

**ESTILL COUNTY  
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2012

Prepared by:

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## INDEPENDENT AUDITORS' REPORT

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Estill County School District, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Special Revenue Fund, 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 September 14, 2012, on our consideration of the Estill County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and

not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Estill County School District's financial statements as a whole. The additional supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, as listed in the table of contents, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
September 14, 2012

**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY**  
**MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**  
**Year ended June 30, 2012**

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As management of the Estill County School 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 ending unassigned fund balance for the General Fund was \$3,281,410 in 2012, which is greater than the 2% contingency as required by law.
- Refinanced 2004 Issue of bonds for a savings of \$168,195.
- Transportation of our students improved with the purchase of five new buses and additional security cameras installed on buses.
- The West Irvine Elementary construction project is progressing. Grades one through three moved to the new classrooms in December. Grades four and five moved into temporary locations in the new building in February. This was to accelerate the completion of the new facility. Final location of all classrooms will be made in fiscal year 2013.
- Various maintenance projects were completed throughout the district. A pump at the baseball field was replaced. Several areas received new paint. Two boilers at the Middle School were replaced.
- Several new computers were purchased as well as new smart boards.
- A commercial lawn mower was purchased.
- Property tax rates were set at 43.9 for real estate and tangible property. Motor vehicle and watercraft tax rate remained at 54.8. The board voted to continue adding an additional nickel to the building fund.

**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.

**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.

**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY**  
**MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**  
**Year ended June 30, 2012**

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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 expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

**Fund Financial Statements:** A fund is a grouping related account that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations. All other activities of the district are included in the governmental funds. The basic governmental funds financial statement can be found on pages 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 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 Estill County Schools, assets exceeded liabilities by \$15,203,049 for Governmental Activities and \$431,183 for Business Type Activities as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture, equipment, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net

**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY**  
**MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**  
**Year ended June 30, 2012**

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**

	<u>2011</u>	<u>2012</u>	<u>Change</u>
Current Assets	\$15,587,652	\$9,194,968	\$ (6,392,684)
Non-current Assets	<u>27,563,648</u>	<u>33,623,313</u>	<u>6,059,665</u>
<b>Total Assets</b>	<b>\$43,151,300</b>	<b>\$42,818,281</b>	<b>\$ (333,019)</b>
Current Liabilities	\$ 3,325,931	\$2,655,043	\$ 670,888
Non-current Liabilities	<u>25,181,855</u>	<u>24,529,006</u>	<u>652,849</u>
<b>Total Liabilities</b>	<b>\$28,507,786</b>	<b>\$27,184,049</b>	<b>\$ 1,323,737</b>
Net assets:			
Invested in capital assets, net of debt	\$1,370,531	\$8,131,348	\$ 6,760,817
Restricted	10,294,244	4,147,172	(6,147,072)
Nonexpendable restricted for Trust	200,374	200,374	0
Unrestricted	<u>2,778,364</u>	<u>3,155,339</u>	<u>376,975</u>
<b>Total Net Assets</b>	<b>\$14,643,514</b>	<b>\$15,634,233</b>	<b>\$ 990,719</b>

**CAPITAL ASSETS**

At the end of fiscal 2012, the District had \$33.6 million invested in capital assets, including land, building, buses, computers and other equipment.

Table 3  
Capital Assets at Year-End  
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2011	2012	2011	2012	2011	2012
Land	\$ 442,930	\$ 442,930			\$ 442,930	\$ 442,930
Land Improvements	487,093	447,319			487,093	447,319
Buildings	21,181,020	20,899,486			21,181,020	20,899,486
Technology Equipment	703,158	605,365	47,322	38,479	750,480	643,844
Vehicles	326,553	246,760			326,553	246,760
General Equipment	326,929	283,852	53,937	22,311	380,866	306,163
Construction in Progress	<u>3,994,707</u>	<u>10,636,810</u>			<u>3,994,707</u>	<u>10,636,810</u>
<b>Totals</b>	<b>\$ 27,462,390</b>	<b>\$ 33,562,522</b>	<b>\$ 101,259</b>	<b>\$ 60,790</b>	<b>\$ 27,563,649</b>	<b>\$ 33,623,312</b>



**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY**  
**MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**  
**Year ended June 30, 2012**

**Table 2**  
**Changes in Net Assets**  
**(in Millions \$)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total School</u>		<u>Percent</u> <u>Change</u>
	<u>Activities</u>		<u>Activities</u>		<u>District</u>		
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	
Program Revenues:							
Charges for services	\$ 0.01	\$ 0.07	\$ 0.36	\$ 0.38	\$ 0.37	\$ 0.45	0.22
Operating grants and contributions	4.52	8.08	1.18	1.02	5.70	9.10	0.60
Capital grants and contributions	2.35	2.08		-	2.35	2.08	(0.11)
General revenues	16.58	14.18	-	0.00	16.58	14.18	(0.14)
<b>Total revenue</b>	<b>\$ 23.46</b>	<b>\$ 24.42</b>	<b>\$ 1.54</b>	<b>\$ 1.40</b>	<b>\$ 25.00</b>	<b>\$ 25.81</b>	<b>0.03</b>
Expenses:							
Instruction	\$ 11.29	\$ 12.40			\$ 11.29	\$ 12.40	0.10
Student	1.23	1.30			1.23	1.30	0.06
Instructional staff	1.37	1.29			1.37	1.29	(0.06)
District administration	0.86	0.46			0.86	0.46	(0.46)
School administration	1.62	1.25			1.62	1.25	(0.23)
Business	0.38	0.69			0.38	0.69	0.82
Plant operation & maintenance	1.57	1.85			1.57	1.85	0.18
Student transportation	1.78	2.23			1.78	2.23	0.25
Food service operations	0.04	0.04	1.46	1.37	1.50	1.41	(0.06)
Community services operations	0.36	0.34			0.36	0.34	(0.05)
Building improvements	0.07	-			0.07	-	(1.00)
Debt service	0.18	-			0.18	-	(1.00)
Depreciation and Amortization	0.73	0.76	0.02	0.01	0.75	0.78	0.04
Interest on long-term debt	0.60	1.08			0.60	1.08	0.80
<b>Total Expenses</b>	<b>\$ 22.08</b>	<b>\$ 23.70</b>	<b>\$ 1.48</b>	<b>\$ 1.39</b>	<b>\$ 23.56</b>	<b>\$ 25.08</b>	<b>0.06</b>
Increase/(Decrease) in Net Assets	\$ 1.38	\$ 0.72	\$ 0.06	\$ 0.01	\$ 1.44	\$ 0.73	
Net Assets Beginning	12.83	14.22	0.36	0.42	13.19	14.64	
Prior Period Adjustment		0.24		-		0.24	
<b>Net Assets Ending</b>	<b>\$ 14.21</b>	<b>\$ 15.19</b>	<b>\$ 0.42</b>	<b>\$ 0.43</b>	<b>\$ 14.63</b>	<b>\$ 15.62</b>	

**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY  
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2012**

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**Debt**

Revenue bonds were issued during the year to refund the 2004 bonds.

Table 4  
Outstanding Debt at Year-End  
(in Millions)

	Government Activities	
	2011	2012
General Obligation Bonds	\$ 26.04	\$ 24.98
Capital Lease Obligations	0.16	0.52
Total Obligations	<u>\$ 26.20</u>	<u>\$ 25.49</u>

**Food Service Activity**

Revenue for Food Service Fund totals \$ 1,626,729 as of June 30, 2012. Expenditures for Food Service Fund total \$1,617,651 as of June 30, 2012. Operating Revenue exceeds expense by \$9,078.

**The District's Funds**

The majority of general fund revenue, (85.29%) net of other financing sources, is derived from state funding with local taxes making up 14.2% of revenue. Instructional expense comprised 54.5% of expenditures in 2012, other support functions 23.6%, transportation 10.6% and plant operation and maintenance 11%. The district has felt the burden of increased energy costs.

**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY**  
**MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**  
**Year ended June 30, 2012**

	Revenue & Expenditures by Fund					
	General	Special	Construction	Debt Service	Other Gov't Funds	Food Service
Local Revenue	\$2,428,576	\$22,673			\$497,932	\$380,572
State Revenue	14,509,209	1,065,664		490,744	759,036	159,965
Federal Revenue	60,656	3,630,271		831,774		1,085,310
Transfers	-	52,770		1,170,245		
Other	29,853	36,006	71,761	2,162,849	427	882
<b>Totals</b>	<b>\$17,028,294</b>	<b>\$4,807,384</b>	<b>\$71,761</b>	<b>\$4,655,612</b>	<b>\$1,257,395</b>	<b>\$1,626,729</b>
Instruction	\$9,011,719	\$3,233,779	\$ -	\$ -	\$ -	\$ -
Student Support	845,043	457,816				
Instructional Staff	758,872	529,439				
District Admin	440,966	20,380				
School Admin	1,247,311	6,571				
Business Support	606,173	83,674				
Plant Operation & Maintenance	1,818,755	27,644				
Student Transportation	1,754,048	17,840				
Food Service	30,852	9,918				1,347,527
Community Svc.		340,907				
Facility Acq & Const	19,123	39,417	6,655,108			
Bond Issue Costs						
Depreciation						14,574
Debt Service				2,454,574	1,067,061	
Transfers	115,954	40,000				
Other				2,126,643		255,551
<b>Totals</b>	<b>\$16,648,814</b>	<b>\$4,807,384</b>	<b>\$6,655,108</b>	<b>\$4,581,217</b>	<b>\$1,067,061</b>	<b>\$1,617,651</b>
Excess / (Deficiency)	\$379,479	(\$0)	(\$6,583,348)	\$74,395	\$190,334	\$9,078

**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 all reflected in the district's overall budget. By law, the budget must have a minimum 2.0% contingency in the Working Budget. The contingency was above the minimum for 2%. The two additional days added to the instructional calendar have also had an impact on district finances. Issues that continue to impact future budgets include:

- federal funding not maintaining the pace of mandated pay increases and insurance costs insufficient funding of the state transportation formula.
- loss of local funding due to the 4% cap on increases in property taxes, which in turn results in a penalty to the District in the state SEEK funding formula

Questions regarding this report should be directed to the Superintendent, Mr. Bert Hensley or the Director of Finance/Treasurer, Ms. Angela D. Howell at (606) 723-2181 or by mail at P.O. Box 930, Irvine, KY 40336

Estill County School District  
**Statement of Net Assets**  
June 30, 2012

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
<u>Current assets</u>			
Cash and Cash Equivalents	\$ 6,949,722	\$ 362,033	\$ 7,311,755
Receivables (net)	1,312,482		1,312,482
Inventories for consumption		8,774	8,774
Bond Issue Costs (net)	561,957		561,957
Total current assets	8,824,161	370,807	9,194,968
<u>Noncurrent assets</u>			
<u>Capital assets</u>			
Land, improvements, and construction in progress	11,079,740		11,079,740
Other capital assets, net of depreciation	22,482,782	60,790	22,543,573
Total noncurrent assets	33,562,523	60,790	33,623,313
Total assets	42,386,684	431,597	42,818,281
<b>LIABILITIES</b>			
<u>Current liabilities</u>			
Accounts payable and accrued expenses	109,327	414	109,741
Payroll taxes payable	274,922		274,922
Accrued interest payable	291,408		291,408
Deferred Revenue	619,819		619,819
Bond premium	7,797		7,797
Current portion of capital lease obligations	64,356		64,356
Current portion of bond obligations	1,287,000		1,287,000
Total current liabilities	2,654,629	414	2,655,043
<u>Noncurrent liabilities</u>			
<u>Long-term liabilities</u>			
Noncurrent portion of accumulated sick leave	388,397		388,397
Noncurrent portion of bond obligations	23,688,000		23,688,000
Noncurrent portion of capital lease obligations	452,609		452,609
Total noncurrent liabilities	24,529,006	-	24,529,006
Total liabilities	27,183,634	414	27,184,049
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,070,558	60,790	8,131,348
<u>Expendable restricted for:</u>			
Capital projects	3,624,067		3,624,067
Debt Service	74,395		74,395
Student activities	427		427
Encumbrances	77,889		77,889
School food services		370,393	370,393
<u>Nonexpendable restricted for:</u>			
Trust	200,374		200,374
Unrestricted (deficit)	3,155,339		3,155,339
Total net assets	\$ 15,203,049	\$ 431,183	\$ 15,634,233

See the accompanying notes to the financial statements.

Estill County School District  
**Statement of Activities**  
Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 12,401,434	\$ 31,164	\$ 6,551,331	\$	\$ (5,818,939)		\$ (5,818,939)
Support Services							
Student	1,302,858	35,901	457,816		(809,141)		(809,141)
Instructional Staff	1,288,310		529,439		(758,872)		(758,872)
District Administration	461,346		20,380		(440,966)		(440,966)
School Administration	1,253,882		6,571		(1,247,311)		(1,247,311)
Business	689,847		83,674		(606,173)		(606,173)
Plant Operation & Maintenance	1,846,398	4,410	67,060		(1,774,928)		(1,774,928)
Student Transportation	2,227,874		17,840		(2,210,034)		(2,210,034)
Food Service Operations	40,770		9,918		(30,852)		(30,852)
Community Services Operations	340,907		340,907		-		-
Amortization	67,076				(67,076)		(67,076)
Depreciation	697,856				(697,856)		(697,856)
Interest on long-term debt	1,077,744			2,081,554	1,003,811		1,003,811
Total governmental activities	<u>23,696,304</u>	<u>71,476</u>	<u>8,084,936</u>	<u>2,081,554</u>	<u>(13,458,338)</u>		<u>(13,458,338)</u>
Business-type activities:							
Food service operations	1,373,421	380,572	1,015,619			\$ 22,770	22,770
Depreciation	14,574					(14,574)	(14,574)
Total business-type activities	<u>1,387,995</u>	<u>380,572</u>	<u>1,015,619</u>	<u>-</u>	<u>-</u>	<u>8,196</u>	<u>8,196</u>
Total primary government	\$ <u>25,084,299</u>	\$ <u>452,048</u>	\$ <u>9,100,555</u>	\$ <u>2,081,554</u>	<u>(13,458,338)</u>	<u>8,196</u>	<u>(13,450,142)</u>
General revenues:							
Taxes:							
Property taxes					1,843,495		1,843,495
Motor vehicle taxes					387,560		387,560
Utility taxes					686,961		686,961
State and formula grants					11,180,865		11,180,865
Unrestricted investment earnings					85,627	882	86,509
Sale of equipment					13,212		13,212
Total general revenues					<u>14,197,719</u>	<u>882</u>	<u>14,198,602</u>
Change in net assets					739,381	9,078	748,460
Net assets - beginning					14,221,410	422,105	14,643,514
Prior period adjustment					242,258		242,258
Restated net assets - beginning					<u>14,463,668</u>	<u>422,105</u>	<u>14,885,773</u>
Net assets - ending					\$ <u>15,203,049</u>	\$ <u>431,183</u>	\$ <u>15,634,233</u>

See the accompanying notes to the financial statements.

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

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,554,606	\$ -	\$ 2,784,049	\$ 74,395	\$ 1,110,704	\$ 7,523,755
Receivables, net						
Taxes-current	26,300					26,300
Taxes-delinquent	27,827					27,827
Accounts	2,990	18,745				21,735
Intergovernmental-state		189,606				189,606
Intergovernmental-federal	18,604	1,028,412				1,047,015
Total assets	<u>3,630,326</u>	<u>1,236,762</u>	<u>2,784,049</u>	<u>74,395</u>	<u>1,110,704</u>	<u>8,836,237</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	66,416	42,911				109,327
Cash shortage		574,032				574,032
Payroll taxes payable	274,922					274,922
Deferred revenue		619,819				619,819
Total liabilities	<u>341,338</u>	<u>1,236,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,578,101</u>
Fund balances:						
Nonspendable					200,374	200,374
Restricted			2,713,738	74,395	910,330	3,698,462
Assigned	7,577		70,312			77,889
Unassigned	3,281,410					3,281,410
Total fund balances	<u>3,288,988</u>	<u>-</u>	<u>2,784,049</u>	<u>74,395</u>	<u>1,110,704</u>	<u>7,258,136</u>
Total liabilities and fund balances	<u>\$ 3,630,326</u>	<u>\$ 1,236,762</u>	<u>\$ 2,784,049</u>	<u>\$ 74,395</u>	<u>\$ 1,110,704</u>	<u>\$ 8,836,237</u>

See the accompanying notes to the financial statements.

Estill County School District  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets**  
 June 30, 2012

<b>Total fund balance per fund financial statements</b>	\$	7,258,136
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>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.</p>		33,562,523
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the bond.</p>		561,957
<p>Certain liabilities 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 as follows:</p>		
Accrued interest payable		(291,408)
Bond premium		(7,797)
Bonds payable		(24,975,000)
Capital lease obligations		(516,965)
Noncurrent sick leave payable		(388,397)
		(300,462)
<b>Net assets of governmental activities</b>	<b>\$</b>	<b>15,203,049</b>

See the accompanying notes to the financial statements.

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

	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 1,345,563	\$ -	\$ -	\$ -	\$ 497,932	\$ 1,843,495
Motor vehicle	387,560					387,560
Utilities	686,961					686,961
Tuition		28,659				28,659
Earnings on investments	12,231	104	71,761	1,103	427	85,627
Student activities		7,242				7,242
Other local revenue	8,492	22,673				31,164
Intergovernmental - state	14,509,209	1,065,664		490,744	759,036	16,824,654
Intergovernmental - federal	60,656	3,630,271		831,774		4,522,701
Total revenues	<u>17,010,672</u>	<u>4,754,614</u>	<u>71,761</u>	<u>1,323,621</u>	<u>1,257,395</u>	<u>24,418,064</u>
<b>EXPENDITURES</b>						
Instruction	9,011,719	3,233,779				12,245,497
Support Services						
Student	845,043	457,816				1,302,858
Instructional Staff	758,872	529,439				1,288,310
District Administration	440,966	20,380				461,346
School Administration	1,247,311	6,571				1,253,882
Business	606,173	83,674				689,847
Plant Operation & Maintenance	1,818,755	27,644				1,846,398
Student Transportation	1,754,048	17,840				1,771,888
Food Service Operations	30,852	9,918				40,770
Community Services Operations		340,907				340,907
Facilities Acquisition and Construction						
Building Improvements	19,123	39,417				58,540
Building Acquisitions & Construction			13,064			13,064
Other Facilities			6,642,044			6,642,044
Debt Service				2,454,574		2,454,574
Total expenditures	<u>16,532,861</u>	<u>4,767,384</u>	<u>6,655,108</u>	<u>2,454,574</u>	<u>-</u>	<u>30,409,928</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	477,811	(12,770)	(6,583,348)	(1,130,953)	1,257,395	(5,991,864)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of equipment	13,212					13,212
Loss compensation	4,410					4,410
Proceeds of sale of bonds				2,153,299		2,153,299
Payments on escrow				(1,669,597)		(1,669,597)
Bond premium				8,447		8,447
Insurance fund				(9,266)		(9,266)
Payment to KISTA escrow				(446,720)		(446,720)
Excess fund to sinking fund				(1,060)		(1,060)
Operating transfers in (out)	(52,770)	52,770				-
Transfers In/(Out) for Debt Service	(63,184)	(40,000)		1,170,245	(1,067,061)	-
Total other financing sources and (uses)	<u>(98,332)</u>	<u>12,770</u>	<u>-</u>	<u>1,205,348</u>	<u>(1,067,061)</u>	<u>52,725</u>
<b>NET CHANGE IN FUND BALANCE</b>	379,479	-	(6,583,348)	74,395	190,334	(5,939,139)
<b>FUND BALANCE - BEGINNING</b>	<u>2,909,508</u>	<u>-</u>	<u>9,367,397</u>	<u>-</u>	<u>920,370</u>	<u>13,197,275</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 3,288,988</u>	<u>\$ -</u>	<u>\$ 2,784,049</u>	<u>\$ 74,395</u>	<u>\$ 1,110,704</u>	<u>\$ 7,258,136</u>

See the accompanying notes to the financial statements.



Estill County School District  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities**  
 Year ended June 30, 2012

<b>Net change in total fund balances per fund financial statements</b>	\$	(5,939,139)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		6,100,133
<p>Cost of issuance of bonds are capitalized and amortized over the life of the bond.</p>		117,514
<p>Bond and capital lease 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.</p>		701,152
<p>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.</p>		
<p>Accrued interest payable</p>		(170,070)
<p>Noncurrent portion of accumulated sick leave</p>		(70,207)
		(70,207)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u><u>739,381</u></u></b>

See the accompanying notes to the financial statements.

Estill County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 1,328,693	\$ 1,328,693	\$ 1,345,563	\$ 16,870
Motor vehicle	371,000	350,000	387,560	37,560
Utilities	600,000	600,000	686,961	86,961
Earnings on investments	20,000	20,000	12,231	(7,769)
Other local revenue	2,005	2,005	8,492	6,487
Intergovernmental - state	11,379,607	11,379,607	* 11,214,823	(164,784)
Intergovernmental - federal			60,656	60,656
Total revenues	<u>13,701,305</u>	<u>13,680,305</u>	<u>13,716,286</u>	<u>35,981</u>
<b>EXPENDITURES</b>				
Instruction	6,794,523	7,056,849	* 6,953,547	103,302
Support Services				
Student	739,813	739,813	* 665,308	74,505
Instructional Staff	584,519	607,908	* 600,598	7,310
District Administration	501,768	580,329	* 380,939	199,390
School Administration	1,030,258	1,036,821	* 998,187	38,634
Business	298,971	298,772	* 438,937	(140,164)
Plant Operation & Maintenance	1,800,524	1,740,324	* 1,649,510	90,813
Student Transportation	1,350,921	1,388,921	* 1,509,806	(120,886)
Food Service Operations	41,826	41,905	* 25,994	15,911
Building Improvements	4,357	19,357	* 15,648	3,709
Total expenditures	<u>13,147,479</u>	<u>13,510,998</u>	<u>13,238,474</u>	<u>272,524</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	553,826	169,307	477,811	308,504
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment	5,000	5,000	13,212	8,212
Loss compensation			4,410	4,410
Operating transfers in (out)			(52,770)	(52,770)
Transfers In/(Out) for Debt Service	(44,573)	(56,573)	(63,184)	(6,610)
Total other financing sources and (uses)	<u>(39,573)</u>	<u>(51,573)</u>	<u>(98,332)</u>	<u>(46,759)</u>
<b>NET CHANGE IN FUND BALANCE</b>	514,252	117,734	379,479	261,746
<b>FUND BALANCE - BEGINNING</b>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,909,508</u>	<u>409,508</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 3,014,252</u>	<u>\$ 2,617,734</u>	<u>\$ 3,288,988</u>	<u>\$ 671,254</u>

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$3,294,386.

See the accompanying notes to the financial statements.

Estill County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Tuition	\$ -	\$ 25,956	\$ 28,659	\$ 2,703
Earnings on investments			104	104
Student activities			7,242	7,242
Other local revenue		23,024	22,673	(352)
Intergovernmental - state	699,942	966,372	1,065,664	99,292
Intergovernmental - federal	3,365,941	2,088,445	3,630,271	1,541,826
Total revenues	<u>4,065,883</u>	<u>3,103,798</u>	<u>4,754,614</u>	<u>1,650,816</u>
<b>EXPENDITURES</b>				
Instruction	3,168,528	2,059,855	3,273,779	(1,213,924)
Support Services				
Student	593,371	182,109	457,816	(275,707)
Instructional Staff	21,711	484,383	529,439	(45,056)
District Administration		20,000	20,380	(380)
School Administration			6,571	(6,571)
Business			83,674	(83,674)
Plant Operation & Maintenance		16,675	27,644	(10,969)
Student Transportation			17,840	(17,840)
Food Service Operations			9,918	(9,918)
Community Services Operations	282,273	340,776	340,907	(131)
Facilities Acquisition and Construction				
Building Improvements			39,417	(39,417)
Total expenditures	<u>4,065,883</u>	<u>3,103,798</u>	<u>4,807,384</u>	<u>(1,703,586)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	-	-	(52,770)	(52,770)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in (out)			52,770	52,770
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>52,770</u>	<u>52,770</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE - BEGINNING</b>	-	-	-	-
<b>FUND BALANCE - ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Estill County School District  
**Statement of Net Assets**  
**Proprietary Funds**  
June 30, 2012

	<b>School Food Services</b>
<b>ASSETS</b>	
<u>Current assets</u>	
Cash and cash equivalents	\$ 362,033
Inventories for consumption	8,774
Total current assets	<u>370,807</u>
 <u>Noncurrent assets</u>	
Capital assets	
Other capital assets, net of depreciation	60,790
Total noncurrent assets	<u>60,790</u>
Total assets	<u><u>431,597</u></u>
 <b>LIABILITIES</b>	
<u>Current liabilities</u>	
Accounts payable	414
Total current liabilities/total liabilities	<u>414</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	60,790
Expendable restricted for:	
Food Service	370,393
Total net assets	<u>\$ 431,183</u>

See the accompanying notes to the financial statements.

Estill County School District  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Proprietary Funds**  
Year Ended June 30, 2012

		<b>School Food Services</b>
<b>OPERATING REVENUES</b>		
Lunchroom sales	\$	380,572
Total operating revenues		<u>380,572</u>
<b>OPERATING EXPENSES</b>		
Depreciation		14,574
Food service operations		1,347,527
Total operating expenses		<u>1,362,100</u>
Operating income (loss)		(981,528)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants		1,001,044
State grants		14,575
State on-behalf payments received		145,390
State on-behalf payments used		(145,390)
Commodities received		84,266
Commodities used		(84,266)
Loss on retirement of assets		(25,895)
Earnings from investments		882
Total nonoperating revenues		<u>990,607</u>
<b>CHANGE IN NET ASSETS</b>		9,078
<b>NET ASSETS, BEGINNING</b>		<u>422,105</u>
<b>NET ASSETS, ENDING</b>	\$	<u><u>431,183</u></u>

See the accompanying notes to the financial statements.

Estill County School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2012

	<u>School Food Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 380,572
Payments to suppliers	(703,631)
Payments to employees	<u>(643,032)</u>
Net cash provided (used) by operating activities	<u>(966,091)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Intergovernmental revenue	<u>1,015,619</u>
Net cash provided (used) by noncapital financing activities	<u>1,015,619</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Retirement of assets	<u>(25,895)</u>
Net cash provided (used) by capital financing activities	<u>(25,895)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	<u>882</u>
Net cash provided (used) by investing activities	<u>882</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	50,411
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>311,622</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 362,033</u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>	
Operating income (loss)	\$ (981,528)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	14,574
Changes in assets and liabilities:	
Inventories	3,879
Accrued liabilities	<u>(3,015)</u>
Net cash used by operating activities	<u>\$ (966,091)</u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$84,266 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

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

	<b>School Activity Funds</b>	<b>Private Purpose Trust Funds</b>	<b>Fiduciary Fund Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 208,374	\$ 46,961	\$ 255,335
Accounts receivable	<u>          -</u>	<u>          -</u>	<u>          -</u>
 TOTAL ASSETS	 <u><u>208,374</u></u>	 <u><u>46,961</u></u>	 <u><u>255,335</u></u>
 <b>LIABILITIES</b>			
Accounts payable	1,646	-	1,646
Due to student groups	<u>206,728</u>	<u>          -</u>	<u>206,728</u>
 TOTAL LIABILITIES	 <u><u>208,374</u></u>	 <u><u>          -</u></u>	 <u><u>208,374</u></u>
 <b>NET ASSETS HELD IN TRUST</b>	 <u><u>          -</u></u>	 <u><u>46,961</u></u>	 <u><u>46,961</u></u>

See the accompanying notes to the financial statements.

ESTILL COUNTY SCHOOL DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended June 30, 2012

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Estill County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Estill 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.

The District, for financial purposes, includes all of the funds relevant to the operation of the Estill 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 District 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:

Estill County Board of Education Finance Corporation

The Board authorized establishment of the Estill County Board of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Estill County Board of Education.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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. Non-major 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 net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

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

#### (B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

### (C) Capital Project Funds

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).

#### SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

#### Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

#### Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

### (D) Debt Service Fund

The Debt Service Fund is 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. This is a major fund of the District.

### (E) Permanent Fund

The Permanent Fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

## II. Proprietary Funds (Enterprise Funds)

### (A) Food Service Fund

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

## NOTES TO THE FINANCIAL STATEMENTS (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 Types

#### Agency Funds

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 "Accounting Procedures for Kentucky School Activity Funds."

#### Trust Funds

Trust Funds report resources that are contributed by various people, and organizations to be spent for students for purposes that support the reporting governments programs.

#### Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, 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 or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited in the General Fund and then transferred to the appropriate fund.

The property tax rates (including exonerations) assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.439 per \$100 valuation of real property, \$.439 per \$100 valuation for business personal property and \$.548 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 government funds. These assets are reported in the government activities column of the government-wide financial 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.

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:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**Governmental Activities**

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

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.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified 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 non-current portion of the liability is not reported.

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

### 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 expended 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.

### Prepaid Assets

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

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

### Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable: Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

### Net Assets

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets. It is the District's policy to first apply restricted net assets and then unrestricted net assets when an expense is incurred for which both restricted and unrestricted net assets are available.

### Operating and Non-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.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

### 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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE B – ESTIMATES**

The process of preparing financial statements in conformity accounting principles generally accepted in the United States of America requires District’s management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The District’s cash and cash equivalents are interest bearing accounts with a local depository secured by FDIC and pledged assets of the bank. Due to the liquidity nature of these accounts the carrying value is the fair market value. Investments are certificates of deposits with a local depository with a maturity greater than 90 days.

	<u>Bank Balance</u>	
<u>Citizens Guaranty Bank</u>		<u>Demand</u>
FDIC	\$	250,000
Securities pledged to district		<u>8,113,322</u>
Bank balance	\$	<u><u>8,363,322</u></u>
		<u>Book Balance</u>
		<u>Cash equivalents</u>
Governmental Activities	\$	6,949,722
Business-type Activities		362,033
Fiduciary Funds		
School Activity Funds		208,374
Trust Fund		<u>46,961</u>
Total carrying amount	\$	<u><u>7,567,090</u></u>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE D – CAPITAL ASSETS**

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

<b><u>Governmental Activities</u></b>	<b><u>July 1, 2011</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2012</u></b>
Land	\$ 442,930	\$ -	\$ -	\$ 442,930
Land improvements	1,170,359	-	-	1,170,359
Buildings	28,899,889	13,005	-	28,912,895
Technology equipment	2,977,983	142,881	38,365	3,082,499
Vehicles	2,631,438	-	-	2,631,438
General equipment	619,915	-	-	619,915
Construction in progress	<u>3,994,707</u>	<u>6,655,108</u>	<u>13,005</u>	<u>10,636,810</u>
Total at historical cost	\$ <u>40,737,221</u>	\$ <u>6,810,994</u>	\$ <u>51,370</u>	\$ <u>47,496,845</u>
Less: Accumulated depreciation				
Land improvements	\$ 683,266	\$ 39,774	\$ -	\$ 723,040
Buildings	7,718,869	294,539	-	8,013,408
Technology equipment	2,274,825	240,675	38,365	2,477,135
Vehicles	2,304,885	79,792	-	2,384,677
General equipment	<u>292,986</u>	<u>43,077</u>	<u>-</u>	<u>336,063</u>
Total accumulated depreciation	\$ <u>13,274,831</u>	\$ <u>697,856</u>	\$ <u>38,365</u>	\$ <u>13,934,323</u>
 Governmental Activities				
Capital Assets-net	\$ <u>27,462,390</u>	\$ <u>6,113,138</u>	\$ <u>13,005</u>	\$ <u>33,562,523</u>
 <b><u>Business-Type Activities</u></b>	<b><u>July 1, 2011</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2012</u></b>
Technology equipment	\$ 109,961	\$ -	\$ -	\$ 109,961
Vehicles	38,240	-	-	38,240
General equipment	<u>423,477</u>	<u>-</u>	<u>91,249</u>	<u>332,228</u>
Total at historical cost	\$ <u>571,678</u>	\$ <u>-</u>	\$ <u>91,249</u>	\$ <u>480,429</u>
Less: Accumulated depreciation				
Technology equipment	\$ 62,639	\$ 8,843	\$ -	\$ 71,482
Vehicles	38,240	-	-	38,240
General equipment	<u>369,541</u>	<u>5,731</u>	<u>65,354</u>	<u>309,917</u>
Total accumulated depreciation	\$ <u>470,420</u>	\$ <u>14,574</u>	\$ <u>65,354</u>	\$ <u>419,639</u>
 Business-Type Activities				
Capital Assets-net	\$ <u>101,259</u>	\$ <u>(14,574)</u>	\$ <u>156,603</u>	\$ <u>60,790</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

**NOTE E – BONDED DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the Estill County School District Finance Corporation aggregating \$24,975,000, and \$1,287,000 is the portion due within one year.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Estill County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

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

<u>Bond Issue Date</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2011 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2012 Outstanding Balance</u>
2007A Issue	\$ 6,275,000	1/1/2027	3.625-3.875%	\$ 5,340,000	\$ -	\$ 250,000	\$ 5,090,000
2010 BAB	5,630,000	9/1/2030	.7-5%	5,630,000	-	85,000	5,545,000
2010 QSCB	7,350,000	9/1/2027	4.94%	7,350,000	-	-	7,350,000
2012R	1,690,000	6/1/2024	1.0 - 2.25%	-	1,690,000	20,000	1,670,000
2003 Issue	490,000	6/1/2014	2-3.7%	166,000	-	51,000	115,000
2004 Issue	2,350,000	6/1/2024	3.5-4.75%	1,850,000	-	1,585,000	265,000
2004R Issue	6,760,000	8/1/2016	2-3.6%	4,865,000	-	740,000	4,125,000
2007B Issue	440,000	1/1/2028	4.15-4.2%	395,000	-	15,000	380,000
2009R	\$ 460,000	3/1/2018	3.50%	442,000	-	7,000	435,000
				\$ <u>26,038,000</u>	\$ <u>1,690,000</u>	\$ <u>2,753,000</u>	\$ <u>24,975,000</u>

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

*SEE SCHEDULE ON NEXT PAGE*

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year Ended <u>June 30</u>	<u>Principal</u>		<u>Urgent Need</u>		<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
	<u>Local</u>	<u>SFCC</u>	<u>Principal</u>	<u>Interest</u>	<u>Local</u>	<u>SFCC</u>	<u>Total</u>	<u>Total</u>
2013	\$ 772,115	\$ 300,508	\$ 214,377	\$ 616,514	\$ 264,308	\$ 137,572	\$ 1,287,000	\$ 1,018,394
2014	799,616	305,530	226,854	607,948	240,670	128,191	1,332,000	976,809
2015	823,299	289,090	234,611	598,910	214,252	118,386	1,347,000	931,549
2016	852,115	298,226	242,659	589,499	186,670	108,751	1,393,000	884,920
2017	882,693	284,298	251,009	579,675	157,082	100,853	1,418,000	837,610
2018-2022	927,964	1,295,858	1,409,178	2,729,178	638,964	395,819	3,633,000	3,763,961
2023-2027	915,793	1,099,716	1,704,491	2,389,082	577,845	191,687	3,720,000	3,158,614
2028-2031	9,556,603	1,258,397	30,000	305,088	196,388	34,084	10,845,000	535,560
	<u>\$ 15,530,198</u>	<u>\$ 5,131,623</u>	<u>\$ 4,313,179</u>	<u>\$ 8,415,894</u>	<u>\$ 2,476,180</u>	<u>\$ 1,215,343</u>	<u>\$ 24,975,000</u>	<u>\$ 12,107,417</u>

The District sold a 2010 Qualified School Construction Bond (QSCB bond) for which they are making semi-annual payments into an escrow account. These payments are being invested and accumulating interest for which will be used to retire the bond on September 21, 2027. As of June 30, 2012 the escrow account had accumulated \$74,394.

**NOTE F – ADVANCED REFUNDING OF THE 2004 BONDS**

The 2012 refunded bonds were issued to purchase an escrow scheduled to mature at such time and in such amounts as are necessary and will be adequate, with investment and reinvestment to meet the current scheduled principal and interest due beginning February 1, 2012 and will refund in advance of maturity the principal and interest due. The series 2004 called bonds will be paid on June 1, 2014. The proceeds of \$1,669,597 will be used to retire the 2004 bonds and will provide the District with a gross savings of \$168,195. The present value savings as a percentage of refunded principal of 9.928% is \$149,413.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE G – CAPITAL LEASE PAYABLE**

The following is an analysis of the leased property under capital lease by class:

<u>KISTA Issue Date</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2011 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2012 Outstanding Balance</u>
2009R	\$ 96,013	12/1/2011	1-2%	\$ 47,924	\$	\$ 47,924	\$ -
2012	463,299	3/1/2022	2.0 - 2.625%	-	463,299	-	463,299
2006 NMTC Issue	400,000	11/15/2011	0%	40,000		40,000	-
2006 Issue	\$ 132,792	3/1/2016	3.3-4%	<u>67,193</u>	<u></u>	<u>13,527</u>	<u>53,666</u>
				\$ <u>155,117</u>	\$ <u>463,299</u>	\$ <u>101,451</u>	\$ <u>516,965</u>

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

<u>Year Ending 30-Jun</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2013	\$ 64,356	\$ 12,361	\$ 76,717
2014	66,631	10,381	77,012
2015	56,173	8,795	64,968
2016	57,559	7,449	65,008
2017	45,582	6,041	51,623
2018-2022	<u>226,664</u>	<u>15,858</u>	<u>242,522</u>
	\$ <u>516,965</u>	\$ <u>60,884</u>	\$ <u>577,849</u>
Total minimum lease payments			\$ 577,849
Less: Amount representing interest			<u>(60,884)</u>
Present Value of Net Minimum Lease Payments			\$ 516,965

**NOTE H – RETIREMENT PLANS**

Kentucky Teachers' Retirement System

Plan Description – The Estill County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

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

*Funding Policy* – Contribution rates are established by KRS. Members before July 1, 2008 are required to contribute 10.35% of their salaries to KTRS and members after July 1, 2008 contribute 10.855%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 13.605% for members hired before July 1, 2008 and 14.105% for those hired after that date.

### **Medical Insurance Plan**

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

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

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

The Estill County Schools' total payroll for the year was \$14,397,463. The payroll for employees covered under KTRS was \$11,178,343. For the year ended June 30, 2012, the Commonwealth contributed \$1,244,757 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2012 were \$237,194, which represents those employees covered by federal programs.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District's required contributions (both withholding and match) for pension obligations to KTRS for the years ended June 30, 2012, 2011, and 2010 were \$1,719,145, \$1,715,172, and \$1,641,613 respectively.

### County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.96%. The District contributed \$587,683 of the employee's compensation during the fiscal year ended June 30, 2012.

The District's required contributions (both withholding and match) for pension obligation to CERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$747,305, \$608,716, and \$584,265 respectively.

### **NOTE I – COMMITMENTS**

The District has committed \$802,265 in the construction fund for construction projects.

### **NOTE J - CONTINGENCIES**

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

### **NOTE K - LITIGATION**

The Estill County School District currently has no pending litigation.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE L – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE M – RISK MANAGEMENT**

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

The District purchases unemployment insurance through the Kentucky School Districts 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 coverage in any of the past three fiscal years.

**NOTE N – DEFICIT FUND AND OPERATING BALANCES**

The following funds had an operating deficit at the end of the fiscal year causing a reduction in the fund balance.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Assets</u>
Construction	\$ (6,583,348)
Capital Outlay	\$ (86,224)

**NOTE O - 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).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE P – TRANSFER OF FUNDS**

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Special Revenue	\$ 52,770	KETS Matching Funds
General	Debt Service	63,184	Debt Payments
Capital Outlay	Debt Service	308,798	Debt Payments
FSPK	Debt Service	\$ 758,263	Debt Payments

**NOTE Q – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on – behalf of the Estill County School District for teacher’s retirement, health insurance, life insurance, administrative fees, technology, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$3,294,386 for the General Fund and \$145,390 for the School Food Service Fund.

**NOTE R – RESTRICTED FUND BALANCES**

The following funds had restricted fund balances as of June 30, 2012

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 2,713,738	Future Construction
Debt Service	74,395	QSCB Bond Escrow Account
Capital Outlay	185,041	School Facilities Construction Commission Requirement
FSPK	724,862	School Facilities Construction Commission Requirement
Permanent	\$ 427	Trust Agreement

**NOTE S – PRIOR PERIOD ADJUSTMENT**

The District had understated bond defeasance costs and bond discounts in the amounts of \$6,344 and \$235,915 respectively causing and understated of beginning net assets as follows:

Net Assets July 1, 2011	\$ 14,221,410
Prior Period Adjustment	242,258
Restated Net Assets July 1, 2011	<u>\$ 14,463,668</u>

**NOTE T – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through September 14, 2012, the date of the audit report.



Estill County School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2012

	<b>Other Governmental Fund Types</b>			
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Permanent</b>	<b>Total</b>
<b>Assets</b>				
Cash and Cash Equivalents	\$ 185,041	\$ 724,862	\$ 200,802	\$ 1,110,704
Total Assets	185,041	724,862	200,802	1,110,704
<b>Fund Balances</b>				
Restricted	185,041	724,862	427	910,330
Nonspendable	—	—	200,374	200,374
Total Fund Balances	\$ 185,041	\$ 724,862	\$ 200,802	\$ 1,110,704

See accompanying notes to the financial statements.

Estill County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**  
 Year ended June 30, 2012

	Other Governmental Fund Types			
	Capital Outlay	FSPK	Permanent	Total
<b>Revenues</b>				
From Local Sources				
Property Taxes	\$ -	\$ 497,932	\$ -	\$ 497,932
Earnings on investments			427	427
Intergovernmental - State	222,574	536,462		759,036
	222,574	536,462		759,036
Total Revenues	222,574	1,034,394	427	1,257,395
<b>Expenditures</b>				
Debt Service	-	-	-	-
Total Expenditures	-	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	222,574	1,034,394	427	1,257,395
<b>Other Financing Sources (Uses)</b>				
Transfers In/(Out) for Debt Service	(308,798)	(758,263)		(1,067,061)
Total Other Financing Sources (Uses)	(308,798)	(758,263)	-	(1,067,061)
<b>Net change in fund balances</b>	(86,224)	276,131	427	190,334
<b>Fund Balance beginning</b>	271,265	448,731	200,374	920,370
<b>Fund Balance ending</b>	\$ 185,041	\$ 724,862	\$ 200,802	\$ 1,110,704

See accompanying notes to the financial statements.

Estill County School District  
**Combining Balance Sheet - School Activity Funds, Trust, Scholarships**  
As of June 30, 2012

	<b>SCHOOL ACTIVITY FUNDS</b>							<b>FIDUCIARY FUND TOTAL</b>
	<u>ESTILL COUNTY HIGH SCHOOL</u>	<u>ESTILL COUNTY MIDDLE SCHOOL</u>	<u>ESTILL SPRINGS ELEMENTARY</u>	<u>SOUTH IRVINE ELEMENTARY</u>	<u>WEST IRVINE ELEMENTARY</u>	<u>TRUST</u>	<u>SCHOLARSHIPS</u>	
<b>ASSETS</b>								
Cash and cash equivalents	\$ 130,873	\$ 17,406	\$ 25,359	\$ 16,962	\$ 17,775	\$ 490	\$ 46,471	\$ 255,335
Total Assets	<u>130,873</u>	<u>17,406</u>	<u>25,359</u>	<u>16,962</u>	<u>17,775</u>	<u>490</u>	<u>46,471</u>	<u>255,335</u>
<b>LIABILITIES</b>								
Accounts payable	991	10	-	-	645			1,646
Total Liabilities	<u>991</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>645</u>	<u>-</u>	<u>-</u>	<u>1,646</u>
<b>FUND BALANCE</b>	<u>\$ 129,882</u>	<u>\$ 17,396</u>	<u>\$ 25,359</u>	<u>\$ 16,962</u>	<u>\$ 17,130</u>	<u>\$ 490</u>	<u>\$ 46,471</u>	<u>\$ 253,689</u>

See accompanying notes to the financial statements.

Estill County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance**  
**- School Activity Funds, Trust, Scholarships**  
For the period ended June 30, 2012

	<b>SCHOOL ACTIVITY FUNDS</b>							<b>FIDUCIARY FUND TOTAL</b>
	<b>ESTILL COUNTY HIGH SCHOOL</b>	<b>ESTILL COUNTY MIDDLE SCHOOL</b>	<b>ESTILL SPRINGS ELEMENTARY</b>	<b>SOUTH IRVINE ELEMENTARY</b>	<b>WEST IRVINE ELEMENTARY</b>	<b>TRUST</b>	<b>SCHOLARSHIPS</b>	
<b>REVENUES</b>								
Student revenues	\$ 194,246	\$ 71,882	\$ 85,940	\$ 37,576	\$ 39,278	\$ -	\$ -	\$ 428,923
Miscellaneous revenues							9,650	9,650
Earnings from investments							93	93
Total Revenues	<u>194,246</u>	<u>71,882</u>	<u>85,940</u>	<u>37,576</u>	<u>39,278</u>	<u>-</u>	<u>9,743</u>	<u>438,666</u>
<b>EXPENSES</b>								
Student activities	214,992	68,690	75,005	33,535	43,762			435,983
Instruction							4,850	4,850
Total Expenses	<u>214,992</u>	<u>68,690</u>	<u>75,005</u>	<u>33,535</u>	<u>43,762</u>	<u>-</u>	<u>4,850</u>	<u>440,834</u>
<b>Excess (Deficit) of Revenues Over Expenses</b>	(20,746)	3,192	10,935	4,042	(4,484)	-	4,893	(2,168)
<b>Fund balance July 1, 2011</b>	<u>150,628</u>	<u>14,203</u>	<u>14,424</u>	<u>12,920</u>	<u>21,614</u>	<u>490</u>	<u>41,578</u>	<u>255,857</u>
<b>Fund balance June 30, 2012</b>	<u>\$ 129,882</u>	<u>\$ 17,396</u>	<u>\$ 25,359</u>	<u>\$ 16,962</u>	<u>\$ 17,130</u>	<u>\$ 490</u>	<u>\$ 46,471</u>	<u>\$ 253,689</u>

See the accompanying notes to the financial statements.

Estill County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Estill County High School**  
For the period ended June 30, 2012

	<b>FUND BALANCE</b> <b>July 1, 2011</b>	<b>REVENUES</b>	<b>EXPENSES</b>	<b>TRANSFERS</b>	<b>FUND BALANCE</b> <b>June 30, 2012</b>
GENERAL FUND	\$ 23,474	\$ 410	\$ 253	\$ -	\$ 23,631
PARKING PERMITS	9,609	2,813	354	-	12,068
MISCELLANEOUS ACCOUNT	-	-	-	-	-
ADMINISTRATIVE FUNDS	48,535	2,256	4,693	(5,000)	41,098
FRESHMAN FUNDS	125	122	100	-	147
ENGINEER GUARANTY BANK	7	-	-	-	7
STUDENT VENDING	526	163	5,591	5,000	98
TEACHERS LOUNGE	1,918	4,847	3,304	-	3,461
STORE SALES	500	200	67	-	633
ATHLETIC	22,055	59,151	67,633	-	13,573
AGRICULTURE	2	-	-	-	2
ACADEMIC	170	-	25	-	145
GREENHOUSE	6,546	6,087	5,315	-	7,317
MUSIC	344	248	248	-	343
SPANISH	-	-	-	-	-
ART CLUB	279	-	271	-	8
AV-READING	1,197	300	140	-	1,357
BETA CLUB	2,536	9,998	11,169	-	1,365
COMPUTER GAMES	10	-	-	-	10
DECA	71	-	-	-	71
DESIGNER TICKETS	805	488	426	-	867
FBLA	10	21,828	21,068	-	769
FCA	103	296	272	-	127
FCCLA	2,172	7,168	8,561	-	778
FFA	3,162	6,238	8,738	-	662
FRENCH CLUB	803	-	-	-	803
GTO/RED CROSS	3	-	-	-	3
KEY CLUB	771	90	192	-	669
LITERARY ARTS	173	-	-	-	173
PEP CLUB	298	-	-	-	298
S.A.D.D.	501	75	502	-	74
SPEECH & DRAMA CLUB	634	-	-	-	634
STUDENT COUNCIL	2,630	90	358	-	2,361
CLASS OF 2003	290	-	-	-	290
CLASS OF 2004	387	-	-	-	387
CLASS OF 2005	2,043	-	-	-	2,043
CLASS OF 2006	31	-	-	-	31
CLASS OF 2007	258	-	-	-	258
CLASS OF 2008	941	-	-	-	941
CLASS OF 2009	1,201	-	-	-	1,201
CLASS OF 2010	1,007	-	-	-	1,007
CLASS OF 2011	955	-	-	-	955
CLASS OF 2012	3,011	1,395	3,259	-	1,147
CLASS OF 2013	89	6,484	2,870	-	3,703
LIBRARY COPIES	127	97	-	-	224
YEARBOOK	4,958	2,767	5,996	-	1,728
CHESS CLUB	237	-	-	-	237
VICA CLUB	35	-	-	-	35
GUIDANCE OFFICE	232	719	649	-	302
SENIOR TRIP	3,843	59,480	62,654	-	670
ECHS YOUNG DEMOCRATS	78	-	-	-	78
ECHS YOUNG REPUBLICANS	81	-	-	-	81
LOST BOOKS	716	-	-	-	716
TRAVEL CLUB	69	-	-	-	69
TATU	70	-	-	-	70
GREEN TEAM	3	-	-	-	3
ROTC	-	438	284	-	154
	<u>\$ 150,628</u>	<u>\$ 194,246</u>	<u>\$ 214,992</u>	<u>\$ -</u>	<u>\$ 129,882</u>

See accompanying notes to the financial statements.

ESTILL COUNTY SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2012

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Estill County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2012, the District had received food commodities totaling \$84,266.

ESTILL COUNTY BOARD OF EDUCATION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2012

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Total Expenditures
U.S. Department of Agriculture				
Passed through State Department of Agriculture				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 12		510.4950	\$ N/A	\$ 84,266
Passed through State Department of Education				
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 12		7750002 12	N/A	546,422
Fiscal Year 11		7750002 11	N/A	169,413
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 12		7760005 12	N/A	218,122
Fiscal Year 11		7760005 11	N/A	67,087
Child Nutrition Cluster Subtotal				<u>1,001,044</u>
Total U.S. Department of Agriculture				<u>1,085,310</u>
U.S. Department of Education				
Passed through State Department of Education				
* <b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 12		3100002 12	885,118	850,405
Fiscal Year 12D		3100002 12	205,000	101,503
Fiscal Year 12M		3100002 12	58,108	58,647
Fiscal Year 12T		3100002 12	10,000	9,063
Fiscal Year 11		3100002 11	872,631	85,417
Fiscal Year 11D		3100002 11	184,266	8,388
Fiscal Year 11M		3100002 11	60,209	1,006
Fiscal Year 11T		3100002 11	52,575	22,887
* <b>School Improvement Part A</b>	84.010A			
Fiscal Year 11		3100202 11	118,313	89,637
Fiscal Year 10		3100202 10	131,263	41,105
* <b>Title I Grants to Local Educational Agencies, Recovery Act</b>	84.389A			
Fiscal Year 10-ARRA		4100002 10	904,272	7,200
Title I Cluster Subtotal				<u>1,275,257</u>
* <b>Special Education Grants to States</b>	84.027A			
Fiscal Year 12		3810002 12	194,862	180,612
* <b>Special Education-Basic Plus Capacity Improvement</b>	84.027A			
Fiscal Year 12		3810002 12	574,198	384,411
Fiscal Year 11		3810002 11	575,243	225,001
* <b>Special Education Grants to States, Recovery Act</b>	84.391A			
Fiscal Year 10-ARRA		4810002 10	560,292	181,721
* <b>Special Education-Preschool, Recovery Act</b>	84.392A			
Fiscal Year 09-ARRA		4800002 09	37,683	37,683
* <b>Special Education-Preschool Grants</b>	84.173A			
Fiscal Year 12		3800002 12	50,961	4,210
Fiscal Year 11		3800002 11	50,960	41,627
Special Education Cluster Subtotal				<u>1,055,265</u>
<b>Vocation Education - Basic Grant to States</b>	84.048			
Fiscal Year 12		4621132 12	32,642	32,642
Fiscal Year 12S		4621132 12	384	384
Fiscal Year 11		4621132 11	24,087	1,273
Fiscal Year 11A		4621132 11	1562	1,562
Fiscal Year 10A		4621010 10	816	816
				<u>36,677</u>
<b>School Improvement Grants, Recovery Act</b>	84.388A			
Fiscal Year 10A		4100302 10	150,000	43,081
Fiscal Year 10B		4100302 10	150,000	139,214
				<u>182,296</u>
* <b>Education Jobs Fund</b>	84.410			
Fiscal Year 11		EJOB00 11	1,233,570	428,446
<b>State Fiscal Stabilization Fund Education State Grants, Recovery Act</b>	84.394			
Fiscal Year 11-ARRA		S39400 11	842,282	15,857
<b>Education Technology State Grants, Recovery Act</b>	84.386A			
Fiscal Year 10C-ARRA		4210002 10	67,824	6,493
Fiscal Year 09-ARRA		4210002 09	27,667	7,220
				<u>13,713</u>
<b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 12		3230002 12	194,738	190,370
Fiscal Year 11		3230002 11	229,057	5,083
Fiscal Year 10		3230002 10	231,175	914
				<u>196,366</u>

ESTILL COUNTY BOARD OF EDUCATION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2012

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Total Expenditures
<b>Rural Education</b>	84.358B			
Fiscal Year 12		3140002 12	53,488	748
Fiscal Year 11		3140002 11	66,892	14,934
Fiscal Year 10		3140002 10	64,945	64,233
Fiscal Year 09		3140002 09	63,055	617
				<u>80,532</u>
Passed through Berea College				
<b>Gaining Early Awareness and Readiness for Undergraduate Programs</b>	84.334A			
Fiscal Year 12A		3792A	29,096	23,337
Fiscal Year 12C		3792C	26,179	26,179
Fiscal Year 12D		3792D	26,101	26,101
Fiscal Year 12H		3792H	45,891	45,891
Fiscal Year 12K		3792K	16,860	16,860
Fiscal Year 12L		3792L	10,197	10,197
Fiscal Year 12M		3792M	43,492	37,332
Fiscal Year 12P		3792P	15,000	12,972
Fiscal Year 11H		3791H	68,499	20,780
Fiscal Year 11K		3791K	1,784	1,784
Fiscal Year 11P		3791P	5,711	5,711
Fiscal Year 11Y		3791Y	5,000	5,000
				<u>232,144</u>
Passed through Workforce Development Cabinet				
<b>Recruitment, Retention, and Results</b>	84.002			
Fiscal Year 11		3651	10,728	10,234
<b>Adult Education State Grant Program</b>	84.002			
Fiscal Year 12		3732	60,898	60,275
<b>Adult Education State Grant Program - Developmental Funds</b>	84.002			
Fiscal Year 12S		3732S	2,880	2,587
Total Adult Education				<u>73,096</u>
Total U.S. Department of Education				<u>3,589,649</u>
U.S. Department of Commerce				
Passed through Bluegrass Pride				
<b>Pride Grant-Wetlands Project</b>	11.420			
Fiscal Year 12A		2702A	9,365	5,768
Total U.S. Department of Commerce				<u>5,768</u>
U.S. Department of Energy				
Passed through the Kentucky School Board Association				
<b>"SEMP" School Energy Managers Project ARRA</b>	81.041			
Fiscal Year 12-ARRA		5692	39,394	39,394
Fiscal Year 11-ARRA		5691	46,766	23
Total U.S. Department of Energy				<u>39,417</u>
Corporation for National & Community Service				
Passed through the State Department of Education				
<b>Learn &amp; Serve America-School &amp; Community Based Programs</b>	94.004			
Fiscal Year 11		1000002 11	5,500	196
Fiscal Year 10		1000002 10	3,860	9
Total Corporation for National & Community Service				<u>204</u>
U.S. Department of Health and Human Services				
Passed Through Kentucky School Board Association				
<b>Medical Assistance Program</b>	93.778			
Fiscal Year 12		110.4810	60,656	60,656
Total U.S. Department of Health and Human Services				<u>60,656</u>
U.S. Department of Labor				
Passed through the State Department of Education				
<b>Jobs for Kentucky Graduates</b>	17.278			
Fiscal Year 12		273SR10 12	25,400	25,400
Total U.S. Department of Labor				<u>25,400</u>
Grand Totals of All Federal Programs				<b>\$ 4,806,403</b>

\* Major Programs



**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**

State Committee for School District Audits  
Estill County School District  
Irvine, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Estill County School District, as of and for the year ended June 30, 2012, which collectively comprise the Estill County School District's basic financial statements and have issued our report thereon dated September 14, 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 and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulation identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

### Compliance and Other Matters

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

We noted certain matters that we reported to management of the Estill County School District, in a separate letter dated September 14, 2012.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
September 14, 2012

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

State Committee for School District Audits  
Estill County School District  
Irvine, Kentucky

Compliance

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

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

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

## Internal Control Over Compliance

Management of Estill County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Estill County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Estill County School District's internal control over compliance.

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

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

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
September 14, 2012

ESTILL COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2012

**SUMMARY OF AUDITORS' RESULTS**

What type of report was issued for the financial statements?	Unqualified
Were there significant deficiencies in internal control disclosed?	No
If so, was any significant deficiencies material (GAGAS)?	N/A
Was any material noncompliance reported (GAGAS)?	No
Were there significant deficiencies in internal control disclosed For major programs?	No
If so, were any significant deficiencies material weaknesses?	N/A
What type of report was issued on compliance for major programs?	Unqualified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title I Cluster [CFDA 84.010A, 84.389A] Special Education Cluster [CFDA 84.027A, 84.391A, 84.392A 84.173A] Child Nutrition Cluster [CFDA 10.553, 10.555] Education Jobs Fund [CFDA 84.410]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

No findings at the major federal award programs level.

ESTILL COUNTY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2012

**FINDINGS - FINANCIAL STATEMENT AUDIT**

MATERIAL WEAKNESS

**Finding 11-1**

*Statement of Condition:* Identification by the auditor of significant adjustments needed between funds to properly adjust the financial statements for the period under audit that was not initially identified by the entity's internal control.

*Criteria for Condition:* Auditor adjustments.

*Cause of the Condition:* Complicated transactions between funds.

*Effect of the Condition:* Significant audit adjustments needed to properly report funds balance.

*Recommendation for Correction:* Monthly review of financial reports and general journal adjustments and the review of key transactions.

*Management Response to the Recommendation:* Management will review all financial reports and general journal adjustments.

*Subsequent Review:* This finding was corrected in fiscal year 2012.

SIGNIFICANT DEFICIENCY

**Finding 11-2**

*Statement of Condition:* Lack of segregation of duties in the cash reconciliation process.

*Criteria for the Condition:* Adequate segregation of responsibilities is required to safeguard the assets of the District. Reconciliation of deposits/credits shall be prepared by persons with no recording responsibilities for revenue. Reconciliation of obligations/debits of the District shall be prepared by persons with no recording responsibilities in payroll or accounts payable. Suggested adjusting entries shall be presented to the finance officer with supporting documentation and maintained on file for audit.

*Cause of the Condition:* The payroll clerk is involved in the reconciliation process causing inadequate segregation of duties.

*Effect of the Condition:* Lack of segregation of duties increases the risk of material misstatement in the financial statements.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

*Recommendation for Correction:* The District shall implement immediately reconciliation procedures sufficient to complete the reconciliation process quickly and efficiently. The reconciliation process shall begin upon receipt of the bank statements and adequately segregated as mentioned in the “criteria for the condition”. The bank reconciliation shall be completed within a few days of receipt of the bank statements and reviewed by the Superintendent upon completion.

*Management Response to the Recommendation:* Limited number of personnel in finance to adequately segregate duties.

*Subsequent Review:* This finding was corrected in fiscal year 2012.

**MANAGEMENT LETTER**

Estill County School District  
Irvine, Kentucky

In planning and performing our audit of the financial statements of the Estill County School District for the year ended June 30, 2012, we considered the District’s internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District’s internal control in our report dated September 14, 2012. This letter does not affect our report dated September 14, 2012, on the financial statements of the Estill County School District. The conditions observed are as follows:

ESTILL SPRINGS ELEMENTARY

No conditions

SOUTH IRVINE ELEMENTARY

No conditions

WEST IRVINE ELEMENTARY

1-12

Statement of Condition: Activity Fund account “Staff Vending” ended the fiscal year (June 30) with a deficit balance.

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to the Recommendation: The principal will more closely monitor balances in the Activity Fund. The school finance secretary will need to submit a weekly balance to the principal on Fridays of every week to assist in the monitoring process. Neither the principal nor school finance secretary were aware that money could be moved from another account to cover funds in staff vending, and reimburse once funds are available. This is something that will be more



closely monitored to ensure that the balance in each account and that of the end of the fiscal year does not end with deficit balance.

2-12

Statement of Condition: Several instances of teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: The principal will more closely monitor balances in the Activity Fund. The school finance secretary will need to submit a weekly balance to the principal on Fridays of every week to assist in the monitoring process. Neither the principal nor school finance secretary were aware that money could be moved from another account to cover funds in staff vending, and reimburse once funds are available. This is something that will be more closely monitored to ensure that the balance in each account and that of the end of the fiscal year does not end with deficit balance.

ESTILL COUNTY MIDDLE SCHOOL

3-12

Statement of Condition: Several instances of teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: The principal will more closely monitor to ensure that all sponsors/teachers are turning money in each day money is received. Procedures for handling/turning in money will be review with all staff during the next staff meeting. Principal will sign off on all deposits made EACH DAY so she can more closely monitor money that is turned in.

4-12

Statement of Condition: Annual Financial Report was not available from the Softball Booster Club. All other booster clubs were in compliance with the Kentucky Department of Education requirements.

Recommendation for Correction: The principal should notify each Support/Booster Organization of the requirement of turning in annual financial reports and insure these are received by July 25. Actions resulting from non-compliance shall be determined by the principal and district administrators.

Management Response to the Recommendation: Bank statements will be required when all booster clubs turn in their paperwork.

5-12

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on pencil machines.

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: Inventory Control Worksheets will be collected monthly as well as inventoried on a monthly basis.

ESTILL COUNTY HIGH SCHOOL

6-12

Statement of Condition: School bank is collecting “Yearbook” activity fund money as a receipt and allowing withdrawals for activity fund expenses.

Recommendation for Correction: The bank should cease collecting any monies related to an activity that goes through the school’s activity fund account.

Management Response to the Recommendation: All Yearbook money will be deposited and expended through the activity fund.

DISTRICT WIDE

7-12

Statement of Condition: There were several instances of purchases being made without pre-authorization. Although the majority of expenditures included board mandated purchase orders, the approval date on the purchase order was later than the invoice date. Board policies and procedures direct that all purchases must have a purchase order showing authorization and availability of funds before the purchase takes place.

Recommendation for Correction: Board policies and procedures for purchases shall be followed.

Management Response to the Recommendation: Food Service will obtain purchase orders before purchases take place.

We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We would like to add that we have seen a tremendous improvement from the previous year throughout all the schools in the area of internal control compliance.

Condition 2-12 was a repeat condition from the prior year. All other prior year conditions have been implemented and corrected. Mr. Bert Hensley, Superintendent is the person responsible for

initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
September 14, 2012