

ADAIR COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012**

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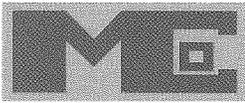
REPORT OF INDEPENDENT AUDITORS

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**MATHER
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
Suite 200
9100 Shelbyville Rd
Louisville, KY 40222

REPORT OF INDEPENDENT AUDITORS

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to 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, and each major fund of the District as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012, on our consideration of the 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, and budgetary comparison information on pages 3 through 13 and 41 through 42, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. The accompanying schedule of expenditures of federal awards 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 schedule of expenditures of federal awards, and the schedules of receipts, disbursements, and due to student groups 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 as a whole.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 5, 2012

ADAIR COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) **Year ended June 30, 2012**

The Adair County Board of Education offers the following narrative of the financial statements 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 reports.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$1,947,921 which includes General Fund balance of \$1,312,001, Facility Support (FSPK) of \$182,863, Capital Outlay of \$365,144, and Construction of \$87,913.
- The General Fund had \$18,979,505 in revenue, which primarily consisted of the State program (SEEK), property, utilities, and motor vehicle taxes.
- The District received EDUJOBS funds to retain teachers to meet the educational goals of our students.
- The District began work on a new Elementary School to house grades Kindergarten through Second grade.
- The District purchased a new handicap bus.
- The District received for a second year a School Improvement Grant to hire a Curriculum Specialist at the Middle School to help improve student achievement.

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 basic financial statements.

The government-wide financial statements are designed to provide an 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. The increases or decreases in assets and liabilities over time will be helpful in determining the financial status of the District.

The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenue. The government-wide financial statements of the District include instruction, support services, plant and operations, 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 statements can be found on pages 8 and 9 of this report.

Fund financial statements are a grouping of related accounts that are used to maintain control over resources for specific activities and objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure compliance with financial and legal requirements. All of the District's funds are divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are to be set up to help aid in supporting students and teachers in the education process. The proprietary funds are our school food service operations. All other activities of the District are considered as governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 17 of this report.

The notes provide additional information to the understanding of the data provided within our financial statements. The notes for the financial statements can be found on pages 18 through 34 of this report.

| | |
|--------------------------|---------------|
| Total Assets | \$ 25,097,100 |
| Total Liabilities | \$ 17,469,399 |
| Total Net Assets | \$ 7,627,701 |

Comments on Budget Comparisons

- The District's 2012 revenues were \$24,763,138.
- The District's 2012 total expenditures were \$24,762,635.
- The fund balance at the end of the 2012 fiscal year for the General Fund was \$1,540,549. This is approximately a 6% contingency.

The following table is a summary/breakdown of the District's General Fund revenue and expenditures for the year ended June 30, 2012.

| | |
|---------------------------|-------------------|
| Revenues | |
| Local revenue | \$ 4,021,972 |
| State and Federal revenue | <u>14,957,533</u> |
| Total revenues | 18,979,505 |

Expenditures

| | |
|--------------------------------------|----------------|
| Instruction | \$ 11,010,417 |
| Student | 673,295 |
| Instructional staff | 629,450 |
| District administration | 723,580 |
| School administration | 1,124,057 |
| Business | 257,021 |
| Plant and operations and maintenance | 1,944,790 |
| Student transportation | 1,789,826 |
| Community services | 46,607 |
| Debt service | <u>429,344</u> |

Total expenditures18,628,387**Excess revenues over expenditures**\$ 351,118**Total Governmental Funds**

| | |
|----------------|-------------------|
| Total Revenue | \$ 24,763,138 |
| Total Expenses | <u>24,762,635</u> |

Excess revenues over expenditures\$ 503**Grant (Fund II) Information**

The following is a list of significant Grants and the amount that were received during the 2012 fiscal year.

State Grants

| | |
|--------------------------|------------|
| KECSAC | \$ 246,960 |
| Extended School Services | 29,925 |
| Family Resource Centers | 218,604 |
| Gifted and Talented | 40,091 |
| Kera-Preschool | 537,752 |
| Professional Development | 10,038 |
| Textbooks | 20,000 |
| School Safety | 16,509 |
| Adult Education | 108,707 |
| KY ASAP | 15,400 |
| KETS | 51,968 |

Federal Grants

| | |
|----------------|--------------|
| Title I | \$ 1,147,296 |
| Migrant | 145,000 |
| Title I-Part D | 14,689 |

Federal Grants (continued)

| | | |
|----------------------------|----|---------|
| Title I – Part D Subpart 2 | \$ | 74,010 |
| School Improvement | | 33,975 |
| Idea B Basic | | 533,568 |
| Idea B Preschool | | 24,768 |
| Vocational Education | | 35,169 |
| Rural and Low Income | | 54,898 |
| Adult Education | | 76,991 |
| Title II – Quality Teacher | | 187,874 |
| 21 st Century | | 75,000 |

Local Grants

| | | |
|------------|----|--------|
| WHAS Grant | \$ | 52,500 |
|------------|----|--------|

The Title I grant was allocated to our elementary schools, our intermediate school, and our middle school. These supplemental funds are used for salaries, supplies, parent involvement activities, travel, and professional development. These funds are used school wide. The primary focus of the Title I program is based on the academic need of each individual school.

The Vocational Funds are allocated between the Business Department, the Vocational Ag. Department, the Technology Department, and the Home Ec. Department at the Adair County High School. These funds were used for equipment, computers, and travel for the teachers.

The IDEA B, IDEA B Preschool, and KERA Preschool funds are generated on the December 1 child count. These funds are used for salaries, supplies, special equipment, professional development, consultant fees, and travel expenses.

The Title II – Quality Teacher Grant is allocated to three of our elementary schools. This grant is used for certified salaries. This grant helps in staff reduction at each of these schools.

The District also receives funds for Adult Education Programs. These funds help with not only the adults in our community; the funds are also used to help provide educational services to the local jail inmates.

The WHAS Grant funds were used to pay part of the salary for a speech pathologist.

The KECSAC funds are used at the Adair County Youth Development Center. These funds are used for salaries for teachers and supplies for the students housed at that facility.

The 21st Century funds are used at Col. William Casey after school programs that help to make those students more rounded.

School Food Services Fund

| | |
|---------------------------------|---------------------|
| Food Service Operating Revenue: | |
| Lunch Sales | \$ 423,042 |
| Federal Grants | 1,023,501 |
| State Grants | 14,996 |
| Interest | <u>2,411</u> |
| Total | <u>\$ 1,463,950</u> |
| Total Expenses: | |
| Salaries, wages and benefits | \$ 593,549 |
| Materials and supplies | 823,607 |
| Depreciation | <u>37,976</u> |
| Total | <u>\$ 1,455,132</u> |
| Net assets as of June 30, 2012 | <u>\$ 404,407</u> |

If you have any questions, please contact the Superintendent or Finance Director at (270) 384-2476, or 1204 Greensburg Street, Columbia, Kentucky 42728.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

| | Governmental <u>Activities</u> | Business- Type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|--|---------------------|
| ASSETS | | | |
| Cash | \$ 1,947,921 | \$ 213,644 | \$ 2,161,565 |
| Receivables: | | | |
| Taxes | 108,895 | - | 108,895 |
| Other | 3,065 | - | 3,065 |
| Intergovernmental – State | 87,894 | - | 87,894 |
| Intergovernmental – Federal | 212,884 | - | 212,884 |
| Net bond issue costs | 253,889 | - | 253,889 |
| Net capital assets | <u>22,482,552</u> | <u>190,763</u> | <u>22,673,315</u> |
| Total assets | 25,097,100 | 404,407 | 25,501,507 |
| LIABILITIES | | | |
| Accounts payable | 49,617 | - | 49,617 |
| Deferred revenue | 100,573 | - | 100,573 |
| Current maturities of bond obligations | 1,204,187 | - | 1,204,187 |
| Current portion of accumulated sick leave | 34,000 | - | 34,000 |
| Interest payable | 224,663 | - | 224,663 |
| Noncurrent maturities of bond obligations | 14,918,359 | - | 14,918,359 |
| Noncurrent portion of accumulated sick leave | <u>938,000</u> | <u>-</u> | <u>938,000</u> |
| Total liabilities | <u>17,469,399</u> | <u>-</u> | <u>17,469,399</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 6,135,343 | 190,763 | 6,326,106 |
| Restricted for: | | | |
| Capital expenditures | 87,913 | - | 87,913 |
| Capital expenditures/debt service | 548,007 | - | 548,007 |
| Unrestricted | <u>856,438</u> | <u>213,644</u> | <u>1,070,082</u> |
| Total net assets | <u>\$ 7,627,701</u> | <u>\$ 404,407</u> | <u>\$ 8,032,108</u> |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year ended June 30, 2012

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|---------------------------------------|----------------------|----------------------------|--|--|--|---------------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | |
| FUNCTIONS/PROGRAMS | | | | | | | |
| Governmental activities | | | | | | | |
| Instruction | \$ 15,108,739 | \$ - | \$ 6,501,483 | \$ - | \$ (8,607,256) | \$ - | \$ (8,607,256) |
| Student | 690,707 | - | 137,139 | - | (553,568) | - | (553,568) |
| Instructional staff | 1,095,962 | - | 654,115 | - | (441,847) | - | (441,847) |
| District administration | 740,540 | - | 106,520 | - | (634,020) | - | (634,020) |
| School administration | 1,128,906 | - | 197,536 | - | (931,370) | - | (931,370) |
| Business | 258,802 | - | 45,041 | - | (213,761) | - | (213,761) |
| Plant operations and maintenance | 2,252,030 | - | 334,413 | - | (1,917,617) | - | (1,917,617) |
| Student transportation | 2,050,704 | - | 483,344 | - | (1,567,360) | - | (1,567,360) |
| Community services | 266,675 | - | 265,211 | - | (1,464) | - | (1,464) |
| Interest | 644,606 | - | - | 644,606 | - | - | - |
| Total governmental activities | 24,237,671 | - | 8,724,802 | 644,606 | (14,868,263) | - | (14,868,263) |
| Business-type activities | | | | | | | |
| Food service | 1,455,132 | 423,042 | 1,038,497 | - | - | 6,407 | 6,407 |
| Total business-type activities | 1,455,132 | 423,042 | 1,038,497 | - | - | 6,407 | 6,407 |
| Total primary government | \$ 25,692,803 | \$ 423,042 | \$ 9,763,299 | \$ 644,606 | (14,868,263) | 6,407 | (14,861,856) |
| General revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property | | | | | 2,884,911 | - | 2,884,911 |
| Motor vehicle | | | | | 455,874 | - | 455,874 |
| Utilities | | | | | 922,292 | - | 922,292 |
| Earnings on investments | | | | | 75,593 | 2,411 | 78,004 |
| State grants | | | | | 11,855,733 | - | 11,855,733 |
| Federal grants | | | | | 37,994 | - | 37,994 |
| Other local amounts | | | | | 82,351 | - | 82,351 |
| Total general revenues | | | | | 16,314,748 | 2,411 | 16,317,159 |
| Change in net assets | | | | | 1,446,485 | 8,818 | 1,455,303 |
| Net assets as of July 1, 2011, | | | | | 6,181,216 | 395,589 | 6,576,805 |
| Net assets as of June 30, 2012 | | | | | \$ 7,627,701 | \$ 404,407 | \$ 8,032,108 |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2012

| | General Fund | Special Revenue Funds | SEEK Capital Outlay Fund | Facility Support Program (FSPK) Fund | School Construction Fund | Total Governmental Funds |
|--|---------------------|-----------------------------|-----------------------------------|--|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash | \$ 1,312,001 | \$ - | \$ 365,144 | \$ 182,863 | \$ 87,913 | \$ 1,947,921 |
| Receivables: | | | | | | |
| Taxes | 108,895 | - | - | - | - | 108,895 |
| Other | 3,065 | - | - | - | - | 3,065 |
| Intergovernmental – State | - | 87,894 | - | - | - | 87,894 |
| Intergovernmental – Federal | - | 212,884 | - | - | - | 212,884 |
| Due from Special Revenue Funds | <u>200,205</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>200,205</u> |
| Total assets | <u>\$ 1,624,166</u> | <u>\$ 300,778</u> | <u>\$ 365,144</u> | <u>\$ 182,863</u> | <u>\$ 87,913</u> | <u>\$ 2,560,864</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 49,617 | \$ - | \$ - | \$ - | \$ - | \$ 49,617 |
| Due to General Fund | - | 200,205 | - | - | - | 200,205 |
| Deferred revenue | - | 100,573 | - | - | - | 100,573 |
| Current portion of accumulated sick leave | <u>34,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>34,000</u> |
| Total liabilities | 83,617 | 300,778 | - | - | - | 384,395 |
| Fund balances | | | | | | |
| Restricted for: | | | | | | |
| Capital expenditures | - | - | - | - | 87,913 | 87,913 |
| Capital expenditures/ debt service | - | - | 365,144 | 182,863 | - | 548,007 |
| Unassigned | <u>1,540,549</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,540,549</u> |
| Total fund balances | <u>1,540,549</u> | <u>-</u> | <u>365,144</u> | <u>182,863</u> | <u>87,913</u> | <u>2,176,469</u> |
| Total liabilities and fund balances | <u>\$ 1,624,166</u> | <u>\$ 300,778</u> | <u>\$ 365,144</u> | <u>\$ 182,863</u> | <u>\$ 87,913</u> | <u>\$ 2,560,864</u> |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

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

June 30, 2012

| | |
|--|---------------------|
| Total fund balances – governmental funds | \$ 2,176,469 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$39,731,272, and the accumulated depreciation is \$17,248,720. | 22,482,552 |
| Bond issue costs are not current financial resources and therefore are not reported as assets in governmental funds. | 253,889 |
| Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net assets. | (16,122,546) |
| Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets. | (938,000) |
| Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets. | <u>(224,663)</u> |
| Total net assets – governmental activities | <u>\$ 7,627,701</u> |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2012**

| | General Fund | Special Revenue Funds | SEEK Capital Outlay Fund | Facility Support Program (FSPK) Fund | School Construction Fund | Total Governmental Funds |
|---|---------------------|-----------------------------|-----------------------------------|--|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| From local sources: | | | | | | |
| Taxes: | | | | | | |
| Property | \$ 2,531,146 | \$ - | \$ - | \$ 353,765 | \$ - | \$ 2,884,911 |
| Motor vehicle | 455,874 | - | - | - | - | 455,874 |
| Utilities | 922,292 | - | - | - | - | 922,292 |
| Earnings on investments | 63,872 | 2,354 | 6,375 | 2,992 | - | 75,593 |
| Other local | 48,788 | 87,323 | - | - | - | 136,111 |
| Intergovernmental – State | 14,919,539 | 1,352,338 | 229,174 | 460,701 | - | 16,961,752 |
| Intergovernmental – Federal | <u>37,994</u> | <u>3,288,611</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,326,605</u> |
| Total revenues | 18,979,505 | 4,730,626 | 235,549 | 817,458 | - | 24,763,138 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| Instruction | 11,010,417 | 3,890,035 | - | - | - | 14,900,452 |
| Student | 673,295 | 16,005 | - | - | - | 689,300 |
| Instructional staff | 629,450 | 462,286 | - | - | - | 1,091,736 |
| District administration | 723,580 | - | - | - | - | 723,580 |
| School administration | 1,124,057 | - | - | - | - | 1,124,057 |
| Business | 257,021 | - | - | - | - | 257,021 |
| Plant operations and maintenance | 1,944,790 | - | - | - | - | 1,944,790 |
| Student transportation | 1,789,826 | 143,696 | - | - | - | 1,933,522 |
| Community services | 46,607 | 218,604 | - | - | - | 265,211 |
| Facilities acquisition and construction | - | - | - | - | 548,299 | 548,299 |
| Debt service | <u>429,344</u> | <u>-</u> | <u>20,020</u> | <u>835,303</u> | <u>-</u> | <u>1,284,667</u> |
| Total expenditures | <u>18,628,387</u> | <u>4,730,626</u> | <u>20,020</u> | <u>835,303</u> | <u>548,299</u> | <u>24,762,635</u> |
| Excess (deficit) of revenues over (under) expenditures | 351,118 | - | 215,529 | (17,845) | (548,299) | 503 |
| Other financing sources (uses) | | | | | | |
| Operating transfers in | 229,174 | - | - | - | - | 229,174 |
| Operating transfers out | - | - | (229,174) | - | - | (229,174) |
| Other | <u>33,562</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>33,562</u> |
| Total other financing sources (uses) | <u>262,736</u> | <u>-</u> | <u>(229,174)</u> | <u>-</u> | <u>-</u> | <u>33,562</u> |
| Net change in fund balance | 613,854 | - | (13,645) | (17,845) | (548,299) | 34,065 |
| Fund balance as of July 1, 2011 | <u>926,695</u> | <u>-</u> | <u>378,789</u> | <u>200,708</u> | <u>636,212</u> | <u>2,142,404</u> |
| Fund balance as of June 30, 2012 | <u>\$ 1,540,549</u> | <u>\$ -</u> | <u>\$ 365,144</u> | <u>\$ 182,863</u> | <u>\$ 87,913</u> | <u>\$ 2,176,469</u> |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2012**

| | |
|--|---------------------|
| Net change in total fund balances – governmental funds | \$ 34,065 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are presented as assets in the statement of net assets and depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities. The difference is the amount by which depreciation expense (\$1,001,915) and net disposals (\$640) exceed capital outlays (\$882,720) for the year. | (119,835) |
| Bond issuance costs are reported as expenditures in the governmental fund financial statements, but are capitalized and amortized over the life of the related bonds in the statement of activities. | (29,262) |
| Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net assets and statement of activities, respectively. | 911,171 |
| Bond payments made by the Commonwealth of Kentucky are not recorded as revenue in the governmental fund financial statements, but are reported as revenue in the statement of activities. | 616,346 |
| Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources. | <u>34,000</u> |
| Change in net assets – governmental activities | <u>\$ 1,446,485</u> |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUND

June 30, 2012

| | School Food Service <u>Fund</u> |
|-------------------------------|--|
| ASSETS | |
| Current assets | |
| Cash | \$ <u>213,644</u> |
| Total current assets | 213,644 |
| Noncurrent assets | |
| Capital assets | 876,532 |
| Less accumulated depreciation | <u>685,769</u> |
| Total noncurrent assets | <u>190,763</u> |
| Total assets | 404,407 |
| NET ASSETS | |
| Invested in capital assets | 190,763 |
| Unrestricted | <u>213,644</u> |
| Total net assets | <u>\$ 404,407</u> |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS –
PROPRIETARY FUND
Year ended June 30, 2012**

| | School Food Service <u>Fund</u> |
|---------------------------------------|--|
| Operating revenues | |
| Lunchroom sales | \$ 423,042 |
| Operating expenses | |
| Salaries, wages, and benefits | 593,549 |
| Materials and supplies | 823,607 |
| Depreciation | <u>37,976</u> |
| Total operating expenses | <u>1,455,132</u> |
| Operating loss | (1,032,090) |
| Nonoperating revenues | |
| Federal grants | 1,023,501 |
| State grants | 14,996 |
| Interest income | <u>2,411</u> |
| Total nonoperating revenues | <u>1,040,908</u> |
| Change in net assets | 8,818 |
| Net assets as of July 1, 2011 | <u>395,589</u> |
| Net assets as of June 30, 2012 | <u>\$ 404,407</u> |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year ended June 30, 2012

| | School Food Service Fund |
|---|-----------------------------------|
| Cash flows from operating activities | |
| Cash received from: | |
| Lunchroom sales | \$ 423,042 |
| Cash paid to/for: | |
| Employees | (593,549) |
| Materials and supplies | <u>(823,607)</u> |
| Net cash used in operating activities | (994,114) |
| Cash flows from noncapital financing activities | |
| Government grants | <u>1,038,497</u> |
| Net cash provided by noncapital financing activities | 1,038,497 |
| Cash flows from capital and related financing activities | |
| Capital asset purchases | <u>(4,332)</u> |
| Net cash used in capital and related financing activities | (4,332) |
| Cash flows from investing activities | |
| Receipt of interest income | <u>2,411</u> |
| Net cash provided by investing activities | <u>2,411</u> |
| Net increase in cash | 42,462 |
| Cash as of July 1, 2011 | <u>171,182</u> |
| Cash as of June 30, 2012 | <u>\$ 213,644</u> |
| Reconciliation of operating loss to net cash used in operating activities | |
| Operating loss | \$ (1,032,090) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation | <u>37,976</u> |
| Net cash used in operating activities | <u>\$ (994,114)</u> |
| Schedule of noncash transactions | |
| Donated commodities | \$ 55,184 |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – FIDUCIARY FUND

June 30, 2012

| | <u>Student Activity Funds</u> |
|--------------------------|---------------------------------------|
| ASSETS | |
| Cash | \$ <u>164,878</u> |
| Total assets | 164,878 |
| LIABILITIES | |
| Accounts payable | 833 |
| Due to student groups | <u>164,045</u> |
| Total liabilities | <u>164,878</u> |
| NET ASSETS | <u>\$ -</u> |

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2012

1. Basis of presentation and summary of significant accounting policies

Reporting entity – The Adair 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 Adair County School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental reporting entity, and its 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 District's operation. The basic financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The District's basic financial statements 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 basic financial statements of the following organization are included in the accompanying basic financial statements:

Adair County School District Finance Corporation – The Adair County, Kentucky, Board of Education established the Adair County School District Finance Corporation (Corporation) (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Adair County Board of Education also comprise the Corporation's Board of Directors.

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 District's financial activities, except for fiduciary funds. The statements distinguish between those District activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities, and each segment of the District's business-type activities. Direct expenses are those that are specifically associated with a service, program, or function. The District does not charge indirect expenses to programs or functions. 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 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 District's general revenues.

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's principal operations. The fund's principal operating revenues are food service charges. Operating expenses include food production costs, supplies and materials, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds. Additionally, the District has determined certain other funds should be reported as major funds.

The District has the following funds:

a. Governmental fund types

The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.

Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as capital outlay funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations). This is a major fund of the District.
2. The Facility Support Program (FSPK) Fund accounts for and reports funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The School Construction Fund accounts for and reports proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

b. *Proprietary fund type*

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

The District applies all governmental accounting standards, as well as the financial accounting standards issued on or before November 30, 1989 to proprietary funds, unless those financial accounting standards conflict with or contradict governmental accounting standards.

c. *Fiduciary fund type*

The Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds*.

Budgetary process – The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General Fund in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Inventories – Supplies and materials are charged to expense when purchased (purchases method).

Prepaid expenses – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. No prepaid expenses were recorded as of June 30, 2012.

Bond issue costs – Costs associated with the issuance of bond obligations, including underwriter fees, fiscal and rating agency fees, paying agent fees, and attorney fees are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. 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 interfund balances.

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

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers and related equipment 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 asset's life are not.

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

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

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 in 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 if they will be liquidated with current resources. In general, payments made within 60 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.

Deferred revenue – Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Accumulated sick leave – Sick leave benefits are calculated using the vesting method, and accrued based on the District’s estimates using historical trend information. The current portion of the liability is estimated based on the anticipated payouts in the succeeding fiscal year.

Fund balances – The District classifies its governmental fund balances as follows:

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2012.

Restricted – This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund and the FSPK Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects.

Committed – This category includes funds that have been designated for future projects by the Board. Only the Board may commit funds and modify or rescind the commitment. The District does not have any committed funds as of June 30, 2012.

Assigned – This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management. The District does not have any assigned funds as of June 30, 2012.

Unassigned – This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classifications.

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District generally spends committed funds first, assigned funds second, and unassigned funds last.

When the District incurs an expenditure for which restricted and unrestricted (assigned and unassigned, respectively) funds are available within a given fund, the District generally spends restricted funds first and unrestricted funds last.

Net assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds. These transactions are eliminated in the governmental and business-type activities columns of the statement of activities.

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

Estimates – The preparation of basic financial statements requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent events – The District’s management has evaluated subsequent events through November 5, 2012, the date which the financial statements were available for issue.

New accounting pronouncements – In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and in March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 63 amends previous pronouncements and incorporates deferred outflows of resources and deferred inflows of resources, as defined in Concepts Statement No. 4, *Elements of Financial Statements*, into the required components of the statement of financial position’s (formerly statement of net assets) residual measure and renames that measure net position, rather than net assets. Statement No. 65 establishes accounting and financial reporting standards that reclassify certain items previously classified as assets and liabilities as deferred outflows and deferred inflows of resources. Statement No. 63 is effective for years beginning after December 15, 2011, and Statement No. 65 is effective for years beginning after December 15, 2012. The District has not determined the potential impact these pronouncements will have on its future financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement No. 68 replaces previous requirements related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of Statement No. 68 is to improve accounting and financial reporting for pensions provided to the employees of state and local governments, and information about financial support for pensions that is provided by other entities. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement also provides related note disclosure and supplementary information requirements. Statement No. 68 is effective for years beginning after December 15, 2014. The District has not determined the potential impact, if any, this pronouncement will have on its future financial statements.

2. Deposits with financial institutions

As of June 30, 2012, the carrying amount of the District's deposits with financial institutions was \$2,326,443, and its bank balances totaled \$3,756,777. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

Cash is commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and financial assistance programs, each cash amount within the following funds is considered to be restricted:

SEEK Capital Outlay Fund
 Facility Support Program (FSPK) Fund
 School Construction Fund
 Student Activity Funds

District funds are considered to be public funds and therefore their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

3. Taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2012 were \$.462 per \$100 valuation for real property, \$.462 per \$100 valuation for business personal property, and \$.563 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.

4. Capital assets

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

| <u>Governmental Activities</u> | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance June 30, 2012</u> |
|--------------------------------|---------------------------------|------------------|------------------|----------------------------------|
| Land | \$ 821,256 | \$ - | \$ - | \$ 821,256 |
| Buildings and improvements | 30,040,220 | - | - | 30,040,220 |
| Technology equipment | 3,072,528 | 272,331 | 137,473 | 3,207,386 |
| Vehicles | 4,012,264 | 62,091 | - | 4,074,355 |
| General equipment | 1,040,262 | - | 505 | 1,039,757 |
| Construction in progress | <u>-</u> | <u>548,298</u> | <u>-</u> | <u>548,298</u> |
| Total cost | 38,986,530 | 882,720 | 137,978 | 39,731,272 |

| <u>Governmental Activities</u> | Balance July 1, 2011 | Additions | Disposals | Balance June 30, 2012 |
|--|-------------------------|---------------------|----------------|--------------------------|
| Less accumulated depreciation: | | | | |
| Buildings and improvements | \$ 9,578,437 | \$ 659,786 | \$ - | \$ 10,238,223 |
| Technology equipment | 2,801,002 | 144,867 | 136,984 | 2,808,885 |
| Vehicles | 3,038,917 | 185,107 | - | 3,224,024 |
| General equipment | <u>965,787</u> | <u>12,155</u> | <u>354</u> | <u>977,588</u> |
| Total accumulated depreciation | <u>16,384,143</u> | <u>1,001,915</u> | <u>137,338</u> | <u>17,248,720</u> |
| Governmental activities net capital assets | <u>\$ 22,602,387</u> | <u>\$ (119,195)</u> | <u>\$ 640</u> | <u>\$ 22,482,552</u> |
| <u>Business-Type Activities</u> | | | | |
| Food service equipment | \$ 888,800 | \$ 4,332 | \$ 16,600 | \$ 876,532 |
| Less accumulated depreciation: | | | | |
| Food service equipment | <u>664,393</u> | <u>37,976</u> | <u>16,600</u> | <u>685,769</u> |
| Business-type activities net capital assets | <u>\$ 224,407</u> | <u>\$ (33,644)</u> | <u>\$ -</u> | <u>\$ 190,763</u> |

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

| | |
|----------------------------------|---------------------|
| Instruction | \$ 494,961 |
| Student | 527 |
| Instructional staff | 2,833 |
| District administration | 16,037 |
| School administration | 3,415 |
| Business | 1,453 |
| Plant operations and maintenance | 304,758 |
| Student transportation | 176,805 |
| Community services | <u>1,126</u> |
| Total depreciation expense | <u>\$ 1,001,915</u> |

5. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Adair County School District Finance Corporation.

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

| <u>Issue</u> | <u>Proceeds</u> | <u>Interest Rates</u> |
|----------------|-----------------|-----------------------|
| 1999 | \$ 5,430,000 | 3.50 – 4.35% |
| 2000 KISTA | 505,000 | 4.70 – 5.80% |
| 2001 KISTA | 185,506 | 3.50 – 4.70% |
| 2002 KISTA | 465,000 | 2.00 – 4.90% |
| 2003 KISTA | 425,000 | 1.50 – 4.65% |
| 2003 KISTA | 167,672 | 2.00 – 3.90% |
| 2004 | 820,000 | 1.20 – 3.70% |
| 2004 KISTA | 185,310 | 1.00 – 3.50% |
| 2005 KISTA | 220,529 | 3.00 – 3.625% |
| 2005 Energy | 2,275,000 | 2.25 – 4.40% |
| 2005 | 11,240,000 | 2.55 – 4.25% |
| 2006 KISTA | 256,465 | 3.30 – 4.00% |
| 2006 KISTA | 337,705 | 3.50 – 3.875% |
| 2006 Energy | 500,000 | 4.00 – 4.50% |
| 2008 KISTA | 239,118 | 3.00 – 3.75% |
| 2009 Refunding | 2,530,000 | 2.00 – 3.25% |
| 2010 KISTA | 197,949 | 2.00 – 3.60% |
| 2011 KISTA | 172,266 | 1.00 – 4.00% |

The District, through the General Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Adair 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.

For the 1999, 2004, 2005, and 2009 bond issues, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum

obligations, including amounts to be paid by the Commission, as of June 30, 2012 for debt service (principal and interest) are as follows:

| Fiscal Year Ending | Adair County School District | | Kentucky School Facility Construction Commission | | Total |
|--------------------------|---------------------------------|---------------------|---|---------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2013 | \$ 738,083 | \$ 352,367 | \$ 466,104 | \$ 250,468 | \$ 1,807,022 |
| 2014 | 752,546 | 326,392 | 480,738 | 235,833 | 1,795,509 |
| 2015 | 758,178 | 298,981 | 488,514 | 219,926 | 1,765,599 |
| 2016 | 772,301 | 269,840 | 477,894 | 203,572 | 1,723,607 |
| 2017 | 780,741 | 239,004 | 495,254 | 186,213 | 1,701,212 |
| 2018 | 786,788 | 207,388 | 514,200 | 167,266 | 1,675,642 |
| 2019 | 688,674 | 177,829 | 533,947 | 147,519 | 1,547,969 |
| 2020 | 717,967 | 149,970 | 554,546 | 126,921 | 1,549,404 |
| 2021 | 684,250 | 120,513 | 537,821 | 106,037 | 1,448,621 |
| 2022 | 537,569 | 95,679 | 455,431 | 86,548 | 1,175,227 |
| 2023 | 571,676 | 72,463 | 474,324 | 67,656 | 1,186,119 |
| 2024 | 614,698 | 47,417 | 494,302 | 47,678 | 1,204,095 |
| 2025 | 401,880 | 26,164 | 515,120 | 26,859 | 970,023 |
| 2026 | 386,438 | 9,938 | 393,562 | 8,117 | 798,055 |
| 2027 | 49,000 | 992 | - | - | 49,992 |
| | <u>\$ 9,240,789</u> | <u>\$ 2,394,937</u> | <u>\$ 6,881,757</u> | <u>\$ 1,880,613</u> | <u>\$ 20,398,096</u> |

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2012 is as follows:

| Issue | Balance July 1, 2011 | Additions | Payments | Balance June 30, 2012 |
|-----------------------------------|-------------------------|-----------|------------|--------------------------|
| School Building Revenue Bonds: | | | | |
| 1999 | \$ 620,000 | \$ - | \$ 620,000 | \$ - |
| 2004 | 320,000 | - | 70,000 | 250,000 |
| 2005 | 9,695,000 | - | 340,000 | 9,355,000 |
| 2009 | 2,460,000 | - | 135,000 | 2,325,000 |
| Energy Bonds: | | | | |
| 2005 | 1,930,000 | - | 85,000 | 1,845,000 |
| 2006 | 459,000 | - | 14,000 | 445,000 |

| <u>Issue</u> | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance June 30, 2012</u> |
|--------------|---------------------------------|------------------|---------------------|----------------------------------|
| KISTA Bonds: | | | | |
| 2000 | \$ 380,000 | \$ - | \$ 30,000 | \$ 350,000 |
| 2001 | 18,655 | - | 18,655 | - |
| 2002 | 380,000 | - | 10,000 | 370,000 |
| 2003 | 340,000 | - | 5,000 | 335,000 |
| 2003 | 31,086 | - | 15,235 | 15,851 |
| 2004 | 53,833 | - | 19,748 | 34,085 |
| 2005 | 88,345 | - | 23,012 | 65,333 |
| 2006 | 129,769 | - | 26,124 | 103,645 |
| 2006 | 208,899 | - | 33,509 | 175,390 |
| 2008 | 166,769 | - | 22,688 | 144,081 |
| 2010 | 177,365 | - | 21,837 | 155,528 |
| 2011 | <u>172,266</u> | <u>-</u> | <u>18,633</u> | <u>153,633</u> |
| Totals | <u>\$ 17,630,987</u> | <u>\$ -</u> | <u>\$ 1,508,441</u> | <u>\$ 16,122,546</u> |

6. Accumulated unpaid sick leave benefits

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the accumulated sick leave payable account in the General Fund. The noncurrent portion of the liability is not reported.

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2012 is as follows:

| | |
|-----------------------------|-------------------|
| Balance as of July 1, 2011 | \$ 1,006,000 |
| Additions | 70,603 |
| Less payments | <u>104,603</u> |
| Balance as of June 30, 2012 | 972,000 |
| Less current portion | <u>34,000</u> |
| Noncurrent portion | <u>\$ 938,000</u> |

7. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2012 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

8. Retirement plans

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. Kentucky Revised Statutes (KRS) require that members of KTRS occupy a position requiring either a four year college degree or certification by the 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 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 website at <http://ktrs.ky.gov/>.

Contribution rates are established by KRS. Members are required to contribute 10.355% of their salaries to KTRS if hired prior to July 1, 2008, or 10.855% if hired on or after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries if hired before July 1, 2008, or 14.105% if hired on or after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

In addition to the pension benefits described above, KRS 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 may be made to the medical plan 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.

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, 1.5% of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees, as described in the plan description, and investment interest help with the medical expenses of the plan.

The District's total payroll was \$14,804,840, \$15,141,675, and \$15,342,211 for the years ended June 30, 2012, 2011, and 2010, respectively. The payroll for employees covered under KTRS was \$11,353,437, \$11,635,105, and \$11,396,586 for the years ended June 30, 2012, 2011, and 2010, respectively. The Commonwealth contributed \$1,187,491, \$1,272,503, and \$1,281,538 to KTRS for the years ended June 30, 2012, 2011, and 2010, respectively, for the benefit of the participating employees. The District's contributions to KTRS were \$313,719, \$333,079, and \$213,012 for the years ended June 30, 2012, 2011, and 2010, respectively, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple-employer, public employers retirement system administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death, disability, and health benefits to members and their beneficiaries. Under KRS provisions, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report can be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan members are required to contribute 5% of their annual covered compensation if hired before September 1, 2008, or 6% if hired after September 1, 2008, and the District is required to contribute at an actuarially determined rate. The current rate is 18.96% of the employee's total covered compensation. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended June 30, 2012, 2011, and 2010 were \$592,930, \$550,517, and \$534,115, respectively, and are equal to the required contribution for the related year.

The District also offers employees the option to participate in voluntary tax-deferred compensation retirement plans as provided by the Adair County Board of Education 403(b) Plan and by the Kentucky Public Employees' Deferred Compensation Program which administers 401(k) plans sponsored by the Commonwealth of Kentucky. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable under Sections 403(b), 401(k), and 457 of the Internal Revenue Code. Members contributed approximately \$119,000 during the year ended June 30, 2012. The District does not contribute to the plan.

9. On-behalf payments for fringe benefits

The District receives on-behalf payments for fringe benefits from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances:

| | |
|--|---------------------|
| Retirement contributions to the Teachers' Retirement System of Kentucky | \$ 1,187,491 |
| Health and life insurance | 2,715,836 |
| Other | <u>93,204</u> |
| Total | <u>\$ 3,996,531</u> |

10. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, workers compensation, unemployment, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, and the School Construction Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

12. COBRA

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

13. Transfer of funds

The following transfers were made during the year ended June 30, 2012:

| <u>Type</u> | <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|-------------|------------------------|----------------|----------------|---------------|
| Operating | SEEK Capital Outlay | General | Administrative | \$ 229,174 |

14. Interfund receivables and payables

Interfund balances as of June 30, 2012 consist of the following:

| <u>Due to Fund</u> | <u>Due from Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|--------------------|----------------------|----------------|---------------|
| General | Special Revenue | Cash Flow | \$ 200,205 |

15. Subsequent events

Subsequent to June 30, 2012, the District entered into two additional bonded debt obligations. The first bond totaling \$1,100,000 (interest rate of 2.00% - 2.25%) defeases three bonds outstanding as of June 30, 2012. The second bond totaling \$12,900,000 (interest rate of 2.00% - 3.25%) is being used to construct a new elementary school due to open in the 2014 fiscal year. The District entered into a participation agreement (see Note 5) with the Commission for \$4,400,000 of these bonded debt obligations.

Subsequent to June 30, 2012, a former employee filed a lawsuit against the District alleging wrongful termination. The District referred the matter to legal counsel who has advised the District that an estimation as to the possible outcome or range of potential liability, if any, is not determinable at this time.

SUPPLEMENTARY INFORMATION

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year ended June 30, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Favorable (Unfavorable) |
|---|-------------------------|-------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| From local sources: | | | | |
| Taxes: | | | | |
| Property | \$ 2,215,928 | \$ 2,315,000 | \$ 2,531,146 | \$ 216,146 |
| Motor vehicle | 455,000 | 462,000 | 455,874 | (6,126) |
| Utilities | 775,000 | 850,000 | 922,292 | 72,292 |
| Earnings on investments | 30,000 | 15,000 | 63,872 | 48,872 |
| Other local | 12,000 | 12,000 | 48,788 | 36,788 |
| Intergovernmental – State | 11,012,747 | 10,917,747 | 14,919,539 | 4,001,792 |
| Intergovernmental – Federal | <u>20,000</u> | <u>20,000</u> | <u>37,994</u> | <u>17,994</u> |
| Total revenues | 14,520,675 | 14,591,747 | 18,979,505 | 4,387,758 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction | 8,460,156 | 8,424,678 | 11,010,417 | (2,585,739) |
| Student | 568,663 | 580,541 | 673,295 | (92,754) |
| Instructional staff | 438,859 | 431,906 | 629,450 | (197,544) |
| District administration | 507,432 | 582,255 | 723,580 | (141,325) |
| School administration | 951,753 | 936,188 | 1,124,057 | (187,869) |
| Business | 208,156 | 213,877 | 257,021 | (43,144) |
| Plant operations and maintenance | 1,500,561 | 1,560,270 | 1,944,790 | (384,520) |
| Student transportation | 1,468,339 | 1,529,953 | 1,789,826 | (259,873) |
| Community services | - | - | 46,607 | (46,607) |
| Contingency | 669,411 | 743,345 | - | 743,345 |
| Debt service | <u>429,345</u> | <u>429,345</u> | <u>429,344</u> | <u>1</u> |
| Total expenditures | <u>15,202,675</u> | <u>15,432,358</u> | <u>18,628,387</u> | <u>(3,196,029)</u> |
| Excess (deficit) of revenues over (under) expenditures | (682,000) | (840,611) | 351,118 | 1,191,729 |
| Other financing sources (uses) | | | | |
| Operating transfers in | - | 56,274 | 229,174 | 172,900 |
| Operating transfers out | (18,000) | (50,663) | - | 50,663 |
| Other | <u>-</u> | <u>-</u> | <u>33,562</u> | <u>33,562</u> |
| Total other financing sources (uses) | <u>(18,000)</u> | <u>5,611</u> | <u>262,736</u> | <u>257,125</u> |
| Net change in fund balance | (700,000) | (835,000) | 613,854 | 1,448,854 |
| Fund balance as of July 1, 2011 | <u>926,695</u> | <u>926,695</u> | <u>926,695</u> | <u>-</u> |
| Fund balance as of June 30, 2012 | <u>\$ 226,695</u> | <u>\$ 91,695</u> | <u>\$ 1,540,549</u> | <u>\$ 1,448,854</u> |

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS
Year ended June 30, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Favorable <u>(Unfavorable)</u> |
|---|-------------------------|------------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| From local sources: | | | | |
| Earnings on investments | \$ - | \$ - | \$ 2,354 | \$ 2,354 |
| Other local | 30,800 | 53,300 | 87,323 | 34,023 |
| Intergovernmental – State | 1,141,559 | 1,343,976 | 1,352,338 | 8,362 |
| Intergovernmental – Federal | <u>2,416,354</u> | <u>2,318,631</u> | <u>3,288,611</u> | <u>969,980</u> |
| Total revenues | 3,588,713 | 3,715,907 | 4,730,626 | 1,014,719 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction | 2,937,502 | 3,107,941 | 3,890,035 | (782,094) |
| Student | 11,747 | 11,473 | 16,005 | (4,532) |
| Instructional staff | 429,213 | 428,552 | 462,286 | (33,734) |
| School administration | 1,160 | - | - | - |
| Student transportation | - | - | 143,696 | (143,696) |
| Community services | <u>227,091</u> | <u>218,604</u> | <u>218,604</u> | <u>-</u> |
| Total expenditures | <u>3,606,713</u> | <u>3,766,570</u> | <u>4,730,626</u> | <u>(964,056)</u> |
| Excess (deficit) of revenues over (under) expenditures | (18,000) | (50,663) | - | 50,663 |
| Other financing sources | | | | |
| Operating transfers in | <u>18,000</u> | <u>50,663</u> | <u>-</u> | <u>(50,663)</u> |
| Total other financing sources | <u>18,000</u> | <u>50,663</u> | <u>-</u> | <u>(50,663)</u> |
| Net change in fund balance | - | - | - | - |
| Fund balance as of July 1, 2011 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance as of June 30, 2012 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
ELEMENTARY, MIDDLE, AND ALTERNATIVE SCHOOL ACTIVITY FUNDS
Year ended June 30, 2012**

| <u>School</u> | <u>Cash July 1, 2011</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Cash June 30, 2012</u> | <u>Accounts Receivable June 30, 2012</u> | <u>Accounts Payable June 30, 2012</u> | <u>Due to Student Groups June 30, 2012</u> |
|---------------------------------------|----------------------------------|-------------------|----------------------|-----------------------------------|--|---|--|
| Colonel Wm Casey Elementary School | \$ 15,385 | \$ 91,971 | \$ 89,100 | \$ 18,256 | \$ - | \$ 833 | \$ 17,423 |
| Adair County Elementary School | 22,662 | 71,466 | 63,470 | 30,658 | - | - | 30,658 |
| John Adair Intermediate School | 22,285 | 42,834 | 44,495 | 20,624 | - | - | 20,624 |
| Adair County Middle School | 27,085 | 100,202 | 104,210 | 23,077 | - | - | 23,077 |
| Alternative School | <u>8,060</u> | <u>-</u> | <u>8,060</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Totals | <u>\$ 95,477</u> | <u>\$ 306,473</u> | <u>\$ 309,335</u> | <u>\$ 92,615</u> | <u>\$ -</u> | <u>\$ 833</u> | <u>\$ 91,782</u> |

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS
 Year ended June 30, 2012**

| <u>Activity Fund</u> | <u>Cash</u> <u>July 1,</u> <u>2011</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Cash</u> <u>June 30,</u> <u>2012</u> | <u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2012</u> | <u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2012</u> | <u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2012</u> |
|----------------------|--|-----------------|----------------------|---|--|---|--|
| ACHS Classroom | \$ 401 | \$ - | \$ - | \$ 401 | \$ - | \$ - | \$ 401 |
| Anatomy | - | 939 | 939 | - | - | - | - |
| Art | 22 | 23 | - | 45 | - | - | 45 |
| Athletics | 14,114 | 55,630 | 62,270 | 7,474 | - | - | 7,474 |
| Beta Club | 497 | 2,062 | 2,548 | 11 | - | - | 11 |
| Boy's basketball | 639 | 80 | 538 | 181 | - | - | 181 |
| Business co-op | 506 | 26 | 26 | 506 | - | - | 506 |
| Career Awareness | 1,785 | - | 1,044 | 741 | - | - | 741 |
| Champions and SADD | 217 | 500 | 100 | 617 | - | - | 617 |
| Cheerleaders | 273 | 2,357 | 2,085 | 545 | - | - | 545 |
| Chemistry | 117 | 150 | 161 | 106 | - | - | 106 |
| Class 2011 | 679 | - | 575 | 104 | - | - | 104 |
| Class 2012 | 1,788 | 15,515 | 15,992 | 1,311 | - | - | 1,311 |
| Class 2013 | 2,482 | 8,039 | 9,288 | 1,233 | - | - | 1,233 |
| Class 2014 | 58 | 364 | - | 422 | - | - | 422 |
| Concessions | 4,974 | 12,985 | 15,460 | 2,499 | - | - | 2,499 |
| Counselors office | 378 | 778 | 898 | 258 | - | - | 258 |

(continued)

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2012**

| <u>Activity Fund</u> | <u>Cash</u> <u>July 1,</u> <u>2011</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Cash</u> <u>June 30,</u> <u>2012</u> | <u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2012</u> | <u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2012</u> | <u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2012</u> |
|----------------------------|--|-----------------|----------------------|---|--|---|--|
| Drama | \$ 1,301 | \$ 2,792 | \$ 3,083 | \$ 1,010 | \$ - | \$ - | \$ 1,010 |
| Earth Science | 73 | - | - | 73 | - | - | 73 |
| England's Excep Ed | 731 | 42 | 206 | 567 | - | - | 567 |
| English activities | 279 | - | - | 279 | - | - | 279 |
| FBLA | 1,302 | 5,617 | 4,703 | 2,216 | - | - | 2,216 |
| FCA | - | 504 | 504 | - | - | - | - |
| FCCLA | 1,162 | 2,210 | 2,584 | 788 | - | - | 788 |
| FFA | 984 | 22,446 | 21,182 | 2,248 | - | - | 2,248 |
| FFA Banquet | 973 | 17,945 | 17,526 | 1,392 | - | - | 1,392 |
| FFA Shop | 54 | 15,234 | 13,708 | 1,580 | - | - | 1,580 |
| Football | 1,100 | 3,222 | 4,320 | 2 | - | - | 2 |
| FSL Club | 200 | - | - | 200 | - | - | 200 |
| Fund for the Arts | 1,616 | 1,474 | 2,409 | 681 | - | - | 681 |
| Garden Friends – S. Willis | 508 | 381 | 693 | 196 | - | - | 196 |
| General | 1,500 | 3,080 | 4,400 | 180 | - | - | 180 |
| Girl's softball | 207 | - | 140 | 67 | - | - | 67 |

(continued)

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2012

| <u>Activity Fund</u> | <u>Cash</u> <u>July 1,</u> <u>2011</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Cash</u> <u>June 30,</u> <u>2012</u> | <u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2012</u> | <u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2012</u> | <u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2012</u> |
|--------------------------|--|-----------------|----------------------|---|--|---|--|
| Horticulture | \$ 6,329 | \$ 9,102 | \$ 7,762 | \$ 7,669 | \$ - | \$ - | \$ 7,669 |
| Indian Academy | - | 8,106 | 1,338 | 6,768 | - | - | 6,768 |
| Journalism and newspaper | 11,310 | 18,906 | 17,779 | 12,437 | - | - | 12,437 |
| Lady Indians | 965 | 31 | 248 | 748 | - | - | 748 |
| Language | 249 | - | - | 249 | - | - | 249 |
| Library | 591 | 807 | 844 | 554 | - | - | 554 |
| Lost and damaged books | 89 | 54 | 130 | 13 | - | - | 13 |
| Math | 600 | - | - | 600 | - | - | 600 |
| NAHS – Fine Arts | 824 | 1,636 | 1,842 | 618 | - | - | 618 |
| National Honor Society | 791 | 4,303 | 4,083 | 1,011 | - | - | 1,011 |
| Office workers | 4,373 | 11,814 | 14,481 | 1,706 | - | - | 1,706 |
| Peck Soc. Studies | 11 | - | - | 11 | - | - | 11 |
| Pep | 828 | 113 | 849 | 92 | - | - | 92 |
| Physics | 564 | - | - | 564 | - | - | 564 |
| Reliford's "A" Team | 3,443 | 8,565 | 7,826 | 4,182 | - | - | 4,182 |

(continued)

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2012**

| <u>Activity Fund</u> | <u>Cash July 1, 2011</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Cash June 30, 2012</u> | <u>Accounts Receivable June 30, 2012</u> | <u>Accounts Payable June 30, 2012</u> | <u>Due to Student Groups June 30, 2012</u> |
|----------------------|----------------------------------|-------------------|----------------------|-----------------------------------|--|---|--|
| RTR Health and PE | \$ 31 | \$ - | \$ 31 | \$ - | \$ - | \$ - | \$ - |
| Science Club | 252 | 78 | 194 | 136 | - | - | 136 |
| Student Coke | 850 | 9,534 | 10,179 | 205 | - | - | 205 |
| Student Council | 114 | - | 114 | - | - | - | - |
| Student parking | 1,532 | 1,095 | 620 | 2,007 | - | - | 2,007 |
| Teachers lounge Coke | 4,851 | 4,112 | 6,749 | 2,214 | - | - | 2,214 |
| Tennis | 1,028 | 535 | 340 | 1,223 | - | - | 1,223 |
| Testing | 640 | 742 | 795 | 587 | - | - | 587 |
| Track | 291 | 1,745 | 1,506 | 530 | - | - | 530 |
| Volleyball | <u>123</u> | <u>2,954</u> | <u>2,871</u> | <u>206</u> | <u>-</u> | <u>-</u> | <u>206</u> |
| Totals | 81,599 | 258,627 | 267,963 | 72,263 | - | - | 72,263 |
| Interfund transfers | <u>-</u> | <u>16,031</u> | <u>16,031</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Totals | <u>\$ 81,599</u> | <u>\$ 242,596</u> | <u>\$ 251,932</u> | <u>\$ 72,263</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 72,263</u> |

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Federal Expenditures</u> |
|---|--------------------------------|--|---------------------------------|
| Cash expenditures | | | |
| <u>U.S. Department of Education</u> | | | |
| Kentucky Department of Education: | | | |
| Title I | 84.010 | 3100202-10 | \$ 62,219 |
| | | 3100102-11 | 62,838 |
| | | 3100102-10 | 9 |
| | | 3100002-11 | 913,702 |
| | | 3100002-10 | 251,698 |
| | | 3100002-09 | <u>42,490</u> |
| Subtotal | | | 1,332,956 |
| Neglected and Delinquent Children | 84.013 | 3132T | 1,335 |
| | | 3132 | <u>13,354</u> |
| Subtotal | | | 14,689 |
| Migrant Education | 84.011 | 3110002-11 | 123,662 |
| | | 3110002-10 | <u>48,789</u> |
| Subtotal | | | 172,451 |
| Special Education | 84.027 | 3810002-11 | 276,965 |
| | | 3810002-10 | <u>170,673</u> |
| Subtotal | | | 447,638 |
| Vocational Education Basic | 84.048 | 4621132-10 | 34,694 |
| | | 4621232-11 | <u>2,828</u> |
| Subtotal | | | 37,522 |
| Special Education Preschool | 84.173 | 3800002-11 | 9,502 |
| | | 3800002-10 | <u>23,615</u> |
| Subtotal | | | 33,117 |
| Rural Education | 84.358 | 3140002-11 | 54,989 |
| | | 3140002-10 | <u>3,385</u> |
| Subtotal | | | 58,374 |

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Federal Expenditures</u> |
|---|--------------------------------|--|----------------------------------|
| Improving Teacher Quality | 84.367 | 3230002-11 3230002-10 | \$ 187,807 <u>1,547</u> |
| Subtotal | | | 189,354 |
| Education Technology | 84.318 | 3210002-10 3210002-09 | 3,916 <u>9,755</u> |
| Subtotal | | | 13,671 |
| Adult Education | 84.002 | 3732S 3732 | 2,913 <u>73,971</u> |
| Subtotal | | | 76,884 |
| 21 st Century Community Learning Centers | 84.287 | 3400002-11 3400002-10 3400002-09 | 4,895 40,275 <u>24,747</u> |
| Subtotal | | | 69,917 |
| Title I* | 84.389 | 4100102-09 4100002-09 | 3,592 <u>72,479</u> |
| Subtotal | | | 76,071 |
| Special Education* | 84.391 | 4810002-09 | 147,006 |
| Education Technology* | 84.386 | 4810002-09 | 39,974 |
| School Improvement Grants | 84.377 | 3100302-09 | 50,000 |
| Education Jobs Fund* | 84.410 | EJOB00-10 | <u>529,165</u> |
| Total U.S. Department of Education | | | 3,288,789 |
| <u>U.S. Department of Commerce</u> | | | |
| Pride – Environmental Education | 11.420 | 2702 | <u>1,250</u> |
| Total U.S. Department of Commerce | | | 1,250 |

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Federal Expenditures</u> |
|---|--------------------------------|--|---------------------------------|
| <u>U.S. Department of Energy</u> | | | |
| State Energy Program* | 81.041 | 5692 | \$ 1,100 |
| Total U.S. Department of Energy | | | 1,100 |
| <u>U.S. Department of Agriculture</u> | | | |
| Kentucky Department of Education: | | | |
| National School Lunch Program | 10.555 | 7750002-12 7750002-11 | 522,633 <u>155,772</u> |
| Subtotal | | | <u>678,405</u> |
| School Breakfast Program | 10.553 | 7760005-12 7760005-11 | 224,897 <u>64,239</u> |
| Subtotal | | | <u>289,136</u> |
| Total U.S. Department of Agriculture | | | <u>967,541</u> |
| Total cash expenditures | | | 4,258,680 |
| Noncash expenditures | | | |
| <u>U.S. Department of Agriculture</u> | | | |
| Kentucky Department of Education: | | | |
| Food Donation | 10.555 | Direct | <u>55,184</u> |
| Total federal expenditures | | | <u>\$ 4,313,864</u> |

* American Recovery and Reinvestment Act (ARRA) funds

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

1. Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Adair County School District and is presented on the modified 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*.

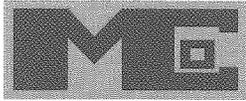
2. Food donation

Nonmonetary assistance for food donation is reported in the schedule at the fair value of the commodities disbursed.

3. Program clusters

The following programs are considered clusters and are considered in the aggregate for consideration of major program determination:

| <u>Cluster Name</u> | <u>CFDA</u> | <u>Total Grant</u> |
|----------------------|----------------------|--------------------|
| Special Education | 84.027/84.173/84.391 | \$ 627,761 |
| Child Nutrition | 10.555/10.553 | 1,022,725 |
| Title I | 84.010/84.389 | 1,409,027 |
| Education Technology | 84.318/84.386 | 53,645 |



**MATHER
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
Suite 200
9100 Shelbyville Rd
Louisville, KY 40222

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Adair County School District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School Districts Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*.

Internal Control Over Financial Reporting

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

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.

Compliance and Other Matters

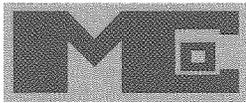
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

We noted certain matters that we reported to the District's management in a separate letter dated November 5, 2012.

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 5, 2012



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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of the District's compliance with those requirements.

In our opinion, Adair 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

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

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

Our consideration of the 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 management, the Board of Education of Adair County School District, others within the District, federal awarding agencies and pass-through entities, the Kentucky State Committee for School District Audits, and the Kentucky Department of Education, and is not intended to be, and should not be, used by anyone other than these specified parties.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 5, 2012

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Section I – Summary of Auditor Results

Financial Statements

| | | | |
|---|-------|-------------|---|
| Type of auditors' report issued | | Unqualified | |
| Internal control over financial reporting: | | | |
| Material weakness identified | _____ | Yes | <input checked="" type="checkbox"/> No |
| Significant deficiencies identified that are not considered to be material weaknesses | _____ | Yes | <input checked="" type="checkbox"/> None reported |
| Noncompliance material to financial statement notes | _____ | Yes | <input checked="" type="checkbox"/> No |

Federal Awards

| | | | |
|---|-------|-------------|---|
| Internal control over major programs: | | | |
| Material weaknesses identified | _____ | Yes | <input checked="" type="checkbox"/> No |
| Significant deficiencies identified that are not considered to be material weaknesses | _____ | Yes | <input checked="" type="checkbox"/> None reported |
| Type of auditors' report issued on compliance for major programs | | Unqualified | |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 | _____ | Yes | <input checked="" type="checkbox"/> No |

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|----------------------|---|
| 84.027/84.173/84.391 | Special Education |
| 84.410 | Education Jobs Fund |

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

Auditee qualified as low risk Yes _____ No

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
Year ended June 30, 2012

Section II – Financial Statement Findings

No matters to report.

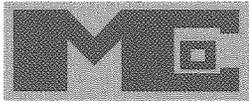
Section III – Federal Award Findings

No matters to report.

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2012

There were no prior year audit findings.



**MATHER
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
Suite 200
9100 Shelbyville Rd
Louisville, KY 40222

Members of the Board of Education
Adair County School District
Columbia, Kentucky

In planning and performing our audit of the basic financial statements of Adair County School District (District) as of and for the year ended June 30, 2012, we considered the District's internal control over financial reporting and compliance as a basis for designing auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting or compliance.

During our audit we became aware of instances of immaterial noncompliance that are opportunities for strengthening internal control. In addition, we followed up on an other matter we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 5, 2012 on the financial statements of Adair County School District.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 5, 2012

ADAIR COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2012**

CONTENTS

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| General Comments | 56 |
| Elementary, Middle, and High School Activity Funds | 57 |
| Other Issues Relating to Internal Control and General Accounting Procedures | 59 |

GENERAL COMMENTS

The Finance Department personnel were helpful in retrieving any information we needed while conducting our audit. Segregation and accounting for the various fund groups appears to be consistent with guidelines established by the Department of Education and other funding agencies.

The State Board for Elementary and Secondary Education has a uniform program of accounting for school activity funds in Kentucky schools. The uniform program is documented in a handbook entitled *Accounting Procedures for Kentucky School Activity Funds* (the Redbook). Each school's activity funds were tested for compliance with the Redbook. Any findings have been documented as current year comments.

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

COLONEL WILLIAM CASEY ELEMENTARY SCHOOL

Current Year Findings

Statement of deficiency: During testing, we noted two instances where the signed cash receipt did not agree to the amount of the cash deposit.

Criteria for the deficiency: This is not in conformity with Redbook guidelines.

Cause of the deficiency: Bookkeeper did not count the cash receipt at the time the funds were brought to her office for deposit.

Effect of the deficiency: This does allow for the proper reconciliation of cash on hand to cash receipts.

Recommendation for correction: We recommend adhering to Redbook policy and counting and reconciling funds at the time cash receipts are received by the bookkeeper.

Board response: The superintendent met with the Principal. The Redbook policy and procedures will be followed when reconciling funds for cash receipts. The bookkeeper has also been made aware that the Redbook procedure must be followed at all times.

ADAIR COUNTY HIGH SCHOOL

Current Year Findings

Statement of deficiency: Based upon discussion with District personnel, it was noted that inappropriate time lapsed between the payment of certain athletic vendor invoices and the allocation of certain travel costs to clubs, and the time the actual event took place.

Criteria for the deficiency: This is not in conformity with Redbook guidelines.

Cause of the deficiency: The Principal waited until the collection of all athletic gate receipts before paying these invoices and allocating the travel costs.

Effect of the deficiency: This does not allow the club administrators to determine available funds on a timely basis.

Recommendation for correction: We recommend adhering to Redbook policy by paying invoices on a timely basis and allocating travel costs to clubs at the time the trips occur.

Board response: The Principal did try a new procedure to help the clubs and organizations with expenses for travel. This procedure did not work. A new procedure is now in place where each organization or club knows on a weekly basis what invoices must be paid and the amount of allocation that is left or how much they owe due to allocation being spent out.

OTHER ISSUES RELATING TO INTERNAL CONTROL AND GENERAL ACCOUNTING PROCEDURES

Follow-up on Prior Year Finding

Prior year comment: During prior year testing it was noted the Central Office was not insured within KDE Guidelines.

Current year follow-up: No such instance was noted in the current year.

Current Year Finding

Statement of deficiency: During our Special Education testing (A-133 Compliance Testing), we noted one student in the IDEA program whose file was missing the *Consent to Evaluate* and the *Consent for Placement* forms required for eligibility in the program. We previously noted this same deficiency occurred during fiscal year 2010.

Criteria for the deficiency: These forms are required for the student to be eligible for the IDEA program. There are no other indications that the student would be ineligible.

Cause of the deficiency: Required forms were not included in the student's files.

Effect of the deficiency: We discussed this deficiency with the Kentucky Department of Education (KDE) during our fiscal 2010 audit. In the KDE's opinion, the Federal government would not reprimand the District for this deficiency. However, it is possible the Federal Government could request reimbursement.

Recommendation for correction: We recommend all proper documentation be obtained timely for all students applying for the IDEA program.

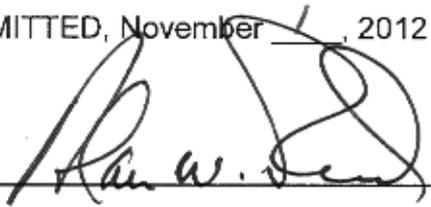
Board response: The folder was for a transfer student from another district. Consent to evaluate was given at the other district. Adair County did not do the initial consent and evaluation. The student came to the Adair County School System with an IEP already established. We received the IEP but not the documents from early qualification. We attempted to get the documentation. Records were requested but this form was not sent by previous district.

STATEMENT OF CERTIFICATION

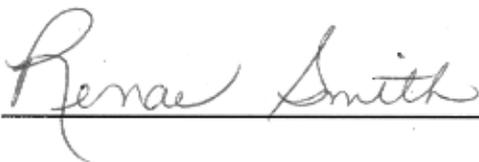
State Committee for School District Audits
Frankfort, Kentucky

The Adair County School District certifies that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report.

SUBMITTED, November 1, 2012



Superintendent



Finance Officer