

**FAIRVIEW INDEPENDENT
SCHOOL DISTRICT**

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

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Fairview 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 Fairview 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, each major fund, and the aggregate remaining fund information of the Fairview 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 19, 2012, on our consideration of Fairview 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 5 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 an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairview Independent School District's basic financial statements. The combining and individual non-major fund financial statements contained on pages 33-36 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 37-38 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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, Goffman & Company, PSC

October 19, 2012

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

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

FINANCIAL HIGHLIGHTS

- The beginning General Fund cash balance for the District was \$495,476. Additionally, \$267,369 in beginning cash and cash equivalents was restricted for grants, construction, food services and student activities and were accounted for in separate funds. The ending General Fund cash balance was \$363,320, and there was \$301,472 in cash and cash equivalents in other funds.
- During fiscal year 2012, the District's finances remained fairly consistent. The District is primarily reliant on funding by the Commonwealth of Kentucky. The Commonwealth's budget remains volatile but did not have a significantly negative impact on funding for the District due to increased enrollment. The District ended with a 9.5% contingency balance. Starting with fiscal year 2012 the contingency percentage calculation is now based solely on General Fund dollars.
- The General Fund had \$6 million in revenues including on-behalf payments, of which 80% consisted of the state funding (SEEK program), and 17% consisted of property and motor vehicle taxes. Excluding inter-fund transfers, there was \$6.1 million in General Fund expenditures during the year.
- 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 made \$324,963 in bond payments during the 2011-2012 year. The District sold a \$325,000 bond issue during fiscal year 2012 to finance the construction of new bleachers at the football field.
- Total enrollment increased from 825 students in 2011 to 866 in 2012. Average daily attendance increased from 746 to 766 students in the same period. The SEEK funding is based upon average daily attendance.

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 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 facilities, 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. The state has mandated a uniform system (MUNIS administrative software) and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. The District's only proprietary fund is food service operations. Fiduciary funds account for activities of student groups and programs. All other activities of the District are included in the governmental funds.

The fund financial statements can be found on pages 10 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 20 - 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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	\$ 685,823	\$ 813,891
Noncurrent Assets	6,635,557	6,454,532
Total Assets	<u>7,321,380</u>	<u>7,359,423</u>
Current Liabilities	413,592	412,355
Noncurrent Liabilities	3,821,089	3,876,847
Total Liabilities	<u>4,234,681</u>	<u>4,289,202</u>
<u>Net Assets</u>		
Invested in capital assets (net of debt)	2,378,272	2,274,904
Restricted	28,203	76,088
Unrestricted	680,224	719,229
Total Net Assets	<u>\$ 3,086,699</u>	<u>\$ 3,070,221</u>

FUND FINANCIAL STATEMENTS

Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2012 and 2011, were \$6 and \$5.9 million, respectively.
- General fund budget to actual comparison varied slightly from line item to line item with the ending actual balance being \$553,307 more than budget, before interfund transfers. The

increase resulted primarily from \$537,601 more in revenues as compared to the budget, with \$15,706 in expenditures less than the budget.

- The total cost of all programs and services of the Governmental Funds and Proprietary Funds was \$8.1 million and \$7.9 million for the fiscal years ended June 30, 2012 and 2011, respectively.
- Site Based Decision Making Councils expended 62.2% of the General Fund budget. Additionally, 16.2% was spent on maintenance and operations, 5.2% on District administration, 6.8% on transportation and 5.3% on business support services.

Summary of Revenue and Expense for the Years Ended June 30, 2012 and 2011

The following analyses summarized revenues and expenses for the governmental funds and the proprietary funds on a combined fund basis (excluding transfers):

	2012 Amount	2011 Amount
Revenues:		
Local revenue sources	\$ 1,239,025	\$ 1,437,547
State revenue sources	5,390,255	5,104,710
Federal revenue sources	866,761	1,448,293
Bond and capital lease proceeds	325,000	-
Other	117,843	46,924
Total revenues	<u>7,938,884</u>	<u>8,037,474</u>
Expenses:		
Instruction	4,040,258	4,392,007
Student support services	204,661	265,921
Instructional support	313,433	229,643
District administration	287,152	267,659
School administration	393,698	351,984
Business support	301,940	258,422
Plant operations	839,594	803,430
Student transportation	351,567	285,090
Community services	6,573	84,177
Food services	519,662	504,381
Facilities construction	314,650	41,781
Debt services	483,855	439,800
Total expenses	<u>8,057,043</u>	<u>7,924,295</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (118,159)</u>	<u>\$ 113,179</u>

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2012 - 2013 fiscal year with a 10.4% in contingency. The General Fund cash balance for beginning the fiscal year is \$ 363,320. There was no significant Board action during the current year that impacts the future finances.

Questions regarding this report should be directed to the Superintendent, William Musick, or to the Finance Director, Ernest P Sharp, II, at (606) 324-3877, or by mail at 2201 Main St. WW, Ashland, KY 41102.

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

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 459,899	\$ 62,447	\$ 522,346
Receivables (net of allowances for uncollectibles)	150,029	-	150,029
Inventories	-	13,448	13,448
Deferred bond issuance costs, net	135,720	-	135,720
Capital assets, not being depreciated	530,582	-	530,582
Capital assets, being depreciated, net	5,923,546	45,709	5,969,255
Total assets	7,199,776	121,604	7,321,380
Liabilities:			
Accounts payable	2,089	2,045	4,134
Deferred revenue	57,053	-	57,053
Accrued sick leave	30,386	-	30,386
Portion due or payable within one year:			
Capital leases	32,019	-	32,019
Debt obligations	290,000	-	290,000
Noncurrent liabilities:			
Portion due or payable after one year:			
Capital leases	104,831	-	104,831
Debt obligations, net of discounts of \$15,285	3,694,715	-	3,694,715
Accrued sick leave	21,543	-	21,543
Total liabilities	4,232,636	2,045	4,234,681
Net Assets:			
Invested in capital assets, net of related debt	2,332,563	45,709	2,378,272
Restricted	28,203	73,850	102,053
Unrestricted	606,374	-	606,374
Total net assets	\$ 2,967,140	\$ 119,559	\$ 3,086,699

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

**FAIRVIEW 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			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 4,090,402	\$ 59,271	\$ 512,330	-	\$ (3,518,801)	\$ -	\$ (3,518,801)
Support services:							
Students	208,216	-	1,479	-	(206,737)	-	(206,737)
Instructional staff	353,173	-	80,517	-	(272,656)	-	(272,656)
District administration	292,219	-	-	-	(292,219)	-	(292,219)
School administration	393,841	-	25,706	-	(368,135)	-	(368,135)
Business and other support services	301,940	-	21,112	-	(280,828)	-	(280,828)
Operation and maintenance of plant	885,417	-	-	-	(885,417)	-	(885,417)
Student transportation	378,725	-	-	-	(378,725)	-	(378,725)
Community services	6,573	-	6,573	-	-	-	-
Debt service	167,238	-	-	417,434	250,196	-	250,196
Total governmental activities	7,077,744	59,271	647,717	417,434	(5,953,322)	-	(5,953,322)
Business-type activities:							
Food service	519,662	139,472	339,981	26,060	-	(14,149)	(14,149)
Total business-type activities	519,662	139,472	339,981	26,060	-	(14,149)	(14,149)
Total primary government	\$ 7,597,406	\$ 198,743	\$ 987,698	\$ 443,494	\$ (5,953,322)	\$ (14,149)	\$ (5,967,471)
General revenues:							
Taxes -							
Property taxes, levied for general purposes					\$ 933,289	\$ -	\$ 933,289
Motor vehicles					154,715	-	154,715
Intergovernmental revenues - state					4,766,553	-	4,766,553
Investment earnings					10,712	837	11,549
Other local revenues					117,843	-	117,843
Total general revenues					5,983,112	837	5,983,949
Change in net assets					29,790	(13,312)	16,478
Net assets, June 30, 2011					2,937,350	132,871	3,070,221
Net assets, June 30, 2012					2,967,140	119,559	3,086,699

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

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>FSPK Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Cash and cash equivalents	\$ 363,320	\$ -	\$ 63,551	\$ 33,028	\$ 459,899
Receivables (net of allowances for uncollectibles)	91,229	58,800	-	-	150,029
Due from other funds	1,747	-	-	-	1,747
Total assets	<u>\$ 456,296</u>	<u>\$ 58,800</u>	<u>\$ 63,551</u>	<u>\$ 33,028</u>	<u>\$ 611,675</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 2,089	\$ -	\$ -	\$ -	\$ 2,089
Accrued sick leave	30,386	-	-	-	30,386
Due to other funds	-	1,747	-	-	1,747
Deferred revenue	-	57,053	-	-	57,053
Total liabilities	<u>32,475</u>	<u>58,800</u>	<u>-</u>	<u>-</u>	<u>91,275</u>
Fund balances:					
Restricted for KSFCC escrow	-	-	63,551	4,825	68,376
Restricted	-	-	-	28,203	28,203
Unassigned	423,821	-	-	-	423,821
Total fund balances	<u>423,821</u>	<u>-</u>	<u>63,551</u>	<u>33,028</u>	<u>520,400</u>
Total liabilities and fund balances	<u>\$ 456,296</u>	<u>\$ 58,800</u>	<u>\$ 63,551</u>	<u>\$ 33,028</u>	<u>\$ 611,675</u>

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

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

Fund balances - total governmental funds		\$ 520,400
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 governmental funds financial statements.		6,454,128
Bond issuance costs are not financial resources and therefore are not reported in the governmental funds financial statements.		135,720
Some liabilities, including bonds payable are not due and payable in the current period and therefore, are not reported in the governmental funds financial statements.		
Bonds payable	(3,984,715)	
Capital leases payable	(136,850)	
Accrued sick leave	(21,543)	(4,143,108)
Net assets of governmental activities		\$ 2,967,140

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

FAIRVIEW 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	FSPK Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources -					
Taxes -					
Property	\$ 858,289	\$ -	\$ 75,000	\$ -	\$ 933,289
Motor vehicles	154,715	-	-	-	154,715
Interest income	10,711	-	-	1	10,712
Other local revenues	117,843	-	-	-	117,843
Intergovernmental - state	4,766,553	172,524	189,964	227,470	5,356,511
Intergovernmental - indirect federal	-	475,193	-	-	475,193
Intergovernmental - direct federal	59,271	-	-	-	59,271
Total revenues	<u>5,967,382</u>	<u>647,717</u>	<u>264,964</u>	<u>227,471</u>	<u>7,107,534</u>
Expenditures:					
Current -					
Instruction	3,509,721	530,537	-	-	4,040,258
Support services:					
Students	203,182	1,479	-	-	204,661
Instruction staff	232,916	80,517	-	-	313,433
District administration	287,152	-	-	-	287,152
School administration	367,992	25,706	-	-	393,698
Business and other support services	280,828	21,112	-	-	301,940
Operation and maintenance of plant	839,594	-	-	-	839,594
Student transportation	351,567	-	-	-	351,567
Community services	-	6,573	-	-	6,573
Facility acquisition and construction	-	-	-	314,650	314,650
Debt service	41,123	-	-	442,732	483,855
Total expenditures	<u>6,114,075</u>	<u>665,924</u>	<u>-</u>	<u>757,382</u>	<u>7,537,381</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(146,693)</u>	<u>(18,207)</u>	<u>264,964</u>	<u>(529,911)</u>	<u>(429,847)</u>
Other financing sources (uses):					
Issuance of debt	-	-	-	325,000	325,000
Transfers in	77,181	18,207	-	279,441	374,829
Transfers out	(55,826)	-	(241,822)	(77,181)	(374,829)
Total other financing sources (uses)	<u>21,355</u>	<u>18,207</u>	<u>(241,822)</u>	<u>527,260</u>	<u>325,000</u>
Net change in fund balances	(125,338)	-	23,142	(2,651)	(104,847)
Fund balances, June 30, 2011	<u>549,159</u>	<u>-</u>	<u>40,409</u>	<u>35,679</u>	<u>625,247</u>
Fund balances, June 30, 2012	<u>\$ 423,821</u>	<u>\$ -</u>	<u>\$ 63,551</u>	<u>\$ 33,028</u>	<u>\$ 520,400</u>

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

**FAIRVIEW 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 \$ (104,847)

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.

Capital outlay	416,456	
Depreciation expense	<u>(299,658)</u>	116,798

Bond and capital lease proceeds are recognized as revenues in the fund financial statement, but are increases in liabilities in the statement of net assets. (325,000)

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 the following:

Long-term portion of accrued sick leave		26,222
Amortization of bond issue costs		(16,763)
Amortization of bond discount		(1,933)

Costs related to bond issuance are recognized as expenditures of current financial resources in the fund financial statements, but are included as deferred costs in the statement of net assets. 10,350

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. 324,963

Change in net assets of governmental activities \$ 29,790

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

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	<u>Food Service Fund</u>
Assets:	
Current assets:	
Cash	\$ 62,447
Inventories	<u>13,448</u>
Total current assets	<u>75,895</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>45,709</u>
Total noncurrent assets	<u>45,709</u>
Total assets	<u>\$ 121,604</u>
Liabilities and Net Assets:	
Current liabilities:	
Accounts payable	\$ <u>2,045</u>
Total current liabilities	<u>2,045</u>
Total liabilities	<u>2,045</u>
Net Assets:	
Invested in capital assets	45,709
Restricted	<u>73,850</u>
Total net assets	<u>119,559</u>
Total net assets and liabilities	<u>\$ 121,604</u>

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

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

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 139,472
Total operating revenues	<u>139,472</u>
Operating expenses:	
Salaries and wages	165,831
Employee benefits	74,231
Contract services	15,385
Materials and supplies	248,305
Depreciation	15,910
Other operating expenses	-
Total operating expenses	<u>519,662</u>
Operating loss	<u>(380,190)</u>
Non-operating revenues:	
Federal grants	306,237
Investment income	837
Donated commodities	26,060
State grants	5,016
Miscellaneous income	-
On-behalf payments	28,728
Total nonoperating revenue	<u>366,878</u>
Decrease in net assets	(13,312)
Net assets, June 30, 2011	<u>132,871</u>
Net assets, June 30, 2012	<u>\$ 119,559</u>

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

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 139,472
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(238,507)
Payments to employees	<u>(211,334)</u>
Net cash used for operating activities	<u>(310,369)</u>
Cash flows from noncapital financing activities:	
Government grants	<u>315,817</u>
Net cash provided by noncapital financing activities	<u>315,817</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>-</u>
Net cash used for capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest received on investments	<u>837</u>
Net cash provided by investing activities	<u>837</u>
Net increase in cash and cash equivalents	6,285
Cash and cash equivalents, June 30, 2011	<u>56,162</u>
Cash and cash equivalents, June 30, 2012	<u><u>\$ 62,447</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (380,190)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	15,910
Donated commodities	26,060
On-behalf payments	28,728
Change in assets and liabilities:	
Inventories	(2,922)
Accounts payable	<u>2,045</u>
Net cash used for operating activities	<u><u>\$ (310,369)</u></u>
Non-cash items:	
On-behalf payments	\$ 28,728
Donated commodities	26,060

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

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

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	\$ 142,446
Total assets	<u>\$ 142,446</u>
Liabilities:	
Due to students	\$ 142,446
Total liabilities	<u>142,446</u>
Net assets held in trust	<u>\$ -</u>

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

FAIRVIEW 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</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes -				
Property	\$ 775,000	\$ 775,000	\$ 858,289	\$ 83,289
Motor vehicles	130,000	130,000	154,715	24,715
Interest income	10,000	10,000	10,711	711
Other local revenues	5,000	5,000	117,843	112,843
Intergovernmental - state	3,458,000	3,458,000	3,734,772	276,772
Intergovernmental - federal	20,000	20,000	59,271	39,271
Total revenues	<u>4,398,000</u>	<u>4,398,000</u>	<u>4,935,601</u>	<u>537,601</u>
Expenditures:				
Current:				
Instruction	2,477,419	2,477,419	2,694,133	(216,714)
Support services:				
Students	175,875	175,875	175,127	718
Instructional staff	200,251	200,251	202,869	(2,618)
District administration	220,080	220,080	254,903	(34,823)
School administration	271,733	271,733	319,030	(47,297)
Business and other support services	271,018	271,018	259,438	11,580
Operation and maintenance of plant	644,028	644,028	799,879	(155,851)
Student transportation	240,674	240,674	335,792	(95,118)
Facility acquisition and construction	-	-	-	-
Contingency	521,922	521,922	-	521,922
Debt service	75,000	75,000	41,123	33,877
Total expenditures	<u>5,098,000</u>	<u>5,098,000</u>	<u>5,082,294</u>	<u>15,706</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(700,000)</u>	<u>(700,000)</u>	<u>(146,693)</u>	<u>553,307</u>
Other financing sources (uses):				
Transfers in	-	-	77,181	77,181
Transfers out	-	-	(55,826)	(55,826)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>21,355</u>	<u>21,355</u>
Net change in fund balance	(700,000)	(700,000)	(125,338)	574,662
Fund balance, June 30, 2011	<u>700,000</u>	<u>700,000</u>	<u>549,159</u>	<u>(150,841)</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	423,821	<u>\$ 423,821</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental state revenue			\$ 1,031,781	
On-behalf payments:				
Instruction			(815,588)	
Support Services:				
Students			(28,055)	
Instruction staff			(30,047)	
District administration			(32,249)	
School administration			(48,962)	
Business and other support services			(21,390)	
Operation and maintenance of plant			(39,715)	
Student transportation			(15,775)	
Fund balance, June 30, 2012 (GAAP basis)			<u>\$ 423,821</u>	

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

**FAIRVIEW 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**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Interest income	\$ -	\$ -	\$ -	\$ -
Intergovernmental - state	171,924	251,577	172,524	(79,053)
Intergovernmental - indirect federal	441,906	485,099	475,193	(9,906)
Total revenues	<u>613,830</u>	<u>736,676</u>	<u>647,717</u>	<u>(88,959)</u>
Expenditures:				
Current:				
Instruction	606,679	647,743	530,537	117,206
Support services:				
Students	4,976	-	1,479	(1,479)
Instructional staff	1,820	5,934	80,517	(74,583)
School administration	-	-	25,706	(25,706)
Business and other support services	-	3,346	21,112	(17,766)
Community services	-	79,653	6,573	73,080
Total expenditures	<u>613,475</u>	<u>736,676</u>	<u>665,924</u>	<u>70,752</u>
Excess (deficiency) of revenues over (under) expenditures	<u>355</u>	<u>-</u>	<u>(18,207)</u>	<u>(18,207)</u>
Other financing sources (uses):				
Transfers in	-	-	18,207	18,207
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>18,207</u>	<u>18,207</u>
Net change in fund balance	355	-	-	-
Fund balance, June 30, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

(1) REPORTING ENTITY

The Fairview Independent School District ("Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the Fairview Independent School District ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" 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 Fairview 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 District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Fairview Independent School District Finance Corporation

On September 27, 1993 the Fairview Independent Board of Education resolved to authorize the establishment of the Fairview 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 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Fairview Independent School District also comprise the Corporation's Board of Directors.

Copies of component unit reports may be obtained from the District's Finance office at 2201 Main St. WW, Ashland, Kentucky 41102.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

The accounting policies of the Fairview Independent School District substantially comply with accounting principles generally accepted in the United States 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 reconciliations 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, except where allowable for certain grant programs. 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, displayed in a separate column. All remaining funds are aggregated and reported as non-major 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 balance is 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.
 - 2. The Facility Support Program of Kentucky Fund (FSPK Building 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. This is a major fund of the District.
 - 3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction in accordance with the District's facilities plan.
- (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 Funds (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). Amounts have been recorded for in-kind contributions of commodities from the USDA. The Food Service Fund is a major fund.

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

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts 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*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in 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.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenues from property taxes are 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 non-exchange transactions must also be available before they 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. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

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

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

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed

using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	5-12 years
Other general equipment	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 October 1, of each year on the assessed value listed as of the prior January 1 for all real and business property located in the District. The assessed value of property upon which the levy for 2012 fiscal year was based was \$138,790,566.

The tax rates assessed for the year ended June 30, 2012 to finance general fund operations were \$.664 on real estate and \$.664 on tangible property per \$100 valuation.

Taxes are due on October 1 and become delinquent by February 1 of the following year. Current tax collections for the year ended June 30, 2012 were 83.63% of the amount levied.

In-Kind

The District receives commodities from U.S.D.A. The amounts of 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 management 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. 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 in the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements 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 for Governmental Fund types.

When committed, assigned and unassigned resources are available for use, it is the District's policy to use committed and assigned resources first, then unassigned resources as they are needed.

Net Assets

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

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 accounting principles generally accepted in the United States 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) 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 District's cash and cash equivalents was \$664,792 and the bank balances totaled \$903,862. Of the total bank balances, \$250,000 was covered by Federal depository insurance, and the remaining balance was covered by collateral held by the pledging bank in the District's name.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risks are as follows:

- | | |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Category 1 | Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name. |
| Category 2 | Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. |
| Category 3 | Deposits, which are not collateralized or insured. |

Based on these three levels of risk, the District's uninsured cash deposits are classified as Category 2.

Due to the nature of the account 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, Construction Fund, Debt Service Funds, School Food Service Funds, and School Activity Funds.

(4) CAPITAL ASSETS

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

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Land	\$ 530,582	\$ -	\$ -	\$ 530,582
Land improvements	331,005	362,091	-	693,096
Buildings and improvements	7,383,393	-	-	7,383,393
Technology equipment	630,872	16,637	-	647,509
General equipment	230,667	37,728	-	268,395
Vehicles	548,592	-	-	548,592
Totals	<u>9,655,111</u>	<u>416,456</u>	<u>-</u>	<u>10,071,567</u>
Less: accumulated depreciation				
Land improvements	233,479	25,091	-	258,570
Buildings and improvements	2,205,788	154,357	-	2,360,145
Technology equipment	376,340	68,682	-	445,022
General equipment	135,750	15,100	-	150,850
Vehicles	366,424	36,428	-	402,852
Total accumulated depreciation	<u>3,317,781</u>	<u>299,658</u>	<u>-</u>	<u>3,617,439</u>
Governmental Activities Capital Assets - Net	<u>\$ 6,337,330</u>	<u>\$ 116,798</u>	<u>\$ -</u>	<u>\$ 6,454,128</u>
Business-Type Activities				
Food service equipment	\$ 278,201	\$ -	\$ -	\$ 278,201
Less: accumulated depreciation				
Food service equipment	<u>216,582</u>	<u>15,910</u>	<u>-</u>	<u>232,492</u>
Business-Type Activities Capital Assets - Net	<u>\$ 61,619</u>	<u>\$ (15,910)</u>	<u>\$ -</u>	<u>\$ 45,709</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 93,003
Student support services	3,555
Instructional staff support	39,740
District administration	5,067
District and other support services	143
Plant operation and maintenance	130,992
Student transportation	27,158
	<u>\$ 299,658</u>

(5) LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as debt and lease obligations represents the District's future obligations to make lease payments relating to bonds issued by the Fairview Independent School District Finance Corporation and the Kentucky School Facilities Construction Commission aggregating \$4,895,000, and to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$351,369.

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

Issue Date	Proceeds	Rates
Issue of 1996	\$ 120,000	5.0% - 5.75%
Issue of 2001-KISTA	53,471	3.5% - 4.7%
Issue of 2004-KISTA	61,252	1.0% - 3.5%
Issue of 2005	2,055,000	3.25% - 4.3%
Issue of 2005-KISTA	67,887	3.0% - 3.625%
Issue of 2006	270,000	4.3%

Issue of 2007-KISTA	76,995	3.625% - 3.750%
Issue of 2008	2,125,000	2.0% - 3.5%
Issue of 2009-KISTA	91,764	2.0% - 3.9%
Issue of 2011	325,000	2.0% - 3.2%

The District, through the General Fund, Facilities Support Program (FSPK) Fund and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on the bonds issued by the Fairview Independent Board of Education Finance Corporation and the Fairview Independent School District to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

On March 12, 2008, the District issued \$2,125,000 in refunding bonds with an average rate of 5.3% to advance refund \$1,930,000 of the series of 1999 bonds with an average rate of 6.8%. The proceeds of the refunding bonds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group.

As a result of this advance refunding, the District reduced its total debt service payments over the next twelve years by \$144,086 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$109,690.

The 2008 and 2011 bond issues of \$2,125,000 and \$325,000, respectively were sold at a discount of \$17,850 and \$4,450, respectively, which is being amortized over the life of the respective debt. A summary of activity in bond obligations and other debts is as follows:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
1996 Issue	\$ 50,000	\$ -	\$ 5,000	\$ 45,000
2001 Issue-KISTA	5,501	-	5,501	-
2004 Issue-KISTA	17,793	-	6,527	11,266
2005 Issue	1,830,000	-	50,000	1,780,000
2005 Issue-KISTA	27,198	-	7,085	20,113
2006 Issue	230,000	-	10,000	220,000
2007 Issue-KISTA	47,126	-	7,633	39,493
2008 Issue	1,850,000	-	190,000	1,660,000
2009 Issue-KISTA	72,064	-	8,530	63,534
2011 Issue	-	325,000	30,000	295,000
Capital lease	7,131	-	4,687	2,444
Accrued sick leave	47,765	-	26,222	21,543
Discount on bonds	(12,768)	(4,450)	(1,933)	(15,285)
Total	\$ 4,171,810	\$ 320,550	\$ 349,252	\$ 4,143,108

In connection with the bond issues of 1996, 2005, 2006, 2008 and 2011, the District entered into a participation agreement with the School Facility Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity on all bond issues.

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

Year	Fairview Independent School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2013	\$ 183,054	\$ 97,950	\$ 106,946	\$ 43,343	\$ 431,293
2014	184,551	92,827	110,449	39,839	427,666
2015	195,793	87,267	114,207	36,082	433,349
2016	196,807	81,394	118,193	32,096	428,490

2017	209,874	75,107	120,126	27,882	432,989
2018-2022	1,042,559	259,757	437,441	80,892	1,820,649
2023-2027	761,798	68,194	218,202	19,736	1,067,930
	<u>\$ 2,774,436</u>	<u>\$ 762,496</u>	<u>\$ 1,225,564</u>	<u>\$ 279,870</u>	<u>\$ 5,042,366</u>

Future minimum debt service on bonds payable to KISTA, at June 30, 2012, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 29,575	\$ 4,651	\$ 34,226
2014	29,107	3,677	32,784
2015	24,234	2,693	26,927
2016	16,846	1,863	18,709
2017	17,483	1,283	18,766
2018-2022	17,161	993	18,154
	<u>\$ 134,406</u>	<u>\$ 15,160</u>	<u>\$ 149,566</u>

Capital Lease - Equipment

During the 2010 fiscal year, the District entered into a capital lease agreement with a financing company to purchase technology equipment in the amount of \$13,800. The interest rate on the lease is 5.04%.

Capital assets include the following under the capital lease:

Operating equipment	\$ 13,800
Less accumulated depreciation	(5,520)
	<u>\$ 8,280</u>

Future minimum annual lease payments under the remaining agreement is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,444	\$ 31	\$ 2,475

(6) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments, and known retirements during the next fiscal year.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources.

(7) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 14,958
Debt Service	General	Debt Service	Bond Payments	37,619
Debt Service	FSPK Building Fund	Debt Service	Bond Payments	241,822
Operating	General	Special Revenue	Operations	3,249
Capital	Capital Outlay	General	Capital Project	77,181

(8) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

The Kentucky Local School District contributes to the Teachers Retirement System of Kentucky ("KTRS"), a cost sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees 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.

The KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS website 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 that pays for salaries pays 13.605% before July 1, 2008 and 14.105% after July 1, 2008 matching contributions.

The District's total payroll for the year was \$4,318,083. The payroll for employees covered under KTRS was \$3,179,795. For the years ended June 30, 2012, 2011, and 2010, the Commonwealth of Kentucky contributed \$392,757, \$334,267, and \$372,397, respectively, to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2012, 2011, and 2010 were \$44,354, \$51,037, and \$21,243, respectively, which represents those employees covered by Federal programs.

B. 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 from 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 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.

C. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It 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 CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The 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 by calling (502) 564-4646 or from the KRS website at <https://kyret.ky.gov>.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 18.96% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District 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 \$197,802, \$166,555, and \$155,675, respectively, equal to the required contributions for the year.

(9) CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantors' review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicted 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 Board 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 members on a pro rata basis.

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

(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 school district at risk for a substantial loss (contingency).

(12) ON-BEHALF PAYMENTS

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

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 392,757
Health Insurance Plan	664,752
Vocational Payments	3,000
	<u>\$ 1,060,509</u>

These amounts are included in the Government-wide statement of activities and the Governmental Fund statement of revenues, expenditures, and changes in fund balances as state revenues and expenses allocated to the different functions in the same proportion as full-time employees.

SUPPLEMENTARY INFORMATION

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

	Capital Outlay Fund	Debt Service Funds	Construction Fund	Total Non-Major Governmental Funds
Assets:				
Cash and cash equivalents	\$ 4,825	\$ 130	\$ 28,073	\$ 33,028
Total assets	<u>\$ 4,825</u>	<u>\$ 130</u>	<u>\$ 28,073</u>	<u>\$ 33,028</u>
Liabilities and Fund Balance:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for capital expenditures	-	-	28,073	28,073
Restricted for debt service	-	130	-	130
Restricted for KSFCC escrow	4,825	-	-	4,825
Total fund balance	<u>4,825</u>	<u>130</u>	<u>28,073</u>	<u>33,028</u>
Total liabilities and fund balances	<u>\$ 4,825</u>	<u>\$ 130</u>	<u>\$ 28,073</u>	<u>\$ 33,028</u>

**FAIRVIEW 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>Capital Outlay Fund</u>	<u>Debt Service Funds</u>	<u>Construction Fund</u>	<u>Total Non-Major Governmental Funds</u>
Revenues:				
From local sources -				
Earnings on investments	\$ -	\$ 1	\$ -	\$ 1
Intergovernmental - state	<u>77,181</u>	<u>150,289</u>	<u>-</u>	<u>227,470</u>
Total revenues	<u>77,181</u>	<u>150,290</u>	<u>-</u>	<u>227,471</u>
Expenditures:				
Current -				
Facility acquisition and construction	-	-	314,650	314,650
Debt service	-	<u>432,382</u>	<u>10,350</u>	<u>442,732</u>
Total expenditures	<u>-</u>	<u>432,382</u>	<u>325,000</u>	<u>757,382</u>
Excess (deficiency) of revenues over (under) expenditures	<u>77,181</u>	<u>(282,092)</u>	<u>(325,000)</u>	<u>(529,911)</u>
Other financing sources (uses):				
Issuance of debt	-	-	325,000	325,000
Operating transfers in	-	279,441	-	279,441
Operating transfers out	<u>(77,181)</u>	<u>-</u>	<u>-</u>	<u>(77,181)</u>
Total other financing sources (uses)	<u>(77,181)</u>	<u>279,441</u>	<u>325,000</u>	<u>527,260</u>
Net change in fund balance	-	(2,651)	-	(2,651)
Fund balance, June 30, 2011	<u>4,825</u>	<u>2,781</u>	<u>28,073</u>	<u>35,679</u>
Fund balance, June 30, 2012	<u>\$ 4,825</u>	<u>\$ 130</u>	<u>\$ 28,073</u>	<u>\$ 33,028</u>

**FAIRVIEW 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	Disburse- ments	Cash and Deposits Held in Custody For Students June 30, 2012
Academic	\$ -	\$ 585	\$ 585	\$ -
Academic - Middle School	247	-	40	207
Annual	5,823	5,093	5,000	5,916
Athletic Ads	-	-	-	-
Athletic Boosters	5,664	46,678	39,602	12,740
Athletic Misc.	7,395	-	7,321	74
Athletic Revolving	-	934	934	-
Athletics Activity	-	25,889	25,484	405
Band A	895	23,904	24,202	597
Baseball	-	25,305	24,905	400
Boys Basketball	-	29,806	29,338	468
Boys Basketball - Middle School	-	2,891	2,353	538
Cheerleaders - Varsity	400	-	400	-
Cheerleaders Activity	288	29,845	28,313	1,820
Cheerleaders - Middle School	185	13,298	13,483	-
Chorus	-	3,539	3,539	-
Chorus Activity	1,555	9,044	5,928	4,671
Coke - ACT	66	-	-	66
Coke - Staff	346	789	576	559
Coke - High School	278	2,885	3,079	84
Cross Country	1,416	7,064	7,675	805
Drama	871	843	1,498	216
Elementary Academic Team	1,350	355	552	1,153
Elementary Basketball	1,086	-	480	606
Elementary General	2,514	24,770	25,118	2,166
Elementary Grants	100	-	-	100
Elementary Library	1,671	13,399	13,831	1,239
FBLA Club	-	1,943	1,611	332
F.C.A.	397	-	397	-
Fifth Grade Banquet	-	1,010	910	100
Football	9,119	84,812	82,823	11,108
Football - Middle School	-	11,785	11,785	-
Forensics	-	2,320	2,320	-
FRYSC	52,456	40,472	38,220	54,708
Girls Basketball	-	28,444	28,244	200
Golf	1,165	2,011	1,130	2,046
Golf - Girls	725	2,598	3,323	-
High School General	-	2,163	2,163	-
High School Grants	853	1,200	764	1,289
High School Bookstore	2,693	1,618	1,965	2,346
High School Library	-	5,000	-	5,000
Honor Society	306	825	945	186
Honor Society - Middle School	14	-	-	14
Interest	5,052	1,382	641	5,793
Junior Class	1,360	6,134	6,874	620
Leo Club	1,184	1,131	1,156	1,159
Middle School Special	484	-	484	-

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS - (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2012**

	Cash Balance June 30, 2011	Receipts	Disburse- ments	Cash and Deposits Held in Custody For Students June 30, 2012
Poetry Outloud	-	1,253	1,253	-
Parent Teacher Organization	4,375	13,883	17,319	939
Scholarship Fund	7,705	600	2,000	6,305
School Patrol	2,778	15,366	12,890	5,254
School Pictures - Elementary	1,844	2,975	2,851	1,968
School Pictures - High School	-	5,842	5,842	-
School Store - Elementary	-	-	-	-
Senior Class	-	50,410	50,410	-
Senior Class Special	1,096	-	1,096	-
Sixth Grade Banquet	40	-	-	40
Softball	-	9,461	9,461	-
Spanish Club	24	664	523	165
Spirit Club	-	-	-	-
State Textbooks - Elementary	226	-	-	226
State Textbooks - High School	928	260	-	1,188
STLP	-	1,621	1,621	-
Student Council	4	-	-	4
Student Deposits	249	22,147	22,396	-
Tennis	-	583	583	-
Track	-	7,327	7,327	-
Video Yearbook	5,883	1,840	3,639	4,084
Volleyball	-	5,497	4,664	833
Yearbook - Elementary	2,009	1,987	2,287	1,709
Total Activity Funds	<u>\$ 135,119</u>	<u>\$ 603,480</u>	<u>\$ 596,153</u>	<u>\$ 142,446</u>

**FAIRVIEW 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>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	775000212	\$ -	\$ 164,017
National School Lunch Program	10.555	775000211	-	51,056
School Breakfast Program	10.553	776000511	-	20,582
School Breakfast Program	10.553	776000512	-	70,429
Summer Food Program	10.559	769002411	-	14
Summer Food Program	10.559	764002311	-	<u>139</u>
				306,237
Non-Cash Assistance				
National School Lunch Program				
Food Donation	10.555	775000209	-	<u>25,795</u>
Total U.S. Department of Agriculture				<u>332,032</u> *
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies				
Title I Grants to Local Educational Agencies	84.010	310000211	193,833	193,317
Title I Grants to Local Educational Agencies	84.010	310000210	24,880	24,880
ARRA - Title I Grants to Local Educational Agencies	84.389A	410000209	7,219	<u>7,219</u>
				<u>225,416</u>
Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA-B	84.027	381000210	13,285	13,285
Special Education Grants to State - IDEA-B	84.027	381000211	159,004	146,613
ARRA - Special Education Grants to State - IDEA-B,	84.391A	481000209	37,228	37,228
Special Education Preschool Grants	84.173	380000211	10,835	10,835
ARRA - Special Education Preschool Grants	84.173A	480000209	9,341	<u>9,341</u>
				<u>217,302</u>
ARRA - Education Technology State Grants	84.386	42000209	2,921	<u>2,921</u>
				<u>2,921</u>
Improving Teaching Quality State Grants	84.367	323000211	25,104	25,104
Improving Teaching Quality State Grants	84.367	323000210	1,449	1,449
Improving Teaching Quality State Grants	84.367	323000209	9	<u>9</u>
				<u>26,562</u>
Edu Jobs	84.410	EJ0B0010	2,992	<u>2,992</u>
Total U.S. Department of Education				<u>475,193</u>
Total expenditures of Federal Awards				<u>\$ 807,225</u>

*Denotes major program

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

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 Fairview Independent School District 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 Fairview 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 represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity indentifying 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 included in inventory totaled \$13,123.



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
Fairview Independent School District
Ashland, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fairview Independent School District (District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 19, 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 certain deficiencies 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 material noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II to the Independent Auditor's Contract - State Audit Requirements* and *Appendix III to the Independent Auditor's Contract - Electronic Submission*.

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

We noted certain other matters that we have reported to management of the District in a separate letter dated October 19, 2012.

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


October 19, 2012



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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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
Fairview Independent School District
Ashland, Kentucky

Compliance

We have audited the Fairview 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, 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 Fairview Independent School 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.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Kelley, Anthony & Company, PSC

October 19, 2012

**FAIRVIEW 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? _____ x yes _____

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? _____ yes x no

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

Child Nutrition Cluster (10.553, 10.555 and 10.559)

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

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

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2012

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

2012-01 AUDIT ADJUSTMENTS

Condition: While performing our audit on the balance sheet and annual financial report (AFR) provided by the District, we noted several account balances that required adjustments. These adjustments included the following:

- Current portion of accrued sick leave
- Additional accounts payable
- Interfund balances
- Additional accounts receivable

Criteria: All required adjusting entries should be posted to the balance sheet and the AFR as part of the annual closing process.

Cause: Historically, the District has not recorded the identified adjustments and has relied upon the audit to identify the correct balances.

Effect: Several account balances were misstated.

Recommendation: We recommend the District record all required adjustments to account balances as part of the annual closing process.

Management's response and corrective action plan: In the future, the District will attempt to make the appropriate entries to record similar transactions identified in the audit adjustments.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None noted in current year.

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

<u>Finding</u>	<u>Findings/Noncompliance</u>
2011-01	We recommend the District record all required adjustments to account balances as part of the annual closing process.
	<u>Status</u>
	Repeat finding - 2012-01.



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

In planning and performing our audit of the financial statements of Fairview 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 opinions on 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 an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 19, 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 any additional study of these matters, or to assist you in implementing the recommendations.

Kelley, Galloway & Company, PSC
October 19, 2012

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2012

Payroll - Administrative Time logs

Condition: While performing our detailed testing of payroll transactions, we noted that the Director of Special Education does not complete a daily timesheet. Upon further discussion with the payroll clerk, we noted several other administrative employees who did not maintain a timesheet. Therefore, no mechanism exists to easily track sick days utilized and to ensure administrative employees work the number of days required by their employment contract.

Criteria: Proper procedures should be in effect to track time worked by administrative employees. While administrative employees are considered salary positions and, therefore, not compensated based on the number hours worked, a log should be maintained of the days worked for each pay period.

Effect: Increased difficulty in ensuring compliance with employment contracts.

Recommendation: The District should require all administrative employees to maintain a log of the days worked for each pay period. This will provide a mechanism to easily track employee sick days and compliance with employment contracts.

Management's Response: While I have generally been aware that administrative employees, including myself, have not completed a daily timesheet, I had not considered the effect that it would have upon tracking sick leave usage and compliance with contractual days worked requirements. Therefore, I will discuss this matter with our superintendent and we will work toward implementing a proper tracking mechanism for administrative employees.

Payroll - Timesheets

Condition: While performing our detailed testing of payroll transactions, we noted an error in the summarized timesheet of one food service employee, which resulted in the employee not be compensated for a half an hour of time worked. According to the payroll clerk, she utilizes a summary of the timesheets for food service employees to prepare payroll. This summary is provided by the food service director.

Criteria: Proper procedures should be in place to ensure employees are compensated for all time worked that is approved by the supervisor.

Effect: An employee has not been properly compensated.

Recommendation: Additional care should be taken by individuals preparing time summaries for the payroll clerk. If possible, an additional individual should review the summaries and perform recalculations based on random selections.

Management's Response: In order to minimize the possibility of future situations where an employee could be underpaid, or overpaid, I will ask our payroll clerk to mathematically verify the accuracy of all timesheets submitted for payroll. In addition, we will correct the underpayment noted.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER POINTS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2012

Activity Funds - Fundraisers

Condition: We noted that profits from the sale of concessions and fundraisers are not being monitored for reasonableness. Additionally, the Inventory Control Worksheet (F-SA-5) and School Fund Raising Worksheet (F-SA-2B) are not being utilized to monitor activities.

Criteria: The Accounting Procedures for Kentucky School Activity Funds ("Redbook") states that fundraisers and inventory should be monitored for reasonableness using the prescribed forms.

Effect: Noncompliance with Redbook requirements.

Recommendation: Monitor fundraiser profits for reasonableness and use the forms included in the Redbook to document compliance.

Management's Response: The Finance Director will work directly with the appropriate individuals to see that the proper paperwork is completed in the future.

Activity Funds - Budgets

Condition: Receipt and expenditure budgets are not being prepared and submitted to the board for individual activity funds.

Criteria: The Redbook requires budgets for each fund to be prepared and submitted to the school principal by April 15th. The principal must then submit a combined budget with the individual fund budgets to the Superintendent by May 15th. Local board approval of school activity budgets and fund-raising activities should be completed by the end of May for the following year.

Effect: Noncompliance with Redbook requirements.

Recommendation: Receipt and expenditure budgets should be prepared in accordance with Redbook guidelines and submitted annually to the Board for approval.

Management's Response: The Finance Director will work directly with the appropriate individuals to ensure compliance.