

**ASHLAND INDEPENDENT
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Ashland Independent School District
Ashland, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Ashland Independent School District (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Ashland Independent School District. Our responsibility is to express opinions on these basic 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; OMB Circular A-133, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements and Appendix II to the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Ashland Independent School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Special Revenue Fund 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 October 26, 2012, on our consideration of Ashland Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 7 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 the appropriate operational, economic, and historical context. We have applied certain limited procedures, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and 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 any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ashland Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the schedule of expenditures of federal awards contained on pages 45 and 46 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Ashland Independent School District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Kelley Galloway & Company, PSC

October 26, 2012

**Ashland Independent School District - Ashland, KY
Managements Discussion and Analysis (MD&A)
Year Ended June 30, 2012**

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

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$3,308,907 and the ending balance was approximately \$3,085,189, an decrease of \$223,718 for the year.
- The General Fund had \$22,812,815 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there were \$23,197,333 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long- range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt increased by \$148,454 during the current fiscal year.
- The majority of the District's General Fund revenues were derived from state sources (73%) and local taxes (27%). Regular instruction, student support services, instructional support services, and school administration accounts for 79% of the District's General Fund expenditures. Central support service expenditures were pupil transportation 4%, maintenance and operations 12% and business functions 1%, with central office support, and fund transfers making up 4%.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and

maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 8 - 9 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 funds, 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 vending and food service operations. All other activities of the District are included in the governmental funds. The basic fund financial statements can be found on pages 10 - 20 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 21 - 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$13,993,426 for Governmental Activities, and \$120,401 for Business Type Activities as of June 30, 2012.

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

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

Net Assets for the period ending June 30, 2012 as compared to June 30, 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current Assets	\$ 4,096,172	\$ 4,811,991
Noncurrent Assets	29,447,427	29,118,301
Total Assets	<u>33,543,599</u>	<u>33,930,292</u>
Current Liabilities	1,599,011	1,514,420
Noncurrent Liabilities	17,830,761	17,688,859
Total Liabilities	<u>19,429,772</u>	<u>19,203,279</u>
Net Assets		
Investment in capital assets (net of debt)	11,033,806	10,945,753
Restricted	600,448	759,409
Unrestricted	2,479,573	3,021,851
Total Net Assets	<u>\$ 14,113,827</u>	<u>\$ 14,727,013</u>

FUND FINANCIAL ANALYSIS

Comments on Budget Comparisons

- ❖ The General Fund budget compared to actual revenue varied slightly from line item to line item with ending actual revenue being \$451,264 or 2.0% more than budgeted due primarily to increased ad valorem and utility tax collections.
- ❖ Actual General Fund expenditures (excluding transfers) compared to budget expenditures, net of contingency allotments, was \$686,108 more than budget.

The following table presents a summary of revenue and expenses, excluding transfers, for selected funds (including on-behalf payments):

For the year ending June 30, 2012

Revenues:	General Fund	Special Revenue	Capital Projects	Food Service	Component Unit
Local sources	\$ 6,194,339	\$ 33,360	\$ 489,263	\$ 538,762	\$ 449,214
State sources	16,567,523	701,878	1,241,484	196,655	-
Federal sources	50,953	4,881,864	76,176	934,450	-
Other sources	-	-	4,420,733	-	-
Total revenues	<u>22,812,815</u>	<u>5,617,102</u>	<u>6,227,656</u>	<u>1,669,867</u>	<u>449,214</u>
Expenses:					
Instruction	14,992,302	1,755,435	-	-	596,022
Student support	868,833	61,699	-	-	-
Inst. support	1,203,047	3,556,298	-	-	-
District admin.	916,428	-	-	-	-
School admin.	1,210,473	-	-	-	-
Business support	345,911	-	-	-	-
Plant operations	2,763,192	-	-	-	-
Student transp.	876,878	61,034	-	-	-
Community support	-	239,290	-	-	-
Other instructional	-	-	-	-	-
Debt service	20,269	-	5,227,808	-	-
Building renovation	-	-	869,590	-	-
Food services	-	-	-	2,028,850	-
Total expenses	<u>23,197,333</u>	<u>5,673,756</u>	<u>6,097,398</u>	<u>2,028,850</u>	<u>596,022</u>
Revenue over (under)					
Expenses	<u>\$ (384,518)</u>	<u>\$ (56,654)</u>	<u>\$ 130,258</u>	<u>\$ (358,983)</u>	<u>\$ (146,808)</u>

For the year ending June 30, 2011

Revenues:	General Fund	Special Revenue	Capital Projects	Food Service	Component Unit
Local sources	\$ 6,672,895	\$ 43,895	\$ 482,005	\$ 548,321	\$ 451,302
State sources	15,291,660	711,133	1,204,415	219,829	-
Federal sources	53,234	5,998,005	38,223	1,026,866	-
Other sources	-	-	47,230	-	-
Total revenues	<u>22,017,789</u>	<u>6,753,033</u>	<u>1,771,873</u>	<u>1,795,016</u>	<u>451,302</u>
 Expenses:					
Instruction	13,452,414	2,807,639	-	-	380,917
Student support	805,428	16,996	-	-	-
Inst. support	829,406	3,639,186	-	-	-
District admin.	778,729	-	-	-	-
School admin.	1,262,327	-	-	-	-
Business support	302,170	-	-	-	-
Plant operations	2,870,809	91,936	-	-	-
Student transp.	744,856	8,653	-	-	-
Community support	-	259,175	-	-	-
Other instructional	-	-	-	-	-
Debt service	20,237	-	1,612,431	-	-
Building renovation	8,247	-	229,329	-	-
Food services	-	-	-	1,884,813	-
Total expenses	<u>21,074,623</u>	<u>6,823,585</u>	<u>1,841,760</u>	<u>1,884,813</u>	<u>380,917</u>
 Revenue over (under)					
Expenses	<u>\$ 943,166</u>	<u>\$ (70,552)</u>	<u>\$ (69,887)</u>	<u>\$ (89,797)</u>	<u>\$ 70,385</u>

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2012 - 2013 with a 5.43% contingency. Significant Board action that impacts the finances includes mandated pay increases, and in depth examination of all expense categories, which would include staffing patterns, and any facility repairs outside of bonded building and renovation projects.

Questions regarding this report should be directed to Superintendent Stephen E. Gilmore or to Timothy P. Walters, Director of Business and Operations at 606-327-2706 or by mail at 1820 Hickman Street, P.O. Box 3000, Ashland, KY 41105.

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	\$ 3,053,252	\$ 31,937	\$ 3,085,189	\$ 95,232
Receivables (net of allowances for uncollectibles):				
Property taxes	187,347	-	187,347	6,024
Other	86,635	-	86,635	-
Intergovernmental - state	659,269	-	659,269	-
Intergovernmental - federal	40,187	14,530	54,717	-
Inventories	-	23,015	23,015	-
Interfund receivable (payable)	271,726	(271,726)	-	-
Bond issue costs, net of amortization	260,765	-	260,765	-
Capital assets, not being depreciated	1,900,283	-	1,900,283	-
Capital assets, being depreciated, net	26,960,417	325,962	27,286,379	-
Total assets	<u>33,419,881</u>	<u>123,718</u>	<u>33,543,599</u>	<u>101,256</u>
Liabilities				
Accounts payable	286,890	3,317	290,207	19,009
Deferred revenue	226,844	-	226,844	-
Portion due or payable within one year:				
Accrued sick leave	102,923	-	102,923	-
Debt obligations	979,037	-	979,037	-
Portion due or payable after one year:				
Accrued sick leave	656,942	-	656,942	-
Debt obligations	17,173,819	-	17,173,819	-
Total liabilities	<u>19,426,455</u>	<u>3,317</u>	<u>19,429,772</u>	<u>19,009</u>
Net Assets				
Invested in capital assets, net of related debt	10,707,844	325,962	11,033,806	-
Restricted for:				
Capital projects	761,402	-	761,402	-
Other purposes	44,607	(205,561)	(160,954)	-
Unrestricted	2,479,573	-	2,479,573	82,247
Total net assets	<u>\$ 13,993,426</u>	<u>\$ 120,401</u>	<u>\$ 14,113,827</u>	<u>\$ 82,247</u>

The accompanying notes to financial statements are an integral part of this statement.

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
Instruction	\$ 16,322,798	\$ 28,404	\$ 1,722,075	\$ -	\$ (14,572,319)	\$ -	\$ (14,572,319)
Support services:							
Students	1,043,216	-	61,699	-	(981,517)	-	(981,517)
Instructional staff	4,804,985	-	3,556,298	-	(1,248,687)	-	(1,248,687)
District administration	958,498	-	-	-	(958,498)	-	(958,498)
School administration	1,252,754	-	-	-	(1,252,754)	-	(1,252,754)
Business and other support services	367,373	-	-	-	(367,373)	-	(367,373)
Operation and maintenance of plant	3,578,535	-	61,034	-	(3,517,501)	-	(3,517,501)
Student transportation	960,293	-	-	-	(960,293)	-	(960,293)
Community services	239,290	-	239,290	-	-	-	-
Debt service	961,972	-	-	892,880	(69,092)	-	(69,092)
Total governmental activities	30,489,714	28,404	5,640,396	892,880	(23,928,034)	-	(23,928,034)
Business-type activities:							
Food service	2,028,850	433,420	1,237,189	-	(358,241)	-	(358,241)
Total business-type activities	2,028,850	433,420	1,237,189	-	(358,241)	-	(358,241)
Total primary government	\$ 32,518,564	\$ 461,824	\$ 6,877,585	\$ 892,880	\$ (23,928,034)	\$ (358,241)	\$ (24,286,275)
Component unit:							
Public School Corporation of Ashland							
Independent School District							
Total component unit	\$ 596,022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (596,022)
	\$ 596,022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (596,022)

General revenues:							
Taxes:							
Property taxes, levied for general purposes				\$ 4,000,403	\$ -	\$ 4,000,403	\$ 400,735
Motor vehicle				628,256	-	628,256	48,479
Utilities				1,643,367	-	1,643,367	-
Inter-governmental revenues:							
State				16,986,602	-	16,986,602	-
Investment earnings				15,937	1,874	17,811	-
Loss on disposal of assets				(1,329)	(2,616)	(3,945)	-
Other local revenues				400,595	-	400,595	-
Total general revenues and transfers				23,673,831	(742)	23,673,089	449,214
Change in net assets				(254,203)	(358,983)	(613,186)	(146,808)
Net assets, June 30, 2011				14,247,629	479,384	14,727,013	229,055
Net assets, June 30, 2012				\$ 13,993,426	\$ 120,401	\$ 14,113,827	\$ 82,247

The accompanying notes to financial statements are an integral part of this statement.

ASHLAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Special Revenue Fund	SEEK Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 2,260,125	\$ -	\$ 571,269	\$ 8,816	\$ 213,042	\$ 3,053,252
Receivables (net of allowances for uncollectibles):						
Taxes	187,347	-	-	-	-	187,347
Other	86,635	-	-	-	-	86,635
Bond proceeds receivable	-	-	-	126,023	-	126,023
Interfund receivable	677,548	-	-	-	-	677,548
Intergovernmental - state	-	604,801	-	54,468	-	659,269
Intergovernmental - federal	37,760	2,427	-	-	-	40,187
Total assets	<u>\$ 3,249,415</u>	<u>\$ 607,228</u>	<u>\$ 571,269</u>	<u>\$ 189,307</u>	<u>\$ 213,042</u>	<u>\$ 4,830,261</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 144,719	\$ 99,562	\$ -	\$ 37,009	\$ 5,600	\$ 286,890
Interfund payable	-	405,822	-	-	-	405,822
Deferred revenue	-	101,844	-	125,000	-	226,844
Total liabilities	<u>144,719</u>	<u>607,228</u>	<u>-</u>	<u>162,009</u>	<u>5,600</u>	<u>919,556</u>
Fund balances:						
Restricted for accrued sick leave	102,923	-	-	-	-	102,923
Restricted for SFCC escrow	-	-	571,269	-	162,835	734,104
Restricted for construction escrow	-	-	-	27,298	-	27,298
Restricted for debt service	-	-	-	-	44,607	44,607
Unassigned	3,001,773	-	-	-	-	3,001,773
Total fund balances	<u>3,104,696</u>	<u>-</u>	<u>571,269</u>	<u>27,298</u>	<u>207,442</u>	<u>3,910,705</u>
Total liabilities and fund balances	<u>\$ 3,249,415</u>	<u>\$ 607,228</u>	<u>\$ 571,269</u>	<u>\$ 189,307</u>	<u>\$ 213,042</u>	<u>\$ 4,830,261</u>

The accompanying notes to financial statements are an integral part of this statement.

ASHLAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET ASSETS
JUNE 30, 2012

Fund balances—total governmental funds	\$ 3,910,705
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	28,860,700
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.	260,765
Bond proceeds receivable are reported in the governmental funds as financial resources to offset expenditures made prior to the issuance of debt.	(126,023)
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(18,912,721)</u>
Net assets of governmental activities	<u><u>\$ 13,993,426</u></u>

The accompanying notes to financial statements are an integral part of this statement.

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue Fund	SEEK Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes -						
Property	\$ 3,516,771	\$ -	\$ -	\$ -	\$ 483,632	\$ 4,000,403
Motor vehicles	628,256	-	-	-	-	628,256
Utilities	1,643,367	-	-	-	-	1,643,367
Transportation Fee	28,404	-	-	-	-	28,404
Interest income	10,306	-	-	-	5,631	15,937
Other local revenues	367,235	33,360	-	-	-	400,595
Intergovernmental - State	16,567,523	701,878	283,915	64,689	892,880	18,510,885
Intergovernmental - Indirect federal	-	3,316,927	-	-	-	3,316,927
Intergovernmental - Direct federal	50,953	1,564,937	-	-	76,176	1,692,066
Total revenues	<u>22,812,815</u>	<u>5,617,102</u>	<u>283,915</u>	<u>64,689</u>	<u>1,458,319</u>	<u>30,236,840</u>
Expenditures:						
Current:						
Instruction	14,992,302	1,755,435	-	-	-	16,747,737
Support services:						
Students	868,833	61,699	-	-	-	930,532
Instructional staff	1,203,047	3,556,298	-	-	-	4,759,345
District administration	916,428	-	-	-	-	916,428
School administration	1,210,473	-	-	-	-	1,210,473
Business and other support services	345,911	-	-	-	-	345,911
Operation and maintenance of plant	2,763,192	61,034	-	-	-	2,824,226
Student transportation	876,878	-	-	-	-	876,878
Community services	-	239,290	-	-	-	239,290
Facilities acquisition and construction	-	-	-	869,590	-	869,590
Debt service	20,269	-	-	-	1,609,425	1,629,694
Total expenditures	<u>23,197,333</u>	<u>5,673,756</u>	<u>-</u>	<u>869,590</u>	<u>1,609,425</u>	<u>31,350,104</u>
Excess (deficiency) of revenues over expenditures	<u>(384,518)</u>	<u>(56,654)</u>	<u>283,915</u>	<u>(804,901)</u>	<u>(151,106)</u>	<u>(1,113,264)</u>
Other financing sources (uses):						
Bond proceeds	-	-	-	798,793	3,621,940	4,420,733
Payment to refunded bond escrow agent	-	-	-	-	(3,618,383)	(3,618,383)
Transfers in	-	56,654	-	18,993	1,091,081	1,166,728
Transfers out	(75,647)	-	(202,783)	-	(888,298)	(1,166,728)
Total other financing sources (uses)	<u>(75,647)</u>	<u>56,654</u>	<u>(202,783)</u>	<u>817,786</u>	<u>206,340</u>	<u>802,350</u>
Net change in fund balances	(460,165)	-	81,132	12,885	55,234	(310,914)
Fund balances, June 30, 2011	<u>3,564,861</u>	<u>-</u>	<u>490,137</u>	<u>14,413</u>	<u>152,208</u>	<u>4,221,619</u>
Fund balances, June 30, 2012	<u>\$ 3,104,696</u>	<u>\$ -</u>	<u>\$ 571,269</u>	<u>\$ 27,298</u>	<u>\$ 207,442</u>	<u>\$ 3,910,705</u>

The accompanying notes to financial statements are an integral part of this statement.

**ASHLAND INDEPENDENT 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 fund balances—total governmental funds		\$ (310,914)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Loss on disposal of assets	(1,329)	
Capital outlay	1,929,149	
Depreciation expense	<u>(1,640,542)</u>	287,278
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.		92,619
Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for accrued sick leave.		(95,939)
Bond proceeds receivable are reported in the governmental funds as financial resources to offset expenditures made prior to the issuance of debt.		(78,793)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.		<u>(148,454)</u>
Change in net assets of governmental activities		<u><u>\$ (254,203)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

	<u>Food Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 31,937
Accounts receivable	14,530
Inventories	<u>23,015</u>
Total current assets	<u>69,482</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>325,962</u>
Total noncurrent assets	<u>325,962</u>
Total assets	<u>395,444</u>
Liabilities	
Current liabilities:	
Accounts payable	3,317
Interfund payable	<u>271,726</u>
Total current liabilities	<u>275,043</u>
Total liabilities	<u>275,043</u>
Net Assets	
Invested in capital assets, net of related debt	325,962
Restricted	<u>(205,561)</u>
Total net assets	<u><u>\$ 120,401</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 433,420
Total operating revenues	<u>433,420</u>
Operating expenses:	
Salaries and wages	651,268
Employee benefits	348,887
Materials and supplies	935,421
Depreciation	56,372
Other operating expenses	36,902
Total operating expenses	<u>2,028,850</u>
Operating loss	<u>(1,595,430)</u>
Nonoperating revenues (expenses):	
Federal grants	934,450
Loss on disposal of assets	(2,616)
Investment income	1,874
Donated commodities	106,084
State grants	196,655
Total nonoperating revenue (expense)	<u>1,236,447</u>
Decrease in net assets	(358,983)
Net assets, June 30, 2011	<u>479,384</u>
Net assets, June 30, 2012	<u>\$ 120,401</u>

The accompanying notes to financial statements are an integral part of this statement.

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Food Service Fund
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 433,420
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(529,157)
Payments to employees	(819,228)
Other payments	(36,902)
Net cash used for operating activities	(951,867)
Cash flows from noncapital financing activities:	
Government grants	940,285
Net cash provided by noncapital and related financing activities	940,285
Cash flows from capital and related financing activities:	
Purchases of capital assets	(8,217)
Net cash used for capital and related financing activities	(8,217)
Cash flows from investing activities:	
Interest received on investments	1,874
Net cash provided by investing activities	1,874
Net decrease in cash and cash equivalents	(17,925)
Cash and cash equivalents, June 30, 2011	49,862
Cash and cash equivalents, June 30, 2012	\$ 31,937
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,595,430)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	56,372
Donated commodities	106,084
On-behalf payments	180,927
Change in assets and liabilities:	
Inventory	30,881
Accounts payable	(2,427)
Interfund payable	271,726
Net cash used for operating activities	\$ (951,867)
Non-cash items:	
Donated commodities	\$ 106,084
On-behalf payments	180,927

The accompanying notes to financial statements are an integral part of this statement.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	Trust Funds	Activity Funds
Assets		
Cash and cash equivalents	\$ 9,752	\$ 451,534
Accounts receivable	14	-
Total assets	9,766	451,534
Liabilities		
Accounts payable	-	7,722
Due to students	-	443,812
Total liabilities	-	451,534
Net assets held in trust	\$ 9,766	\$ -

The accompanying notes to financial statements are an integral part of this statement.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Trust Funds</u>
Additions -	
Interest income	\$ -
Deductions -	
Benefits paid	<u>936</u>
Decrease in net assets	(936)
Net assets, June 30, 2011	<u>10,702</u>
Net assets, June 30, 2012	<u><u>\$ 9,766</u></u>

The accompanying notes to financial statements are an integral part of this statement.

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes -				
Property	\$ 3,176,000	\$ 3,445,000	\$ 3,516,771	\$ 71,771
Motor vehicles	550,000	550,000	628,256	78,256
Utilities	1,900,000	1,900,000	1,643,367	(256,633)
Tuition and fees	24,000	30,000	28,404	(1,596)
Interest income	10,000	10,000	10,306	306
Other local revenues	152,500	213,500	367,235	153,735
Intergovernmental - State	11,454,165	12,347,125	12,347,868	743
Intergovernmental - Direct federal	51,926	51,926	50,953	(973)
Total revenues	<u>17,318,591</u>	<u>18,547,551</u>	<u>18,593,160</u>	<u>45,609</u>
Expenditures:				
Current:				
Instruction	11,137,300	11,358,781	11,926,767	(567,986)
Support services:				
Students	699,993	699,993	691,227	8,766
Instructional staff	838,199	892,249	995,652	(103,403)
General administration	756,731	1,430,405	868,486	561,919
School administration	930,854	990,354	970,892	19,462
Business and other support services	231,569	231,569	209,123	22,446
Operation and maintenance of plant	2,369,094	2,445,698	2,532,379	(86,681)
Student transportation	572,907	572,907	762,883	(189,976)
Facilities acquisition and construction	30,000	30,000	-	30,000
Debt Service	20,269	20,269	20,269	-
Contingency	1,394,988	1,538,639	-	1,538,639
Total expenditures	<u>18,981,904</u>	<u>20,210,864</u>	<u>18,977,678</u>	<u>1,233,186</u>
Excess (deficiency) of revenues over expenditures	<u>(1,663,313)</u>	<u>(1,663,313)</u>	<u>(384,518)</u>	<u>1,278,795</u>
Other financing sources (uses):				
Transfers out	<u>(36,687)</u>	<u>(36,687)</u>	<u>(75,647)</u>	<u>(38,960)</u>
Total other financing sources (uses)	<u>(36,687)</u>	<u>(36,687)</u>	<u>(75,647)</u>	<u>(38,960)</u>
Net change in fund balances	<u>(1,700,000)</u>	<u>(1,700,000)</u>	<u>(460,165)</u>	<u>1,239,835</u>
Fund balances, June 30, 2011	<u>1,700,000</u>	<u>1,700,000</u>	<u>3,564,861</u>	<u>1,864,861</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,104,696</u>	<u>\$ 3,104,696</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			4,219,655	
On-behalf payments:				
Instruction			(3,065,535)	
Support services:				
Students			(177,606)	
Instructional Staff support			(207,395)	
General administration			(47,942)	
School administration			(239,581)	
Business and other support services			(136,788)	
Operation and maintenance of plant			(230,813)	
Student transportation			(113,995)	
Fund balance, June 30, 2012 (GAAP basis)			<u>\$ 3,104,696</u>	

The accompanying notes to financial statements are an integral part of this statement.

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Interest income	\$ -	\$ -	\$ -	\$ -
Other local revenues	76,452	(87,061)	33,360	120,421
Intergovernmental - State	568,057	651,629	701,878	50,249
Intergovernmental - Indirect federal	2,671,428	3,950,525	3,316,927	(633,598)
Intergovernmental - Direct federal	1,792,484	2,204,927	1,564,937	(639,990)
Total revenues	<u>5,108,421</u>	<u>6,720,020</u>	<u>5,617,102</u>	<u>(1,102,918)</u>
Expenditures:				
Current:				
Instruction	1,332,955	1,769,669	1,755,435	14,234
Support services:				
Students	32,843	70,169	61,699	8,470
Instructional staff	3,433,623	4,729,407	3,556,298	1,173,109
Operation and maintenance of plant	93,600	59,370	61,034	(1,664)
Student transportation	3,300	3,300	-	3,300
Community services	248,787	144,759	239,290	(94,531)
Operation of non-instructional services	-	-	-	-
Total expenditures	<u>5,145,108</u>	<u>6,776,674</u>	<u>5,673,756</u>	<u>1,102,918</u>
Excess (deficiency) of revenues over expenditures	<u>(36,687)</u>	<u>(56,654)</u>	<u>(56,654)</u>	<u>-</u>
Other financing sources (uses):				
Transfers in	36,687	56,654	56,654	-
Total other financing sources (uses)	<u>36,687</u>	<u>56,654</u>	<u>56,654</u>	<u>-</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

**ASHLAND INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(1) REPORTING ENTITY

The Ashland Independent Board of Education ("Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Ashland Independent School District (the "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 Board 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.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Ashland Independent School District. 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 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 organizations are included in the accompanying financial statements. Copies of component unit reports may be obtained from the District's Finance Office at 1820 Hickman Street, Ashland, Kentucky 41101.

Blended Component Unit:

Ashland Independent School District Finance Corporation

In 1989, the Ashland Independent School District resolved to authorize the establishment of the Ashland Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Discretely Presented Component Unit:

Public School Corporation of Ashland Independent School District

The Board formed this component unit as a nonstock, non-profit corporation to be its agency and instrumentality. Its purpose in this capacity is to finance the acquisition of properties for public school, junior college or community college uses and in furtherance of public purposes and functions of the Board.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ashland Independent School District substantially comply with generally accepted accounting principles and the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and 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.

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts 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 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. This is a major fund of the District.

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

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. This is a major fund of the District.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

(D) 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 costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The District applies all GASB pronouncements 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 (includes Agency and Trust Funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*. The Trust Funds represent scholarship funds and are accounted for as expendable trust funds on the modified accrual basis.

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. Government 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, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue

from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred revenue 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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.

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.

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Fund, which records inventory at cost, on the first-in, first-out basis, using the accrual method of accounting.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Infrastructure	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	5-12 years
Other general	7-10 years

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem tax is levied prior to June 30, of each year on the assessed value listed as of the prior January 1, for all real and business personal property located in the District. The assessed value of property upon which the levy for the 2012 fiscal year was based was \$967,263,326.

The tax rates assessed for the year ended June 30, 2012 to finance general fund operations were \$.607 on real estate, \$.607 on personal property, and \$.514 on motor vehicles per \$100 valuation. These rates include \$.05 per \$100 valuation for Junior College Tax.

Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2012 were approximately 94.4% of the tax levy.

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The District also receives commodities from U.S.D.A. The amounts of such services and commodities are recorded in the accompanying financial statements at their estimated fair market values.

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 difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See note (12) for these amounts which were not known by the District at the time the budget was adopted.

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.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance - amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

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 provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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.

Estimates

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

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. The District has not completed the process of the evaluation of GASB No. 62, but does not expect it to have an impact on its financial statements.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources. While these elements were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption and acquisition of net assets by the government that is applicable to a future reporting period, respectively, these elements have not been included in previous reporting guidance. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. The District has not completed the process of evaluating GASB No. 63, but it is expected to change only the formatting and naming of its statement of position and components thereof, with no overall financial impact.

(3) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as debt obligations represents the District's future obligations to make lease payments relating to bonds issued in the original amount of \$26,075,000.

Bonds

The General Fund, Facilities Support Program (FSPK) Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court and the Board to construct school facilities and (2) the Board with the option to purchase the properties under leases at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of present outstanding issues, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Issue of 4-1-01	\$ 1,850,000	3.40% to 4.10%
Issue of 1-1-04	4,810,000	2.00% to 4.25%
Issue of 7-1-06	9,080,000	3.60% to 4.20%
Issue of 2-1-09	1,890,000	2.10% to 3.40%
Issue of 8-1-09	4,070,000	1.80% to 6.20%
Issue of 7-19-11	720,000	3.75%
Issue of 6-1-12	3,655,000	1.00% to 2.30%
	<u>\$ 26,075,000</u>	

The bonds may be called prior to maturity at dates and redemption premiums specified in the issues.

A summary of long-term debt and other long-term liabilities is as follows:

<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
General obligation bonds - \$26,075,000 originally issued with interest rates ranging from 1.00% to 6.20%	\$ 17,870,000	\$4,375,000	\$4,210,000	\$ 18,035,000
KISTA	134,402	-	16,546	117,856
Accumulated unpaid sick leave	663,926	95,939	-	759,865
	<u>\$ 18,668,328</u>	<u>\$4,470,939</u>	<u>\$4,226,546</u>	<u>\$ 18,912,721</u>

On August 1, 2009, the Ashland Independent School District issued \$4,070,000 in Build America Bonds with an interest rate ranging from 1.80% to 6.20%. The Build America Bonds are tax-advantaged bonds issued as described in section 54AA(g) of the Internal Revenue Code. Issuers of the bonds may receive a refundable credit payment equal to a percentage of the interest payable on such bonds on each interest payment date. The tax-advantaged status of the bonds remains throughout the life of the bonds if all applicable federal tax laws are satisfied while the bonds are outstanding. Various requirements apply under the Internal Revenue Code and Income Tax Regulations including information filing and other requirements related to issuance, the proper and timely use of bond-financed property, and arbitrage yield restriction and rebate requirements.

On June 1, 2012, the Ashland Independent School District issued \$3,655,000 in Refunding Revenue Bonds with an average interest rate of 1.85% to advance refund \$3,325,000 of outstanding 2004 Revenue Bonds with an average interest rate of 3.33%. The net proceeds of \$3,576,508 (after payment of \$45,432 of issuance costs, \$36,472 of discount on bonds, plus \$3,412 in accrued interest) were used to refund the 2004 Bond Issue, net of \$203,454. As a result, \$3,325,000 of the 2004 Series Bonds are considered to be defeased. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt. The District advance refunded \$3,325,000 of the 2004 Series Bonds to reduce its total debt service payments over the next 10 years by approximately \$259,602 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$235,012.

On July 19, 2011 the Ashland Independent School District issued School Building Revenue Bond, series 2011 in the original amount of \$720,000 with a coupon interest rate 3.75%. Principal and interest payments are due on June 1st and December 1st with the final payment due June 1, 2031. The Kentucky School Facilities Construction Commission has agreed to provide amounts on an annual basis to cover the principal and interest payments. The bonds are being issued to finance improvements at Verity Middle School.

In connection with the bond issues, the District entered into participation agreements with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreements are in effect for a period of two years each. The obligations of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the District notice of its intention not to participate within sixty days prior to the expiration of the two year period.

Assuming no bonds are called prior to scheduled maturity and the KSFCC continues to renew its participation to provide annual principal and interest amounts, the minimum obligations of the Funds at June 30, 2012 for debt service (principal and interest) are as follows:

June 30,	Kentucky School Facilities Construction Commission's Portion		District's Portion		Total
	Interest	Principal	Interest	Principal	
2013	\$ 115,848	\$ 281,128	\$ 463,501	\$ 697,909	\$ 1,558,386
2014	115,682	280,358	457,278	704,018	1,557,336
2015	106,783	293,317	434,200	726,398	1,560,698
2016	99,367	299,609	413,377	750,445	1,562,798
2017	91,641	306,210	391,539	774,251	1,563,641
2018-2022	331,997	1,327,600	1,571,996	4,201,613	7,433,206
2023-2027	148,213	864,676	779,780	4,830,324	6,622,993
2028-2032	27,434	294,772	89,235	1,520,228	1,931,669
	<u>\$ 1,036,965</u>	<u>\$ 3,947,670</u>	<u>\$ 4,600,906</u>	<u>\$ 14,205,186</u>	<u>\$ 23,790,727</u>

(4) 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. At June 30, 2012, this amount totaled \$759,865. The District follows a policy of funding up to one-half of the total amount accrued as a reservation of the General Fund balance.

(5) RETIREMENT PLANS

Kentucky Retirement System

The District contributes to the Teachers Retirement System of Kentucky ("KTRS"), a cost sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring a four (4) year college degree or certification by Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS,

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). The KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS. Members hired after July 1, 2008, contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky contributes matching contributions at the rate of 13.105%

of salaries for members in a state retirement system before July 1, 2008 and 14.105% for members hired after July 1, 2008. The Federal program for any salaries paid by that program pays the matching contributions.

The District's total payroll for the year was \$15,921,902. The payroll for employees covered under KTRS was \$13,716,377. For the years ended June 30, 2012, 2011, and 2010, the Commonwealth of Kentucky contributed \$1,637,520, \$1,563,607, and \$1,546,225, respectively, to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ended June 30, 2012, 2011, and 2010 were \$180,612, \$214,950, and \$208,580, respectively, which represents those employees covered by Federal Programs.

Medical Insurance Plan

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

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

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

County Employees Retirement System

Substantially all other employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or from the KRS website at <https://kyret.ky.gov>.

Funding for CERS is provided by members who contribute 5% of their salary through payroll deductions and by employers of members who contribute 18.96% of the member's salary. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the years ending June 30, 2012, 2011, and 2010 were \$858,783, \$767,451, and \$716,504, respectively, equal to the required contributions for the year.

(6) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2012, the carrying amount of the Board's cash and cash equivalents was \$3,641,707 and the related bank balances totaled \$3,816,659. Of these total bank balances, \$734,413 was insured by the Bank Insurance Fund and \$3,082,246 was secured by collateral held by the pledging bank in the District's name.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Special Revenue (Grant Funds), Debt Service Fund, School Construction Fund, School Food Service Funds, and School Activity Funds.

(7) CAPITAL ASSETS

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

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
Governmental Activities				
Land and land improvements	\$ 1,538,116	\$ 150,000	\$ -	\$ 1,688,116
Buildings and improvements	67,455,974	918,397	-	68,374,371
Technology equipment	3,082,800	607,221	106,917	3,583,104
Vehicles	1,539,610	6,500	-	1,546,110
General	1,379,990	108,521	18,100	1,470,411
Infrastructure	31,290	-	-	31,290
Construction-in-progress	73,657	1,043,897	905,387	212,167
Totals at historical cost	<u>75,101,437</u>	<u>2,834,536</u>	<u>1,030,404</u>	<u>76,905,569</u>
Less: accumulated depreciation -				
Buildings and improvements	(41,492,206)	(1,242,185)	-	(42,734,391)
Technology equipment	(2,494,474)	(288,334)	(105,588)	(2,677,220)
Vehicles	(1,367,198)	(69,874)	-	(1,437,072)
General	(1,167,250)	(38,584)	(18,100)	(1,187,734)
Infrastructure	(6,887)	(1,565)	-	(8,452)
Total accumulated depreciation	<u>(46,528,015)</u>	<u>(1,640,542)</u>	<u>(123,688)</u>	<u>(48,044,869)</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 28,573,422</u>	<u>\$ 1,193,994</u>	<u>\$ 906,716</u>	<u>\$ 28,860,700</u>
Business-Type Activities				
Food service equipment	\$ 1,286,342	\$ 8,217	\$ 28,899	\$ 1,265,660
Totals at historical cost	<u>1,286,342</u>	<u>8,217</u>	<u>28,899</u>	<u>1,265,660</u>
Less: accumulated depreciation				
Food service equipment	(909,609)	(56,372)	(26,283)	(939,698)
Total accumulated depreciation	<u>(909,609)</u>	<u>(56,372)</u>	<u>(26,383)</u>	<u>(939,698)</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 376,733</u>	<u>\$ (48,155)</u>	<u>\$ 2,616</u>	<u>\$ 325,962</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 538,681
Student support services	112,684
Instructional staff support	45,640

District administration	42,070
School administration	42,281
Business support services	21,462
Plant operation & maintenance	754,309
Student transportation	83,415
	<u>\$ 1,640,542</u>

(8) OPERATING LEASES

The District has operating lease agreements for use of equipment and various parcels of real estate cancelable annually with the option to renew. The District recognizes the expenditures related to those obligations in the General Fund as lease payments are made. Total rent expenditures under operating type leases were approximately \$3,228.

(9) CONTINGENCIES

The District has outstanding construction commitments of approximately \$840,394 for the roof project at the Central Office and the Poage Elementary classroom addition.

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 on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

(10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. 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 notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School 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.

(11) COBRA

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

(12) ON-BEHALF PAYMENTS

For fiscal year 2012, the Commonwealth of Kentucky contributed estimated payments on behalf of the Ashland Independent School District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 1,637,520
Health & Life Insurance Plan	2,681,934
Technology	81,128

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

(13) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 56,654
Operating	General	Capital Projects	Construction	18,993
Debt Service	Capital Projects	Debt Service	Debt Service	1,091,081

SUPPLEMENTAL INFORMATION

ASHLAND INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	<u>Non-Major Capital Project Funds</u>	<u>Debt Service Funds</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 162,835	\$ 50,207	\$ 213,042
Accounts receivable	-	-	-
Total assets	<u>\$ 162,835</u>	<u>\$ 50,207</u>	<u>\$ 213,042</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts payable	\$ -	\$ 5,600	\$ 5,600
Total liabilities	<u>-</u>	<u>5,600</u>	<u>5,600</u>
Fund Balances:			
Restricted for SFCC escrow	162,835	-	162,835
Restricted for debt service	-	44,607	44,607
Total fund balance	<u>162,835</u>	<u>44,607</u>	<u>207,442</u>
Total liabilities and fund balances	<u>\$ 162,835</u>	<u>\$ 50,207</u>	<u>\$ 213,042</u>

**ASHLAND INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Non-Major Capital Project Funds</u>	<u>Debt Service Funds</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES:			
From local sources -			
Property taxes	\$ 483,632	\$ -	\$ 483,632
Earnings on investments	-	5,631	5,631
Intergovernmental - Direct Federal subsidy	-	76,176	76,176
Intergovernmental - State	528,060	364,820	892,880
Total revenues	<u>1,011,692</u>	<u>446,627</u>	<u>1,458,319</u>
EXPENDITURES:			
Current -			
Debt service	-	1,609,425	1,609,425
Total expenditures	<u>-</u>	<u>1,609,425</u>	<u>1,609,425</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,011,692</u>	<u>(1,162,798)</u>	<u>(151,106)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds	-	3,621,940	3,621,940
Payment to refunded bond escrow agent	-	(3,618,383)	(3,618,383)
Operating transfers in	-	1,091,081	1,091,081
Operating transfers out	(888,298)	-	(888,298)
Total other financing sources (uses)	<u>(888,298)</u>	<u>1,094,638</u>	<u>206,340</u>
NET CHANGE IN FUND BALANCE	123,394	(68,160)	55,234
FUND BALANCE JUNE 30, 2011	<u>39,441</u>	<u>112,767</u>	<u>152,208</u>
FUND BALANCE JUNE 30, 2012	<u>\$ 162,835</u>	<u>\$ 44,607</u>	<u>\$ 207,442</u>

**ASHLAND INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR CAPITAL PROJECT FUNDS
 JUNE 30, 2012**

	FSPK Fund	Total Non-Major Capital Project Funds
ASSETS:		
Cash and cash equivalents	\$ 162,835	\$ 162,835
Accounts receivable	-	-
Total assets	\$ 162,835	\$ 162,835
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
Fund Balances:		
Restricted for SFCC escrow	162,835	162,835
Total fund balance	162,835	162,835
Total liabilities and fund balances	\$ 162,835	\$ 162,835

ASHLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>FSPK Fund</u>	<u>Total Non-major Capital Project Funds</u>
REVENUES:		
From local sources -		
Property taxes	\$ 483,632	\$ 483,632
Intergovernmental - State	528,060	528,060
Interest income	-	-
Total revenues	<u>1,011,692</u>	<u>1,011,692</u>
EXPENDITURES:		
Current -		
Facilities acquisition and construction	-	-
Total expenditures	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,011,692</u>	<u>1,011,692</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers out	<u>(888,298)</u>	<u>(888,298)</u>
Total other financing sources (uses)	<u>(888,298)</u>	<u>(888,298)</u>
NET CHANGE IN FUND BALANCE	123,394	123,394
FUND BALANCE JUNE 30, 2011	<u>39,441</u>	<u>39,441</u>
FUND BALANCE JUNE 30, 2012	<u>\$ 162,835</u>	<u>\$ 162,835</u>

ASHLAND INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 DEBT SERVICE FUNDS
 JUNE 30, 2012

	8/1/2009 Bond Fund	2/1/2009 Bond Fund	1/1/2006 Bond Fund	1/1/2004 Bond Fund	4/1/2001 Bond Fund	6/1/2011 Bond Fund	6/1/2012 Bond Fund	Totals Debt Service Funds
ASSETS:								
Cash and cash equivalents	\$ 37,954	\$ -	\$ 2,031	\$ 1,065	\$ -	\$ -	\$ 9,157	\$ 50,207
Accounts receivable	-	-	-	-	-	-	-	-
Total assets	<u>\$ 37,954</u>	<u>\$ -</u>	<u>\$ 2,031</u>	<u>\$ 1,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,157</u>	<u>\$ 50,207</u>
LIABILITIES AND FUND BALANCE:								
Liabilities:								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,600	\$ 5,600
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,600</u>	<u>5,600</u>
Fund Balances:								
Restricted for debt service	37,954	-	2,031	1,065	-	-	3,557	44,607
Total fund balance	<u>37,954</u>	<u>-</u>	<u>2,031</u>	<u>1,065</u>	<u>-</u>	<u>-</u>	<u>3,557</u>	<u>44,607</u>
Total liabilities and fund balances	<u>\$ 37,954</u>	<u>\$ -</u>	<u>\$ 2,031</u>	<u>\$ 1,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,557</u>	<u>\$ 44,607</u>

ASHLAND INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	8/1/2009 Bond Fund	2/1/2009 Bond Fund	1/1/2006 Bond Fund	1/1/2004 Bond Fund	4/1/2001 Bond Fund	6/1/2011 Bond Fund	6/1/2012 Bond Fund	Totals Debt Service Funds
REVENUES:								
Intergovernmental - State	\$ 41,574	\$ 109,072	\$ 57,748	\$ 85,160	\$ 22,866	\$ 48,400	\$ -	\$ 364,820
Intergovernmental - Direct Federal	76,176	-	-	-	-	-	-	76,176
Interest income	2,030	-	-	1	-	3,600	-	5,631
Total revenues	<u>119,780</u>	<u>109,072</u>	<u>57,748</u>	<u>85,161</u>	<u>22,866</u>	<u>52,000</u>	<u>-</u>	<u>446,627</u>
EXPENDITURES:								
Debt service	<u>302,647</u>	<u>153,487</u>	<u>607,052</u>	<u>249,604</u>	<u>244,635</u>	<u>52,000</u>	<u>-</u>	<u>1,609,425</u>
Total expenditures	<u>302,647</u>	<u>153,487</u>	<u>607,052</u>	<u>249,604</u>	<u>244,635</u>	<u>52,000</u>	<u>-</u>	<u>1,609,425</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(182,867)</u>	<u>(44,415)</u>	<u>(549,304)</u>	<u>(164,443)</u>	<u>(221,769)</u>	<u>-</u>	<u>-</u>	<u>(1,162,798)</u>
OTHER FINANCING SOURCES (USES):								
Bond proceeds	-	-	-	-	-	-	3,621,940	3,621,940
Payment to refunded bond escrow agent	-	-	-	-	-	-	(3,618,383)	(3,618,383)
Operating transfers in	<u>111,149</u>	<u>44,415</u>	<u>549,304</u>	<u>164,444</u>	<u>221,769</u>	<u>-</u>	<u>-</u>	<u>1,091,081</u>
Total other financing sources (uses)	<u>111,149</u>	<u>44,415</u>	<u>549,304</u>	<u>164,444</u>	<u>221,769</u>	<u>-</u>	<u>3,557</u>	<u>1,094,638</u>
NET CHANGE IN FUND BALANCE	(71,718)	-	-	1	-	-	3,557	(68,160)
FUND BALANCE JUNE 30, 2011	<u>109,672</u>	<u>-</u>	<u>2,031</u>	<u>1,064</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,767</u>
FUND BALANCE JUNE 30, 2012	<u>\$ 37,954</u>	<u>-</u>	<u>\$ 2,031</u>	<u>\$ 1,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,557</u>	<u>\$ 44,607</u>

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
PAUL BLAZER HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance June 30, 2011	Receipts	Disburse- ments	Cash Balance June 30, 2012	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Academic Quiz	\$ 89	\$ -	\$ -	\$ 89	\$ (50)	\$ 39
Advanced Placement	984	12,456	11,351	2,089	-	2,089
Art Club	820	1,664	1,619	865	-	865
Art Supplies	318	617	906	29	-	29
Beta Club	4,058	1,210	1,228	4,040	-	4,040
Blazer Band	4,668	7,740	7,507	4,901	-	4,901
Blazer Choir	7,491	10,575	16,140	1,926	-	1,926
Catering	1,170	11,918	10,014	3,074	-	3,074
Class of 2011	395	30	425	-	-	-
Class of 2012	5,121	4,334	9,027	428	-	428
Class of 2013	3,945	10,956	8,756	6,145	-	6,145
Class of 2014	361	3,547	1,678	2,230	-	2,230
Creative Writing	903	-	-	903	-	903
Dance Team	7	270	264	13	-	13
Environmental Club	1,092	1,579	1,095	1,576	-	1,576
FBLA	62	9,566	9,527	101	-	101
FCA	239	10	-	249	-	249
FCCLA	209	11,951	11,216	944	-	944
Flower Fund	65	167	171	61	-	61
French Club	92	415	507	-	-	-
French Honor Society	11	463	474	-	-	-
General	429	5,276	4,712	993	-	993
Guidance	744	1,120	1,148	716	-	716
Hi Life	24,812	18,931	26,341	17,402	-	17,402
Hieneman Grant	-	578	578	-	-	-
Home Ec.	239	593	670	162	-	162
Human Relations Club	1,123	58	425	756	-	756
Ind. Tech. Supplies	1,086	1,851	2,069	868	(30)	838
Key Club	3,192	4,082	4,653	2,621	-	2,621
Latin Club	37	165	124	78	-	78
Latin Honorary	493	950	711	732	-	732
Library	301	309	345	265	-	265

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
PAUL BLAZER HIGH SCHOOL - CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance June 30, 2011	Receipts	Disburse- ments	Cash Balance June 30, 2012	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Mu Alpha Theta	54	370	290	134	-	134
National Honor Society	3,031	2,006	3,190	1,847	-	1,847
Rental Fee Paid	17,841	19,880	21,277	16,444	-	16,444
ROTC	1,392	1,915	1,300	2,007	-	2,007
Spade Art	681	735	1,119	297	-	297
Science Club	436	70	150	356	-	356
Smith Grant	-	819	819	-	-	-
Spanish Club	463	191	-	654	-	654
Spanish Honor Society	924	700	653	971	-	971
Sports Medicine Club	179	250	141	288	(100)	188
STLP	61	-	-	61	-	61
State Textbook	5,019	1,971	335	6,655	-	6,655
Strings	2,781	3,528	4,357	1,952	-	1,952
Student Council	1,700	5,292	4,318	2,674	-	2,674
Sweethearts	-	3,930	3,930	-	-	-
Teacher Pop Machines	704	830	1,275	259	-	259
Testing Donations	112	-	112	-	-	-
Theater Arts	5,149	491	806	4,834	-	4,834
Transcript Fund	1,577	279	302	1,554	-	1,554
TSA	2,651	1,796	1,263	3,184	-	3,184
Video Club	603	1,188	425	1,366	-	1,366
	<u>\$ 109,914</u>	<u>\$ 169,622</u>	<u>\$ 179,743</u>	<u>\$ 99,793</u>	<u>\$ (180)</u>	<u>\$ 99,613</u>

**ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ATHLETIC FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Cash Balance June 30, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
A.K.I.T.	\$ 4,319	\$ 1,541	\$ 1,590	\$ 4,270	\$ -	\$ 4,270
Ashland Inv. Tournament	7,520	10,620	14,103	4,037	-	4,037
Athletic - General	6,176	205,403	191,801	19,778	(6,935)	12,843
Baseball Fundraiser	2,155	8,740	10,052	843	-	843
Blazing Arrows	179	1,463	1,464	178	-	178
Boys Golf	2,476	10,639	11,704	1,411	-	1,411
Boys Soccer Fund	373	-	-	373	-	373
Boys Tennis Fundraiser	-	2,500	795	1,705	-	1,705
Boys Track Fund	3,703	23	1,604	2,122	-	2,122
Cross Country Fund	331	1,218	1,159	390	-	390
Field Turf Fund	50,000	-	-	50,000	-	50,000
Girls Cheer Fund	-	-	-	-	-	-
Girls Golf Fund	10,295	7,040	6,808	10,527	-	10,527
Girls Soccer Fund	13,451	8,814	2,878	19,387	(350)	19,037
Girls Tennis Fund	176	121	127	170	-	170
Girls Track Fund	1,649	719	1,121	1,247	-	1,247
Girls Varsity B.B. Fund	11	1,155	800	366	-	366
Softball Fundraiser	251	100	-	351	-	351
Swim Team Fund	3,798	2,848	5,653	993	-	993
Varsity B.B. Fundraiser	1,633	10,585	9,541	2,677	(257)	2,420
Varsity Cheer Fund	1,863	30,243	24,562	7,544	-	7,544
Varsity F.B. Fundraiser	10,680	29,868	27,335	13,213	-	13,213
Volleyball Fund	4,384	21,615	23,505	2,494	-	2,494
Wrestling Fund	336	2,000	-	2,336	-	2,336
	<u>\$ 125,759</u>	<u>\$ 357,255</u>	<u>\$ 336,602</u>	<u>\$ 146,412</u>	<u>\$ (7,542)</u>	<u>\$ 138,870</u>

ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance June 30, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Paul G. Blazer High School	\$ 109,914	\$ 169,622	\$ 179,743	\$ 99,793	\$ (180)	\$ 99,613
George M. Verity Middle School	75,083	176,048	164,424	86,707	-	86,707
Charles Russell Elementary School	17,213	45,514	48,374	14,353	-	14,353
Crabbe Elementary School	14,995	34,190	33,519	15,666	-	15,666
Hager Elementary School	22,164	50,377	52,496	20,045	-	20,045
Hatcher Elementary School	1,934	2	96	1,840	-	1,840
Oakview Elementary School	31,691	48,578	56,882	23,387	-	23,387
Poage Elementary School	6,585	29,506	27,352	8,739	-	8,739
Family Resource Center	42,565	111,712	119,685	34,592	-	34,592
Athletic Fund	125,759	357,255	336,602	146,412	(7,542)	138,870
	<u>\$ 447,903</u>	<u>\$ 1,022,804</u>	<u>\$ 1,019,173</u>	<u>\$ 451,534</u>	<u>\$ (7,722)</u>	<u>\$ 443,812</u>

**ASHLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF GRANT, RECEIPTS,
DISBURSEMENTS AND FUND BALANCE
HEAD START GRANTS
FOR THE YEAR ENDED JUNE 30, 2012**

	Headstart Grant No. 04CH002769/42			Headstart Grant No. 04CH002769/43	
AMOUNT OF GRANT			\$ 808,408		\$ 808,408
	Actual	Actual			
	Prior	Current	Total	Budget	Actual
	Year	Year			
RECEIPTS:	Budget				
Grant funds	\$ 808,408	\$ 678,486	\$ 129,922	\$ 808,408	\$ 678,008
Grantee's in kind contributions	202,102	202,102	-	202,102	202,102
Total receipts	<u>1,010,510</u>	<u>880,588</u>	<u>129,922</u>	<u>1,010,510</u>	<u>880,110</u>
DISBURSEMENTS:					
HEADSTART FULL YEAR/PART DAY (PA22 & PA28)					
Personnel	508,237	414,166	35,292	449,458	429,110
Fringe benefits	170,369	139,048	22,438	161,486	163,376
Supplies	87,248	95,743	25,948	121,691	58,569
Contractual	15,000	13,262	(2,010)	11,252	8,507
Vehicles	-	-	-	-	-
Travel - Out of district	-	389	(389)	-	1,324
Other	11,500	3,808	44,659	48,467	1,068
In-kind utilized	202,102	202,102	-	202,102	202,102
Totals	<u>994,456</u>	<u>868,518</u>	<u>125,938</u>	<u>994,456</u>	<u>864,056</u>
TRAINING AND TECHNICAL ASSISTANCE (PA 20)					
Contractual	11,054	7,627	3,984	11,611	11,054
Travel	5,000	4,443	-	4,443	5,000
Totals	<u>16,054</u>	<u>12,070</u>	<u>3,984</u>	<u>16,054</u>	<u>16,054</u>
Total disbursements	<u>1,010,510</u>	<u>880,588</u>	<u>129,922</u>	<u>1,010,510</u>	<u>880,110</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
CASH AND CASH EQUIVALENTS (DEFICIENCY), JUNE 30, 2012					\$ -
ACCOUNTS RECEIVABLE					-
FUND BALANCE, JUNE 30, 2012					<u>\$ -</u>

**ASHLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
U.S. Department of Education				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100002-10	\$ 1,158,857	\$ 536,938 *
Title I Grants to Local Educational Agencies	84.010	3100202-11	1,366,223	823,299 *
ARRA - Title I Grants to Local Educational Agencies	84.389	4100002-09	663,746	40,054 *
				<u>1,400,291</u>
Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA, Part B	84.027	3810002-11	574,412	230 *
Special Education Grants to States - IDEA, Part B	84.027	3810002-09	535,869	53,202 *
Special Education Grants to States - IDEA, Part B	84.027	3810002-10	682,291	575,234 *
Special Education Preschool Grants	84.173	3800002-11	39,429	33,665 *
Special Education Preschool Grants	84.173	3800002-09	16,070	14,141 *
Special Education Preschool Grants	84.173	3800002-10	39,422	20,463 *
Special Education Preschool Grants	84.173	3800003-11	397,478	245,030 *
Special Education Preschool Grants	84.173	3800003-10	397,478	172,336 *
ARRA - Special Education Grants to States - IDEA, Part B	84.391	4810002-09	693,938	12,089 *
ARRA - Special Education Grants to States - Preschool	84.392	4800002-09	46,671	37,060 *
				<u>1,163,450</u>
Edu Jobs	84.410	EJOB00-10	710,728	323,624 *
				<u>323,624</u>
Safe and Drug-Free Schools and Communities State Grants	84.213	3160001-10	28,377	28,377
				<u>28,377</u>
Education Technology State Grants	84.318	3210002-10	3,863	1,800
ARRA - Education Technology State Grants	84.386	4210002-09	67,824	19,492
				<u>21,292</u>
Improving Teacher Quality State Grants	84.367	3230002-11	214,393	214,393
				<u>214,393</u>
Vocational Education Basic Grants to States	84.048	4621032-11	48,544	48,544
Vocational Education Basic Grants to States	84.048	4621032-11	2,285	2,285
Vocational Education Basic Grants to States	84.048	4621032-11	1,545	1,545
				<u>52,374</u>

**ASHLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education - continued</u>				
Direct Program:				
Safe and Drug-Free Schools and Communities National Programs	84.184L	5342H & 5342S	1,401,519	759,624 *
Safe and Drug-Free Schools and Communities National Programs	84.184L	5343H & 5343S	-	14,499 *
Total Direct Program				<u>774,123</u>
Total U.S. Department of Education				<u>3,977,924</u>
<u>Department for Energy Development & Independence</u>				
ARRA - School Energy Managers Project	81.041	5691	93,600	1,665
ARRA - School Energy Managers Project	81.041	5692	59,370	59,370
Total Energy Development & Independence				<u>61,035</u>
<u>U.S. Department of Agriculture</u>				
Cash Assistance:				
Passed through State Department of Education:				
Child and Adult Care Food Program	10.558	7790021-11	-	5,989
Child and Adult Care Food Program	10.558	7790021-12	-	24,137
Child and Adult Care Food Program	10.558	7800016-11	-	203
Child and Adult Care Food Program	10.558	7800016-12	-	1,256
				<u>31,585</u>
Fresh Fruit and Vegetable Program	10.582	7720012-11	-	1,333
Fresh Fruit and Vegetable Program	10.582	7720012-12	-	11,678
				<u>13,011</u>
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-12	-	499,732 *
National School Lunch Program	10.555	7750002-11	-	129,794 *
School Breakfast Program	10.553	7760005-12	-	202,642 *
School Breakfast Program	10.553	7760005-11	-	48,715 *
Summer Food Service Program for Children	10.559	7690024-11	-	1,482 *
Summer Food Service Program for Children	10.559	7690024-12	-	99 *
Summer Food Service Program for Children	10.559	7740023-11	-	14,182 *
Summer Food Service Program for Children	10.559	7740023-12	-	957 *
				<u>897,603</u>
Non-Cash Assistance:				
National School Lunch Program				
Food Donation	10.555	01-0100	-	106,084 *
Total Child Nutrition Cluster				<u>1,003,687</u>
Total U.S. Department of Agriculture				<u>1,048,283</u>
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
Head Start	93.600	0651 & 6551	808,408	129,922 *
Head Start	93.600	0652 & 6552	808,408	678,008 *
Total U.S. Department of Health and Human Services				<u>807,930</u>
<u>U.S. Department of Defense</u>				
Direct Program:				
Basic, Applied, and Advance Research in Science and Engineering	12.630	ROTC	General Fund	50,953
Total U.S. Department of Defense				<u>50,953</u>
Total expenditures of Federal awards				<u>\$ 5,946,125</u>

* Denotes a major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Ashland Independent 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 the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Ashland Independent School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, commodities on hand are included in the total inventory of \$23,015.



Kelley,
Galloway &
Company, PSC

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**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**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Ashland Independent School District
Ashland, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Ashland Independent School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements and Appendix II to the Independent Auditor's Contract - State Audit Requirements and Appendix III to the Independent Auditor's Contract - Electronic Submission*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material

weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2012-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we have reported to management of the District in a separate letter dated October 26, 2012.

This report is intended solely for the information of the Board, management of 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.

Kelley, Galloway & Company, PSC

October 26, 2012



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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Ashland Independent School District
Ashland, Kentucky

Compliance

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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-2.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information of the Board, management of the District, others within the entity, 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.

Kelley, Galloway & Company, PSC

October 26, 2012

**ASHLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified that are not considered to material weaknesses? reported _____ x yes _____ none

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified that are not considered to be material weakness(es). _____ yes x none reported

Type of audit auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ x yes _____ no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2012:

- Head Start (93.600)
- Title I (84.010 and 84.389)
- Edu Jobs Program (84.410)
- Special Education Cluster (IDEA) (84.027, 84.173, 84.391, and 84.392)
- Child Nutrition Cluster (10.553, 10.555, and 10.559)
- Safe and Drug - Free Schools and Communities National Programs (84.184L)

Dollar threshold to distinguish between Type A and Type B Programs: \$ 300,000

The District qualified as a low risk auditee _____ x yes _____ no

(B) FINDINGS RELATED TO FINANCIAL STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

2012-01 FOOD SERVICE REIMBURSEMENT

Condition: We noted that the October Food Service reimbursement paperwork was not submitted until December resulting in it being considered late and thus the District was forced to forfeit approximately \$80,000.

Criteria: In accordance with 7 CFR 201.7, payments may only be paid for lunches and meal supplements served in the month preceding the calendar month in which the agreement was properly executed.

Effect: The District was forced to forfeit approximately \$80,000.

Recommendation: We recommend more care be taken to ensure that all Food Service reimbursement forms are submitted and accepted within the time period as stated in 7 CFR 201.7.

Management's Response and Corrective Action: The claim for reimbursement for meals served by the district to students for the month of October 2011 was filed timely. The claim was not disallowed because it was filed late but because the state did not approve the 2011-2012 Application/Agreement for the NSLP until December 2, 2011. The due date for approval was November 30, 2011. We were notified of the approval date on December 2, 2011.

On December 15, 2011 we were notified that our October claim for meals served would not be paid because the Application/Agreement was not approved until December 2, 2011 which was beyond the November 30, 2011 deadline. Upon our review, our records reflect that the state had all applicable information required for the Application/Agreement on November 18, 2011. In addition, in correspondence received from the state as a response to our request that they review this decision; the state has acknowledged that they had all information necessary to approve the 2011-2012 Application/Agreement on or before November 30, 2011. They have also stated that due to Federal Regulations and State statutes they cannot reimburse the school district for meals served in October 2011. In addition, the State believes they used due diligence in the review and approval of this application. We have never received a definitive explanation as to why the state took almost 2 full weeks to approve our application.

We requested that our board attorney review the statutes to determine if the district had any other recourse to attempt to collect this reimbursement owed for meals served in October by the district and he determined that because the related KRS specifies a time period for an appeal and that time has expired the district has no recourse against the state.

In December 2011, a different business model for the Foodservice program was implemented. This model included the resignation of staff and subsequent hiring of individuals with extensive experience in education and foodservice. This model included the hiring of a Foodservice Director that is responsible for all administrative and operational requirements of the program. In addition, the new staff has and will continue to receive all

applicable training ensuring that all filings are completed in sufficient time for the state to review and approve in the future. While the district received significant savings in the compensation and benefits during the last 2 years as a result of the business model implemented in the summer of 2009, due to the inexperience of the staff involved and related financial deficits incurred, this reorganization should allow foodservice to return to a break-even status.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

2012-2 ED JOBS COMPLIANCE

Condition: As part of the monitoring performed by the State Auditor of Public Accounts (APA) on the Education Jobs Fund (Ed Jobs), the APA found the District to be significantly noncompliant. It was discovered that funds were spent on 15 employees who were identified as having their time coded to the central office and not to a school location. The amount of the funds spent on these employees was \$11,009.

Criteria: Ed Jobs funds are to be spent on employees for school-level activities.

Effect: The APA found the District to be noncompliant and requested that the District provide a corrective action plan.

Recommendation: We recommend the District continue to cooperate with the APA to ensure that the matter is closed.

Management's Response and Corrective Action: The source and amount of the payment that was disallowed by the APA consisted of the \$600 payment made to employees in December 2011 to attempt to offset the approximate annual increase in health insurance premiums that employees were required to pay.

Prior to the issuance of this payment, central office staff of the district reviewed the requirements of the Ed Jobs grant and made a determination of which employees were eligible to be paid from this grant. The employees in question were non-administrative central office staff that had duties that required them to spend a high majority of their time working in each school. These employees are actually "itinerant" staff and include social workers, instructional technology, food service, and safe schools staff. In addition, these employees have always been assigned to central office and all of their regular compensation was coded to central office accounting codes.

These employees do not prepare a timesheet that segregates when the time spent in each of the District's schools. In fact, none of the District's itinerant employees (such as for PE, Music and Art) complete an actual timesheet. The ADA's position was that unless an employee completed a timesheet that specifically identified that employee working at a school they were not eligible to be paid out of this grant. This position is in contradiction to how itinerant employees in school districts throughout the state record their time worked. This ADA refused to accept any other documentation including the job descriptions and/or written statements that these employees did in fact spend a high majority of their time in each school.

After we recommended a corrective action plan which simply resulted in transferring these payments to the General Fund we inquired for over 2 months of the states approval of this plan. We finally received approval in May of 2012 and if we still wanted to provide copies of job descriptions of each of these employees and other documentation they would allow that to satisfy the requirement of the grant that employees had to be school based. However, we decided at that point to implement the corrective action plan by reclassifying these payments to the General Fund. This amount was subsequently used to pay other school based personnel using these funds during the 2012-2013 school year.

ASHLAND INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

There were no findings in the prior year.



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Kentucky State Committee of School District Audits
Members of the Board of Education
Ashland Independent School District
Ashland, Kentucky

In planning and performing our audit of the financial statements of Ashland Independent School District (the "District") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 26, 2012, on the financial statements of the District.

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

Kelley, Galloway & Company, PSC

October 26, 2012

ASHLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2012

Timely Bank Reconciliations and Adjustment

Condition: We noted that the April 2012 bank reconciliation was not properly reconciled until October 2012 due to it being out of balance at the time approximately \$44,000.

Criteria: All bank reconciliations should be reconciled on a timely basis.

Effect: The April 2012 bank reconciliation was not properly reconciled until October 2012.

Recommendation: We recommend that bank reconciliations be performed in a timely manner.

Management's Response: All bank reconciliations were prepared within 30 days of the end of the month. The April bank reconciliation was completed in May, but management waited until the auditors reviewed the proposed adjustment before posting.

Publication of Annual Financial Report

Condition: We noted that the annual financial report of the District was not published in a local newspaper within 60 days after the close of the 2011 fiscal year.

Criteria: KRS 424.220 require local boards of education to publish in a local newspaper the location where the public may view the annual financial report of the District within 60 days after the close of the fiscal year.

Effect: Noncompliance with KRS 424.220.

Recommendation: The District should publish that the annual financial report is available for public viewing and the location where the report may be viewed by the date required by KRS 424.220.

Management's Response: You are allowed to post the AFR on the district's website which we did. However, a notice should have been published that the AFR was available for viewing on our website. We will publish a notice that our AFR is available for viewing for 2012 and future years.

Child Nutrition Eligibility Compliance

Condition: We noted one instance out of 40 where the student's name did not appear on the Supplemental Nutrition Assistance Program (SNAP) list and the household income information was not verified for the student.

Criteria: Household income should be verified for students receiving free or reduced lunch who do not appear on the SNAP list.

Effect: There is a potential that students may be receiving free or reduced lunch who do not qualify.

Recommendation: We recommend that more care be taken to ensure that students' names appear on the SNAP list, and if the student's name does not appear on the list then the household income should be verified.

Management's Response: The state (KDE) provides us with the information on households/students that receive subsistence that would qualify the students of that household for free or reduced meals. We do not have any control over the information provided by the state. If the household/students are not shown on the list provided by the state, they must complete an application that provides this information or other information that may qualify them for free or reduced meals. We compare every application to the list provided by the state before determining if the household is eligible based on information provided by them on the application. We then review every application received and if the application is completed by the household and contains all information required by USDA/KDE we can determine and qualify the student's meal status based on the application.

We have discussed the importance and requirement of verifying that the meal status of all students in the school district be properly reviewed and verified with our foodservice administrative staff. In addition, the staff responsible for the review and determination of the meal status of student's has received additional training in the past 6-9 months on the regulations, guidelines and process related to the review and approval of applications and students meal status.

Required Payroll Forms

Condition: 1) We noted two instances out of 40 where a completed W-4 for a substitute teacher could not be located. 2) We also noted one case out of 40 where an additional \$7.22 per pay period was being withheld from a teacher's pay; however, the teacher's W-4 did not reflect this request.

Criteria: A complete and accurate W-4 should be acquired for all teachers.

Effect: 1) Verification of the W-4 status was not possible. 2) Verification of the additional withholding was not possible.

Recommendation: We recommend that more care be taken to ensure that a W-4 is acquired for all substitute teachers and that an updated W-4 is acquired when a teacher adjusts their withholding amount.

Management's Response: We have implemented a procedure and requirement that no individual is allowed to start work for the district until we have all applicable and required documents.

Head Start Applications

Condition: We noted three instances out of 25 where the student's Head Start application was completed incorrectly. 1) Two of these three students had the incorrect number of family members listed. In both cases, the system showed one more than it should have had. Both students were still eligible with the corrected number of family members entered. 2) One of these three students had the incorrect annual income recorded on the application. The student would have been over the poverty threshold had the correct income amount been used.

Criteria: Applications should be completed accurately to ensure proper eligibility.

Effect: 1) There is no effect on these two students due to the fact they were still eligible even with the corrected numbers; however, there is a risk that a student could have been found eligible but was not. 2) There is no effect this year; however, since the Head Start program is limited on the number of students over the income guidelines that may enroll there is a risk that this student could have been ineligible to enroll due to the poverty guidelines limitations.

Recommendation: We recommend that more care be taken to ensure that Head Start applications are performed accurately.

Management's Response: We have discussed the importance of following proper procedures in obtaining and reviewing all applications received from all households that have students participating in the Head Start program to insure they are eligible. In addition, an employee not involved in the preparation process will review all applications.

Segregation of Duties Over the Cash Receipts Transaction Cycle

Condition: We noted the same employee fills out the deposit tickets, enters the deposits into the MUNIS software, and takes the deposit to the bank.

Criteria: Proper segregation of duties should be in place for all transaction cycles.

Effect: There is a lack of segregation of duties in the cash receipts transaction cycle.

Recommendation: We recommend that management reviews the employee's current duties and adjusts them to improve segregation of duties.

Management Response: During the year, there were a couple of times that only 2 staff were available in the business office due to leaves of absence (personal days, sick days and vacation days). Because of the limitation of staff during that time period and the amounts involved, the decision was made to proceed with preparation of the deposit by the accounts receivable clerk rather than let the receipts remain in the business office. This decision was made to safeguard the asset, ensure that the funds were deposited timely, and that the district maximized the investment earnings on funds. The Business Manager reviewed all receipts prior to requesting that the clerk prepare the deposit.

School Board Purchases

Condition: We noted members of the School Board will charge spousal travel expenses on the District credit card and later reimburse the charges. In addition, we noted that School Board members often only submit the credit card receipt with their travel reimbursements.

Criteria: The District's policy specifically states that spouse/family expenses are not to be charged to the District credit card even if later reimbursed to the District. In addition, itemized receipts should accompany all travel reimbursement requests.

Cause: Unfamiliarity with District policy.

Effect: District policy is not being properly followed.

Recommendation: We recommend the Board either adhere to the District policy or adjust the policy to match current practices.

Management Response: The Business Manager has reviewed the policy that should be followed and we have implemented procedures that will insure that when a spouse/family member accompanies an employee/board member of the school district on a district approved trip that all expenses for that spouse/family member are paid directly by the employee. In the future, expenditures charged to a district provided credit card may only be made for approved employee/board member expenditures.

Follow-up on Prior Year Recommendations

None of the conditions listed above are repeat findings from the prior year, except for the one regarding incomplete Head Start applications. All other prior year conditions have been implemented and corrected. Mr. Stephen Gilmore, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.