

FRANKFORT INDEPENDENT SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
SUPPLEMENTAL INFORMATION
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED JUNE 30, 2012

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 33 through 34 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 Frankfort Independent School District's financial statements as a whole. The introductory section, combining, and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

W. Dudley Shryock, CPA, PSC
Lawrenceburg, Kentucky
November 7, 2012

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

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

FINANCIAL HIGHLIGHTS

- Fisd continued working into the second year after the renovation of HVAC systems at both schools and continued to recognize for a full year of energy savings for the district.
- Worked with SFCC to encumber more than \$45,000 of Capital Outlay funds for the purpose of beginning a 1:1 technology initiative for the 12/13 school year.
- Continued with the second year of implementation on a WrapAround Daycare program for students who will enter into our preschool program at SSS.
- Purchased another \$15,000 worth of additional band equipment for the programs at SSS and FHS.
- Funds attained from the Frankfort Regional Medical Center were used to provide an athletic trainer for HS athletics.
- Purchased and installed a new more energy efficient boiler for more than \$45,000 for SSS.
- Used a \$12,000 grant from WHAS to provide an aide to the Wilkinson Street School alternative education program and its students.
- Used \$172,000 plus in EduJobs funds at each of the school buildings in Fisd.
- Purchased additional cameras at FHS to enhance security at the school. Total purchase price was nearly \$14,000.
- Purchased and installed a new sound system for the auditorium at FHS.
- Invested \$4,482 in additional security measures at SSS.
- Purchased extra Quality Core assessments for students at WSS and FHS to prepare them for the new statewide assessment system.
- Provided \$4700 for professional development through Southern Regional Education Board for the training of MS teachers.
- Purchased several online programs (DreamBox, Study Island, and Accelerated Reader, etc.) in the areas of math and reading for SSS. These programs are being used to provide Response to Intervention services for identified students.
- MAP, an online continuous assessment system, was purchased district wide to assess students' academic progress three times annually.
- Ed Options, an online credit recovery program, was purchased for use at FHS and WSS. This allows students to make up classes that they are behind on throughout the year at their own pace and decreases the likelihood that they might drop out.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 8-9 of this report.

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

The basic governmental fund financial statements can be found on pages 10-18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-32 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3,822,014 and \$3,822,014, respectively, as of June 30, 2012, and 2011.

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

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

Net Assets for the Period Ending:

Comparative data is presented for the reader's use.

	<u>6/30/2012</u>	<u>6/30/2011</u>
Current Assets	1,085,416	1,020,946
Noncurrent Assets	<u>8,090,773</u>	<u>8,498,397</u>
Total Assets	<u>9,176,189</u>	<u>9,519,343</u>
Current Liabilities	375,334	348,745
Noncurrent Liabilities	<u>5,066,133</u>	<u>5,348,584</u>
Total Liabilities	<u>5,441,467</u>	<u>5,697,329</u>
Assigned - capital assets (net of debt)	2,919,941	3,039,697
Assigned - other	118,324	115,226
Unassigned	<u>696,457</u>	<u>667,091</u>
Total Net Assets	<u>3,734,722</u>	<u>3,822,014</u>

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

Comments on Budget Comparisons

- General fund budget to actual comparison varied favorably by \$900,527, since the District was not forced to utilize its contingency funds. Actual expenditures were more than budget by \$1,072,019, while actual revenue exceeded budget by \$1,481,209. Transfers and contingency made up the difference of \$491,337.
- Special Revenue budget to actual comparison showed no variance due to deferred revenue assumptions. Actual revenue was more than budget by \$128,607 and actual expenditures were over budget by \$136,401, with net transfers of \$7,794.

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

	<u>6/30/2012</u>	<u>6/30/2011</u>
Revenues:		
Local revenue sources	2,903,433	2,893,815
State revenue sources	4,933,667	5,133,903
Federal Revenue	806,322	1,109,984
Food Services	<u>922,865</u>	<u>883,816</u>
Total revenues	<u>9,566,287</u>	<u>10,021,518</u>
Expenses:		
Instruction	5,307,800	6,193,147
Student Support Services	273,700	259,682
Instructional Support	523,278	592,868
District Administration	172,354	182,222
School Administration	404,033	421,487
Business and Other	273,306	287,343
Plant Operations	818,715	904,071
Building Renovations	16,272	202,255
Student Transportation	189,648	181,245
Community Support	79,653	84,177
Food Services	928,218	890,942
Other	-0-	-0-
Sick Leave Accrual	15,049	-0-
Interest	213,699	207,888
Depreciation & Amortization	<u>437,854</u>	<u>353,252</u>
Total Expenses	<u>9,653,579</u>	<u>10,760,579</u>
Revenue in Excess of Expense	<u>(87,292)</u>	<u>(739,061)</u>

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

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1- June 30; other programs, i.e., some federal budgets operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a 2012-2013 budget with a 8.50% contingency, while the 2011-2012 actual results ended with an unassigned governmental fund balance of \$696,457 . The beginning cash balance for fiscal year 2013 is \$827,210, excluding the fiduciary funds. Significant Board action that impacts the finances includes a 4% increase in the property tax revenue which will support the above contingency projection as well as additional facility repairs and maintenance. State budget shortfalls continue to pose unsettling questions regarding school district funding.

Questions regarding this report should be directed to Superintendent Rich Crowe or Finance Officer Tena Hartley, at (502) 875-8661 or by mail at 506 W. Second Street, Suite 2, Frankfort, Kentucky 40601.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 822,275	\$ 4,935	\$ 827,210
Accounts receivable	218,491	33,018	251,509
Construction Work In Progress	-	-	-
Inventories	-	6,697	6,697
Total Current Assets	<u>1,040,766</u>	<u>44,650</u>	<u>1,085,416</u>
<u>Noncurrent Assets</u>			
Bond Issue Costs	20,752	-	20,752
Accumulated Amortization	(2,076)	-	(2,076)
Capital Assets	13,884,248	288,731	14,172,979
Accumulated Depreciation	(5,962,481)	(138,401)	(6,100,882)
Total Noncurrent Assets	<u>7,940,443</u>	<u>150,330</u>	<u>8,090,773</u>
Total Assets	<u>\$ 8,981,209</u>	<u>\$ 194,980</u>	<u>\$ 9,176,189</u>
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 25,276	\$ 132	\$ 25,408
Deferred revenue	52,426	-	52,426
Portion due or payable within one year:			
Bond obligations	280,000	-	280,000
KISTA bond obligations	17,500	-	17,500
Total Current Liabilities	<u>375,202</u>	<u>132</u>	<u>375,334</u>
<u>Noncurrent Liabilities</u>			
Portion due or payable after one year:			
Bond obligations	4,855,000	-	4,855,000
KISTA bond obligations	18,332	-	18,332
Accrued sick leave	192,801	-	192,801
Total Noncurrent Liabilities	<u>5,066,133</u>	<u>-</u>	<u>5,066,133</u>
Total liabilities	<u>\$ 5,441,335</u>	<u>\$ 132</u>	<u>\$ 5,441,467</u>
Net Assets			
Assigned - capital assets, net of related debt	\$ 2,769,611	\$ 150,330	\$ 2,919,941
Assigned - inventories	-	6,697	6,697
Assigned - future construction	2,396	-	2,396
Assigned - SFCC	62,220	-	62,220
Assigned - other	47,011	-	47,011
Unassigned	658,636	37,821	696,457
Total net assets	<u>\$ 3,539,874</u>	<u>\$ 194,848</u>	<u>\$ 3,734,722</u>

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

**FRANKFORT 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	\$ 5,307,800	\$ -	\$ 1,082,700	\$ -	\$ (4,225,100)	\$ -	\$ (4,225,100)
Support services:							
Students	273,700	-	-	-	(273,700)	-	(273,700)
Instructional staff	523,278	-	87,328	-	(435,950)	-	(435,950)
District administration	172,354	-	-	-	(172,354)	-	(172,354)
School administration	404,033	-	-	-	(404,033)	-	(404,033)
Business and other support services	273,306	-	-	-	(273,306)	-	(273,306)
Operation and maintenance of plant	818,715	-	-	-	(818,715)	-	(818,715)
Student transportation	189,648	-	14,315	-	(175,333)	-	(175,333)
Community services	79,653	-	79,653	-	0	-	0
Building renovations	16,272	-	-	-	(16,272)	-	(16,272)
Debt service / SFCC	213,699	-	-	-	(213,699)	-	(213,699)
Amortization of Bond Issuance Costs	1,038	-	-	-	(1,038)	-	(1,038)
Depreciation	436,816	-	-	-	(436,816)	-	(436,816)
Accrual for sick leave	15,049	-	-	-	(15,049)	-	(15,049)
Total governmental activities	<u>8,725,361</u>	<u>-</u>	<u>1,263,996</u>	<u>-</u>	<u>(7,461,365)</u>	<u>-</u>	<u>(7,461,365)</u>
Business-type activities:							
Food service	928,218	389,884	532,981	-	-	(5,353)	(5,353)
Total business-type activities	<u>928,218</u>	<u>389,884</u>	<u>532,981</u>	<u>-</u>	<u>-</u>	<u>(5,353)</u>	<u>(5,353)</u>
Total primary government	<u>\$ 9,653,579</u>	<u>\$ 389,884</u>	<u>\$ 1,796,977</u>	<u>\$ 0</u>	<u>\$ (7,461,365)</u>	<u>\$ (5,353)</u>	<u>\$ (7,466,718)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 1,639,297	\$ -	\$ 1,639,297
Motor vehicle					80,105	-	80,105
Utilities					856,045	-	856,045
Intergovernmental revenues:							
State & Federal					4,383,526	-	4,383,526
Investment earnings					12,341	-	12,341
Gain (Loss) on disposal of capital assets					-	-	0
Other local revenues					315,645	-	315,645
SFCC Contribution					92,467	-	92,467
Total general revenues					<u>7,379,426</u>	<u>0</u>	<u>7,379,426</u>
Change in net assets					(81,939)	(5,353)	(87,292)
Net assets, June 30, 2011					<u>3,621,813</u>	<u>200,201</u>	<u>3,822,014</u>
Net assets, June 30, 2012					<u>\$ 3,539,874</u>	<u>\$ 194,848</u>	<u>\$ 3,734,722</u>

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

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

	General Fund	Special Revenue Funds	Capital Project Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 810,005	\$ (52,346)	\$ 64,616	\$ 822,275
Accounts Receivable	146,662	71,829	-	218,491
Construction Work In Progress	-	-	-	-
Total assets	\$ 956,667	\$ 19,483	\$ 64,616	\$ 1,040,766
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 22,183	\$ 3,093	\$ -	\$ 25,276
Deferred revenue	36,036	16,390	-	52,426
Total liabilities	58,219	19,483	-	77,702
Fund balances:				
Restricted - Future construction	\$ -	\$ -	\$ 2,396	\$ 2,396
Restricted - SFCC Escrow	-	-	62,220	62,220
Assigned	47,011	-	-	47,011
Unassigned	851,437	-	-	851,437
Total fund balances	898,448	-	64,616	963,064
Total liabilities and fund balances	\$ 956,667	\$ 19,483	\$ 64,616	\$ 1,040,766

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT

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

Fund balances—total governmental funds	\$ 963,064
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Net of depreciation)	7,940,443
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(5,170,832)
Accrued sick leave	<u>(192,801)</u>
Net assets of governmental activities	<u>\$ 3,539,874</u>

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

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes -				
Property	\$ 1,516,207	\$ -	\$ 123,090	\$ 1,639,297
Motor vehicles	80,105	-	-	80,105
Utilities	856,045	-	-	856,045
Revenue in Lieu of Taxes	3,522	-	-	3,522
Tuition and fees	123,379	-	-	123,379
Interest income	12,260	-	81	12,341
Other local revenues	96,731	92,013	-	188,744
Intergovernmental - State	4,297,914	352,316	190,970	4,841,200
Intergovernmental - Indirect federal	(2,079)	808,401	-	806,322
Total revenues	<u>6,984,084</u>	<u>1,252,730</u>	<u>314,141</u>	<u>8,550,955</u>
Expenditures:				
Current:				
Instruction	4,238,032	1,082,700	-	5,320,732
Support services:				
Student	273,700	-	-	273,700
Instructional staff	435,950	87,328	-	523,278
District administration	172,354	-	-	172,354
School administration	404,033	-	-	404,033
Business	273,306	-	-	273,306
Plant operation and maintenance	818,715	-	-	818,715
Student transportation	180,333	14,315	-	194,648
Community Services	-	79,653	-	79,653
Debt service	142,436	-	266,664	409,100
Building renovations	-	-	45,120	45,120
Total expenditures	<u>6,938,859</u>	<u>1,263,996</u>	<u>311,784</u>	<u>8,514,639</u>
Excess (deficiency) of revenues over expenditures	<u>45,225</u>	<u>(11,266)</u>	<u>2,357</u>	<u>36,316</u>
Other financing sources (uses):				
Proceeds from sale of bonds	-	-	-	-
Transfers in	47,012	13,278	45,120	105,410
Transfers out	(13,278)	(2,012)	(90,120)	(105,410)
Total other financing sources and uses	<u>33,734</u>	<u>11,266</u>	<u>(45,000)</u>	<u>0</u>
Net change in fund balances	78,959	-	(42,643)	36,316
Fund balances, June 30, 2011	<u>819,489</u>	<u>-</u>	<u>107,259</u>	<u>926,748</u>
Fund balances, June 30, 2012	<u>\$ 898,448</u>	<u>\$ -</u>	<u>\$ 64,616</u>	<u>\$ 963,064</u>

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

**FRANKFORT 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 \$ 36,316

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. This is the amount by which capital outlays exceeded depreciation in the current period.

Fixed asset additions	46,780	
Fixed asset retirements & disposals	-	
Current year amortization expense	(1,038)	
Current year depreciation expense	(436,816)	
Accumulated depreciation retired/disposed	<u>-</u>	(391,074)

Some expenses reported in the statement of activities do not require the use of current financial resources, therefore are not reported as expenditures in governmental funds.

Compensated absences 6/30/2011	177,752	
Compensated absences 6/30/2012	<u>(192,801)</u>	(15,049)

Transfers, restrictions, and other -

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.

KISTA Bond Proceeds	-	
KISTA Bond Principal Payments	16,868	
Bond Proceeds	-	
Bond Issuance Costs	-	
Bond Principal Payments	271,000	
SFCC Contributions	92,467	
SFCC Principal Payments	(60,501)	
SFCC Interest Payments	<u>(31,966)</u>	<u>287,868</u>

Change in net assets of governmental activities \$ (81,939)

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

	Food Service Fund	Day Care	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,227	\$ 1,708	\$ 4,935
Accounts receivable	19,862	13,156	33,018
Inventories	6,697	-	6,697
Total current assets	<u>29,786</u>	<u>14,864</u>	<u>44,650</u>
Noncurrent assets:			
Capital assets	288,731	-	288,731
Accumulated Depreciation	(138,401)	-	(138,401)
Total noncurrent assets	<u>150,330</u>	<u>-</u>	<u>150,330</u>
 Total assets	 <u>\$ 180,116</u>	 <u>\$ 14,864</u>	 <u>\$ 194,980</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ -	\$ 132	\$ 132
Deferred revenue	-	-	-
Total current liabilities	<u>-</u>	<u>132</u>	<u>132</u>
Total liabilities	<u>-</u>	<u>132</u>	<u>132</u>
Net Assets			
Assigned -inventories	6,697	-	6,697
Assigned -capital assets	150,330	-	150,330
Unassigned	23,089	14,732	37,821
Total net assets	<u>\$ 180,116</u>	<u>\$ 14,732</u>	<u>\$ 194,848</u>

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

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

	Food Service Fund	Day Care	Total
<u>Operating revenues:</u>			
Lunchroom sales	\$ 108,133	\$ -	\$ 108,133
Miscellaneous Revenue	9,851	95	9,946
Day Care	-	271,805	271,805
Total operating revenues	<u>\$ 117,984</u>	<u>\$ 271,900</u>	<u>\$ 389,884</u>
<u>Operating expenses:</u>			
Salaries and wages	\$ 149,560	\$ 283,126	\$ 432,686
Employee benefits	76,323	125,365	201,688
Purchased prof and tech services	1,858	849	2,707
Purchased property services	14,714	289	15,003
Other purchased services	1,822	107	1,929
Materials and supplies	234,034	15,477	249,511
Property	4,905	1,224	6,129
Inventory adjustment	1,270	-	1,270
Depreciation	17,255	-	17,255
Other operating expenses	40	-	40
Total operating expenses	<u>\$ 501,781</u>	<u>\$ 426,437</u>	<u>\$ 928,218</u>
Operating loss	<u>(\$383,797)</u>	<u>(\$154,537)</u>	<u>(\$538,334)</u>
<u>Nonoperating revenues :</u>			
Federal grants	\$ 336,808	\$ -	\$ 336,808
Investment income	-	-	-
State grants	34,440	161,733	196,173
Total nonoperating revenue	<u>\$ 371,248</u>	<u>\$ 161,733</u>	<u>\$ 532,981</u>
Net profit before operating transfers	\$ (12,549)	\$ 7,196	\$ (5,353)
Operating transfers	-	-	-
Net Income (Loss)	<u>\$ (12,549)</u>	<u>\$ 7,196</u>	<u>\$ (5,353)</u>
Net assets, June 30, 2011	192,665	7,536	200,201
Net assets, June 30, 2012	<u>\$ 180,116</u>	<u>\$ 14,732</u>	<u>\$ 194,848</u>

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

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

	Food Service Fund	Day Care	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
<u>Cash received from:</u>			
Lunchroom sales	\$ 108,133	\$ 0	\$ 108,133
Miscellaneous Revenue	9,851	95	9,946
Day Care	-	271,805	271,805
Government grants	380,606	155,342	535,948
<u>Cash paid to/for:</u>			
Payments to suppliers and providers of goods and services	(257,333)	(17,988)	(275,321)
Payments to employees & benefits	(225,883)	(408,491)	(634,374)
Operating Transfers	0	0	-
Other payments	(40)	0	(40)
Net cash provided by (used for) operating activities	\$ 15,334	\$ 763	\$ 16,097
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:			
Purchases of capital assets	\$ (705)	\$ 0	\$ (705)
Net cash provided by (used for) capital and related financing activities	\$ (705)	\$ 0	\$ (705)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	\$ 0	\$ 0	\$ 0
Net cash provided by investing activities	\$ 0	\$ 0	\$ 0
Net increase (decrease) in cash and cash equivalents	14,629	763	15,392
Cash and cash equivalents, June 30, 2011	(11,402)	945	(10,457)
Cash and cash equivalents, June 30, 2012	\$ 3,227	\$ 1,708	\$ 4,935

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

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

	(Scholarship) Private Purpose Trust Funds	(Activity funds) Agency Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 36,164	\$ 180,951	\$ 217,115
Accounts receivable	-	-	-
Total assets	<u>\$ 36,164</u>	<u>\$ 180,951</u>	<u>\$ 217,115</u>
 Liabilities			
Deposits held in custody for student	\$ -	\$ 180,951	\$ 180,951
Total net assets	<u>-</u>	<u>180,951</u>	<u>180,951</u>
 Net Assets			
Assigned -scholarships	\$ 36,164	\$ -	\$ 36,164
Total net assets	<u>36,164</u>	<u>-</u>	<u>36,164</u>
 Net assets held in trust	<u>\$ 36,164</u>	<u>\$ -</u>	<u>\$ 36,164</u>

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

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

	(Scholarship) Private Purpose Trust Fund	School Activities Agency Funds	Fiscal Agent	Total Fiduciary Funds
REVENUES:				
From local sources -				
Student activities	\$ -	\$ 417,999	\$ -	\$ 417,999
Interest	401	-	-	401
Contributions	1,000	-	-	1,000
From federal sources	-	-	-	-
Total revenues	<u>\$ 1,401</u>	<u>\$ 417,999</u>	<u>\$ -</u>	<u>\$ 419,400</u>
EXPENDITURES:				
Instruction	\$ -	\$ -	\$ -	\$ -
Student activities	-	399,805	-	399,805
Community services	4,015	-	-	4,015
Total expenditures	<u>\$ 4,015</u>	<u>\$ 399,805</u>	<u>\$ -</u>	<u>\$ 403,820</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (2,614)</u>	<u>\$ 18,194</u>	<u>\$ -</u>	<u>\$ 15,580</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of bonds	\$ -	\$ -	\$ -	\$ -
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (2,614)</u>	<u>\$ 18,194</u>	<u>\$ -</u>	<u>\$ 15,580</u>
FUND BALANCE JUNE 30, 2011	<u>\$ 38,778</u>	<u>\$ 162,757</u>	<u>\$ -</u>	<u>\$ 201,535</u>
FUND BALANCE/CUSTODIAL A/P JUNE 30, 2012	<u>\$ 36,164</u>	<u>\$ 180,951</u>	<u>\$ -</u>	<u>\$ 217,115</u>

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) REPORTING ENTITY

The Frankfort Independent Board of Education (the "Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Frankfort Independent School District (the "District"). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Frankfort 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.

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

Wilkinson Street School - The financial statements of the District also include those of the component unit Wilkinson Street School. Wilkinson Street School is included in the reporting entity because of the significance of its operations and financial relationship with the District.

The financial data of the component unit included in the financial reporting entity meets the criteria for blended presentation and is included in the combined financial statements Wilkinson Street School does not issue separate financial statements.

A brief description of the blended component unit follows:

The Commonwealth of Kentucky, Department of Juvenile Justice (DJJ), contracts with Wilkinson Street School for services. This contract is for the provision of providing a day treatment program/services for school-age juveniles in Frankfort and Franklin County. The Kentucky Education Collaborative for State Agency Children (KECSAC) contracts and provides supplemental support to Wilkinson Street School. The Frankfort Independent Board of Education serves as fiscal agent for WSS and in such capacity receives contract payments from DJJ, KECSAC, and other funds and handles all disbursements made from the funds.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Frankfort Independent School District substantially comply with 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. 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 (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.
 - 4. The School Construction Fund and Education Building Funds account for proceeds from sales of bonds and other revenues to be used for authorized construction expenditures.

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

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

The Activity Funds account for activities of student groups and other types of activities requiring

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

The Private Purpose Trust funds are used to report arrangements under which principal and income benefit individuals, private organizations, or other governments.

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.

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

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 (expenditure) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of real property upon which the levy for the 2012 fiscal year was based totaled \$198,717,748; tangible property assessments were \$19,922,397. Additionally, PSC real property assessed value was \$2,152,435 and PSC tangible assessed value \$7,686,266.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The tax rates assessed for the year ended June 30, 2012 to finance general fund operations were \$.725 on real estate and \$.725 per \$100 valuation on tangible property. Taxes are due on October 1 and become delinquent by February 1 following the October 1 levy date.

In-Kind

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

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 1 year or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory using the accrual basis of accounting. Inventories are stated 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 and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, 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
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture & fixtures	7 years
Rolling stock	15 years
Other general	10 years

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 Districts budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings.

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Restrictions

The District restricts those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity assignments have been established for inventories and fixed assets. Construction funds have been restricted for future construction and Building funds have received restricted status for SFCC Escrow Offers of Assistance.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Net Assets

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

Operating Revenues and Expenses

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

Contributions of Capital

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

Interfund Activity

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(3) DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as current and non-current portions of bond obligations represent the District's future obligation to make bond payments relating to the bonds issued by the District and the Frankfort Independent School District Finance Corporation ("HISDFC. Buses were financed through KISTA loans.

Bonds

The General Fund, Facilities Support Program (FSPK) Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court and the HISDFC to construct school facilities and (2) the Board with the option to purchase the properties under leases at any time by retiring the bonds then

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

outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

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

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Issue of 1999	1,300,000	4.7% - 5.1%
Issue of 2002	722,000	2.91%
Issue of 2006	3,065,000	3.7% - 4.4 %
Issue of 2009	1,115,000	2.0% - 3.0%
Issue of 2010	1,445,000	1.85% - 5.20%
KISTA 2003	116,897	2.0% - 3.9%
KISTA 2006	<u>61,318</u>	3.3% - 4.0%
	<u>\$ 7,825,215</u>	

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

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
General obligation bonds	5,406,000	\$ -0-	\$271,000	\$ 5,135,000
KISTA Loans	<u>52,700</u>	<u>-0-</u>	<u>16,868</u>	<u>35,832</u>
	<u>\$5,458,700</u>	<u>\$-0-</u>	<u>\$287,868</u>	<u>\$5,170,832</u>

In connection with the bond issues of 1996, 1999, 2002, 2006, 2009, and 2010, the Board entered into participation agreements with the Kentucky School Facilities Construction 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 of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The bonds as well as KISTA loans described below may be called prior to maturity and redemption premiums are specified in each issue. Assuming no issues are called prior to scheduled maturity and that the Kentucky School Facilities Construction Commission continues to renew its agreement, the minimum obligations at June 30, 2012 for debt service (principal and interest) are as follows:

	KSFCC		Frankfort School District		Total
	Principal	Interest	Principal	Interest	
2013	61,202.00	79,423.56	218,798.00	173,972.72	533,396.28
2014	37,661.00	72,145.65	222,339.00	168,956.88	501,102.53
2015	39,198.00	64,909.72	220,802.00	163,409.68	488,319.40
2016	40,798.00	57,306.05	229,202.00	157,231.47	484,537.52
2017	42,463.00	49,104.58	237,537.00	150,279.19	479,383.77
2018	44,242.00	40,313.74	245,758.00	142,316.28	472,630.02
2019	46,140.00	31,148.22	253,860.00	133,739.30	464,887.52
2020	48,119.00	21,518.78	261,881.00	124,528.74	456,047.52
2021	50,184.00	15,501.91	279,816.00	113,813.10	459,315.01
2022	52,363.00	13,322.24	292,637.00	101,577.77	459,900.01
2023	54,664.00	11,021.16	305,336.00	88,046.35	459,067.51
2024	57,067.00	8,618.94	312,933.00	74,078.56	452,697.50
2025	59,605.00	6,080.69	330,395.00	59,554.31	455,635.00
2026	62,286.00	3,399.09	347,714.00	44,105.91	457,505.00
2027	46,109.00	1,014.40	358,891.00	27,413.10	433,427.50
2028	-	-	90,000.00	16,500.00	106,500.00
2029	-	-	90,000.00	11,100.00	101,100.00
2030	-	-	95,000.00	5,700.00	100,700.00
	742,101.00	474,828.73	4,392,899.00	1,756,323.36	7,366,152.09

KISTA Bonds Payable

<u>Year</u>	<u>Principal</u>
2013	17,500
2014	6,678
2015	5,713
2016	5,941
	35,832

(4)ACCUMULATED UNPAID SICK LEAVE BENEFITS

Board policy provides for payment of unused sick leave upon retirement from the District. Certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. The Board shall compensate certified employees at the time of retirement at the rate of 30% of the daily salary for each unused sick day, provided they supply the required proof of retirement from the Kentucky Teachers' Retirement System or KERS. Calculations are based on the employee's last annual salary. (KRS 161.155(8), OA 83-191). At June 30, 2012 this amount totaled \$192,801 for those certified employees with 27 or more years of experience. Normal sick pay benefits generally are not accrued until employees are absent. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(5) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

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

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

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 2008 contribute an additional 0.5%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011-2012 fiscal year.

The Frankfort Independent School District total payroll for the year was \$5,672,863. The payroll for employees covered under KTRS was \$4,280,295. For the year ended June 30, 2012, the Commonwealth contributed \$446,905 to KTRS for the benefit of participating employees. The School District's contributions to KTRS for the year ending June 30, 2012 were \$92,209, which represents those employees covered by federal programs.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

B. County Employee's Retirement System:

For employees that do not qualify for KTRS, the District contributes to the Kentucky Employee's Retirement System ("KERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. KERS 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 KERS. KERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The KERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for KERS. 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.

Medical Insurance Plan

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

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

Funding policy – Plan members are required to contribute 5% of their annual creditable compensation, (employees who begin participation on or after September 1, 2008 are required to contribute 6% of annual creditable compensation) and the District is required to contribute 18.95% of the employee's total compensation. The contribution requirements of KERS members and the District are established and may be amended by the CERS Board of Trustees.

The Frankfort Independent School District's total payroll for the year was \$5,672,863. The payroll for employees covered by KERS was \$1,281,712. The School District's matching contributions to KERS for the year ending June 30, 2012 were \$243,014.

(6) CASH AND CASH EQUIVALENTS

At June 30, 2012 the reconciled carrying amount of the District's cash and cash equivalents (cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less) was \$863,373 (plus \$176,354 in Fiduciary Funds) while the bank statements totaled \$1,372,388. Of the total bank balances, \$250,000 was insured by the FDIC; collateral agreements were executed and collateral, with a FMV of \$3,385,121 and par value of \$3,265,295, was pledged and held by the pledging bank's trust department in the District's name to secure the remainder of deposits.

(7) CAPITAL ASSETS

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Government Activities

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Land	798,379	0	0	798,379
Land Improvements	222,610	0	0	222,610
Buildings & Improvements	10,773,873	0	0	10,773,873
Technology Equipment	1,102,974	12,932	0	1,115,906
Vehicles	794,943	5,000	0	799,943
General	144,689	28,848	0	173,537
Total Historical Cost	<u>13,837,468</u>	<u>46,780</u>	<u>0</u>	<u>13,884,248</u>
Less: Accumulated Depreciation				
Land	0	0	0	0
Land Improvements	(202,735)	(5,257)	0	(207,992)
Buildings & Improvements	(3,699,808)	(333,352)	0	(4,033,160)
Technology Equipment	(980,038)	(41,391)	0	(1,021,429)
Vehicles	(534,031)	(51,869)	0	(585,900)
General	(109,053)	(4,947)	0	(114,000)
Total Accum. Depreciation	<u>(5,525,665)</u>	<u>(436,816)</u>	<u>0</u>	<u>(5,962,481)</u>
Net Capital Assets	<u>8,311,803</u>	<u>(390,036)</u>	<u>0</u>	<u>7,921,767</u>

Business-Type Activities

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Technology Equipment	13,269	706	0	13,975
General Equipment	274,756	0	0	274,756
Total Historical Cost	<u>288,025</u>	<u>706</u>	<u>0</u>	<u>288,731</u>
Less: Accumulated Depreciation				
Technology Equipment	(9,662)	(836)	0	(10,498)
General Equipment	(111,484)	(16,419)	0	(127,903)
Total Accum. Depreciation	<u>(121,146)</u>	<u>(17,255)</u>	<u>0</u>	<u>(138,401)</u>
Net Capital Assets	<u>166,879</u>	<u>(16,549)</u>	<u>0</u>	<u>150,330</u>

(8) CONTINGENCIES

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(9) INSURANCE AND RELATED ACTIVITIES

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

(10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

(11) COBRA

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

(12) ON-BEHALF PAYMENTS

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

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 496,781
Health & Life Insurance Plan	1,009,817
Vocational	-0-
Federal Reimbursement	<u>(45,732)</u>
Total On Behalf	\$ <u>1,460,866</u>

These amounts are included the District-Wide Statement of Activities as State Revenue and an expense allocated to the different functions in the same proportion as full-time employees.

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

(13) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	
General Fund	Special Revenue	2,012	Indirect Cost
Building Fund	Construction Fund	37,195	Renovation Project
Capital Outlay	General Fund	45,000	Renovation Project
General Fund	Special Revenue	13,278	
Construction Fund	Construction Fund	7,925	Renovation Project

(14) DEFICIT OPERATING / FUND BALANCES

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

Building Fund	(34,799)
Construction Fund	(7,844)
Food Service	(12,549)

SUPPLEMENTAL INFORMATION

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Tentative Budget Original	Working Budget Final		
Revenues:				
Taxes -				
Property	\$ 1,495,000	\$ 1,467,406	\$ 1,516,207	\$ 48,801
Motor vehicles	80,000	80,500	80,105	(395)
Utilities	860,000	862,000	856,045	(5,955)
Revenue in Lieu of Taxes	3,500	3,000	3,522	522
Tuition and fees	115,000	113,912	123,379	9,467
Interest income	5,000	9,000	12,260	3,260
Other local revenues	40,704	50,400	96,731	46,331
Intergovernmental - State	2,764,346	2,918,736	4,297,914	1,379,178
Intergovernmental - Indirect federal	-	-	(2,079)	-
Total revenues	<u>5,363,550</u>	<u>5,504,954</u>	<u>6,984,084</u>	<u>1,481,209</u>
Expenditures:				
Current:				
Instruction	3,187,330	3,086,322	4,238,032	(1,151,710)
Support services:				
Student	223,285	276,665	273,700	2,965
Instructional staff	335,910	481,863	435,950	45,913
District administration	158,735	165,545	172,354	(6,809)
School administration	349,415	356,650	404,033	(47,383)
Business	306,930	334,045	273,306	60,739
Plant operation and maintenance	857,420	855,295	818,715	36,580
Student transportation	197,005	190,265	180,333	9,932
Debt service	119,470	120,190	142,436	(22,246)
Total expenditures	<u>5,735,500</u>	<u>5,866,840</u>	<u>6,938,859</u>	<u>(1,072,019)</u>
Excess (deficiency) of revenues over expenditures	<u>(371,950)</u>	<u>(361,886)</u>	<u>45,225</u>	<u>409,190</u>
Other financing sources (uses):				
Proceeds from sale of bonds	-	-	-	-
Contingency	(194,000)	(488,643)	-	488,643
Transfers in	1,450	46,540	47,012	472
Transfers out	(10,500)	(15,500)	(13,278)	2,222
Total other financing sources and uses	<u>(203,050)</u>	<u>(457,603)</u>	<u>33,734</u>	<u>491,337</u>
Net change in fund balances	(575,000)	(819,489)	78,959	900,527
Fund Balances, June 30, 2011	<u>575,000</u>	<u>819,489</u>	<u>819,489</u>	<u>-</u>
Fund Balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 898,448</u>	<u>\$ 900,527</u>

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

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

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Tentative Budget</u>	<u>Working Budget</u>		
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local Revenues	\$ 69,000	\$ 81,572	\$ 92,013	10,441
Intergovernmental - State	246,615	345,218	352,316	7,098
Intergovernmental - Indirect federal	<u>581,286</u>	<u>697,333</u>	<u>808,401</u>	<u>111,068</u>
Total revenues	<u>896,901</u>	<u>1,124,123</u>	<u>1,252,730</u>	<u>128,607</u>
Expenditures:				
Current:				
Instruction	723,491	919,316	1,082,700	(163,384)
Support services:				
Instructional Staff	102,822	113,031	87,328	25,703
Plant operations & maintenance	-	-	-	-
Student transportation	-	13,595	14,315	(720)
Community Services	<u>79,638</u>	<u>81,653</u>	<u>79,653</u>	<u>2,000</u>
Total expenditures	<u>905,951</u>	<u>1,127,595</u>	<u>1,263,996</u>	<u>(136,401)</u>
Excess (deficiency) of revenues over expenditures	<u>(9,050)</u>	<u>(3,472)</u>	<u>(11,266)</u>	<u>(7,794)</u>
Other financing sources (uses):				
Transfers in	10,500	5,245	13,278	8,033
Transfers out	<u>(1,450)</u>	<u>(1,773)</u>	<u>(2,012)</u>	<u>(239)</u>
Total other financing sources and use	<u>9,050</u>	<u>3,472</u>	<u>11,266</u>	<u>7,794</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT FUNDS
JUNE 30, 2012**

	FSPK Building Fund	SEEK Capital Outlay Fund	Construction Fund	Total Capital Project Funds
ASSETS:				
Cash and cash equivalents	\$ 64,616	\$ -	\$ -	\$ 64,616
Accounts receivable	-	-	-	-
Construction Work In Progress	-	-	-	-
Total assets	\$ 64,616	\$ -	\$ -	\$ 64,616
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balances:				
Restricted - Future construction	2,396	-	-	2,396
Restricted - SFCC Escrow	62,220	-	-	62,220
Total fund balance	64,616	-	-	64,616
Total liabilities and fund balance	\$ 64,616	\$ -	\$ -	\$ 64,616

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

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

	FSPK Bujilding Fund	SEEK Capital Outlay Funds	Construction Fund	Total Capital Project Funds
REVENUES:				
From local sources -				
Property taxes	\$ 123,090	\$ -	\$ -	\$ 123,090
Earnings on investments	-	-	81	81
Intergovernmental - State	122,225	68,745	-	190,970
Bond Proceeds	-	-	-	-
Total revenues	\$ 245,315	\$ 68,745	\$ 81	\$ 314,141
EXPENDITURES:				
Plant Operations & Mgmt	\$ -	\$ -	\$ -	\$ -
Building Renovations	-	-	45,120	45,120
Debt service	242,919	23,745	-	266,664
Total expenditures	\$ 242,919	\$ 23,745	\$ 45,120	\$ 311,784
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 2,396	\$ 45,000	\$ (45,039)	\$ 2,357
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of bonds	\$ -	\$ -	\$ -	\$ -
Operating transfers in	-	-	45,120	45,120
Operating transfers out	(37,195)	(45,000)	(7,925)	(90,120)
Total other financing sources (uses)	\$ (37,195)	\$ (45,000)	\$ 37,195	\$ (45,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (34,799)	\$ -	\$ (7,844)	\$ (42,643)
FUND BALANCE JUNE 30, 2011	\$ 99,415	\$ -	\$ 7,844	\$ 107,259
FUND BALANCE JUNE 30, 2012	\$ 64,616	\$ -	\$ -	\$ 64,616

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

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

	Cash Balance June 30, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Frankfort Independent High School	\$ 153,090	\$ 343,165	\$ 332,001	\$ 164,254	\$ -	\$ -	\$ 164,254
Wilkinson Street School	823	8,112	3,372	5,563	-	-	5,563
Second Street Elementary School	8,844	66,722	64,432	11,134	-	-	11,134
	<u>\$ 162,757</u>	<u>\$ 417,999</u>	<u>\$ 399,805</u>	<u>\$ 180,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,951</u>
							<u>180,951</u>

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

**FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**FIDUCIARY FUND
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Cash Balance July 1, 2011	Transfers & Receipts	Disburse- ments	Cash Balance June 30, 2012	Accts. Receiv. 6/30/12	Accts. Payable 6/30/12	Deposits Held In Custody for Students 6/30/12
General Business	154.09	0.00	0.00	154.09	0.00	0.00	154.09
Academic Competition	337.62	0.00	0.00	337.62	0.00	0.00	337.62
Bookstore	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capitolian	3,403.68	2,105.16	3,668.72	1,840.12	0.00	0.00	1,840.12
Faculty Concessions	1,648.22	733.69	1,915.35	466.56	0.00	0.00	466.56
Interest	4,799.23	1,814.42	1,553.73	5,059.92	0.00	0.00	5,059.92
FMS Chicago Trip	1,520.57	27,488.16	27,045.61	1,963.12	0.00	0.00	1,963.12
Graduation	3,600.74	2,949.50	1,454.54	5,095.70	0.00	0.00	5,095.70
Guidance	670.46	6,461.00	5,703.50	1,427.96	0.00	0.00	1,427.96
Miscellaneous	1,849.61	2,962.00	1,568.97	3,242.64	0.00	0.00	3,242.64
Donations	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SBDM	10.47	4,684.81	500.00	4,195.28	0.00	0.00	4,195.28
Senior Play	338.99	0.00	0.00	338.99	0.00	0.00	338.99
Textbooks	9,431.34	5,558.16	6,427.08	8,562.42	0.00	0.00	8,562.42
School-Wide Trips	7,050.44	1,673.51	0.00	8,723.95	0.00	0.00	8,723.95
FMS	1,976.18	1,580.80	1,669.82	1,887.16	0.00	0.00	1,887.16
Costa Rica Trip	88.01	0.00	0.00	88.01	0.00	0.00	88.01
FHS PTO Misc	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Credit Recovery	225.00	0.00	0.00	225.00	0.00	0.00	225.00
France/Spain Trip	773.23	0.00	0.00	773.23	0.00	0.00	773.23
Student Locks	942.69	72.00	0.00	1,014.69	0.00	0.00	1,014.69
C.S. Boyd Scholarship	5,665.81	520.87	1,000.00	5,186.68	0.00	0.00	5,186.68
Literacy Grant	187.55	0.00	-199.90	387.45	0.00	0.00	387.45
Community Fund Raisers	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SSS Ambury Trip Fund	1,741.00	0.00	1,673.51	67.49	0.00	0.00	67.49
Student FT Food	258.25	0.00	300.00	25.25	0.00	0.00	25.25
Social Work Resource	22.10	0.00	0.00	22.10	0.00	0.00	22.10
Fees	0.00	5,937.25	1,043.05	4,894.20	0.00	0.00	4,894.20
General Athletics	7,110.66	24,373.02	20,627.89	10,855.79	0.00	0.00	10,855.79
Baseball	2,042.33	7,087.26	6,870.50	2,259.09	0.00	0.00	2,259.09
Boys Basketball	456.48	11,635.11	10,722.42	1,369.17	0.00	0.00	1,369.17
Girls Basketball	262.41	13,589.42	11,698.37	2,151.46	0.00	0.00	2,151.46
Cheerleaders	924.78	5,444.15	6,035.06	333.87	0.00	0.00	333.87
Cross Country	2,000.00	0.00	0.00	2,000.00	0.00	0.00	2,000.00
Football	953.61	21,500.36	19,899.54	2,554.43	0.00	0.00	2,554.43
Boys Golf	172.23	3,098.52	2,920.67	350.08	0.00	0.00	350.08
Girls Golf	235.00	0.00	172.79	62.21	0.00	0.00	62.21
Boys Soccer	770.82	11,353.96	9,961.91	2,862.87	0.00	0.00	2,862.87
Girls Soccer	2,990.81	3,920.81	5,312.75	1,608.87	0.00	0.00	1,608.87
Girls Softball	2,045.83	7,102.64	5,449.48	3,698.99	0.00	0.00	3,698.99
Boys Tennis	72.21	1,305.00	916.32	460.89	0.00	0.00	460.89
Girls Tennis	311.91	105.00	308.91	108.00	0.00	0.00	108.00
Track	226.52	2,204.26	1,368.00	1,062.78	0.00	0.00	1,062.78
Wrestling	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Swim Team	594.75	0.00	127.75	467.00	0.00	0.00	467.00
Soccer Scotland Trip	13,811.32	54,508.39	66,978.07	1,341.64	0.00	0.00	1,341.64
Tournaments	863.94	0.00	303.27	560.67	0.00	0.00	560.67
Athletic Fee	710.00	2,195.00	0.00	2,905.00	0.00	0.00	2,905.00
Soccer Trips	2,164.57	41.50	1,042.50	1,163.57	0.00	0.00	1,163.57
Boys District Soccer	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Toyota Ticket Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00
KHSSCA	4,425.38	5,250.00	3,007.10	6,668.28	0.00	0.00	6,668.28
Football Camp	669.75	1,320.25	1,890.00	300.00	0.00	0.00	300.00
Uniform Rental	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sign Program	795.00	2,400.00	300.00	2,895.00	0.00	0.00	2,895.00
Girls Basketball Trip	131.07	0.00	0.00	131.07	0.00	0.00	131.07
Softball Trip	326.21	0.00	0.00	326.21	0.00	0.00	326.21
Letter Jackets	66.15	340.00	340.00	66.15	0.00	0.00	66.15
Preseason Tournaments	1,000.00	0.00	0.00	1,000.00	0.00	0.00	1,000.00
Middle School Football	603.09	3,167.73	2,442.79	1,328.03	0.00	0.00	1,328.03
MS Cheerleading	670.93	720.00	1,379.33	11.60	0.00	0.00	11.60
MS Boys Soccer	739.14	871.65	941.39	669.40	0.00	0.00	669.40
MS Track	201.18	0.00	0.00	201.18	0.00	0.00	201.18
MS Cross Country	5,033.79	4,161.85	3,912.25	5,283.39	0.00	0.00	5,283.39
MS Boys Basketball	1,405.87	4,081.03	3,469.82	2,027.08	0.00	0.00	2,027.08
MS Girls Basketball	551.99	2,077.35	1,613.61	1,015.73	0.00	0.00	1,015.73
Middle School Gener	5,073.87	5,972.12	4,769.46	6,276.53	0.00	0.00	6,276.53
Middle School Athletic F	2,123.00	0.00	2,427.00	4,550.00	0.00	0.00	4,550.00
MS Girls Soccer	538.73	277.00	652.68	163.05	0.00	0.00	163.05
HS Soccer All A	9,818.91	10,016.00	11,162.58	10,672.33	0.00	0.00	10,672.33
Indoor Girls Soccer	0.00	815.50	775.00	40.50	0.00	0.00	40.50
Art Honor Society	393.13	0.00	0.00	393.13	0.00	0.00	393.13
Beta Club	224.25	1,115.00	1,104.20	235.05	0.00	0.00	235.05
Black History Club	369.86	0.00	0.00	369.86	0.00	0.00	369.86
Student YMCA-CO-ED-Y	458.87	5,636.81	5,695.00	400.68	0.00	0.00	400.68
Drama Club	1,152.43	4,338.15	2,093.78	3,396.80	0.00	0.00	3,396.80
FBLA	8.29	0.00	0.00	8.29	0.00	0.00	8.29
FCA	59.79	0.00	0.00	59.79	0.00	0.00	59.79
FCCLA	1,964.95	0.00	0.00	1,964.95	0.00	0.00	1,964.95
Spanish Honor Society	23.38	84.00	84.00	23.38	0.00	0.00	23.38
Industrial Arts Club	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interact	419.98	0.00	0.00	419.98	0.00	0.00	419.98
SADD	47.81	0.00	47.81	0.00	0.00	0.00	0.00
Key Club	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Literary Magazine	129.69	0.00	0.00	129.69	0.00	0.00	129.69
National Honor Society	160.07	150.00	249.44	60.63	0.00	0.00	60.63
PEP Club	87.33	1,682.80	1,123.80	646.33	0.00	0.00	646.33
Journalism	25.06	0.00	0.00	25.06	0.00	0.00	25.06
Student Council	1,635.81	1,568.45	1,009.00	2,195.26	0.00	0.00	2,195.26
Special Interest Club	257.72	0.00	257.72	0.00	0.00	0.00	0.00
French Honor Society	79.59	6.00	6.00	79.59	0.00	0.00	79.59
International Club	98.00	0.00	0.00	98.00	0.00	0.00	98.00
Archery Club	342.95	466.00	761.50	47.45	0.00	0.00	47.45
4-H	71.36	0.00	0.00	71.36	0.00	0.00	71.36
FMS Academic Team	275.00	0.00	0.00	275.00	0.00	0.00	275.00
Junior Achievement	124.14	0.00	0.00	124.14	0.00	0.00	124.14
Dane Club	34.00	432.58	200.00	266.58	0.00	0.00	266.58
FMS BETA Club	275.37	3,448.00	3,544.33	179.04	0.00	0.00	179.04
Community Problem S	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS Student Council	97.95	1,439.05	1,537.00	0.00	0.00	0.00	0.00
National Jr Honor Society	0.00	145.95	0.00	145.95	0.00	0.00	145.95
Class of 96	252.42	0.00	252.42	0.00	0.00	0.00	0.00
Class of 2011	67.49	0.00	67.49	0.00	0.00	0.00	0.00
Class of 2012	3,114.49	1,645.00	4,741.79	17.70	0.00	0.00	17.70
Class of 2013	1,258.74	4,312.93	4,162.32	1,409.35	0.00	0.00	1,409.35
Class of 2014	569.37	657.00	533.00	693.37	0.00	0.00	693.37
Class of 2015	0.00	2,145.20	1,127.25	1,017.95	0.00	0.00	1,017.95
Class of 2005	1,251.78	0.00	1,251.78	0.00	0.00	0.00	0.00
Class of 2006	372.68	0.00	372.68	0.00	0.00	0.00	0.00
Class of 2007	33.00	0.00	33.00	0.00	0.00	0.00	0.00
Class of 2008	1,460.16	0.00	1,460.16	0.00	0.00	0.00	0.00
Class of 2009	611.42	0.00	611.42	0.00	0.00	0.00	0.00
Class of 2010	0.00	0.00	330.33	0.00	0.00	0.00	0.00
Litrary	793.94	1,917.40	2,174.36	526.98	0.00	0.00	526.98
School Concessions	77.91	602.31	318.94	361.28	0.00	0.00	361.28
Athletic Concessions	2,737.07	14,072.81	14,073.72	2,736.16	0.00	0.00	2,736.16
Art	314.06	500.00	794.69	19.37	0.00	0.00	19.37
Band	126.33	11,875.89	11,457.74	544.48	0.00	0.00	544.48
Business	891.09	0.00	0.00	891.09	0.00	0.00	891.09
Chess	44.51	1,179.87	1,025.95	198.43	0.00	0.00	198.43
English	1,721.10	535.06	1,830.55	425.61	0.00	0.00	425.61
French	1,399.63	0.00	1,399.63	0.00	0.00	0.00	0.00
Spanish	1,655.61	15.00	1,670.61	0.00	0.00	0.00	0.00
Life Skills	46.25	47.00	86.78	6.47	0.00	0.00	6.47
Humanities	414.86	0.00	0.00	414.86	0.00	0.00	414.86
Math	965.64	0.00	0.00	965.64	0.00	0.00	965.64
PE/Health	167.50	0.00	0.00	167.50	0.00	0.00	167.50
Science	1,497.93	10.00	1,507.93	0.00	0.00	0.00	0.00
Social Studies	114.71	0.00	0.00	114.71	0.00	0.00	114.71
Special ED	143.34	0.00	0.00	143.34	0.00	0.00	143.34
Technology	2,452.02	2,167.50	964.95	3,654.57	0.00	0.00	3,654.57
Band Trips	0.03	0.00	0.00	0.03	0.00	0.00	0.03
Aviation	27.57	0.00	0.00	27.57	0.00	0.00	27.57
Middle School Band	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Science Academy	0.00	625.00	0.00	625.00	0.00	0.00	625.00
Community Problem S	80.54	0.00	30.00	50.54	0.00	0.00	50.54
Panther Publishing	90.00	0.00	0.00	219.00	0.00	0.00	219.00
Totals	153,089.82	343,165.72	332,001.47	164,254.07	0.00	0.00	164,254.07

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

		Federal CFDA Number	MUNIS #	Pass-Through Number	Total Awards Expended
U.S. Department of Education					
Pass-through Kentucky Department of Education:					
Title I	Grants to Local Education Agencies	84.010	3102	3100002	\$ 236,288
Title I	School Improvement	84.010A	3201	3100002	54,579
Total Title I					<u>290,867</u>
Special Education Cluster					
IDEA - Part B Basic	Special Education Grants to States	84.027	3372	3810002	227,411
IDEA - Preschool	Special Education Preschool Grants	84.173	3432	3800002	15,412
Total IDEA					<u>242,823</u>
Title II A	Improving Teacher Quality	84.367	4012	3230002	67,680
	Education Jobs Fund	84.410	4411	EJOB00	164,000
Jobs	Jobs for America's Grads	17.260	3822	271SR10	25,400
Total U.S. Department of Education					<u>\$ 790,770</u>
U.S. Department of Agriculture					
Pass-through Kentucky Department of Education:					
Child Nutrition Cluster					
National School Lunch Program		10.555	N/A	7750002	\$ 192,767
National School Breakfast Program		10.553	N/A	7760005	99,332
Snack		10.555	N/A	7750002	8,813
					<u>300,912</u>
Food Donations	Commodities	10.555	N/A	057502	19,771
Total Department of Agriculture					<u>\$ 320,683</u>
Total Federal Financial Assistance					<u>\$ 1,111,453</u>

NOTE A - BASIS OF PRESENTATION

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and expended.

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MEMBER AICPA

MEMBER KY SOCIETY OF CPA'S

**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
Frankfort Independent School District
Frankfort, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Frankfort Independent School District, as of and for the year ended June 30, 2012, which collectively comprise the Frankfort Independent School District's basic financial statements and have issued our report thereon dated November 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Although we did not note matters that needed to be reported to management of the Frankfort Independent School District, we did issue a management letter dated November 7, 2012, as prescribed by Kentucky Department of Education guidelines.

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

W. Dudley Shryock, CPA, PSC
Lawrenceburg, Kentucky
November 7, 2012

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MEMBER AICPA

MEMBER KY SOCIETY OF CPA'S

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO 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
Frankfort Independent School District
Frankfort, Kentucky

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards 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 Frankfort Independent School District's

compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Frankfort Independent School District's compliance with those requirements.

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

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on 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 members the Kentucky State Committee for School District Audits, the members of the Board of Education of Frankfort Independent School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

W. Dudley Shryock, CPA, PSC
Lawrenceburg, Kentucky
November 7, 2012

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

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Frankfort Independent School District.
2. No significant deficiencies were disclosed during the audit of the financial statements of Frankfort Independent School District. It follows that no material weaknesses were reported.
3. There were no instances of noncompliance material to the financial statements of Frankfort Independent School District disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit of Frankfort Independent School District. Consequently, none are reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for Frankfort Independent School District expresses an unqualified opinion on all major federal programs..
6. The audit did not disclose any findings and questioned costs required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The District had the following major programs for the year ended June 30, 2010:

Title I	#84.010, #84.010A
Idea-B	#84.027
Education Jobs Fund	#84.410
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The District did qualify as a low-risk auditee under OMB Circular A-133 *Audits of States, Local Governments and Non-profit Organizations*.

FINDINGS - FINANCIAL STATEMENTS AUDIT

No matters were reported in the current year.

FINDINGS AND QUESTIONED COSTS- MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings or questioned costs in the current year.

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

There were no findings in the prior year.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2012

No corrective action plan necessary in the current year.

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

We have examined the financial statements of Frankfort Independent School District for the year ended June 30, 2012 and have issued our report thereon dated November 7, 2012. As part of our examination, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Frankfort Independent School District's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Frankfort Independent School District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the system to dispatch its duties.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Frankfort Independent School District taken as a whole. We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses.

W. Dudley Shryock, CPA, PSC
Lawrenceburg, Kentucky
November 7, 2012

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

Follow-Up On Prior Year Recommendations

None

Current Year Findings

None