342	77,030	77,030	0
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>49,342</u>	<u>77,030</u>	<u>77,030</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	0	0	0	0
FUND BALANCES – BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES – ENDING	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying auditors' report and notes to financial statements.

OTHER SUPPLEMENTARY INFORMATION

GRAYSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	FSPK BUILDING FUND	CONSTRUCTION FUND	SEEK CAPITAL OUTLAY FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 0	\$ 408,081	\$ 273,673	\$ 681,754
Investments	0	0	0	0
Accounts receivable:				
Accounts	0	0	0	0
TOTAL ASSETS	\$ 0	\$ 408,081	\$ 273,673	\$ 681,754
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Cash overdraft	\$ 0	\$ 0	\$ 0	\$ 0
Accounts payable	0	4,400	0	4,400
Accrued payroll and related expenses	0	0	0	0
Deferred revenues	0	0	0	0
TOTAL LIABILITIES	0	4,400	0	4,400
FUND BALANCE				
Nonspendable	0	0	0	0
Restricted for:				
Accrued sick leave	0	0	0	0
KSFCC escrow	0	0	743	743
Capital projects	0	403,681	0	403,681
Debt service	0	0	0	0
Other	0	0	272,930	272,930
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	0	0	0	0
TOTAL FUND BALANCE	0	403,681	273,673	677,354
TOTAL LIABILITIES AND FUND BALANCE	\$ 0	\$ 408,081	\$ 273,673	\$ 681,754

See accompanying auditors' report and notes to financial statements.

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

	FSPK BUILDING FUND	CONSTRUCTION FUND	SEEK CAPITAL OUTLAY FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 624,035	\$ 0	\$ 0	\$ 624,035
Earnings on investments	0	3,309	0	3,309
Other local revenues	0	15,517	0	15,517
State sources	746,497	0	385,148	1,131,645
Federal sources	0	0	0	0
Other sources	0	0	0	0
TOTAL REVENUES	<u>1,370,532</u>	<u>18,826</u>	<u>385,148</u>	<u>1,774,506</u>
EXPENDITURES				
Instructional	0	0	0	0
Student support services	0	0	0	0
Staff support services	0	0	0	0
District administration	0	0	0	0
School administration	0	0	0	0
Business support services	0	0	0	0
Plant operation and maintenance	0	0	0	0
Student transportation	0	0	0	0
Central office	0	0	0	0
Community service operations	0	0	0	0
Facility acquisition, construction and improvement	0	2,635,687	0	2,635,687
Other	0	0	0	0
Debt service	0	0	0	0
Bond issue costs	0	0	0	0
TOTAL EXPENDITURES	<u>0</u>	<u>2,635,687</u>	<u>0</u>	<u>2,635,687</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	1,370,532	(2,616,861)	385,148	(861,181)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Bond discount	0	0	0	0
Operating transfers in	96,745	170,980	485,717	753,442
Operating transfers out	(1,467,277)	(1,082,673)	(597,935)	(3,147,885)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,370,532)</u>	<u>(911,693)</u>	<u>(112,218)</u>	<u>(2,394,443)</u>
NET CHANGE IN FUND BALANCES	0	(3,528,554)	272,930	(3,255,624)
FUND BALANCES – BEGINNING	<u>0</u>	<u>3,932,235</u>	<u>743</u>	<u>3,932,978</u>
FUND BALANCES – ENDING	<u>\$ 0</u>	<u>\$ 403,681</u>	<u>\$ 273,673</u>	<u>\$ 677,354</u>

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY 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	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Education:			
Passed Through State Department of Education			
Special Education Cluster (IDEA):			
Special Education – Grants to States (IDEA, Part B)	84.027	3810002	\$ 13,355
		3810002	854,757
		3810002	39,279
Total			<u>907,391</u>
Special Education – Preschool Grants (IDEA Preschool)	84.173	3800002	4,728
		3800002	28,719
		3800002	1,024
Total			<u>34,471</u>
Total Special Education Cluster (IDEA)			941,862
Adult Education – Basic Grants to States	84.002	3732C	20,675
		3732S	3,755
		3732	55,380
Total			<u>79,810</u>
Title I Cluster:			
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	3100002	1,619,413
ARRA – Title I Grants to Local Educational Agencies, Recovery Act	84.389	4100002	40,188
Total Title I Cluster			<u>1,659,601</u>
Improving Teacher Quality State Grants	84.367	3230002	242,818
		3230003	4,506
Fund for the Improvement of Education	84.215	5181	14,815
Rural Education	84.358	3140002	93,300
Career and Technical Education – Basic Grants to States (Perkins IV)	84.048	4621232	55,577
		4621132	
		4621032	
		4621110	
Education Technology State Grants Cluster:			
Educational Technology State Grants	84.318	3210002	88
ARRA – Education Technology State Grants, Recovery Act	84.386	4210002	2,174
		4210002	8,567
Total			<u>10,741</u>
Total Education Technology State Grants Cluster			10,829
Twenty-First Century Community Learning Centers	84.287	3400002	200,584
		3400001	
Education Jobs Fund	84.410	EJOB00	468,008
School Improvement Grants Cluster:			
ARRA – School Improvement Grants, Recovery Act	84.388	4100302	73,542
Total School Improvement Grants Cluster			<u>73,542</u>
ARRA – Education for Homeless Children and Youth, Recovery Act	84.387	4990002	1,482
Tech – Prep Education	84.243	3651	12,213
Total U.S. Department of Education			<u>3,858,947</u>

(CONTINUED)

See accompanying auditors' report and notes to financial statements.

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

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
Corporation for National and Community Service: Passed Through State Department of Education Learn and Serve America – School and Community Based Programs	94.004	1000001	\$ 1,852
Department of Health and Human Services Centers for Disease Control and Prevention: Passed Through State Department of Education Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93 938	4182	3,026
Department of Energy Passed Through State Department of Education State Energy Program	81.041	5691 5692	8,666
U.S. Department of Agriculture: Passed Through State Department of Education Fresh Fruit and Vegetable Program	10 582	7720012	49,208
Passed Through State Department of Education Child Nutrition Cluster: Summer Food Service Program for Children (SFSPC)	10 559*	7740023 7690024	12,247 1,273
Total			<u>13,520</u>
National School Lunch Program (NSLP)	10.555*	7750002	1,220,325
Non-cash Assistance (Commodities)-National School Lunch Program (NSLP)	10.555*	7750002	141,580
Total			<u>1,361,905</u>
School Breakfast Program (SBP)	10.553*	7760005	429,230
Total Child Nutrition Cluster			<u>1,804,655</u>
Total U.S. Department of Agriculture			<u>1,853,863</u>
Total			<u>\$ 5,726,354</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at fair value of the commodities received and disbursed. During the fiscal year, the District received donated food commodities valued at \$141,580 in inventory.

NOTE C – SUBRECIPIENTS

During the current year no amounts were provided to subrecipients.

NOTE D – MAJOR PROGRAMS

Major programs are denoted by an asterisk (*).

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
GRAYSON COUNTY HIGH SCHOOL – ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

ACTIVITY	BEGINNING BALANCE	RECEIPTS	DISBURSEMENTS	TRANSFERS	ENDING BALANCE
FCA	\$ 164	\$ 0	\$ 0	\$ 0	\$ 164
Marion E. Higgs Scholarship	6,825	0	0	0	6,825
Bookstore	0	0	0	0	0
Team Impact	244	0	0	(244)	0
Cats Awards	0	0	0	0	0
Accelerated Reader	23	0	0	(23)	0
Higgs Scholarship	72	63	78	0	57
Newspaper	1,381	3,473	3,998	0	856
Yearbook	22,030	19,113	19,564	0	21,579
STLP	327	0	0	0	327
Outdoors Club	862	275	932	0	205
Drama	445	0	0	(445)	0
BETA Club	663	668	259	0	1,072
FFA	5,225	29,576	29,143	(578)	5,080
FCCLA	61	16,785	15,265	114	1,695
FBLA	391	0	0	0	391
Spanish Club	107	0	0	(107)	0
Athletics	4,314	29,137	29,383	(28)	4,040
Prom	17,437	14,050	7,311	0	24,176
Just Say No	481	0	0	0	481
NHS	1,879	1,555	2,035	(49)	1,350
Student Government	922	0	685	0	237
Science Club	0	0	0	0	0
Football Coach	8	0	0	(8)	0
Vocational Tuition	1,785	0	90	0	1,695
DECA	4,593	13,959	17,146	875	2,281
HOSA	916	8,045	8,711	(150)	100
Carpentry VICA	4,311	3,057	1,567	0	5,801
Auto Mechanics VICA	2,085	1,250	1,075	0	2,260
Electricity VICA	373	0	0	0	373
Welding VICA	77	135	76	0	136
Senior Class	9,206	17,487	21,659	0	5,034
Parking Passes	9,019	5,545	12,765	0	1,799
Goodwill	331	0	0	0	331
Pep Club	841	235	240	0	836
French Club	31	0	0	(31)	0
Arts Club	232	27,457	27,382	0	307
TSA Club	60	0	0	0	60
Dual Credit	3,090	0	908	0	2,182
YMCA	113	590	635	0	68
Motorsports Club	205	0	0	(205)	0
Fieldtrip	352	0	0	(352)	0
Youth Crime Watch	573	0	0	(573)	0
Chorus	3,410	0	0	0	3,410
Administration	11,266	4,300	12,311	1,854	5,109
Books Lost or Stolen	2,263	20	2,263	0	20
Cold Checks	0	0	0	0	0
Community Donations	0	0	0	0	0
Special Ed	496	90	452	0	134
Jr. Historical Society	0	0	0	0	0
Library	909	285	322	0	872
Teacher's Lounge	1,396	5,966	6,947	0	415
Concessions	21,318	14,229	13,263	(50)	22,234
TOTAL	\$ 143,112	\$ 217,345	\$ 236,465	\$ 0	\$ 123,992

See accompanying auditors' report and notes to financial statements.

**GRAYSON COUNTY SCHOOL DISTRICT
ACTIVITY FUNDS BY SCHOOL – ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

<u>ACTIVITY FUND</u>	<u>BEGINNING BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>TRANSFERS</u>	<u>ENDING BALANCE</u>
Caneyville Elementary School	\$ 60,520	\$ 62,038	\$ 50,773	\$ 0	\$ 71,785
Clarkson Elementary School	32,763	127,751	130,679	0	29,835
Oran P. Lawler Elementary School	18,007	68,037	67,658	0	18,386
H.W. Wilkey Elementary School	41,817	46,705	51,755	0	36,767
Grayson County Middle School	68,343	142,476	144,494	0	66,325
TOTAL	<u>\$ 221,450</u>	<u>\$ 447,007</u>	<u>\$ 445,359</u>	<u>\$ 0</u>	<u>\$ 223,098</u>

See accompanying auditors' report and notes to financial statements.

**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
Grayson County School District
Leitchfield, 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 Grayson County School District, as of and for the year ended June 30, 2012, which collectively comprise the Grayson County School District's basic financial statements and have issued our report thereon dated September 24, 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; *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report.*

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

We noted certain inconsequential matters that we reported to management of the Grayson County School District in a separate letter dated September 24, 2012.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Buckles, Travis, VanMeter & Hart" with a long horizontal line extending to the right.

Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
September 24, 2012

**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
Grayson County School District
Leitchfield, Kentucky

Compliance

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

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

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

Internal Control Over Compliance

Management of the Grayson County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Grayson County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing 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 Grayson County School District's internal control over compliance.

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

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

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

Respectfully submitted,



Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
September 24, 2012

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

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Grayson County School District.
2. No significant deficiencies are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and identified in this Schedule (Section B).
3. No instances of noncompliance material to the financial statements of Grayson County School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Grayson County School District expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Grayson County School District are reported in Part C of this Schedule.
7. The programs tested as major programs include:
 - U.S Department of Agriculture
 - Child Nutrition Cluster:
 - CFDA 10.555, 10.553, 10.559
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Grayson County School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

The audit did not disclose any audit findings.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

The audit did not disclose any audit findings.

**GRAYSON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

**Reference
Number**

Finding

**Questioned
Costs**

The audit did not disclose any audit findings.

MANAGEMENT LETTER

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

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

However, during our audit we became aware of certain inconsequential matters that provide opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated September 24, 2012, contains our report on significant deficiencies or material weaknesses in the District's internal control. This letter does not affect our report dated September 24, 2012 on the financial statements of the Grayson County School District.

We will review the status of this comment during our next audit engagement. We have already discussed these matters 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 recommendation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Buckles, Travis, VanMeter & Hart".

Buckles, Travis, VanMeter & Hart, PLLC
Certified Public Accountants
September 24, 2012

**GRAYSON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENT
FOR THE YEAR ENDED JUNE 30, 2012**

REPORTABLE MATTERS

During the prior and current fiscal years, the Grayson County School District had no items required to be communicated in a management letter as the matters that were noted during our audit and their corresponding comments and suggestions that were communicated to management were clearly inconsequential.