

HARDIN COUNTY BOARD OF EDUCATION

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year Ended June 30, 2011

HARDIN COUNTY BOARD OF EDUCATION

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2011

	<u>Page</u>
Independent Auditor's Report	1-2
Required Supplementary Information:	
Management's Discussion and Analysis.....	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	18
Statement of Cash Flows – Proprietary Funds.....	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	21
Notes to the Basic Financial Statements	22-38
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	39
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	40

HARDIN COUNTY BOARD OF EDUCATION

TABLE OF CONTENTS - CONTINUED

YEAR ENDED JUNE 30, 2011

Supplementary Information:

Combining Statements – Nonmajor Funds:

Combining Balance Sheet – Nonmajor Governmental Funds	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	42
Combining Statement of Net Assets – Nonmajor Proprietary Funds – Enterprise Funds	43
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds – Proprietary Funds	44
Combining Statement of Cash Flows – Nonmajor Enterprise Funds – Proprietary Funds	45
Combining Statement of Fiduciary Net Assets – Agency Funds	46

Schools:

Schedule of Receipts, Disbursements, and Fund Balances – All Schools	47
Schedule of Receipts, Disbursements, and Fund Balances – Central Hardin High School	48-49
Schedule of Receipts, Disbursements, and Fund Balances – John Hardin High School	50-51
Schedule of Receipts, Disbursements, and Fund Balances – North Hardin High School	52-53
Schedule of Expenditures of Federal Awards	54-56
Notes to Schedule of Expenditures of Federal Awards	57
Schedule of Findings and Questioned Costs	58-60
Schedule of Prior Year Audit Findings	61
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	62-63
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	64-65
Management Letter and Comments	66-70

THEODORE C. STILES, CPA
BENJAMIN E. CARTER, CPA
JOHN R. ASHCRAFT, CPA
J. SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA
CHRIS R. CARTER, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

2901 RING ROAD EAST

P. O. BOX 622

ELIZABETHTOWN, KY 42702-0622

TELEPHONE 270/769-6371

FAX 270/765-7834

www.stilescartercpas.com

JON M. ANDERSON, CPA
CHERYLE L. BEAUCHAMP, CPA
WILLIAM M. DOERR, CPA
CARRIE A. GREY, CPA
PHILIP A. LOGSDON, CPA
J. ALTON PIKE, CPA

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hardin County Board of Education
Elizabethtown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hardin County Board of Education as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2011, on our consideration of Hardin County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 10, and the Budgetary Comparison Information on pages 39 through 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hardin County Board of Education's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 54 through 56 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stiles, Carter & Associates

Certified Public Accountants
August 29, 2011

REQUIRED SUPPLEMENTARY INFORMATION

**HARDIN COUNTY BOARD OF EDUCATION - ELIZABETHTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2011**

The discussion and analysis of Hardin County Board of Education's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to review the School District's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- 1 The beginning General Fund fund balance was \$18.4 million. The ending fund balance was \$22.6 million. General fund revenues increased \$5.1 million thousand and expenditures increased \$4.3 million compared to the previous fiscal year. Also, the General fund was responsible for paying \$398 thousand in energy bond debt service. In addition, the General Fund transferred \$319 thousand to the Special Revenue Fund for the technology grant match.
- 2 The beginning Construction Fund fund balance was \$3.9 million. The ending fund balance was \$14.7 million. The major reason for the change in fund balance was due to unspent bond proceeds.
- 3 The national economic climate resulted in the District receiving funds from the American Reinvestment and Recovery Act. The District received \$6.4 million.

USING THIS ANNUAL REPORT

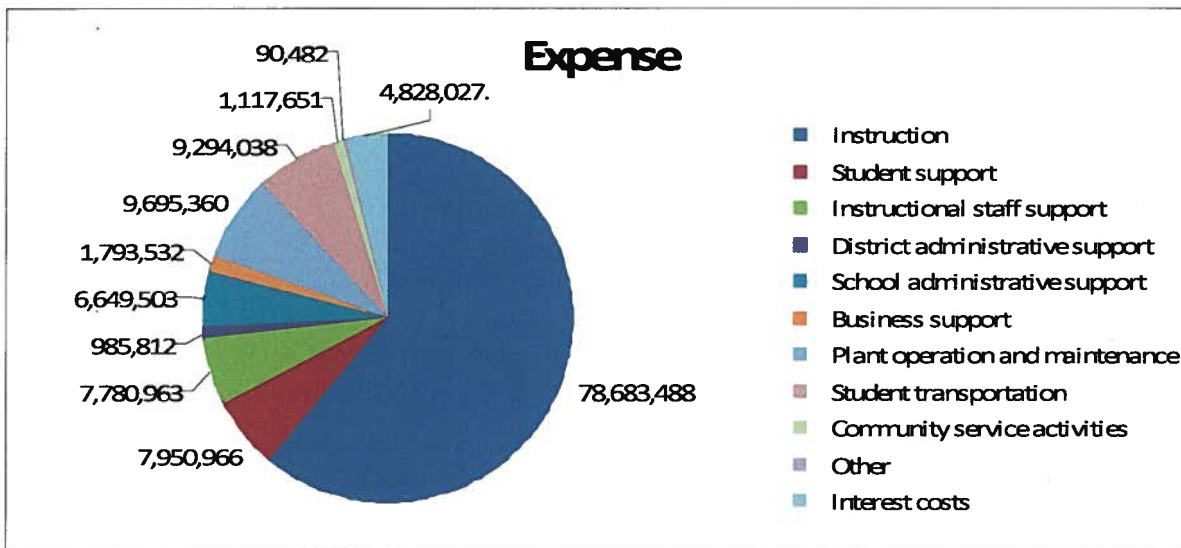
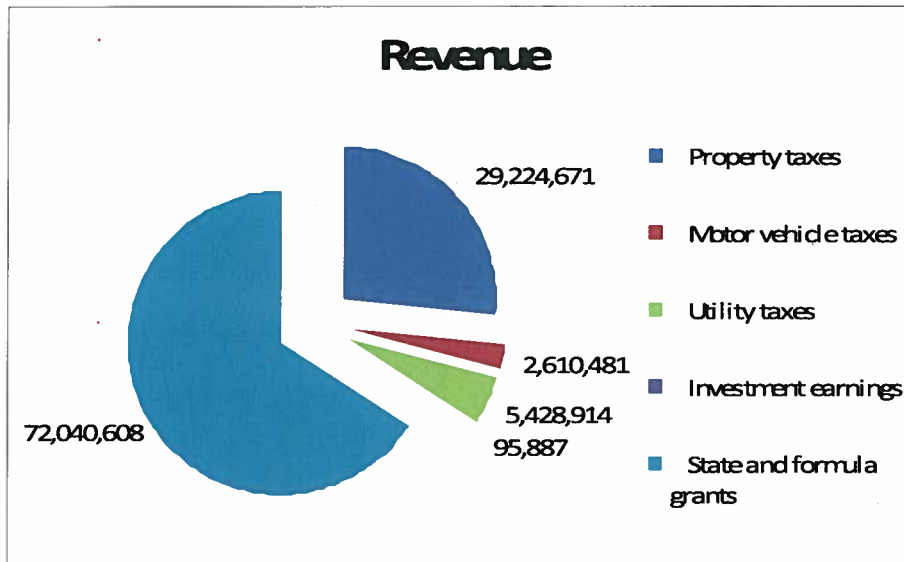
This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This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

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

The statement of net assets presents information 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 one indicator of whether the financial position of the District is improving or deteriorating.

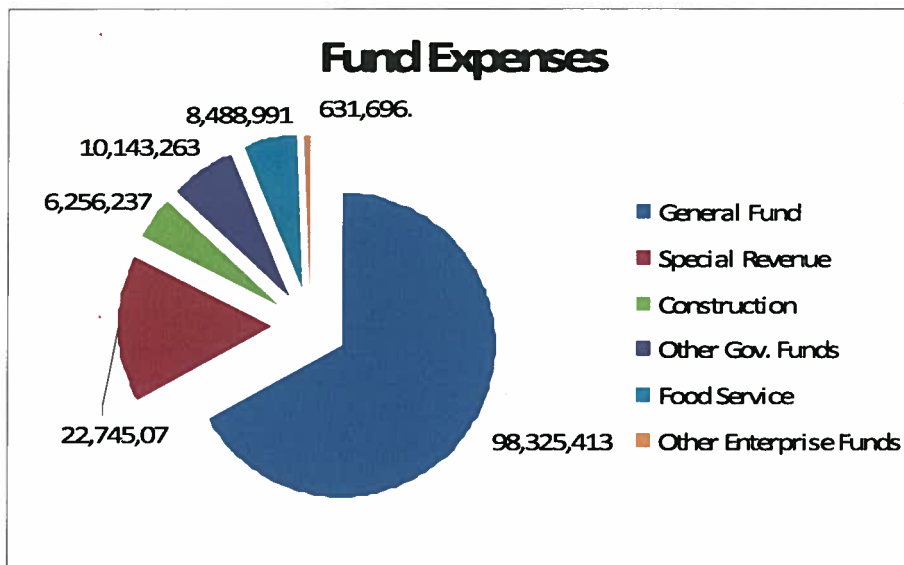
The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and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

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



The government-wide financial statements can be found on pages 11 - 12 of this report.

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



The basic governmental fund financial statements can be found on pages 13 – 21 of this report.

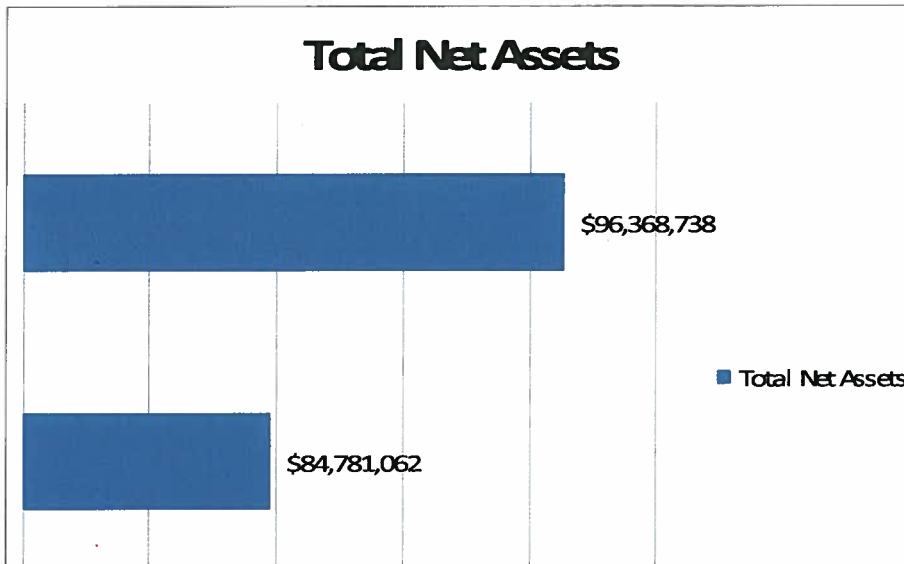
Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 38 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as an indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$96.4 million as of June 30, 2011. The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is 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 are not 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, disposal and depreciation of capital assets.

Net Assets for the period ending June 30, 2011 and 2010
(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 41,042,645	\$ 27,866,996	\$ 1,767,511	\$ 1,671,973	\$ 42,810,156	\$ 29,538,969
Capital Assets	<u>171,310,355</u>	<u>167,978,725</u>	<u>1,312,553</u>	<u>1,322,182</u>	<u>172,622,908</u>	<u>169,300,907</u>
Total Assets	<u>212,353,000</u>	<u>195,845,721</u>	<u>3,080,064</u>	<u>2,994,155</u>	<u>215,433,064</u>	<u>198,839,876</u>
Long-term Debt	108,459,297	103,336,801	-	-	108,459,297	103,336,801
Other Liabilities	<u>10,459,552</u>	<u>10,651,798</u>	<u>145,477</u>	<u>70,215</u>	<u>10,605,029</u>	<u>10,722,013</u>
Total Liabilities	<u>118,918,849</u>	<u>113,988,599</u>	<u>145,477</u>	<u>70,215</u>	<u>119,064,326</u>	<u>114,058,814</u>
Net Assets						
Investment in capital assets (net of debt)	60,707,531	62,796,345	1,312,553	1,322,182	62,020,084	64,118,527
Restricted	15,670,241	5,718,853	-	-	15,670,241	5,718,853
Unrestricted	<u>17,056,379</u>	<u>13,341,924</u>	<u>1,622,034</u>	<u>1,601,758</u>	<u>18,678,413</u>	<u>14,943,682</u>
Total Net Assets	<u>\$ 93,434,151</u>	<u>\$ 81,857,122</u>	<u>\$ 2,934,587</u>	<u>\$ 2,923,940</u>	<u>\$ 96,368,738</u>	<u>\$ 84,781,062</u>

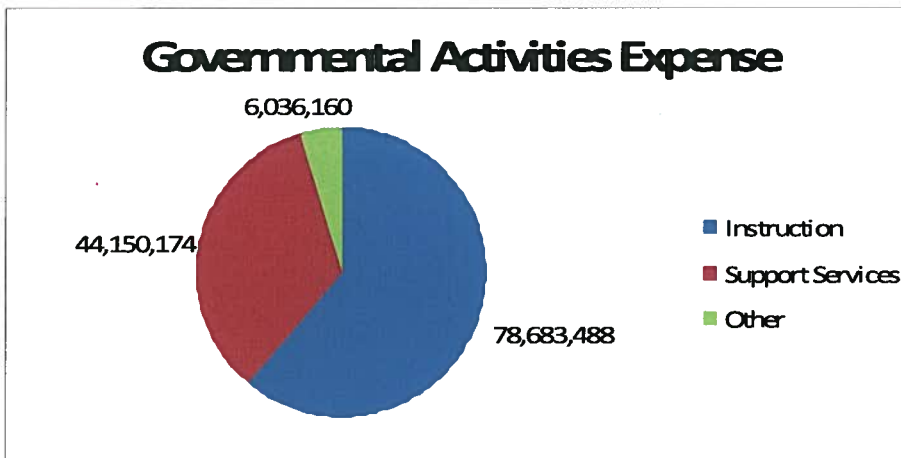


The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2011 and 2010.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues						
Charges for services	\$ 59,104	\$ 100,894	\$ 3,338,504	\$ 3,314,262	\$ 3,397,608	\$ 3,415,156
Operating grants and contributions	26,574,144	26,113,157	5,806,537	5,832,381	32,380,681	31,945,538
Capital grants and contributions	3,883,533	6,932,007	58,508	105,142	3,942,041	7,037,149
General revenues						
Property taxes	29,224,671	25,322,821	-	-	29,224,671	25,322,821
Motor vehicle taxes	2,610,481	2,494,482	-	-	2,610,481	2,494,482
Utility taxes	5,428,914	5,308,036	-	-	5,428,914	5,308,036
Other taxes	4,119	5,228	-	-	4,119	5,228
Investment earnings	95,887	134,803	3,161	3,482	99,048	138,285
State and formula grants	72,040,808	68,278,506	-	-	72,040,808	68,278,506
Miscellaneous	508,322	414,317	-	-	508,322	414,317
Total revenues	140,429,983	135,104,251	9,206,710	9,255,267	149,636,693	144,359,518
EXPENSES						
Program Activities						
Instruction	78,683,488	76,357,959	-	-	78,683,488	76,357,959
Student support	7,950,966	7,708,015	-	-	7,950,966	7,708,015
Instructional staff support	7,780,963	7,398,709	-	-	7,780,963	7,398,709
District administrative support	985,812	1,285,021	-	-	985,812	1,285,021
School administrative support	6,649,503	6,375,237	-	-	6,649,503	6,375,237
Business support	1,793,532	1,575,009	-	-	1,793,532	1,575,009
Plant operation and maintenance	9,695,360	9,872,795	-	-	9,695,360	9,872,795
Student transportation	9,294,038	9,022,748	-	-	9,294,038	9,022,748
Community service activities	1,117,651	1,152,936	-	-	1,117,651	1,152,936
Other	90,482	43,540	-	-	90,482	43,540
Interest costs	4,828,027	4,951,293	-	-	4,828,027	4,951,293
Business-type Activities						
Food service	-	-	8,488,991	8,091,866	8,488,991	8,091,866
Childcare	-	-	527,233	499,346	527,233	499,346
Educational television	-	-	104,463	85,631	104,463	85,631
Total expenses	128,869,822	125,743,262	9,120,687	8,676,843	137,990,509	134,420,105
Transfers	16,868	(138,491)	(16,868)	138,491	-	-
Increase in net assets	\$ 11,577,029	\$ 9,222,498	\$ 69,155	\$ 716,915	\$ 11,646,184	\$ 9,939,413

Governmental Activities

Instruction comprises 61% of governmental program expenses. Support services expenses make up 35% of government expenses. The remaining expense for interest and other items accounts for 4% of total government expense.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net

cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities Total
Cost of Services

	Cost of Services		Net Cost of Services	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Instruction	\$ 76,683,488	\$ 76,357,959	\$ 54,054,458	\$ 50,163,374
Support Services	47,267,825	44,390,470	40,960,785	40,036,994
Other	90,482	43,540	55,474	6,650
Interest costs	<u>4,828,027</u>	<u>4,951,293</u>	<u>3,282,324</u>	<u>2,390,186</u>
Total expenses	<u>\$ 128,869,822</u>	<u>\$ 125,743,262</u>	<u>\$ 98,353,041</u>	<u>\$ 92,597,204</u>

Business-Type Activities

The business-type activities include the food service, child care and educational television operations. These programs had total revenues of \$9,148,202 and expenses of \$9,120,687 for fiscal year 2011. Of the revenues, \$3,338,504 was charges for services, \$5,806,537 was from State and Federal operating grants, and \$3,161 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will make adjustments to the operations of this activity.

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$168,801,445 and expenditures and other financing uses of \$155,403,704. Net changes in fund balances for the year were most significant in the General Fund \$4,261,892 and the Construction Fund \$9,467,942.

The increase in the General Fund was primarily due to budget initiative taken to reduce expenditures and not having to spend contingency funds. The increase in the Construction Fund was due to not spending bond proceeds.

General Fund-Budget Highlights

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

For the General Fund revenues were budgeted at \$79,814,784 with actual amounts of \$102,170,099. Budgeted expenditures of \$96,865,633 compare with actual expenditures of \$98,325,413. The most significant fluctuation is for on-behalf payments of \$18,690,794.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011 the School District had \$172,622,908 invested in land, land improvements, buildings, vehicles, equipment, and construction in progress, and \$171,310,355 in governmental activities. Table 4 shows fiscal year 2011 and 2010 balances.

(Table 4)
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 5,359,248	\$ 5,359,248	\$ 16,790	\$ 16,790	\$ 5,376,038	\$ 5,376,038
Land improvements	1,746,371	1,895,337	-	-	1,746,371	1,895,337
Buildings and improvements	150,739,965	148,646,940	35,934	40,173	150,775,899	148,687,113
Technology	2,119,238	1,284,537	-	-	2,119,238	1,284,537
Vehicles	4,531,610	3,910,046	23,396	29,499	4,555,006	3,939,545
General equipment	2,504,012	1,786,478	1,236,433	1,235,720	3,740,445	3,022,198
Total	167,000,444	162,882,586	1,312,553	1,322,182	168,312,997	164,204,768
Construction in progress	4,309,911	5,096,139	-	-	4,309,911	5,096,139
Total	<u>\$ 171,310,355</u>	<u>\$ 167,978,725</u>	<u>\$ 1,312,553</u>	<u>\$ 1,322,182</u>	<u>\$ 172,622,908</u>	<u>\$ 169,300,907</u>

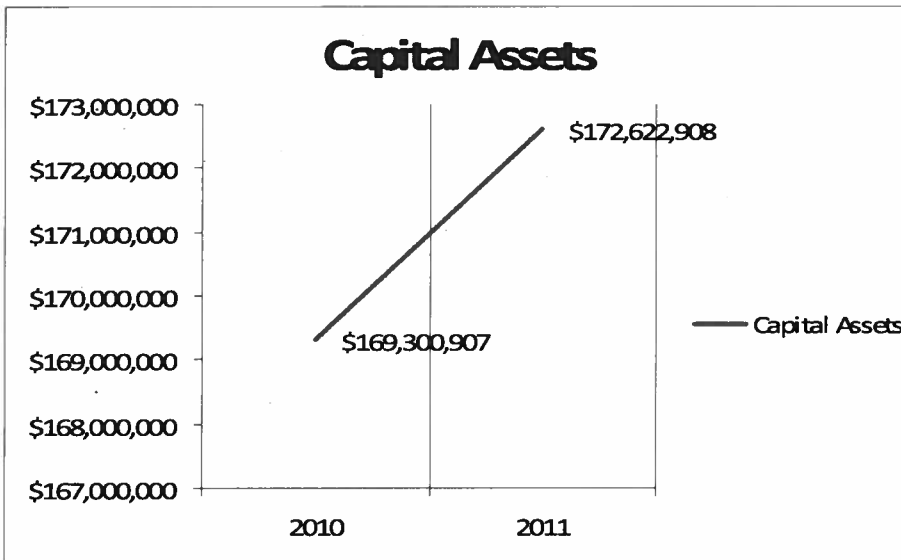


Table 5 shows the changes in capital assets for the fiscal years ended June 30, 2011 and 2010.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Beginning balance	\$ 167,978,725	\$ 153,586,333	\$ 1,322,182	\$ 1,237,938	\$ 169,300,907	\$ 154,824,271
Additions	16,915,518	20,011,261	178,972	253,030	17,094,490	20,264,291
Retirements	(7,269,473)	(2,287)	(11,181)	-	(7,280,654)	(2,287)
Depreciation	(6,314,415)	(5,616,582)	(177,420)	(168,786)	(6,491,835)	(5,785,368)
Ending balance	<u>\$ 171,310,355</u>	<u>\$ 167,978,725</u>	<u>\$ 1,312,553</u>	<u>\$ 1,322,182</u>	<u>\$ 172,622,908</u>	<u>\$ 169,300,907</u>

Construction was completed on Parkway Elementary (formerly Radcliff Middle) Phase I. Ongoing construction costs are in construction in progress at June 30, 2011.

Debt

At June 30, 2011, the School District had \$113,245,000 in bonds outstanding, of this amount \$11,280,507 is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$5,345,000 is due within one year.

District Challenges for the Future

The primary challenges for Hardin County Schools are to continue to increase the level of achievement of our students, continue to maintain and improve the average daily attendance of our students, and continue to provide modern facilities for continuous growth in student enrollment.

The most important challenge is to increase the academic achievement of our students. The District is continuing programs such as MAP and Compass Learning in many schools as measures to improve learning and data quality. In addition, a data consultant has been hired to review the data within the District to measure program success. Thoughtful Ed and Literacy First continue to be funded as programs. This year the District hired an instructional consultant and coaches to improve all around District instruction.

The second District challenge is maintaining and improving average daily attendance. The District receives funding through the SEEK formula based on this count. Growth within the District has steadily increased over the last year and is remaining constant. As a result of continued growth in average daily attendance the District was able to levy a BRAC nickel in FY11. This will enable the District to add additional classroom space and improve overall building culture. Adhering to the facilities plan is essential in providing excellent learning environments to meet the needs of all students. It is important to note good attendance correlates to student achievement. Maintaining excellence and emphasizing service the public are the main factors influencing this District challenge.

We made an important step this year to continue construction projects to accommodate student growth. The District must make provisions for current enrollment growth and the growth in student population due to the impact of BRAC.

Adhering to the facilities plan is essential in providing excellent learning environments to meet the needs of all our students.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2010 - 2011 with a 2.3% contingency. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. Questions about this report or additional information needed should be directed to Gary Milby, Associate Superintendent for Finance and Support (270) 769-8800, 65 W. A. Jenkins Road, Elizabethtown, Kentucky, 42701 or e-mail gary.milby@hardin.kyschools.us.

BASIC FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS

June 30, 2011

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 11,241,991	\$ 1,364,437	\$ 12,606,428
Investments	25,447,830		25,447,830
Inventory		290,036	290,036
Receivables:			
Taxes-current	836,715		836,715
Taxes-delinquent	79,851		79,851
Other receivables	66,298	10,372	76,670
Intergovernmental-State	230,211		230,211
Intergovernmental-Indirect Federal	3,119,623	102,666	3,222,289
Intergovernmental-Direct Federal	20,126		20,126
Total Current Assets	41,042,645	1,767,511	42,810,156
<u>Noncurrent Assets</u>			
Capital assets, net of accumulated depreciation	171,310,355	1,312,553	172,622,908
Total Noncurrent Assets	171,310,355	1,312,553	172,622,908
Total Assets	212,353,000	3,080,064	215,433,064
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	2,882,651	145,477	3,028,128
Accrued liabilities	2,665		2,665
Deferred revenue	476,494		476,494
Current portion of bond obligations	5,345,000		5,345,000
Current portion of accrued sick leave	355,719		355,719
Interest payable	1,397,023		1,397,023
Total Current Liabilities	10,459,552	145,477	10,605,029
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	107,900,000		107,900,000
Less: Deferred amount on refunding	(868,864)		(868,864)
Less: Bond discount and expense	(1,773,312)		(1,773,312)
Noncurrent portion of accrued sick leave	3,201,473		3,201,473
Total Noncurrent Liabilities	108,459,297	-	108,459,297
Total Liabilities	118,918,849	145,477	119,064,326
<u>Net Assets</u>			
Invested in capital assets, net of related debt	60,707,531	1,312,553	62,020,084
Restricted for:			
Sick leave	1,000,000		1,000,000
Grants	88,106		88,106
Capital projects	13,670,404		13,670,404
Debt service	911,731		911,731
Unrestricted	17,056,379	1,622,034	18,678,413
Total Net Assets	\$ 93,434,151	\$ 2,934,587	\$ 96,368,738

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Net (Expenses) Revenues and Changes in Net Assets						
	Governmental Activities	Business- Type Activities	Total			
FUNCTIONS/PROGRAMS						
Governmental Activities:						
Instruction	\$ 78,683,488	\$ 10,278	\$ 22,280,922	\$ 2,337,830		
Support services:						
Student	7,950,966		116,834			
Instruction staff	7,780,963		2,201,966			
District administrative	985,812					
School administrative	6,649,503		291,035			
Business	1,793,532					
Plant operation and maintenance	9,695,360		3,000			
Student transportation	9,294,038	8,478	602,170			
Community service activities	1,117,651	40,348	1,043,209			
Other	90,482		35,008			
Interest on long-term debt	4,828,027			1,545,703		
Total Governmental Activities	128,869,822	59,104	26,574,144	3,883,533		
Business-Type Activities:						
Food service	8,488,991	2,806,839	5,703,679			
Child care	527,233	444,049	93,827			
Educational television	104,463	87,616	9,031			
Total Business-Type Activities	9,120,687	3,338,504	5,806,537	-		
Total Primary Government	\$137,990,509	\$ 3,397,608	\$ 32,380,681	\$ 3,883,533		
General Revenues:						
Taxes:						
Property taxes	29,224,671					29,224,671
Motor vehicle taxes	2,610,481					2,610,481
Utility taxes	5,428,914					5,428,914
Other taxes	4,119					4,119
Investment earnings	95,887	3,161				99,048
State and formula grants	72,040,808					72,040,808
Miscellaneous	508,322					508,322
Total general revenues	109,913,202	3,161				109,916,363
Transfers	16,868	(16,868)				-
Change in net assets	11,577,029	10,647				11,587,676
Net assets - beginning	81,857,122	2,923,940				84,781,062
Net assets - ending	\$ 93,434,151	\$ 2,934,587				\$ 96,368,738

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2011

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ -	\$ -	\$ 14,697,276	\$ 1,249,640	\$ 15,946,916
Investments	25,447,830				25,447,830
Receivables:					
Taxes - current	836,715				836,715
Taxes - delinquent	79,851				79,851
Other receivables	51,403	14,895			66,298
Intergovernmental - State		230,211			230,211
Intergovernmental - Indirect Federal		3,119,623			3,119,623
Intergovernmental - Direct Federal		20,126			20,126
Total Assets	\$ 26,415,799	\$ 3,384,855	\$ 14,697,276	\$ 1,249,640	\$ 45,747,570
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 961,774	\$ 414,482	\$ 1,364,778	\$ -	\$ 2,741,034
Cash overdraft	2,814,086	1,890,839			4,704,925
Accrued liabilities	2,665				2,665
Deferred revenue		476,494			476,494
Total Liabilities	3,778,525	2,781,815	1,364,778	-	7,925,118
Fund Balances					
Restricted	1,000,000	88,106	13,332,498	1,249,640	15,670,244
Committed	3,374,488				3,374,488
Assigned	740,839	514,934			1,255,773
Unassigned	17,521,947				17,521,947
Total Fund Balances	22,637,274	603,040	13,332,498	1,249,640	37,822,452
Total Liabilities and Fund Balances	\$ 26,415,799	\$ 3,384,855	\$ 14,697,276	\$ 1,249,640	\$ 45,747,570

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

June 30, 2011

Total fund balance per fund financial statements \$ 37,822,452

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

Capital assets are not reported in this fund financial statement because
they are not current financial resources, but they are reported in the
statement of net assets. 171,310,355

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

Bonds payable	(113,245,000)
Bond discount and expense	1,773,312
Deferred amount on refunding	868,864
Interest payable	(1,397,023)
Accounts payable	(141,617)
Accrued sick leave	(3,557,192)

Net assets for governmental activities \$ 93,434,151

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2011

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 20,909,175	\$ -	\$ -	\$ 8,315,496	\$ 29,224,671
Motor vehicle	2,610,481				2,610,481
Utilities	5,428,914				5,428,914
Other taxes	4,119				4,119
Earnings on investments	77,624	916	17,267	80	95,887
Other local revenues	473,827	93,599			567,426
Intergovernmental - State	72,040,808	4,710,017	2,337,830	4,847,921	83,936,576
Intergovernmental - Indirect Federal	151,792	17,708,116			17,859,908
Intergovernmental - Direct Federal	473,359	228,642			702,001
Total Revenues	102,170,099	22,741,290	2,355,097	13,163,497	140,429,983
Expenditures:					
Instruction	56,429,647	18,451,853			74,881,500
Support services:					
Student	7,840,792	116,834			7,957,626
Instruction staff	5,578,998	2,201,966			7,780,964
District administrative	1,028,134				1,028,134
School administrative	6,355,605	291,035			6,646,640
Business	1,754,110				1,754,110
Plant operation and maintenance	9,946,370	3,000		389,840	10,339,210
Student transportation	9,275,078	602,170			9,877,248
Facilities acquisition and construction	37,600		6,175,872		6,213,472
Community service activities	74,443	1,043,209			1,117,652
Other	4,636	35,008		757	40,401
Bond issue costs			80,365	48,020	128,385
Debt service:					
Principal				5,205,000	5,205,000
Interest				4,499,646	4,499,646
Total Expenditures	98,325,413	22,745,075	6,256,237	10,143,263	137,469,988
Excess (Deficit) of Revenues over Expenditures	3,844,686	(3,785)	(3,901,140)	3,020,234	2,959,995
Other Financing Sources (Uses):					
Proceeds from sale of bonds			10,475,000	5,580,000	16,055,000
Bond discount			(173,233)	(34,816)	(208,049)
Payment to refunded bond escrow agent				(5,494,237)	(5,494,237)
Proceeds from disposal of capital assets	9,656				9,656
Transfers in	1,164,966	319,340	3,067,315	7,755,185	12,306,806
Transfers out	(757,416)			(11,474,014)	(12,231,430)
Total Other Financing Sources (Uses)	417,206	319,340	13,369,082	(3,667,882)	10,437,746
Net Change in Fund Balances	4,261,892	315,555	9,467,942	(647,648)	13,397,741
Fund Balance, July 1, 2010	18,375,382	287,485	3,864,556	1,897,288	24,424,711
Fund Balance, June 30, 2011	\$ 22,637,274	\$ 603,040	\$ 13,332,498	\$ 1,249,640	\$ 37,822,452

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

Net change in total fund balances per fund financial statements	\$ 13,397,741
-----------------------------------------------------------------	---------------

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

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	3,376,188
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(10,221,402)
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------

Bond payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	5,205,000
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(44,558)
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(135,940)</u>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------

Change in net assets of governmental activities	<u><u>\$ 11,577,029</u></u>
-------------------------------------------------	-----------------------------

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION**STATEMENT OF NET ASSETS****PROPRIETARY FUNDS**

June 30, 2011

	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 1,208,215	\$ 156,222	\$ 1,364,437
Inventory	290,036		290,036
Other receivables	10,372		10,372
Intergovernmental receivable - Indirect Federal	102,666		102,666
Total Current Assets	<u>1,611,289</u>	<u>156,222</u>	<u>1,767,511</u>
<u>Noncurrent Assets</u>			
Capital assets, net of accumulated depreciation	<u>1,312,553</u>		<u>1,312,553</u>
Total Noncurrent Assets	<u>1,312,553</u>	<u>-</u>	<u>1,312,553</u>
Total Assets	<u>2,923,842</u>	<u>156,222</u>	<u>3,080,064</u>
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	<u>134,817</u>	<u>10,660</u>	<u>145,477</u>
Total Current Liabilities	<u>134,817</u>	<u>10,660</u>	<u>145,477</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,312,553		1,312,553
Unrestricted	<u>1,476,472</u>	<u>145,562</u>	<u>1,622,034</u>
Total Net Assets	<u>\$ 2,789,025</u>	<u>\$ 145,562</u>	<u>\$ 2,934,587</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS****PROPRIETARY FUNDS**

Year Ended June 30, 2011

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues			
Lunchroom sales	\$ 2,771,437	\$ -	\$ 2,771,437
Other revenue	35,402		35,402
Tuition and fees		531,665	531,665
Total Operating Revenues	2,806,839	531,665	3,338,504
Operating Expenses			
Salaries and wages	3,964,081	526,997	4,491,078
Materials and supplies	4,112,543	48,311	4,160,854
Depreciation	177,420		177,420
Other operating expenses	223,767	56,388	280,155
Total Operating Expenses	8,477,811	631,696	9,109,507
Operating (loss)	(5,670,972)	(100,031)	(5,771,003)
Non-Operating Revenues (Expenses)			
Federal grants	4,365,264		4,365,264
Donated commodities	490,632		490,632
State grants	83,943		83,943
State on-behalf payments	763,840	102,858	866,698
Loss on disposal of fixed assets	(11,180)		(11,180)
Interest income	3,161		3,161
Total Non-Operating Revenues (Expenses) Before Contributions and Transfers	5,695,660	102,858	5,798,518
Capital contributions	58,508		58,508
Transfers out	(75,376)		
Changes in net assets	7,820	2,827	86,023
Net Assets, July 1, 2010	2,781,205	142,735	2,923,940
Net Assets, June 30, 2011	\$ 2,789,025	\$ 145,562	\$ 2,934,587

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2011

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 2,771,437	\$ -	\$ 2,771,437
Tuition and fees		531,665	531,665
Other activities	34,741		34,741
Cash paid to/for:			
Employees	(3,200,241)	(424,139)	(3,624,380)
Supplies	(3,531,539)	(42,653)	(3,574,192)
Other activities	(223,767)	(56,388)	(280,155)
Net Cash Provided (Used) by Operating Activities	(4,149,369)	8,485	(4,140,884)
Cash flows from Non-Capital Financing Activities			
Federal grants	4,359,549		4,359,549
State grants	83,943		83,943
Transfers to other funds	(75,376)		
Net Cash Provided by Non-Capital Financing Activities	4,368,116	-	4,368,116
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(120,464)	-	(120,464)
Cash Flows from Investing Activities			
Receipt of interest income	3,161		3,161
Net increase in cash and cash equivalents	101,444	8,485	109,929
Balances, beginning of year	1,106,771	147,737	1,254,508
Balances, end of year	\$ 1,208,215	\$ 156,222	\$ 1,364,437
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (5,670,972)	\$ (100,031)	\$ (5,771,003)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation	177,420		177,420
Donated commodities	490,632		490,632
State on-behalf payments	763,840	102,858	866,698
Change in assets and liabilities:			
Accounts receivable	(661)		(661)
Inventory	20,768		20,768
Accounts payable	69,604	5,658	75,262
Net Cash Provided (Used) by Operating Activities	\$ (4,149,369)	\$ 8,485	\$ (4,140,884)
Schedule of Non-cash Transactions			
Donated commodities received from federal government	\$ 423,449	\$ -	\$ 423,449
State on-behalf payments	\$ 757,075	\$ 102,858	\$ 859,933

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2011

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 186,226	\$ 1,256,488
Accounts receivable		41,776
Total Assets	<u>\$ 186,226</u>	<u>\$ 1,298,264</u>
Liabilities		
Accounts payable	\$ -	\$ 63,472
Due to student groups		1,234,792
Total Liabilities	<u>\$ -</u>	<u>\$ 1,298,264</u>
Net Assets Held In Trust	<u>\$ 186,226</u>	<u>\$ -</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year Ended June 30, 2011

	Private Purpose Trust Funds
Additions	
Net interest and investment gains	\$ 477
Other additions	2,128
Deductions	
Expenses paid	(7,796)
Change in net assets	(5,191)
Net Assets, beginning of year	<u>191,417</u>
Net Assets, end of year	<u><u>\$ 186,226</u></u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hardin 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 Hardin County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

During the year ended June 30, 2010, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The standard established the fund balance categories of nonspendable, restricted, committed, assigned and unassigned. Information concerning the District's fund balances can be found in Note C.

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

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

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

Hardin County School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Hardin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

The 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 fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

The District has the following funds:

I. 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 that reports all financial resources not accounted for and reported in another fund. This is a major fund of the District.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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 54 through 56. This is a major fund of the District.
- (C) Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

II. Proprietary Fund Types (Enterprise Fund)

- 1. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.
- 2. The School Age Child Care program is used to account for funds received from tuition fees charges for after school care of students.
- 3. The Educational Television program is used to account for funds received from production services and the sale of recorded media.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

III. Fiduciary Fund Type (Agency Fund)

- 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

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

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

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

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

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

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

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - Continued

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 Tax Revenues – Property taxes are normally 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. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 received a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2011, to finance operations were \$.587 per \$100 valuation for real property, \$.587 per \$100 valuation for business personal property and \$.540 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

Interfund Balances

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

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. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 government-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.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2011, 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.

Receivables

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

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, 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.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets

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

Operating Revenues and Expenses

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

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.

Interfund Activity

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

NOTE B – ESTIMATES

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

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE C – FUND BALANCES

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2011, the District had \$1,000,000 restricted for sick leave in the general fund, \$88,106 restricted for grants in the special revenue fund, \$13,332,498 restricted for capital projects in the Construction Fund and \$1,249,640 restricted in the nonmajor funds (\$337,906 restricted for capital projects and \$911,734 restricted for debt service).

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following general fund commitments at June 30, 2011: \$1,000,000 for buses, \$47,079 for land, \$334,761 for gifted and talented, \$395,648 for debt service, \$547,000 for roofing/asphalt, \$300,000 for per pupil funds and \$750,000 for sick leave.

Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2011, was \$970,243 (\$455,309 in the general fund and \$514,934 in the special revenue fund). Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The general fund also had \$285,530 assigned for site based council carryforward.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE D – DEPOSITS AND INVESTMENTS

DEPOSITS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2011, \$20,357,461 of the District's bank balance of \$25,769,754 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

INVESTMENTS

As of June 30, 2011, the District had the following investments and maturities:

	<u>Fair Value</u>	<u>Maturity Less Than 1 Year</u>
Repurchase agreement	<u>\$ 25,447,830</u>	<u>\$ 25,447,830</u>

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the District's investing activities are under the custody of the District Finance Director. Investing policies comply with State Statutes. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations of any corporation of the United States Government;
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency;
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Commercial paper rated in the highest category by a nationally recognized rating agency;
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics:
 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's repurchase agreement is held by the counterparty in the District's name. The repurchase agreement is collateralized at 102%.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

Governmental Activities	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Non-Depreciable Assets:				
Land	\$ 5,359,248	\$ -	\$ -	\$ 5,359,248
Construction in progress	5,096,139	6,438,687	(7,224,915)	4,309,911
Depreciable Assets:				
Land improvements	5,114,920	5,502	(7,112)	5,113,310
Buildings and improvements	192,076,967	6,433,439	(71,941)	198,438,465
Technology equipment	7,426,132	1,651,158	(1,765,042)	7,312,248
Vehicles	11,898,965	1,361,990	(25,445)	13,235,510
General equipment	8,123,387	1,024,742	(127,178)	9,020,951
Totals at historical cost	235,095,758	16,915,518	(9,221,633)	242,789,643
Accumulated depreciation:				
Land improvements	3,219,583	154,468	(7,112)	3,366,939
Buildings and improvements	43,430,027	4,332,658	(64,185)	47,698,500
Technology equipment	6,141,595	802,372	(1,750,957)	5,193,010
Vehicles	7,988,919	740,426	(25,445)	8,703,900
General equipment	6,336,909	284,491	(104,461)	6,516,939
Total accumulated depreciation	67,117,033	6,314,415	(1,952,160)	71,479,288
Governmental Activities Capital Assets - Net	\$ 167,978,725	\$ 10,601,103	\$ (7,269,473)	\$ 171,310,355
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 5,408,811			
Student support	672			
District administration	38,731			
School administration	4,028			
Business support	39,422			
Plant	81,682			
Transportation	741,069			
	\$ 6,314,415			
Business-Type Activities				
Non-Depreciable Assets:				
Land	\$ 16,790	\$ -	\$ -	\$ 16,790
Depreciable Assets:				
Land improvements	20,202		(5,795)	14,407
Buildings and improvements	318,523		(1,064)	317,459
Technology equipment	68,431		(45,991)	22,440
Vehicles	79,529			79,529
General equipment	3,537,240	178,972	(177,765)	3,538,447
Totals at historical cost	4,040,715	178,972	(230,615)	3,989,072
Accumulated depreciation:				
Land improvements	20,202		(5,795)	14,407
Buildings and improvements	278,350	3,838	(663)	281,525
Technology equipment	68,431		(45,991)	22,440
Vehicles	50,030	6,103		56,133
General equipment	2,301,520	167,479	(166,985)	2,302,014
Total accumulated depreciation	2,718,533	177,420	(219,434)	2,676,519
Business-type Activities Capital Assets - Net	\$ 1,322,182	\$ 1,552	\$ (11,181)	\$ 1,312,553

HARDIN COUNTY BOARD OF EDUCATION**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011

NOTE F – LONG-TERM OBLIGATIONS

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

Issue Date	Original Proceeds	Rates	Issue Date	Original Proceeds	Rates
September 1998	\$ 15,885,000	3.50% - 4.25%	June 2006	14,145,000	4.00% - 4.375%
July 2001B	2,415,000	3.75% - 4.25%	June 2007	17,430,000	4.00% - 4.75%
December 2002	2,915,000	1.25% - 3.20%	July 2008	30,365,000	3.50% - 4.625%
July 2003	9,310,000	1.75% - 4.00%	June 2009	1,960,000	2.00% - 4.00%
June 2004	9,290,000	3.50% - 4.50%	July 2010 Refunding	5,580,000	1.00% - 3.00%
February 2005	2,910,000	2.50% - 3.70%	February 2011	3,750,000	1.00% - 4.85%
June 2005 Energy	5,455,000	3.30% - 4.20%	May 2011	6,725,000	2.00% - 5.00%
June 2005 Refunding	17,350,000	3.00% - 4.00%			

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hardin County Board of Education Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

On July 1, 2010, the District issued \$5,580,000 in Refunding Revenue Bonds with an average interest rate of 2.77 percent to advance refund \$5,265,000 of outstanding 2001 Series revenue bonds. The refunding was an advance refunding. The net proceeds of \$5,494,237 (after \$48,020 in cost of issuance, \$34,816 in bond discount, \$57,573 call premium and \$2,927 rounding) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to call the bonds on December 1, 2010.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$232,164. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 10 years by \$423,807 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$352,271.

On February 1, 2011, the District issued \$3,750,000 in 2011 Series Revenue Bonds with an average interest rate of 4.38 percent. The net proceeds of \$3,657,952 (after \$36,300 in cost of issuance and \$55,748 of discount) were deposited in the Construction Fund.

On May 1, 2011, the District issued \$6,725,000 in 2011 Second Series Revenue Bonds with an average interest rate of 4.28 percent. The net proceeds of \$6,563,450 (after \$44,065 in cost of issuance and \$117,485 of discount) were deposited in the Construction Fund.

HARDIN COUNTY BOARD OF EDUCATION**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2011

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2011, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2012	\$ 5,345,000	\$ 4,568,469	\$ 1,260,173	\$ 8,653,296
2013	5,970,000	4,393,257	1,220,181	9,143,076
2014	5,580,000	4,196,830	1,108,165	8,668,665
2015	5,775,000	3,996,842	1,108,035	8,663,807
2016	5,995,000	3,786,774	1,108,035	8,673,739
2017-2021	31,545,000	15,379,456	4,728,881	42,195,575
2022-2026	31,205,000	8,903,503	3,489,251	36,619,252
2027-2031	21,830,000	1,830,709	1,291,526	22,369,183
	<u>\$ 113,245,000</u>	<u>\$ 47,055,840</u>	<u>\$ 15,314,247</u>	<u>\$ 144,986,593</u>

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 government-wide financial statements.

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

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Revenue bonds payable	\$ 107,660,000	\$ 16,055,000	\$ 10,470,000	\$ 113,245,000	\$ 5,345,000
Accrued sick leave	3,638,246	481,296	562,350	3,557,192	355,719
	<u>\$ 111,298,246</u>	<u>\$ 16,536,296</u>	<u>\$ 11,032,350</u>	<u>\$ 116,802,192</u>	<u>\$ 5,700,719</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2011

NOTE G – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees. The State of Kentucky contributes 13.105% of the employee's gross earnings for employees with un-refunded accounts before July 1, 2008 and 14.105% of employee's gross earnings for employees on or after July 1, 2008, except for those District employees being paid from and participating in federally funded programs. During the years ended June 30, 2011, 2010 and 2009, contributions of \$7,458,549, \$7,274,967, and \$7,228,106 were made by the State of Kentucky and \$820,862, \$635,979 and \$403,865 in contributions were passed through the District's federally funded programs.

Contributions by the employees are 10.105% of gross earnings for employees with un-refunded accounts before July 1, 2008 and 10.855% of employee's gross earnings for employees on or after July 1, 2008 and are withheld by the District. The contribution rate is actuarially determined. Such withholdings during the years ended June 30, 2011, 2010 and 2009, totaled \$6,382,516, \$5,959,516 and \$5,743,598 and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the years ended June 30, 2011, 2010 and 2009 was \$81,186,937, \$78,358,274 and \$75,784,993 and \$62,608,959, \$60,043,959 and \$58,104,419 of such amount related to employees covered by the retirement plan. All payments were made to the retirement system in the amount of the annually required contributions. Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% for those employee participating in CERS before September 1, 2008 and 6% for those employee participating in CERS on or after September 1, 2008 and a District contribution for the years ended June 30, 2011, 2010 and 2009 of 16.93%, 16.16% and 13.50% of the employee's total compensation subject to contribution. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended June 30, 2011, 2010 and 2009, was \$3,990,044, \$3,796,530 and \$3,267,088 which consisted of \$3,083,068, \$2,901,604 and \$2,382,386 from the District and \$906,976, \$894,926 and \$884,702 from the employees. The total covered payroll for CERS during the years ended June 30, 2011, 2010 and 2009 was \$18,207,966, \$17,932,150 and \$17,671,252. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents. All payments were made to the retirement system in the amount of the annually required contributions. The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.