Southgate Independent School District

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2012

Southgate Independent School District

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Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Southgate Independent School District
Southgate, KY

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Southgate Independent School District as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Southgate Independent School District management. Our responsibility is to express an opinion 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 Government, 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 Contracts – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Southgate Independent School District, as of June 30, 2012, and the change in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012 on our consideration of Southgate Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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 an opinion on the financial statements that collectively comprise the Southgate Independent School District's basic financial statements. The supplementary information shown on pages 34-36, and pages 38-41 is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 37 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 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.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
November 7, 2012

SOUTHGATE INDEPENDENT SCHOOL DISTRICT – SOUTHGATE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012

As management of the Southgate Independent 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 $182 thousand and the ending cash balance was $274 thousand, excluding the Construction Fund. Also, the District had an investment of $154 thousand and $155 thousand in a certificate of deposit as of June 30, 2012 and 2011 respectively.

- A concerted effort was made to control expenditures in the areas of salaries, supplies, food, and travel and this effort resulted in several economic savings for fiscal year 2012, however, total expenses increased approximately 10% between 2011 and 2012.

- The District's contingency reserve decreased in fiscal year 2012, as general fund expenditures exceeded revenues by approximately $44 thousand.

- The board initiated a new major construction project for a school addition and new long term debt was incurred to fund the project in fiscal 2011. The cost of the school additions is $1,161 thousand at June 30, 2012 and expected to be completed during fiscal year 2013 at a total cost of $1,355 thousand.

- Due primarily to less investment dollars available, interest income decreased $3 thousand, in fiscal year 2012.

- The District's salary expenditures increased $86 thousand in fiscal year 2012. The District remains committed to increasing teacher salaries above annual inflation rates. Salaries were limited to a 1% rate increase for fiscal year 2012 due to current economic conditions. Total salary expenditures of the District increased in fiscal year 2012 approximately 7% over 2011 due to the 1% rate and step increases.

- The General Fund had $1,914 thousand in revenues, which primarily consisted of the state revenue programs and property taxes. Excluding inter-fund transfers, there were $1,953 thousand in General Fund expenditures.

- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The district's total debt decreased during the current fiscal year due to principle payments of $65 thousand in 2012.

- State law requires districts to update a priority list of construction and renovation needs, called a local facilities plan. The document guides the allocation of School Facilities Construction Commission dollars. The current District facilities plan was updated in fiscal year 2009.

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) 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 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 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 7 – 8 of this report.

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

The basic governmental fund financial statements can be found on pages 9 – 15 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 page 16 - 31 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $426 thousand as of June 30, 2012.

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

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

Net Assets for the period ending June 30, 2012 and 2011

An overview of the current and prior year's financial statements are as follows:

	2012	2011
Current Assets	$ 642,761	$ 1,756,580
Non-Current Assets	1974216	1,130,914
Total Assets	2,616,977	2,887,494
Current Liabilities	155783	338,450
Non-Current Liabilities	1420000	1,500,012
Total Liabilities	1,575,783	1,838,462
Investment in Capital Assets (net of debt)	484216	(276,908)
Restricted	98501	1,058,583
Unassigned Fund Balance	458477	267,357
Total Net Assets	1,041,194	1,049,032

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

Comments on General Fund Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2012, net of Interfund transfers were $1,914 thousand.
- General fund budget compared to actual revenue varied slightly from line item to line item except for $357 thousand of revenue from on behalf payments that were recorded for the 8th year but not budgeted during the year. This was the primary item that caused the ending actual revenue amount to be approximately $420 thousand over (favorable variance) the budgeted revenues.
- The total cost of all programs and services was $1,932 thousand.
- General fund budget expenditures to actual varied unfavorable in Instruction, District Administration and School Administration expenses due to the recording of expenses related to the on behalf payments provided by the state of $356 thousand. The other general fund budget expenditures to actual varied slightly favorable. Also, the board established a contingency expense totaling $207 thousand that was included in the District's budget but was not needed. These were primarily the items that caused the ending actual expenditures balance to be approximately $21 thousand over budgeted expenses.

The following table presents a summary of revenue and expense of total Governmental Funds for the fiscal year ended June 30, 2012 and 2011.

	June 30, 2012	June 30, 2011
Revenues and Other Sources		
Local revenue sources	$ 982,309	$ 938,448
State revenue sources	1,171,868	1,089,284
Federal revenue sources	215,975	258,058
Investments	2,572	5,941
Bond sale proceeds	-	1,355,000
Total Revenues	$ 2,372,724	$ 3,646,731
Expenses		
Instruction	$ 1,658,549	$ 1,481,572
Student support services	20,009	28,066
Instructional support	99,250	90,011
District administration	205,736	208,188
School administration	122,517	117,843
Plant operations	187,926	158,607
Facility acquisition	874,074	444,825
Other (debt service)	121,215	53,010
Total Expenses	$ 3,289,276	$ 2,582,122

General Fund Revenue

The majority of revenues were derived from local taxes and state/ federal funding, they made up 48% and 52% respectively of total revenue.

General Fund Expenditures

The Board expended approximately 68% for regular instruction of the general fund expenditures. The remaining budget was expended primarily for support services.

School Support

School Support Services accounts for approximately 13% of the school level expenditures this includes School Administration and Student Instructional support.

Central Support

Central support services expenditures account for approximately 19% of the General fund budget, and consists of maintenance & operations, administrative functions.

BUDGETARY IMPLICATIONS

In Kentucky the public school 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 with $207 thousand in contingency (15%). The beginning cash balance for beginning the fiscal year is $341 thousand.

Questions regarding this report should be directed to the Superintendent (859)-441-0743 or by mail at Wm. Blatt & Evergreen, Southgate, Kentucky 41071.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

	Primary Government		
Assets	**Governmental Activities**	**Business-type Activities**	**Total**
Current Assets:			
Cash and cash equivalents	$ 287,125	$ 24,337	$ 311,462
Investments-certificates of deposit	154,906	-	154,906
Accounts receivable:			
Taxes - current	5,353	-	5,353
	19,314	-	19,314
Intergovernmental - indirect federal	176,063	-	176,063
Inventory	-	1,917	1,917
Total Current Assets	642,761	26,254	669,015
Noncurrent Assets			
Capital assets	2,603,668	59,501	2,663,169
Less: accumlated depreciation	(629,452)	(19,125)	(648,577)
Total Noncurrent Assets	1,974,216	40,376	2,014,592
Total Assets	2,616,977	66,630	2,683,607
Liabilities			
Current Liabilities:			
Accounts payable	21,269	-	21,269
Deferred revenue	10,509	-	10,509
Current portion of bond obligations	70,000	-	70,000
Interest payable	54,005	-	54,005
Total Current Liabilities	155,783	-	155,783
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	1,420,000	-	1,420,000
Total Noncurrent Liabilities	1,420,000	-	1,420,000
Total Liabilities	1,575,783	-	1,575,783
Net Assets			
Invested in capital assets, net of related debt	484,216	40,376	524,592
Restricted for:			
Capital projects/debt service	98,501	-	98,501
Unassigned	458,477	26,254	484,731
Total Net Assets	$ 1,041,194	$ 66,630	$ 1,107,824

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:							
Instruction	$ 1,683,072	$ -	$ 324,141	$ -	$ (1,358,931)	$ -	$ (1,358,931)
Support Services:							
Student	32,192	-	-	-	(32,192)	-	(32,192)
Instruction Staff	87,696	-	2,041	-	(85,655)	-	(85,655)
District Administrative	212,302	-	1,031	-	(211,271)	-	(211,271)
School Administrative	122,763	-	-	-	(122,763)	-	(122,763)
Plant Operation and Maintenance	180,706	-	-	17,963	(162,743)	-	(162,743)
Other	5,016	-	-	-	(5,016)	-	(5,016)
Interest on Long-Term Debt	54,005	-	-	46,858	(7,147)	-	(7,147)
Total governmental activities	2,377,752	-	327,213	64,821	(1,985,718)	-	(1,985,718)
Business-type activities:							
Food Service	126,231	20,599	105,408	-	-	(224)	(224)
Total Business-type activities	126,231	20,599	105,408	-	-	(224)	(224)
Total primary government	$ 2,503,983	$ 20,599	$ 432,621	$ 64,821	(1,985,718)	(224)	(1,985,942)
				General revenues:			
				Property taxes	915,156	-	915,156
				Motor Vehicle Taxes	51,926	-	51,926
				Penalties and interst	10,709	-	10,709
				Investment Earnings:	2,572	58	2,630
				State Aid:	997,402	-	997,402
				Miscellaneous/Other:	115	-	115
				Total general revenue and transfers	1,977,880	58	1,977,938
				Change in net assets	(7,838)	(166)	(8,004)
				Net assets - beginning	1,049,032	66,796	1,115,828
				Net assets - ending	$ 1,041,194	$ 66,630	$ 1,107,824

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2012

Assets	General General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (overdraft)	$ 271,102	$ (160,833)	$ 36,726	$ 140,130	$ 287,125
Investment-certificate of deposit	154,906	-	-	-	154,906
Accounts receivable:					
Taxes - current	4,810	-	-	543	5,353
Taxes - delinquent	11,906	-	-	892	12,798
Intergovernmental - federal	-	176,063	-	-	176,063
Total Assets	$ 442,724	$ 15,230	$ 36,726	$ 141,565	$ 636,245
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 16,455	$ 4,721	$ -	$ 93	$ 21,269
Deferred revenue	-	10,509	-	-	10,509
Total liabilities	16,455	15,230	-	93	31,778
Fund Balances:					
Restricted for SFCC escrow	-	-	-	79,697	79,697
Restricted for capital project funds	-	-	36,726	61,775	98,501
Unassigned	426,269	-	-	-	426,269
Total Fund Balances	426,269	-	36,726	141,472	604,467
Total Liabilities and Fund Balances	$ 442,724	$ 15,230	$ 36,726	$ 141,565	$ 636,245

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

Total Fund Balance per Fund Financial Statements	$ 604,467
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital asset 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	1,974,216
Property tax to collect this year	6,516
Certain liablities (such as bonds payable $1,490,000 and accrued interest $54,005) are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	(1,544,005)
Net assets of governmental activities	$ 1,041,194

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT

Statement of Revenue, Expenditures, and Changes in Fund Balances -Governmental Funds
For the Year Ended June 30, 2012

Revenues	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
From local sources					
Taxes					
Property	$ 856,117	$ -	$ -	$ 59,311	$ 915,428
Motor vehicle	45,970	-	-	5,956	51,926
Utilities	2,256	-	-	282	2,538
Other	10,011	-	-	698	10,709
Earnings on investments	1,944	-	438	190	2,572
Other local revenues	115	1,593	-	-	1,708
Intergovernmental - state	640,411	109,645	-	64,821	814,877
Intergovernmental - state on behalf	356,991	-	-	-	356,991
Intergovernmental - indirect federal	-	215,975	-	-	215,975
Total Revenues	1,913,815	327,213	438	131,258	2,372,724
Expenditures					
Instruction	1,329,853	328,696	-	-	1,658,549
Support services:					
Student	29,009	-	-	-	29,009
Instruction staff	97,210	2,040	-	-	99,250
District administrative	204,705	1,031	-	-	205,736
School administrative	122,517	-	-	-	122,517
Plant operation and maintenance	169,963	-	-	17,963	187,926
Facilities acquisition and construction	-	-	874,074	-	874,074
Other(debt service)	-	-	-	121,215	121,215
Total Expenditures	1,953,257	331,767	874,074	139,178	3,298,276
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,442)	(4,554)	(873,636)	(7,920)	(925,552)
Other Financing Sources (Uses)					
Operating transfers in	-	4,554	-	82,776	87,330
Operating transfers out	(4,554)	-	-	(82,776)	(87,330)
Total Other Financing Sources (Uses)	(4,554)	4,554	-	-	-
Net Change in Fund Balances	(43,996)	-	(873,636)	(7,920)	(925,552)
Fund Balances - Beginning	470,265	-	910,362	149,392	1,530,019
Fund Balances - Ending	$ 426,269	$ -	$ 36,726	$ 141,472	$ 604,467

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	$	(925,552)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay additions of $899,887 were less than depreciation expense and losses on fixed assets disposal of $56,585 in the current period.		843,302
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This years amount is $6,516 and last years amount was $9,325.		(2,810)
The proceeds of debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. No new bonds or capitalized leases were issued in the fiscal year and principal repayments were $65,000.		65,000
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the increase in non-current portion of accrued sick leave of $10,012, and an increase in accrued interest of $ 2,210.		12,222
Change in net assets of governmental activities	$	(7,838)

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT

Statement of Net Assets - Proprietary Fund
June 30, 2012

Assets	
Current Assets:	
Cash	$ 24,337
Inventory	1,917
Accounts receivable:	-
Taxes - current	-
Taxes - delinquent	-
Accounts receivable:	-
Intergovernmental - state	-
Intergovernmental - indirect federal	-
Total Current Assets	26,254
Noncurrent Assets:	
Capital assets	59,501
Less: accumulated depreciation	(19,125)
Total Noncurrent Assets	40,376
Total Assets	66,630
Liabilities	
Current Liabilities:	
Accounts payable	-
Total Current Liabilities	-
Net Assets	
Invested in capital assets, net of related debt	40,376
Unassigned	26,254
Total Net Assets	$ 66,630

The accompanying notes are an intregal part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund

For the Year Ended June 30, 2012

Operating Revenues:		
Lunchroom sales	$	20,599
Total Operating Revenues		20,599
Operating Expenses:		
Salaries and wages		31,814
Employee benefits		27,203
Materials and supplies		58,338
Depreciation		2,261
Other operating expenses		6,615
Total Operating Expenses		126,231
Operating Income (Loss)		(105,632)
Nonoperating Revenues (Expenses):		
Federal grants		78,118
Donated commodities		7,328
Intergovernmental - State		1,193
Intergovernmental - State on behalf		18,769
Interest income		58
Total Nonoperating Revenues		105,466
Net Income/(Loss)		(166)
Total Net Assets - Beginning		66,796
Total Net Assets - Ending	$	66,630

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Statement of Fiduciary Net Assets - Fiduciary Fund
June 30, 2012

Assets		
Cash and cash equivilants	$	7,869
Accounts receivable		-
Total Assets		7,869
Liabilities		
Accounts payable		-
Due to student groups		7,869
Total Liabilites		7,869
Net Assets Held in Trust	$	-

The accompanying notes are an integral part of these financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Southgate Independent 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 Southgate Independent 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.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Southgate Independent 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 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:

Southgate Independent Board of Education Finance Corporation – In 1992 the Board of Education resolved to authorize the establishment of the Southgate Independent 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.

Basis of Presentation

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

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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational of 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

The District has the following funds:

I. <u>Governmental Fund Types:</u>

(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 page 37. 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 Fund).

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 District'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

The 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 cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. 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 is a major fund.

II. Proprietary Fund Type (Enterprise Fund) - continued

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

III. Fiduciary Fund Type (Agency and Private Purpose Trust 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. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Non-exchange transactions, in which the District receives value without directly giving 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 are required to be used of the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

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

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expensed, 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 decreased 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 recognized in governmental funds.

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January1, 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 property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were $0.829 per $100 valuation for real property, and $0.833 per $100 for business personal property and $0.504 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 District's boundaries, of telephone 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 computer, 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.

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
Land Improvements	20 years
Technology	5 years
Vehicles	5-10 years
General	15 years
Food service equipment	10-12 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 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 25% 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.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and 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. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with 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.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Classification

The governmental fund financial statements present fund balances based on classification 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 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 governments, or (b) imposed by law through constitutional provisions or enabling legislature. 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 use 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 the use in satisfying those contractual requirements. The district did not have any committed resources as of June 30, 2012.

Assigned: This classification includes the amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted not 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 balance 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.

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 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.

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.

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 non-operating revenues/expenses in proprietary funds. Repayments from fund 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.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end the carrying amount of the District's total cash and cash equivalents was $319,332. Of the total cash balance, $250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

	Bank Balance	Book Balance
General Checking	$ 365,076	$ 311,463
School Activity	7,869	7,869
	$ 372,945	$ 319,332

Breakdown per financial statements:

Governmental funds	$ 287,126
Proprietary funds	24,337
Agency funds	7,869
	$ 319,332

NOTE D – INVESTMENTS

The District investments at June 30, 2012 are as follows:

General Fund: (Current Assets)
Certificate of Deposit due 7/2/12 $154,906 at Rate .095%

NOTE E – CAPITAL ASSETS

Capital asset 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	$ 46,545	$ -	$ -	$ 46,545
Buildings and improvements	1,166,802	-	-	1,166,802
Technology equipment	188,567	36,657	-	225,224
General equipment	4,220	-	-	4,220
Construction in progress	297,647	863,230	-	1,160,877
Totals at historical cost	1,703,781	899,887	-	2,603,668
Less: accumulated depreciation				
Building and improvements	(452,903)	-	(22,094)	(474,997)
Technology equipment	(118,553)	-	(34,243)	(152,796)
General equipment	(1,411)	-	(248)	(1,659)
Total accumulated depreciation	(572,867)	-	(56,585)	(629,452)
Governmental Activities Capital Assets – Net	$ 1,130,914	$ 899,887	$ (56,585)	$ 1,974,216
Business-Type Activities				
Food service equipment:				
Totals at historical cost	$ 35,528	$ 23,973	$ -	$ 59,501
Less: accumulated depreciation:				
Total accumulated depreciate	(16,864)	-	2,261	(19,125)
Business-Type Activities Capital Assets – Net	$ 18,664	$ 23,973	$ (2,261)	$ 40,376

Depreciation was charged to governmental activities functions as follows:

Function	Amount
Instruction	$ 41,575
Student Support Services	3,183
Instructional Staff Support Services	-
Direct Administration Support	6,566
School Administration Support Services	246
Plant Operations & Maintenance	-
Community Services	5,015
Total Depreciation	$ 56,585

NOTE F – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements lease obligations represents the District's future obligation to make lease payments relating to the bonds issued by the Southgate Independent School District Financial Corporation aggregating $1,490,000.

The following summarizes the original amount of each issue, the issue date and interest rates:

Refunding Issue

2002	$535,000	3.6%
2011	$1,355,000	2.0% - 4.5%

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

Assuming no bonds are called prior to scheduled maturity the minimum obligations of the District at June 30, 2012 for debt service (principal and interest) are as follows:

Southgate Independent School District

	District Portion		KSCC Portion		Total
	Principal	Interest	Principal	Interest	
2012-13	$ 51,605	$ 37,144	$ 18,395	$ 16,861	$ 124,005
2013-14	51,145	35,305	18,855	16,401	121,706
2014-15	55,674	33,385	19,326	15,930	124,315
2015-16	50,191	32,379	19,809	15,446	117,825
2016-17	49,696	31,124	20,304	14,951	116,075
2017-18	49,188	29,881	20,812	14,444	114,325
2018-19	48,668	28,652	21,332	13,923	112,575
2019-20	48,135	27,435	21,865	13,390	110,825
2020-21	47,588	26,232	22,412	12,843	109,075
2021-22	46,691	24,328	23,309	11,947	106,275
2022-23	50,759	22,460	24,241	11,015	108,475
2023-24	54,789	20,430	25,211	10,045	110,475
2024-25	58,781	18,239	26,219	9,037	112,276
2025-26	57,732	15,887	27,268	7,988	108,875
2026-27	56,573	13,432	28,427	6,829	105,261
2027-28	60,365	11,029	29,635	5,621	106,650
2028-29	59,106	8,464	30,896	4,361	102,827
2029-30	62,715	5,804	32,285	2,971	103,775
2030-31	66,263	2,982	33,735	1,518	104,498
Total	$1,025,664	$424,592	$464,336	$205,521	$2,120,113

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2012:

Debt Type	Beginning Balance	Additions	Deductions	Ending Balance
Bonds	$ 1,490,000	$ -	$ 70,000	$ 1,420,000

NOTE G – CAPITAL LEASE PAYABLE

The District has no capital leases at June 30, 2012

NOTE H – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District has no operating lease agreements for equipment as of June 30, 2012

NOTE I – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 10.355% for employees hired before fiscal year 2009 and 10.855 for employees hired after fiscal year 2009 and matching state contributions required, are 13.605% and 14.105% of salaries respectively, based on date hired. The matching contributions are paid by the Federal programs for any salaries paid by the program.

Substantially all other employees (classified personnel) are covered under the 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% and a Board contribution of 18.96% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was approximately $1,333,000. The payroll for employees covered under KTRS was $1,154,000 and for CERS was $175,000.

The contribution requirement for CERS for the year ended June 30, 2012 was $42,168 which consisted of $33,126 from the Board and $9,042 from the employees. The Board paid $12,391 from federal grant monies to KTRS in matching contributions for federally funded employees and the Commonwealth contributed $156,788 to KTRS for the benefit of our participating employees.

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 among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	(Dollar amount in millions) KTRS June 30, 2012	CERS June 30, 2012
Assets available for benefits, at fair value	$ 14,908	$ 5,577
Pension benefit obligation	25,968	8,918
(Underfunded)/overfunded pension beneift obligation	$ (11,060)	$ (3,341)

Historical trend information showing KTRS's and CER's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011 comprehensive annual financial reports.

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

Both plans were created by the Kentucky General Assembly and they issued publicly available financial reports.

The District also offers employees the option to participate in a defined contribution plan under section 403(B), 401(K) and 4457 of the Internal Revenue Code. All regular full-time and certain part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

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 upon 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 sent as intended and grantors' intent to continue their programs.

NOTE K – LITIGATION

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

NOTE L – INSURANCE AND RELATED ACTIVITIES

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

NOTE M – ACCUMULATED UNPAID SICK LEAVE

Upon retirement from the school system, an employee who meets requirements will receive from the District an amount equal to 25% of the value of accumulated sick leave. At June 30, 2012, this amount totaled $3,020 for those employees eligible to retire, and therefore no amount is reserved in the current year fund balance of the General Fund.

NOTE N – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. The District pays annual premiums for various insurance coverages. To obtain insurance of workers' compensations, errors and omissions, and general liability coverage, for fiscal year 2012 the District bid for these services. The bids produced a savings to the District for workmen's compensation coverage and the auto, property and liability insurances.

The District purchases unemployment insurance through 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 O – DEFICIT OPERATING 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:

General Fund	$ (43,966)
Building Fund	(5,401)
Debt Service Fund	(3,183)

NOTE P – 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 Q- TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	$ 4,554
Operating	FSPK	Debt Service	Debt Service	82,776
				$ 87,330

NOTE R – ON-BEHALF PAYMENTS

The financial statements included payments made by the Commonwealth of Kentucky for insurance, flexible spending, vocational and retirement benefits. The following amounts are included in each function.

Function	Amount
Instruction	$ 310,187
Support Services	
District Administration	20,532
School Administration	20,016
Plant Operation & Maintenance	6,256
Food Service	18,769
Total	$ 375,760

NOTE S – SUBSEQUENT EVENTS

Management has evaluated events through November 7, 2012, the date on which the financial statements were available for issue. The District did not have any events subsequent to June 30, 2012 through November 7, 2012 to disclose.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
Revenues	**Original**	**Final**	**Amounts**	**(Negative)**
From local sources:				
Taxes				
Property	$ 827,439	$ 827,439	$ 856,117	$ 28,678
Motor vehicle	44,262	44,262	45,970	1,708
Other	-	-	2,256	2,256
Interest and penalties on taxes	-	-	10,011	
Tuition and fees	1,000	1,000	-	(1,000)
Earnings on investments	1,000	1,000	1,944	944
Other local revenues	-	-	115	115
Intergovernmental - state	619,900	619,900	640,411	20,511
Intergovernmental - state of behalf	-	-	356,991	356,991
Total Revenues	1,493,601	1,493,601	1,913,815	420,214
Expenditures				
Instruction	1,061,704	1,061,704	1,329,853	(268,149)
Support services:				
Student	29,558	29,558	29,009	549
Instruction staff	113,006	113,006	97,210	15,796
District administrative	203,838	203,838	204,705	(867)
School administrative	102,261	102,261	122,517	(20,256)
Plant operation and maintenance	215,787	215,787	169,963	45,824
Other (contingency)	206,091	206,091	-	206,091
Total Expenditures	1,932,245	1,932,245	1,953,257	(21,012)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(438,644)	(438,644)	(39,442)	399,202
Other Financing Sources (Uses)				
Operating transfers out	(3,000)	(3,000)	(4,554)	(1,554)
Total Other Financing Sources (Uses)	(3,000)	(3,000)	(4,554)	(1,554)
Net Change in Fund Balances	(441,644)	(441,644)	(43,996)	397,648
Fund Balances - Beginning	441,644	441,644	470,265	28,621
Fund Balances - Ending	$ -	$ -	$ 426,269	$ 426,269

The accompanying notes are an integral part of these financial statements.

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*

Members of the Board of Education
Southgate Independent School District
Southgate, KY

We have audited the financial statements of the Southgate Independent School District as of and for the year ended June 30, 2012, and have issued our report thereon dated November 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States: the provisions of office of Management and Budget Circular A-133, Audits of States and Local Governments, and the requirements prescribed by Appendix I, II, and III to the independent auditor's contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Southgate Independent School District's internal control over financial reporting 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 of the effectiveness of the Erlanger-Elsmere Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Southgate Independent School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Southgate Independent School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Southgate Independent School District's financial statements that is more than inconsequential will not be prevented or detected by the Southgate Independent School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Southgate Independent School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be 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 Southgate Independent 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 that are required to be reported under *Government Auditing Standards*.

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

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
November 7, 2012

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Combining Balance Sheet - Non-Major Governmental Funds
For the Year Ended June 30, 2012

Assets and Resources	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	$ 106,089	$ 34,041	$ -	$ 140,130
Inventory	-	-	-	-
Accounts receivable				
Taxes - current	543	-	-	543
Taxes - delinquent	817	-	-	817
Intergovernmental - state	75	-	-	75
Due from other funds	-	-	-	-
Total Assets and Resources	$ 107,524	$ 34,041	$ -	$ 141,565
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	$ -	$ 93	$ -	$ 93
Deferred revenue	-	-	-	-
Total Liabilities	-	93	-	93
Fund Balances				
Restricted for SFCC escrow	46,413	33,284	-	79,697
Assigned for:				
Purchase obligation	-	-	-	-
Capital projects funds	61,111	664	-	61,775
Debt service funds	-	-	-	-
Total Fund Balance	107,524	33,948	-	141,472
Total Liabilities and Fund Balance	$ 107,524	$ 34,041	$ -	$ 141,565

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds
For the Year Ended June 30, 2012

Revenues	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
From local sources				
Taxes				
Property	$ 65,549	$ -	$ -	$ 65,549
Earnings on investments	145	45	-	190
Other local revenues	698	-	-	698
Intergovernmental - state	10,983	18,582	35,256	64,821
Total Revenues	77,375	18,627	35,256	131,258
Expenditures				
Support services:				
Plant operation and maintenance	-	17,963	-	17,963
Other debt service	-	-	121,215	121,215
Total Expenditures	-	17,963	121,215	139,178
Excess (Deficit) of Revenues Over (Under) Expenditures	77,375	664	(85,959)	(7,920)
Other Financing Sources (Uses)				
Operating transfers in	-	-	82,776	82,776
Operating transfers out	(82,776)	-	-	(82,776)
Total Other Financing Sources (Uses)	(82,776)	-	82,776	-
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(5,401)	664	(3,183)	(7,920)
Fund Balance - Beginning	112,925	33,284	3,183	149,392
Fund Balance - Ending	$ 107,524	$ 33,948	$ -	$ 141,472

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Statement of Receipts, Disbursements, & Fund Balance - Activity Funds
For the Year Ended June 30, 2012

Fund Name	Cash Balance July 1, 2011	Receipts	Disbursements	Cash Balance June 30, 2012
Middle School	$ 109	$ -	$ -	$ -
Library	1,924	-	-	1,651
Office	1,370	-	-	1,710
Student council	579	-	-	477
Yearbook	895	-	-	283
Grades K-8	523	-	-	413
NKOA	179	-	-	244
8th grade trip	-	-	-	1,914
Band	1,033	-	-	1,137
RTL	-	-	-	40
Total	$ 6,612	$ 21,645	$ 20,388	$ 7,869

The accompanying notes are an integral part of these financial statements.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Schedule of Federal Expenditures
For the Year Ended June 30, 2012

U.S. Department of Education	CFDA Number	Pass Through Number	Disbursements	Totals
Passed through the Kentucky Department of Education				
Title I Grants to Local Educational Agencies				
Fiscal Year 2011-2012	84.010	3102-10	$ 231	
Title I Grants to Local Educational Agencies				
Fiscal Year 2010-2011	84.010	3102-11	42,808	
Total Title I Cluster				$ 43,039
Grants to State (IDEA-Part B)				
Fiscal Year 2010-2011	84.027	3812-10	10,812	
Fiscal Year 2011-2012	84.027	3812-11	87,575	
Preschool Grants (IDEA-Preschool)				
Fiscal Year 2009-2010	84.173	3802-09	3,795	
Fiscal Year 2010-2011	84.173	3802-10	5,917	
Fiscal Year 2011-2012	84.173	3802-11	5,731	
IDEA-Part B-ARRA	84.391	481-09	45,232	
IDEA-Preschool-AARA	84.392	481-09	2,414	
Total Special Education Cluster				161,476
Safe & Drug Free Schools 2009-2010 - State Grants	84.186	3412-09	293	
Safe & Drug Free Schools 2010-2011 - State Grants	84.186	3412-10	933	
				1,226
Improving Teacher Quality-State Grants 2010	84.367	3232-09	8,154	
Improving Teacher Quality-State Grants 2011	84.367	3232-10	1,249	
				9,403
Education Technnology State Grants Ed TECH 2010	84.318	3212-09	170	
Education Technnology State Grants Ed TECH 2011	84.318	3212-10	143	
Title II, Ed TECH ARRA	84.386	-	241	
				554
EDU JOBS - 2010	84.410	EJOB	277	277
Total Deparment of Education				215,975
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Kentucky Department of Education				
Child Nutrition Cluster				
National School Lunch Program (NSLP) 2011	10.555	7750002	11,881	
School Breakfast Program (SBP) 2011	10.553	7760005	3,456	
National School Lunch Program (NSLP) 2012	10.555	7750002	50,156	
School Breakfast Program (SBP) 2012	10.553	7760005	12,625	
Total Child Nutrition Cluster 2011-2012				78,118
Commodities	-	-	7,328	7,328
Total U.S. Department of Agriculture				85,446
TOTAL FEDERAL FINANCIAL AWARDS				$ 301,421

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
Schedule of Prior Year Audit Findings
June 30, 2012

There were no audit findings in the prior year.

Members of the Board of Education
Southgate Independent School District
Southgate, KY

We have audited the financial statements of the Southgate Independent School District for the year ended June 30, 2012, and have issued our report thereon dated November 7, 2012. As part of our audit, we made a study and evaluation of the District's systems of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and valuation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary for expressing an opinion on the system of internal accounting control taken as a whole.

The management of the Southgate Independent School District is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors, or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the system to future periods are subject to risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system of internal accounting control. Accordingly, we do not express an opinion of the system of internal accounting control of the Southgate Independent School District taken as a whole. Our study and evaluation disclosed no condition that I believe to be a material weakness.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
November 7, 2012

Management Letter Comments

Prior Year Comments:

Cash Receipts:
11-01 Testing of March 2011 cash receipts disclosed three small deposits were made to the wrong bank accounts. I recommend the District management more closely monitor the deposit slips preparation to ensure deposits are put in the correct bank account.

Management Response:
In the future, deposit slips will be stored in separate areas to help eliminate error.

School Activity Fund-Raising Advances:
11-02 Cash disbursement testing noted a fundraising advance to a teacher with no documentation of the purpose or follow-up accounting. To maintain control over advances, I recommend the individual given custody of an advance t submit a final accounting on the fundraiser.

Management Response:
In the future, supporting documentation will be obtained for all fund raising activities.

Governmental Assets:
11-03 Governmental fixed assets balance sheet accounts were not in agreement with the District's subsidiary property records. My recommendation is that the governmental fixed assets balance sheet be reconciled to the District's subsidiary property records on a timely basis.

Management Response:
In the future, subsidiary records for governmental fixed assets will be reconciled timely with the District's fixed assets balance sheet.

The Red Book:
11-04 The Red Book requires booster organizations to submit the names of club officers, an annual budget and an annual financial report. The District is not getting this information from all booster organizations. I recommend all booster organizations provide the information required.

Management Response:
In the future, the District will request and obtain from all booster organizations all required organization information.

Current Year Comments:

Segregation of Duties:

12-01 Due to the size of the District, proper segregation of duties is not always possible. Minor risks of intentional financial statement misstatement due to improperly segregated record keeping and reconciliation functions do exist. However, the District's board, through thorough review of the District's monthly financial statements, provides a compensating control over financial reporting. I encourage to District's board to continue to perform their fiduciary responsibility through the following procedures:

1) Closely review the District Treasurer's monthly report.

2) Closely review and approve all disbursements.

3) Continue to monitor all significant variations between the approved budget and the actual cash receipts and disbursements.

While these procedures will not entirely eliminate the potential risk of misstatement, their implementation will reduce the risk to a tolerable level in the current circumstances.