

ALLEN COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Allen County School District
Scottsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Allen County Board of Education as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allen County Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, *Appendix III of the Independent Auditor's Contract – Audit Extension Request* and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2012, on our consideration of the Allen County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 9 and 35 through 36 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 Allen County Board of Education's financial statements as a whole. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Federal Awards on pages 43 and 44 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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Goodman & Company, P.S.C.

GOODMAN & COMPANY, P.S.C.

Certified Public Accountants

Louisville, Kentucky

November 4, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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

FINANCIAL HIGHLIGHTS

- The district maintains 7 schools and education centers, serving approximately 3,000 students. An effort to centralize our schools has provided educational benefits in addition to good physical management. We have a campus of approximately 200 acres of which there is still land available for future construction to meet our long-range educational needs. Allen County is very proud of our facilities and our ability to maintain them; nevertheless, our main purpose is educating kids and providing quality instructional resources and staff which we are able to do with our general fund dollars.
- The beginning fund balance for the District was \$15.8 Million.
- The District continues to be concerned about the drain on the General Fund. Concerted efforts were made to curb the declining balance by continuing to provide additional monies into the general fund from local tax revenues.
- The Superintendent and Finance department working in conjunction with other district leadership continues the refinement of the structure of the business and operations areas, while evaluating processes and allocation of resources
- The Superintendent and Finance department worked with staff to review and implement sound fiscal practices in utilizing school funding.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulting in several economies due to changed management strategies. The District utilizes multi-district cooperative bidding through the Green River Regional Educational Cooperative, Kentucky Educational Development Corporation, as well as, taking advantage of state and federal bidding opportunities for purchasing of supplies and food.
- Local Revenue is divided 65%/35% between the general fund and the building fund respectively. We have no occupational, utility or excise taxes.
- The General Fund had \$19.8 million revenue, which primarily consisted of the state program SEEK (Support Educational Excellence in Kentucky), and local property and motor vehicle taxes. Excluding inter-fund transfers, there was \$20.4 million in General Fund expenditures.
- The board continues its obligation to escrow depreciation revenue as received from the state to provide funding to replace school buses as they go off the depreciation schedule.
- The District continues to evaluate policies & procedures dealing with fixed assets and GASB reporting to ensure correct inventories, values, and depreciation to correctly report on the Annual Financial Report.

- Completion of the Allen County-High School Athletic Complex was completed as well as additions to the high school. New additions included administrative offices, media center and a new band and chorus wing. Renovations throughout the remainder of the building continued.
- Because the state has allowed flexible use of Capital Outlay Funds, previously limited to debt service reduction, the District was able to complete several projects that the General Fund could not handle financially. Projects included: 1) Payment of property, liability, fleet and worker's compensation insurances; 2) a new storage building at the bus garage; and 3) completion of a parking lot for girls softball and little league football.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 10-11 of this report.

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

The basic governmental fund financial statements can be found on pages 12-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-34 of this report.

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$28.5 million as of June 30, 2012.

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

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

NET ASSETS

A summary of the net assets for 2012 and 2011 are as follows:

	2012			2011		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Other Assets	\$ 8,877,527	\$ 600,271	\$ 9,477,798	\$ 16,823,987	\$ 725,418	\$ 17,549,405
Capital Assets	<u>51,779,249</u>	<u>436,358</u>	<u>52,215,607</u>	<u>43,649,066</u>	<u>483,347</u>	<u>44,132,413</u>
Total Assets	<u>\$ 60,656,776</u>	<u>\$ 1,036,629</u>	<u>\$ 61,693,405</u>	<u>\$ 60,473,053</u>	<u>\$ 1,208,765</u>	<u>\$ 61,681,818</u>
Current Liabilities	\$ 3,690,802	\$ 1000	\$ 3,691,802	\$ 3,726,936	\$ 20	\$ 3,726,956
Noncurrent Liabilities	<u>29,461,957</u>	<u>-</u>	<u>29,461,957</u>	<u>30,537,323</u>	<u>-</u>	<u>30,537,323</u>
Total Liabilities	\$ 33,152,759	\$ 1000	\$ 33,153,759	\$ 34,264,259	\$ 20	\$ 34,264,279
 Net Assets						
Invested in Capital Assets, Net of Related Debt	\$ 30,371,776	\$ 436,358	\$ 30,808,134	\$ 12,930,947	\$ 483,347	\$ 13,414,294
Restricted	6,224,724	-	6,224,724	13,816,984	-	13,816,984
Committed	229,670	-	229,670	693,441	-	693,441
Unrestricted Fund Balance	<u>(9,322,153)</u>	<u>599,271</u>	<u>(8,722,882)</u>	<u>(1,232,578)</u>	<u>725,398</u>	<u>(507,180)</u>
Total Net Assets	<u>\$ 27,504,017</u>	<u>\$ 1,035,629</u>	<u>\$ 28,539,646</u>	<u>\$ 26,208,794</u>	<u>\$ 1,208,745</u>	<u>\$ 27,417,539</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

NET ASSETS CONTINUED

Comments on Budget Comparisons

- The District’s total revenues for the fiscal year ended June 30, 2012, net of interfund transfers, were \$29.4 million.
- General fund revenue was \$19.8 million or \$4.1 million higher than budget primarily due to state on-behalf payments.
- The total cost of all programs and services for the General Fund was \$20.4 million or \$2.5 million higher than budget.

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

	<u>2012</u>			<u>2011</u>		
	<u>Government Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Program Revenues:						
Charges for services	\$ 215,169	\$ 545,444	\$ 760,613	\$ 187,964	\$ 544,927	\$ 732,891
Operating grants	3,956,482	1,369,692	5,326,174	5,050,340	1,329,437	6,379,777
Capital grants	1,020,427	-	1,020,427	866,540	-	866,540
General Revenues:						
Taxes	4,837,001	-	4,837,001	4,489,103	-	4,489,103
State aid formula grant	17,190,541	-	17,190,541	14,784,759	-	14,784,759
Investment earnings	70,997	4,890	75,887	119,678	5,586	125,264
Local revenues	145,644	-	145,644	141,388	-	141,388
Miscellaneous	<u>57,830</u>	<u>-</u>	<u>57,830</u>	<u>38,104</u>	<u>-</u>	<u>38,104</u>
Total Program Revenues	\$ 27,494,091	\$ 1,920,026	\$ 29,414,117	\$ 25,677,876	\$ 1,879,950	\$ 27,557,826
Transfers	<u>69,790</u>	<u>(69,790)</u>	<u>-</u>	<u>38,473</u>	<u>(38,473)</u>	<u>-</u>
Total Revenues	\$ 27,563,881	\$ 1,850,236	\$ 29,414,117	\$ 25,716,349	\$ 1,841,477	\$ 27,557,826
Program Expenses:						
Instruction	\$ 15,843,861	\$ -	\$ 15,843,861	\$ 16,238,153	\$ -	\$ 16,238,153
Student support	971,456	-	971,456	870,965	-	870,965
Instruction staff	1,213,831	-	1,213,831	1,070,491	-	1,070,491
District administration	627,365	-	627,365	63,514	-	63,514
School administration	1,460,213	-	1,460,213	1,434,052	-	1,434,052
Business support	478,001	-	478,001	441,730	-	441,730
Plant operations	2,397,325	-	2,397,325	2,303,389	-	2,303,389
Student transportation	1,887,008	-	1,887,008	1,804,589	-	1,804,589
Community Support	229,843	-	229,843	269,670	-	269,670
Interest on long-term debt	1,159,755	-	1,159,755	1,252,901	-	1,252,901
Food service	-	<u>2,023,705</u>	<u>2,023,705</u>	-	<u>1,891,616</u>	<u>1,891,616</u>
Total Expenses	\$ 26,268,658	\$ 2,023,705	\$ 28,292,363	\$ 25,749,454	\$ 1,891,616	\$ 27,641,070
Net (Decrease)/Increase in Net Assets	\$ <u>1,295,223</u>	\$ <u>(173,469)</u>	\$ <u>1,121,754</u>	\$ <u>(33,105)</u>	\$ <u>(50,139)</u>	\$ <u>(83,244)</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

Governmental Activities

Instruction comprises 60% of governmental program expenses in 2012 versus 63% in 2011. Support services expenses make up 35% of government expenses in 2012 compared to 32% in 2011. The remaining expense for interest accounts for 4% of total government expense for 2012 versus 5% in 2011.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

	<u>2012 Governmental Activities</u>		<u>2011 Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 15,843,861	\$ 12,283,768	\$ 16,238,153	\$ 11,970,391
Support	9,265,042	8,653,484	8,258,400	7,287,858
Interest on long-term debt	<u>1,159,755</u>	<u>139,328</u>	<u>1,252,901</u>	<u>386,361</u>
Total Expenses	<u>\$ 26,268,658</u>	<u>\$ 21,076,580</u>	<u>\$ 25,749,454</u>	<u>\$ 19,644,610</u>

Business-Type Activities

The business-type activities include the food service operation. This program had total revenues of \$1,920,379 and expenses of \$2,023,705 for fiscal year 2012. Of the revenues, \$545,797 was charges for services, \$1,369,692 was from State and Federal grants, and \$4,890 was from investment earnings. Business activities receive no support from local tax revenues.

Capital Assets

At the end of fiscal year 2012 the School District had \$52.2 million invested in land, buildings, equipment, and construction in progress. The following table shows fiscal year 2012 and 2011 balances:

Capital Assets at June 30, 2012 and 2011
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,001,750	\$ 1,001,750	\$ -	\$ -	\$ 1,001,750	\$ 1,001,750
Land Improvements	2,984,795	1,250,682	7,994	8,479	2,992,789	1,259,161
Building & Improvements	30,887,983	31,738,427	266,648	272,403	31,154,631	32,010,830
Technology	696,272	806,956	7,008	8,806	703,280	815,762
Vehicles	625,972	583,124	-	-	625,972	583,124
Equipment	126,132	128,469	154,708	193,659	280,840	322,128
Construction in Progress	<u>15,456,345</u>	<u>8,139,658</u>	<u>-</u>	<u>-</u>	<u>15,456,345</u>	<u>8,139,658</u>
Total Governmental Activities	<u>\$ 51,779,249</u>	<u>\$ 43,649,066</u>	<u>\$ 436,358</u>	<u>\$ 483,347</u>	<u>\$ 52,215,607</u>	<u>\$ 44,132,413</u>

The table below shows the changes in capital assets for the fiscal years 2012 and 2011.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 43,649,066	\$ 36,286,777	\$ 483,347	\$ 544,893	\$ 44,132,413	\$ 36,831,670
Additions	9,637,526	8,797,625	7,222	-	9,644,748	8,797,625
Retirements	(63,446)	(52,879)	(56,765)	-	(120,211)	(52,879)
Depreciation	<u>(1,443,897)</u>	<u>(1,382,457)</u>	<u>2,554</u>	<u>(61,546)</u>	<u>(1,441,343)</u>	<u>(1,444,003)</u>
Ending Balance	<u>\$ 51,779,249</u>	<u>\$ 43,649,066</u>	<u>\$ 436,358</u>	<u>\$ 483,347</u>	<u>\$ 52,215,607</u>	<u>\$ 44,132,413</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District’s overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$788,156 in contingency (4.4%).

The beginning General Fund cash balance for beginning the 2012 fiscal year was \$2.0 million. Significant Board action that impacted the finances included no pay raise for employees, reduction of days worked for certified and classified employees, cut several positions, and the expiration of the American Recovery and Reinvestment Act (ARRA) funds. The General Fund also must match dollars for federal and state grants. The district currently participates in approximately 24 state and federal grants. The total budget for these grants is \$4 million.

Applying for grant reimbursements and monitoring the grants is something the district must do constantly. While waiting for grants to be reimbursed, the district must maintain a significant cash balance in order to pay these expenses in advance.

Local property tax revenue makes up approximately 15% of the general fund revenue. Property taxes are levied annually usually in October on the assessed value for all real and personal property, as well as motor vehicles in the district as of January 1st of the prior year. However, this revenue is not received until the months of November – February which means that the general fund’s beginning balance is used to pay much of the first few months of expenditures. It is very important to have a substantial beginning balance to start the beginning of each year.

Questions regarding this report should be directed by mail to: Superintendent Randall Jackson, Allen County Schools, 570 Oliver Street, Scottsville, KY 42146

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ALLEN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS

June 30, 2012

ASSETS	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 7,976,308	\$ 554,441	\$ 8,530,749
Inventory	-	35,466	35,466
Accrued interest receivable	10,052		10,052
Receivables			
Taxes - current	60,645	-	60,645
Intergovernmental - Federal	378,941	10,364	389,305
TOTAL CURRENT ASSETS	<u>\$ 8,425,946</u>	<u>\$ 600,271</u>	<u>\$ 9,026,217</u>
NONCURRENT ASSETS			
Capital Assets(Net of depreciation)	\$ 51,779,249	\$ 436,358	\$ 52,215,607
Deferred amount on refunding	9,184		9,184
Bond discount and expense	442,397		442,397
TOTAL ASSETS	<u>\$ 60,656,776</u>	<u>\$ 1,036,629</u>	<u>\$ 61,693,405</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 1,116	\$ 1,000	\$ 2,116
Accrued payroll and related expenses	24,377	-	24,377
Deferred revenue	448,747	-	448,747
Current portion of bond obligations	1,255,000	-	1,255,000
Current portion of accrued sick leave	14,835	-	14,835
Retainage Payable	734,848	-	734,848
Bond Interest payable	1,211,879	-	1,211,879
TOTAL CURRENT LIABILITIES	<u>\$ 3,690,802</u>	<u>\$ 1,000</u>	<u>\$ 3,691,802</u>
NONCURRENT LIABILITIES			
Noncurrent portion of bond obligations	\$ 29,030,000	\$ -	\$ 29,030,000
Noncurrent portion of accrued sick leave	431,957	-	431,957
TOTAL NONCURRENT LIABILITIES	<u>\$ 29,461,957</u>	<u>\$ -</u>	<u>\$ 29,461,957</u>
TOTAL LIABILITIES	<u>\$ 33,152,759</u>	<u>\$ 1,000</u>	<u>\$ 33,153,759</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	\$ 30,371,776	\$ 436,358	\$ 30,808,134
Restricted			
Construction	5,074,294	-	5,074,294
SFCC	390,993	-	390,993
Other	18,278	-	18,278
QCSB Escrow	741,159	-	741,159
Committed			
SBCFWD	229,670	-	229,670
Unrestricted	(9,322,153)	599,271	(8,722,882)
TOTAL NET ASSETS	<u>\$ 27,504,017</u>	<u>\$ 1,035,629</u>	<u>\$ 28,539,646</u>

See accompanying notes to financial statement

ALLEN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	EXPENSES	PROGRAM REVENUES			CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
FUNCTIONS/PROGRAMS							
Governmental Activities							
Current:							
Instruction:	15,843,861	\$ 214,419	\$ 3,345,674	\$ -	\$ (12,283,768)	\$ -	\$ (12,283,768)
Support Services:							
Student	971,456	-	11,387	-	(960,069)	-	(960,069)
Instructional staff	1,213,831	-	227,163	-	(986,668)	-	(986,668)
District administration	627,365	-	-	-	(627,365)	-	(627,365)
School administration	1,460,213	-	28,815	-	(1,431,398)	-	(1,431,398)
Business	478,001	-	49,143	-	(428,858)	-	(428,858)
Plant operations and maintenance	2,397,325	750	60,664	-	(2,335,911)	-	(2,335,911)
Student transportation	1,887,008	-	7,898	-	(1,879,110)	-	(1,879,110)
Community Services	229,843	-	225,738	-	(4,105)	-	(4,105)
Interest on Long-Term Debt	1,159,755	-	-	1,020,427	(139,328)	-	(139,328)
Total governmental activities	<u>\$ 26,268,658</u>	<u>\$ 215,169</u>	<u>\$ 3,956,482</u>	<u>\$ 1,020,427</u>	<u>\$ (21,076,580)</u>	<u>\$ -</u>	<u>\$ (21,076,580)</u>
Business-Type Activities							
Food Service	\$ 2,023,705	\$ 545,444	\$ 1,369,692	\$ -	\$ -	\$ (108,569)	\$ (108,569)
Total Primary Government	<u>\$ 28,292,363</u>	<u>\$ 760,613</u>	<u>\$ 5,326,174</u>	<u>\$ 1,020,427</u>	<u>\$ (21,076,580)</u>	<u>\$ (108,569)</u>	<u>\$ (21,185,149)</u>
GENERAL REVENUES							
From local services:							
Taxes:							
Property taxes				\$ 4,102,060	\$ -	\$ 4,102,060	
Motor vehicles taxes				473,670	-	473,670	
Unmined minerals taxes				9,656	-	9,656	
Other taxes				17,273	-	17,273	
Other revenue from local sources				234,342	-	234,342	
Revenue in lieu of taxes				145,644	-	145,644	
Sale of fixed assets				10,055	-	10,055	
Investment earnings				70,997	4,890	75,887	
State aid formula grants				17,190,541	-	17,190,541	
Miscellaneous				47,775	-	47,775	
Total General Revenues				<u>\$ 22,302,013</u>	<u>\$ 4,890</u>	<u>\$ 22,306,903</u>	
Transfers to Other Funds				\$ 69,790	\$ (69,790)	\$ -	
Change in net assets				\$ 1,295,223	\$ (173,469)	\$ 1,121,754	
Net Assets- beginning				<u>26,208,794</u>	<u>1,208,745</u>	<u>27,417,539</u>	
Net Assets- ending				<u>\$ 27,504,017</u>	<u>\$ 1,035,276</u>	<u>\$ 28,539,293</u>	

See accompanying notes to financial statement

FUND FINANCIAL STATEMENTS

ALLEN COUNTY SCHOOL DISTRICT
BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	FSPK FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash and cash equivalents	\$ 1,697,091	\$ 70,496	\$ 5,069,268	\$ 350,000	\$ 789,454	\$ 7,976,309
Accrued interest receivable	5,026	-	-	-	-	5,026
Receivables						
Taxes - current	49,668	-	-	-	-	49,668
Intergovernmental - Federal	-	378,941	5,026	10,976	-	394,943
TOTAL ASSETS:	\$ 1,751,785	\$ 449,437	\$ 5,074,294	\$ 360,976	\$ 789,454	\$ 8,425,946
LIABILITIES AND FUND BALANCE:						
LIABILITIES:						
Accounts payable	\$ 426	\$ 690	\$ -	\$ -	\$ -	\$ 1,116
Accrued payroll and related expenses	24,377	-	-	-	-	24,377
Deferred revenues	-	448,747	-	-	-	448,747
TOTAL LIABILITIES	\$ 24,803	\$ 449,437	\$ -	\$ -	\$ -	\$ 474,240
FUND BALANCES:						
Restricted:						
Construction	\$ -	\$ -	\$ 5,074,294	\$ -	\$ -	\$ 5,074,294
SFCC	-	-	-	360,976	30,017	390,993
Other	-	-	-	-	18,278	18,278
QCSB Escrow	-	-	-	-	741,159	741,159
Committed:						
SBCFWD	229,670	-	-	-	-	229,670
Other	-	-	-	-	-	-
Unassigned:	1,497,312	-	-	-	-	1,497,312
TOTAL FUND BALANCES:	\$ 1,726,982	\$ -	\$ 5,074,294	\$ 360,976	\$ 789,454	\$ 7,951,706
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,751,785	\$ 449,437	\$ 5,074,294	\$ 360,976	\$ 789,454	\$ 8,425,946

See accompanying notes to financial statements

ALLEN COUNTY SCHOOL DISTRICT

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

June 30, 2012

Total fund balance per fund financial statement	\$ 7,951,706
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	51,779,249
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(32,226,938)</u>
Net Assets for Governmental Activities	<u>\$ 27,504,017</u>

See accompanying notes to financial statement

ALLEN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUND	CONSTRUCTION FUND	FSPK FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
From local sources:						
Taxes:						
Property	\$ 2,909,296	\$ -	\$ -	\$ 1,338,409	\$ -	\$ 4,247,705
Motor Vehicle	307,885	-	-	165,784	-	473,669
Unmined minerals	6,378	-	-	3,278	-	9,656
Tuition & Fees	47,775	-	-	-	-	47,775
Earnings on investments	24,933	640	45,424	-	-	70,997
Other local revenues	49,992	166,624	35,000	-	-	251,616
Intergovernmental - State	16,409,209	1,061,193	-	1,090,178	1,287,129	19,847,709
Intergovernmental- Indirect federal	93,854	2,696,021	-	-	-	2,789,875
TOTAL REVENUES	\$19,849,322	\$ 3,924,478	\$ 80,424	\$ 2,597,649	\$ 1,287,129	\$ 27,739,002
EXPENDITURES:						
Current:						
Instruction:	\$12,091,187	\$ 3,345,674	\$ -	\$ -	\$ -	\$ 15,436,861
Support Services:						
Student	959,615	11,387	-	-	-	971,002
Instructional staff	986,661	227,163	-	-	-	1,213,824
District administration	567,667	-	-	-	-	567,667
School administration	1,433,264	28,815	-	-	-	1,462,079
Business	428,168	49,143	-	-	-	477,311
Plant operations and maintenance	2,266,177	60,664	-	-	-	2,326,841
Student transportation	1,704,200	7,898	-	-	-	1,712,098
Community Services	3,447	225,738	-	-	-	229,185
Facility Acquisition and Construction	-	-	8,807,098	-	-	8,807,098
Building Improvements	-	-	2,639	-	-	2,639
Debt Service:						
Principal	-	-	-	-	1,155,000	1,155,000
Interest	-	-	-	-	1,344,301	1,344,301
Bond Issuance Costs	-	-	-	-	-	-
TOTAL EXPENDITURES	\$20,440,386	\$ 3,956,482	\$ 8,809,737	\$ -	\$ 2,499,301	\$ 35,705,906
Excess (deficit) of revenues over expenditures	\$ (591,064)	\$ (32,004)	\$ (8,729,313)	\$ 2,597,649	\$ (1,212,172)	\$ (7,966,904)
OTHER FINANCING SOURCES (USES):						
Proceeds from sale of fixed assets	\$ 10,055	\$ -	\$ -	\$ -	\$ -	\$ 10,055
Bond Proceeds	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-
Transfers in	318,214	32,004	29,360	-	2,220,033	2,599,611
Transfers out	(32,004)	-	-	(2,249,393)	(248,424)	(2,529,821)
TOTAL OTHER FINANCING SOURCES (USES):	\$ 296,265	\$ 32,004	\$ 29,360	\$ (2,249,393)	\$ 1,971,609	\$ 79,845
Net Change in Fund Balance	\$ (294,799)	\$ - #	\$ (8,699,953)	\$ 348,256	\$ 759,437	\$ (7,887,059)
Fund balance, July 1, 2011	2,021,781	-	13,774,247	12,720	30,017	15,838,765
Fund balance, June 30, 2012	\$ 1,726,982	\$ - #	\$ 5,074,294	\$ 360,976	\$ 789,454	\$ 7,951,706

See accompanying notes to financial statements

ALLEN COUNTY SCHOOL DISTRICT

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

For the year ended June 30, 2012

Net change in total fund balances per fund financial statements	\$ (7,887,059)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement	9,563,132
Bond and capital lease payments are recognized as expenditures of current	1,115,000
Bond Interest Payments	(1,344,301)
Bond Refinancing	(28,560)
Sick Leave	(8,839)
Bond Discount and Expense	<u>(114,150)</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,295,223</u>

See accompanying notes to financial statement

ALLEN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012

ASSETS	<u>FOOD SERVICE FUND</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 554,441
Inventory	35,466
Receivable	
Intergovernmental - Federal	10,364
TOTAL CURRENT ASSETS	<u>\$ 600,271</u>
NONCURRENT ASSETS	
Capital Assets(Net of depreciation)	\$ 436,358
TOTAL ASSETS	<u>\$ 1,036,629</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	\$ 1,000
TOTAL CURRENT LIABILITIES	<u>\$ 1,000</u>
NET ASSETS	
Invested in Capital Assets	\$ 436,358
Unrestricted	599,271
TOTAL NET ASSETS	<u>\$ 1,035,629</u>

See accompanying notes to financial statements

ALLEN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>FOOD SERVICE</u>
REVENUE:	
Revenue from local sources	
Lunchroom sales	\$ 545,797
OPERATING EXPENSES:	
Salaries personnel services	\$ 645,368
Employee benefits	320,958
Professional & technical services	2,691
Purchased property services	27,881
Depreciation	53,603
Other purchased services	9,649
Supplies & material	939,503
Property	23,715
Miscellaneous	337
TOTAL OPERATING EXPENSES	<u>\$ 2,023,705</u>
OPERATING LOSS	<u>\$ (1,477,908)</u>
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	\$ 1,107,330
Donated commodities	102,697
State grants	17,781
State on- behalf payments	141,884
Interest income	4,890
TOTAL NON-OPERATING REVENUES AND (EXPENSES)	<u>\$ 1,374,582</u>
TRANSFERS TO OTHER FUNDS	(69,790)
CHANGE IN NET ASSETS	\$ (173,116)
Net Assets, July 1, 2011	<u>1,208,745</u>
Net Assets, June 30, 2012	<u><u>\$ 1,035,629</u></u>

See accompanying notes to the financial statements

**ALLEN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>FOOD SERVICE FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from:	
Lunchroom sales	\$ 545,797
Other activities	
Cash paid to/for:	
Employees	(824,442)
Supplies	(832,995)
Other activities	(64,273)
	<hr/>
Net cash used by Operating Activities	\$ (1,175,913)
Cash flows from Non-Capital and Related Financing Activities	
Federal grants	\$ 1,113,043
State grants	17,781
Transfer to General Fund	(69,790)
	<hr/>
Net Cash Provided by Operating Activities	\$ 1,061,034
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(6,614)
Cash flows from Investing Activities	
Receipt of Interest Income	4,890
	<hr/>
Net Decrease in Cash and Cash Equivalents	\$ (116,603)
Balances, beginning of year	<hr/> 671,044
Balances, end of year	<hr/> \$ 554,441 <hr/>
Reconciliation of operating loss to net cash used by operating activities	
Operating Loss	\$ (1,477,908)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	53,603
Donated Commodities	102,697
On-Behalf Payments	141,884
Changes in assets and liabilities	
Inventory	2,831
Accounts payable	980
	<hr/>
Net cash used by Operating Activities	\$ (1,175,913) <hr/>
Schedule of non-cash transactions:	
Donated commodities received from federal government	\$ 102,697
State On-behalf Payments	141,884

See accompanying notes to financial statements

ALLEN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Agency Funds
ASSETS	
Cash	\$ 446,395
Receivables	25,039
TOTAL ASSETS	<u>\$ 471,434</u>
LIABILITIES	
Accounts Payable	\$ 22,967
Due to Student Groups	448,467
TOTAL LIABILITIES	<u>\$ 471,434</u>

See accompanying notes to financial statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Allen 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 Allen County School District. The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

During the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” The standard established the fund balance categories of nonspendable, restricted, committed, assigned and unassigned. Information concerning the District’s fund balances can be found in Note C.

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

The financial statements of the Board also include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing Board. Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Allen County School District Finance Corporation – In July 1985, the Allen County, Kentucky, Board of Education resolved to authorize the establishment of the Allen County School District Finance Corporation (a non-profit, non-stock, public, and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The board members of the Allen County Board of Education also comprise the Corporation’s board of directors.

Basis of Presentation

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

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

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 43-44. This is a major fund of the District.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

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

(D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

III. Fiduciary Fund Type

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

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Basis of Accounting

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

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

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

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

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

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

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

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.578 per \$100 valuation for real property, \$.578 per \$100 valuation for business personal property and \$.518 per \$100 valuation for motor vehicles.

Capital Assets

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

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

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

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

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Interfund Balances

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

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

Cash and Cash Equivalents

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

Inventories

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

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

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

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Prepaid Assets

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

Accrued Liabilities and Long-Term Obligations

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

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

Net Assets

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

Operating Revenues and Expenses

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

Contributions of Capital

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

Interfund Activity

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

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

NOTE B - ESTIMATES

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

NOTE C - FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2012, there were no nonspendable fund balances.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the district had \$5,074,294 restricted for capital projects in the Construction Fund, \$390,993 restricted for SFCC in the SEEK Capital Outlay Fund and \$741,159 restricted for QSCB escrow in the Debt Service Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following general fund commitments at June 30, 2012: \$229,670 for SBCFWD.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. At June 30, 2012 there were no assigned fund balances.

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

NOTE D - CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2012, \$8,638,576 of the District's bank balance of \$9,278,230 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

**ALLEN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE E – LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the Board's future obligations to make payments relating to the bonds issued by the Allen County School District Finance Corporation.

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

<u>ISSUE</u>		
1997	\$ 8,440,000	5.44%
2003	8,100,000	9.94%
2003 R	2,190,000	1.85%
2004	1,320,000	4.14%
2005 R	5,650,000	3.48%
2005	4,020,000	3.95%
2006	565,000	4.10%
2007	690,000	3.94%
2010	16,115,000	4.75%
2012	<u>4,970,000</u>	2.40%
Total	<u>\$ 52,060,000</u>	

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

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

During the year ended June 30, 2012, the District refinanced substantially all of the Series 2003 Bonds with the Series 2012 Bonds. The remaining principal balance on the Series 2003 Bonds after the refinance was \$845,000.

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

	<u>ALLEN COUNTY</u>			<u>STATE</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total</u>
6/30/2013	1,090,653	356,598	1,447,251	164,347	855,281	1,019,628	2,466,879
6/30/2014	1,100,588	335,654	1,436,242	169,412	850,491	1,019,903	2,456,145
6/30/2015	1,139,367	304,446	1,443,813	175,633	844,791	1,020,424	2,464,237
6/30/2016	1,173,130	271,053	1,444,183	181,870	838,554	1,020,424	2,464,607
6/30/2017	1,211,643	235,872	1,447,515	188,357	832,068	1,020,425	2,467,940
6/30/18-22	3,914,409	764,426	4,678,835	910,591	4,059,754	4,970,345	9,649,180
6/30/23-27	2,137,970	156,305	2,294,275	612,030	3,884,839	4,496,869	6,791,144
6/30/28-29	-	-	-	<u>16,115,000</u>	<u>382,739</u>	<u>16,497,739</u>	<u>16,497,739</u>
Grand Total	<u>\$ 11,767,760</u>	<u>\$ 2,424,354</u>	<u>\$ 14,192,114</u>	<u>\$ 18,517,240</u>	<u>\$ 12,548,517</u>	<u>\$ 31,065,757</u>	<u>\$ 45,257,871</u>

ALLEN COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE E – LONG-TERM OBLIGATIONS CONTINUED

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

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

Long-term liability for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$31,285,000	\$ 4,970,000	\$ 5,970,000	\$ 30,285,000	\$ 1,255,000
Accrued sick leave	<u>437,953</u>	<u>71,436</u>	<u>62,597</u>	<u>446,792</u>	<u>14,835</u>
Governmental Activities:					
Long-term liabilities	<u>\$31,722,953</u>	<u>\$ 5,041,436</u>	<u>\$ 6,032,597</u>	<u>\$ 30,731,792</u>	<u>\$ 1,269,835</u>

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

NOTE F – RETIREMENT PLANS

The Allen County Public Schools contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publically available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers’ Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.355% of their salaries to KTRS and 10.855% for new employees beginning July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.605% of salaries. The federal program for any salaries paid by that program pays the matching contributions. For members hired after July 1, 2008 the employee matching rates are 14.105%. Effective July 1, 2011, employer contribution for non-federally funded employee salaries is .50%.

ALLEN COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE F – RETIREMENT PLANS CONTINUED

KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

The Allen County Public School District's total payroll for the year was \$16,322,242. The following table shows the salaries and contributions for employees covered under KTRS:

	<u>KTRS Salaries</u>	<u>Commonwealth Contributions</u>	<u>School District Contributions</u>
2012	\$11,887,609	\$1,387,649	\$189,592
2011	\$11,707,125	\$1,361,077	\$181,172
2010	\$11,646,263	\$1,361,796	\$169,967

The School District's contribution represents employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% for those employees participating in CERS before September 1, 2008 and 6% for those employees participating in CERS on or after September 1, 2008 and a District contribution for the years ended June 30, 2012, 2011, 2010, of 18.96%, 16.93% and 16.16% of the employee's total compensation subject to contribution. The contribution rate is actuarially determined. The following table shows the salaries and contributions for employees covered under CERS:

	<u>CERS Salaries</u>	<u>District Contributions</u>	<u>Employee Contributions</u>
2012	\$ 3,936,943	\$ 746,449	\$202,912
2011	\$ 3,737,348	\$ 632,735	\$190,476
2010	\$ 3,619,989	\$ 584,990	\$182,818

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

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on this financial statement.

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

NOTE G - CONTINGENCIES

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

NOTE H- LITIGATION

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

NOTE I – INSURANCE AND RELATED ACTIVITIES

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

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notices. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

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

ALLEN COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE K – CAPITAL ASSETS

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

	<u>BALANCE</u> <u>JULY 1, 2011</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2012</u>
Governmental Activities:				
Non-Depreciable Assets				
Land	\$ 1,001,750	\$ -	\$ -	\$ 1,001,750
Depreciable Assets				
Land improvements	2,414,952	1,894,646	(72,534)	4,237,064
Buildings and building improvements	42,909,461	85,830	(78,440)	42,916,851
Technology equipment	2,770,523	89,625	-	2,860,148
Vehicles	3,076,103	226,078	(70,415)	3,231,766
General equipment	931,078	24,660	(134,423)	821,315
Construction in Progress	<u>8,139,658</u>	<u>7,316,687</u>	<u>-</u>	<u>15,456,345</u>
Totals at historical cost:	<u>\$61,243,525</u>	<u>\$ 9,637,526</u>	<u>\$ (355,812)</u>	<u>\$70,525,239</u>
Less Accumulated Depreciation For:				
Land improvements	\$ 1,164,270	\$ 158,904	\$ (70,905)	\$ 1,252,269
Buildings and building improvements	11,171,034	879,078	(21,244)	12,028,868
Technology equipment	1,963,567	200,309	-	2,163,876
Vehicles	2,492,979	183,230	(70,415)	2,605,794
General equipment	<u>802,609</u>	<u>22,376</u>	<u>(129,802)</u>	<u>695,183</u>
Total accumulated depreciation:	<u>\$17,594,459</u>	<u>\$ 1,443,897</u>	<u>\$ (292,366)</u>	<u>\$18,745,990</u>
Governmental Activities Capital Assets Net	<u>\$43,649,066</u>	<u>\$ 8,193,629</u>	<u>\$ (63,446)</u>	<u>\$51,779,249</u>

DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 1,136,494
Student support services	454
Staff support services	6
District administration	59,698
School administration	504
Business support services	690
Plant operation & maintenance	70,484
Student transportation	174,909
Community service operations	<u>658</u>
Total	<u>\$ 1,443,897</u>

Business Type Activities:				
Land improvements	\$ 9,690	\$ -	\$ -	\$ 9,690
Buildings and building improvements	287,750	-	-	287,750
Technology equipment	23,815	-	-	23,815
General equipment	<u>821,190</u>	<u>7,222</u>	<u>(56,765)</u>	<u>771,647</u>
Totals at historical cost:	<u>\$ 1,142,445</u>	<u>\$ 7,222</u>	<u>\$ (56,765)</u>	<u>\$ 1,092,902</u>

Less Accumulated Depreciation For:				
Land improvements	\$ 1,211	\$ 485	\$ -	\$ 1,696
Buildings and building improvements	15,347	5,755	-	21,102
Technology equipment	15,009	1,798	-	16,807
General equipment	<u>627,531</u>	<u>45,565</u>	<u>(56,157)</u>	<u>616,939</u>
Total accumulated depreciation:	<u>\$ 659,098</u>	<u>\$ 53,603</u>	<u>\$ (56,157)</u>	<u>\$ 656,544</u>

Proprietary Activities Capital Assets Net	<u>\$ 483,347</u>	<u>\$ (46,381)</u>	<u>\$ (608)</u>	<u>\$ 436,358</u>
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ALLEN COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE L – DEFICIT OPERATING BALANCES

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

General Fund	\$ 294,799
Construction Fund	\$ 8,699,953

NOTE M - COBRA

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

NOTE N - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Transfer	\$ 32,004
FSPK	Construction	Transfer	29,360
FSPK	Debt Service	Bond Payment	1,935,438
Food Service	General	Transfer	69,790
Seek Capital Outlay	General	Transfer	248,424
			<u>\$ 2,315,016</u>

NOTE O – CAPITAL LEASES

The District is party to numerous small operating leases for office equipment such as copiers, postage machines and fax machines, which represent an insignificant obligation.

NOTE P – INTERFUND RECEIVABLE AND PAYABLES

There were no interfund receivables and payables at June 30, 2012

ALLEN COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE Q – ON-BEHALF PAYMENTS

For the year ended June 30, 2012, the Commonwealth of Kentucky contributed estimated payments on-behalf of the District's employees of \$4,268,652 to the health insurance carriers, flexible spending account vendors and KTRS. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, establishes accounting and reporting standards for on-behalf payments. In accordance with the standard, the District recognized an expense and revenue for this payment on the District-Wide Financial Statements.

REQUIRED SUPPLEMENTARY INFORMATION

ALLEN COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL- GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 2,556,561	\$ 2,872,190	\$ 2,909,296	\$ 37,106
Motor vehicle	274,775	323,658	307,885	(15,773)
Unmined minerals	-	-	6,378	6,378
Tuition & fees	21,175	7,000	47,775	40,775
Earnings on investments	60,000	40,000	24,933	(15,067)
Other local revenues	17,083	23,543	49,992	26,449
Intergovernmental - State	12,299,815	12,269,752	16,409,209	4,139,457
Intergovernmental - Indirect federal	200,142	200,000	93,854	(106,146)
TOTAL REVENUES	\$ 15,429,551	\$ 15,736,143	\$ 19,849,322	\$ 4,113,179
EXPENDITURES:				
Current:				
Instruction:	\$ 9,433,502	\$ 9,672,301	\$ 12,091,186	\$ (2,418,885)
Support Services:				
Student	660,418	768,594	959,615	(191,021)
Instructional staff	696,261	764,852	986,661	(221,809)
District administration	501,462	678,877	567,667	111,210
School administration	1,054,201	1,134,155	1,433,264	(299,109)
Business	344,084	403,227	428,168	(24,941)
Plant operations and maintenance	2,009,036	2,234,141	2,266,177	(32,036)
Student transportation	2,050,857	1,536,253	1,704,200	(167,947)
Community Services	25,046	9,719	3,447	6,272
Contingency	639,684	788,156	-	788,156
TOTAL EXPENDITURES	\$ 17,414,551	\$ 17,990,275	\$ 20,440,385	\$ (2,450,110)
Excess (deficit) of revenues over expenditures	\$ (1,985,000)	\$ (2,254,132)	\$ (591,063)	\$ 1,663,069
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of fixed assets	\$ -	\$ 18,748	\$ 10,055	\$ (8,693)
Transfers in	50,000	279,898	318,214	38,316
Transfers out	(65,000)	(66,295)	(32,004)	34,291
TOTAL OTHER FINANCING SOURCES (USES):	\$ (15,000)	\$ 232,351	\$ 296,265	\$ 63,914
Net Changes In Fund Balances	\$ (2,000,000)	\$ (2,021,781)	\$ (294,798)	\$ 1,726,983
Fund balance July 1, 2011	2,000,000	2,021,781	2,021,781	-
Fund balance June 30, 2012	\$ -	\$ -	\$ 1,726,983	\$ 1,726,983

Budgetary amounts do not include on-behalf payments made by the state in the amount of \$3,991,133.

ALLEN COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL- SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Earnings on investments		\$ -	\$ -	\$ -
Other local revenues	104,500	207,723	167,264	(40,459)
Intergovernmental - State	1,017,323	1,092,642	1,061,193	(31,449)
Intergovernmental - Federal	2,718,014	2,693,956	2,696,021	2,065
TOTAL REVENUES	\$3,839,837	\$ 3,994,321	\$ 3,924,478	\$ (69,843)
EXPENDITURES:				
Current:				
Instruction:	\$3,308,689	\$ 3,410,913	\$ 3,345,674	\$ 65,239
Support Services:				
Student	72,880	15,514	11,387	4,127
Instructional staff	191,739	192,774	227,163	(34,389)
School administration	28,481	29,540	28,815	725
Business	45,111	50,025	49,143	882
Plant operations and maintenance	58,581	60,403	60,664	(261)
Student transportation	3,502	12,877	7,898	4,979
Community Services	195,854	254,279	225,738	28,541
TOTAL EXPENDITURES	\$3,904,837	\$ 4,026,325	\$ 3,956,482	\$ 69,843
Excess (deficit) of revenues over expenditures	\$ (65,000)	\$ (32,004)	\$ (32,004)	\$ -
OTHER FINANCING SOURCES (USES):				
Transfers in	\$ 65,000	\$ 32,004	\$ 32,004	\$ -
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES):	\$ 65,000	\$ 32,004	\$ 32,004	\$ -
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ -
Fund balance July 1, 2011	-	-	-	-
Fund balance June 30, 2012	\$ -	\$ -	\$ -	\$ -

OTHER SUPPLEMENTARY INFORMATION

ALLEN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	SEEK CAPITAL OUTLAY FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:			
Cash and cash equivalents	\$ 48,295	\$ 741,159	\$ 789,454
Receivables	-	-	-
TOTAL ASSETS:	<u>\$ 48,295</u>	<u>\$ 741,159</u>	<u>\$ 789,454</u>
LIABILITIES AND FUND BALANCE:			
LIABILITIES:			
Accounts payable	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES			
Restricted:			
SFCC	\$ 30,017	\$ -	\$ 30,017
Other	18,278	-	18,278
QSCB Escrow	-	741,159	741,159
TOTAL FUND BALANCES:	<u>\$ 48,295</u>	<u>\$ 741,159</u>	<u>\$ 789,454</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 48,295</u>	<u>\$ 741,159</u>	<u>\$ 789,454</u>

ALLEN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES- NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>SEEK CAPITAL OUTLAY FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</u>
REVENUES:			
From local sources:			
Taxes:			
Property	\$ -	\$ -	\$ -
Earnings on investments	-	-	-
Other local revenues	-	-	-
Intergovernmental - State	<u>266,702</u>	<u>1,020,427</u>	<u>1,287,129</u>
TOTAL REVENUES	\$ 266,702	\$ 1,020,427	\$ 1,287,129
EXPENDITURES:			
Current:			
Instruction:	\$ -	\$ -	\$ -
Facility acquisition and construction	-	-	-
Plant operations & maintenance	-	-	-
Debt Service:			
Principal	-	1,155,000	1,155,000
Interest	-	1,344,301	1,344,301
Other	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	\$ -	\$ 2,499,301	\$ 2,499,301
Excess (deficit) of revenues over expenditures	\$ 266,702	\$ (1,478,874)	\$ (1,212,172)
OTHER FINANCING SOURCES (USES):			
Transfers in	\$ -	\$ 2,220,033	\$ 2,220,033
Transfers out	<u>(248,424)</u>	<u>-</u>	<u>(248,424)</u>
TOTAL OTHER FINANCING SOURCES (USES):	\$ (248,424)	\$ 2,220,033	\$ 1,971,609
Net Changes in Fund Balances	\$ 18,278	\$ 741,159	\$ 759,437
Fund balance, July 1, 2011	<u>30,017</u>	<u>-</u>	<u>30,017</u>
Fund balance, June 30, 2012	\$ 48,295	\$ 741,159	\$ 789,454

ALLEN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS- AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Allen County High School	Allen County Middle School	Allen County Primary Center	Allen County Intermediate Center	Allen County Vocational Center	Allen County Family Resource Center	Allen County Community Resource Center	Total
ASSETS								
Cash	\$ 149,282	\$ 130,246	\$ 35,111	\$ 69,499	\$ 13,646	\$ 1,532	\$ 47,079	\$ 446,395
Accounts Receivable	-	-	-	25,039	-	-	-	25,039
TOTAL ASSETS	\$ 149,282	\$ 130,246	\$ 35,111	\$ 94,538	\$ 13,646	\$ 1,532	\$ 47,079	\$ 471,434
LIABILITIES								
Accounts Payable	\$ -	\$ -	\$ -	\$ 22,967	\$ -	\$ -	\$ -	\$ 22,967
Due to Student Groups	149,282	130,246	35,111	71,571	13,646	1,532	47,079	448,467
TOTAL LIABILITIES	\$ 149,282	\$ 130,246	\$ 35,111	\$ 94,538	\$ 13,646	\$ 1,532	\$ 47,079	\$ 471,434

ALLEN COUNTY SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30,2012

	Allen County High School	Allen County Middle School	Allen County Primary Center	Allen County Intermediate Center	Allen County Vocational Center	Allen County Family Resource Center	Allen County Community Resource Center	Total
Cash Balances, July 1, 2011	\$ 148,676	\$ 130,941	\$ 30,867	\$ 67,427	\$ 12,812	\$ 6,093	\$ 54,362	\$ 451,178
Receipts	267,938	55,903	54,931	25,039	82,795	97,485	26,146	610,237
Disbursements	267,332	56,598	50,687	22,967	81,961	102,046	33,429	615,020
Cash Balances, June 30, 2012	\$ 149,282	\$ 130,246	\$ 35,111	\$ 69,499	\$ 13,646	\$ 1,532	\$ 47,079	\$ 446,395
Receivables, June 30, 2012	-	-	-	25,039	-	-	-	25,039
Accounts Payable, June 30, 2012	-	-	-	22,967	-	-	-	22,967
Due To Student Groups, June 30, 2012	<u>\$ 149,282</u>	<u>\$ 130,246</u>	<u>\$ 35,111</u>	<u>\$ 71,571</u>	<u>\$ 13,646</u>	<u>\$ 1,532</u>	<u>\$ 47,079</u>	<u>\$ 448,467</u>

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ALLEN COUNTY SCHOOL DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 ALLEN COUNTY HIGH SCHOOL ACTIVITY FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance <u>07/01/11</u>	Receipts	Disbursements	Cash Balance <u>06/30/12</u>	Accounts Receivable <u>06/30/12</u>	Accounts Payable <u>06/30/12</u>	Due To Student Groups <u>06/30/12</u>
ACCOUNTS:							
General	\$ 7,115	\$ 4,717	\$ 5,154	\$ 6,678	\$ -	\$ -	\$ 6,678
Boys Basketball	5,863	12,549	16,868	1,544	-	-	1,544
Girls Basketball	10,767	9,460	13,719	6,508	-	-	6,508
Football	14,102	36,175	42,496	7,781	-	-	7,781
Baseball	4,163	3,199	5,695	1,667	-	-	1,667
Agriculture	138	27	75	90	-	-	90
Annual	19,371	41,929	34,969	26,331	-	-	26,331
Art	108	-	30	78	-	-	78
Academic Team	141	-	-	141	-	-	141
Band	3	974	974	3	-	-	3
Beta	1,143	7,255	8,076	322	-	-	322
Black Heritage	1,205	500	-	1,705	-	-	1,705
Cheerleaders	56	2,347	1,922	481	-	-	481
Chorus	66	398	336	128	-	-	128
Co-Ed-Y	91	-	-	91	-	-	91
Class Fees	60	-	-	60	-	-	60
English	2,382	258	242	2,398	-	-	2,398
Faculty Concessions	1,577	3,081	2,645	2,013	-	-	2,013
FFA	9,311	28,024	24,696	12,639	-	-	12,639
FHA	639	6,574	6,796	417	-	-	417
Home Economics	1,032	763	740	1,055	-	-	1,055
Library	422	148	42	528	-	-	528
Library Club	4	-	-	4	-	-	4
Math	126	-	-	126	-	-	126
Pep Club	257	2,905	1,903	1,259	-	-	1,259
P.E.	16	-	-	16	-	-	16
Prom	10,333	8,150	6,338	12,145	-	-	12,145
Retailing	107	-	-	107	-	-	107
Science	702	475	475	702	-	-	702
Seniors	43	2,990	3,020	13	-	-	13
Social Studies	134	-	-	134	-	-	134
Sophomores	116	-	-	116	-	-	116
Spanish Club	669	1,012	1,095	586	-	-	586
Spanish	342	-	-	342	-	-	342
Student Council	25	-	-	25	-	-	25
Special Education	432	-	53	379	-	-	379
Track	27	-	-	27	-	-	27
Drivers Ed	442	-	200	242	-	-	242
Soda	657	1,000	30	1,627	-	-	1,627
Sub Total	\$ 94,187	\$ 174,910	\$ 178,589	\$ 90,508	\$ -	\$ -	\$ 90,508

ALLEN COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
ALLEN COUNTY HIGH SCHOOL ACTIVITY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

ACCOUNTS	Cash Balance 07/01/11	Receipts	Disbursements	Cash Balance 06/30/12	Accounts Receivable 06/30/12	Accounts Payable 06/30/12	Due To Student Groups 06/30/12
Preceding Page	\$ 94,187	\$ 174,910	\$ 178,589	\$ 90,508	\$ -	\$ -	\$ 90,508
Cross Country	1,622	1,640	1,657	1,605	-	-	1,605
FCA	68	8,413	7,947	534	-	-	534
Youth Service	754	350	150	954	-	-	954
Softball	6,382	4,842	6,440	4,784	-	-	4,784
Golf	7	-	-	7	-	-	7
Tennis	622	385	-	1,007	-	-	1,007
Literary Club	437	1,522	1,158	801	-	-	801
Health	893	-	30	863	-	-	863
Regional Tournament	-	-	-	-	-	-	-
Concessions	6,078	2,222	3,289	5,011	-	-	5,011
Renaissance	-	-	(43)	43	-	-	43
District Tournament	-	15,412	15,412	-	-	-	-
HOSA	-	-	-	-	-	-	-
Humanities	180	-	(12)	192	-	-	192
Computer Science	279	-	-	279	-	-	279
Attendance Incentivies	4,752	1,100	1,277	4,575	-	-	4,575
Athletic Hold Money	400	-	400	-	-	-	-
Volleyball	195	5,620	5,293	522	-	-	522
Athletic Director	1,188	605	399	1,394	-	-	1,394
Guidence	1,816	20,910	20,953	1,773	-	-	1,773
Newspaper	274	-	-	274	-	-	274
Information Technology	629	-	68	561	-	-	561
History Club	339	256	270	325	-	-	325
Gary Shelton Memorial Scholars	1,692	106	605	1,193	-	-	1,193
Associate Athletic Account	21,318	7,274	4,822	23,770	-	-	23,770
Drama	352	846	983	215	-	-	215
FEA	133	-	-	133	-	-	133
Science Olympiad	476	880	842	514	-	-	514
Boys Region 3 Golf	1,533	900	693	1,740	-	-	1,740
Broadcasting	750	221	357	614	-	-	614
FMD	20	-	-	20	-	-	20
Faculty Flower Fund	662	-	29	633	-	-	633
NSSP	517	440	-	957	-	-	957
Swim	11	-	-	11	-	-	11
Chess Club	110	-	-	110	-	-	110
ROTC	-	19,084	15,724	3,360	-	-	3,360
Total	\$ 148,676	\$ 267,938	\$ 267,332	\$ 149,282	\$ -	\$ -	\$ 149,282

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Passthrough Grantor/Program Title	Federal CFDA number	Pass through grantor's number	Expenditures
U.S. Department of Agriculture			
Passed through State Department of Education:			
Child Nutrition Cluster-Cash Assistance:			
School Breakfast Program	10.553	002-005-03	\$ 293,961
National School Lunch Program	10.555	002-005-03	790,683
Summer Food Service Program For Children	10.559	002-005-23	22,686
			<u>\$ 1,107,330</u>
Other U.S. Department of Agriculture Programs:			
Passed Through State Dept of Agric.:			
Non Cash Assistance-In-kind commodities	10.555	002-005-03	102,697
Total U.S. Department of Agriculture			
			<u>\$ 1,210,027</u>
U.S. Department of Education			
Passed through the State Department of Education:			
Title I, Part A Cluster			
Title I Grant to Local Educational Agencies	84.010	3101	\$ 314,283
Title I Grant to Local Educational Agencies	84.010A	3101D	59,857
Title I Grant to Local Educational Agencies	84.010	3101M	6,635
Title I Grant to Local Educational Agencies	84.010	3201	69,711
Title I Grant to Local Educational Agencies	84.010	3200	39,511
Title I Grant to Local Educational Agencies	84.010	3202	3,504
Title I Grant to Local Educational Agencies	84.010	3102	632,851
Title I Grant to Local Educational Agencies	84.010A	3102D	57,385
Title I Grant to Local Educational Agencies	84.010	3102M	2
			<u>\$ 1,183,739</u>
Total Title I, Part A Cluster			
			\$ 1,183,739
Special Education Cluster(IDEA)			
Special Education-Grants to States	84.027A	3370P	\$ 23,883
Special Education-Grants to States	84.027A	3371	75,182
Special Education-Grants to States	84.027	3372	518,417
			<u>\$ 617,482</u>
Special Education-Preschool Grants	84.173	3431	797
Special Education-Preschool Grants	84.173	3432	22,243
			<u>\$ 23,040</u>
Special Education-Grants to States- Recovery Act	84.391A	4249	3,697
Improving Teacher Quality State Grants	84.367A	4012	\$ 111,794
Improving Teacher Quality State Grants	84.367A	4011	46,419
			<u>\$ 158,213</u>
Career and Technical Education-Basic Grants To States	84.048	3482	\$ 37,011
Career and Technical Education-Basic Grants To States	84.048	3482S	2,150
Career and Technical Education-Basic Grants To States	84.048	3480A	1,454
Career and Technical Education-Basic Grants To States	84.048	3481	2,645
Career and Technical Education-Basic Grants To States	84.048	3481S	2,580
Career and Technical Education-Basic Grants To States	84.048	3481A	1,799
			<u>\$ 47,639</u>
Early Reading First	84.359B	3500	\$ 13,750
Early Reading First	84.359B	3501	74,497
			<u>\$ 88,247</u>
Adult Education- State Grant Programs	84.002	3732	\$ 58,335
Adult Education- State Grant Programs	84.002	3732S	56
Adult Education- State Grant Programs	84.002	3731F	8,492
			<u>\$ 66,883</u>
Enhancing Education Through Technology	84.386A	4860	\$ 2,044
			<u>\$ 2,044</u>

Continued on next page

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

Federal Grantor/Passthrough Grantor/Program Title	Federal CFDA number	Pass through grantor's number	<u>Expenditures</u>
Education for Homeless Children & Youth	84.387A	3219	\$ 343
Educational Technology State Grants	84.318X	4251	\$ 1,494
Education Jobs Fund	84.410	4411	\$ 455,394
Total Department of Education			<u>\$ 2,648,215</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,858,242</u></u>

The accompanying notes are an integral part of the schedule

ALLEN COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Allen County School District under programs of the federal government for the year ended June 30, 2012. 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*. Because this schedule presents only a selected portion of the operations of the Allen County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Allen County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

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

NOTE D – SUBRECIPIENTS

The District has no subrecipients for the fiscal year ended June 30, 2012.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

ALLEN COUNTY SCHOOL DISTRICT

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2012**

There were no prior year audit findings.

**INDEPENDENT AUDITOR'S 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***

GOODMAN & COMPANY, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Allen County School District
Scottsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Allen County Board of Education, as of and for the year ended June 30, 2012, which collectively comprise the Allen County Board of Education's basic financial statements and have issued our report thereon dated November 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III and IV of the *Independent Auditor's Contract*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen County Board of Education'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 Allen County Board of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Allen County Board of Education'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 a 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 Allen County Board of Education'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*.

We noted certain matters that we reported to management of Allen County Board of Education, in a separate letter dated November 4, 2012

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



GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
Louisville, Kentucky
November 4, 2012

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

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INDEPENDENT AUDITOR'S REPORT

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Members of the Board of Education
Allen County School District
Scottsville, Kentucky

Compliance

We have audited Allen County Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Allen County Board of Education's major federal programs for the year ended June 30, 2012. Allen County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Allen County Board of Education's management. Our responsibility is to express an opinion on Allen County Board of Education'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 requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III and IV of the Independent Auditor's Contract. 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 Allen County Board of Education'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 Allen County Board of Education's compliance with those requirements.

In our opinion, Allen County Board of Education, 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items.

Internal Control Over Compliance

Management of Allen County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Allen County Board of Education'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 Allen County Board of Education's internal control over compliance.

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

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

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



GOODMAN & COMPANY, P.S.C.

Certified Public Accountants

Louisville, Kentucky

November 4, 2012

COMMUNICATION WITH DISTRICT BOARD

GOODMAN & COMPANY, P.S.C.

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Members of the Board of Education
Allen County School District
Scottsville, Kentucky

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated November 4, 2012 contains our report on the District's internal control. This letter does not affect our report dated November 4, 2012, on the financial statements of Allen County Board of Education.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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



GOODMAN & COMPANY, P.S.C
Certified Public Accountants
Louisville, Kentucky
November 4, 2012

COMMENTS

**ALLEN COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
YEAR ENDED JUNE 30, 2012**

Fiduciary Funds – School Activity Funds

1. Condition – During the audit, we noted that in one school, the Purchase Order (Form F-SA-7) was not prepared on a consistent basis.

Criteria – The *Uniform Program of Accounting for School Activity Fund in Kentucky Schools* (Red Book) states to initiate a purchase, a Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated. The Purchase Order is filed with the school treasurer and is classified as an encumbrance until the merchandise is received.

Cause – Oversight by school employees caused the violation of the requirement.

Recommendations – Reinforce education to all school personnel about the policy and monitor that it is enforced.

Response – Management agrees with the finding and recommendations will be adopted.

2. Condition – During the audit, we noted that in one school, a number of checks were only signed by one person.

Criteria – Under Board policy, any check must have two signatures present.

Cause – Oversight by school employees caused the violation of the requirement.

Recommendations – Reinforce education to all school personnel about the policy and monitor that it is enforced.

Response – Management agrees with the finding and recommendations will be adopted.