

JOHNSON COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

For the year ended June 30, 2012



WELLS & COMPANY, P.S.C.

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JOHNSON COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Johnson County School District
Paintsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Johnson County 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 Johnson County 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Johnson County 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 October 22, 2012, on our consideration of the Johnson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 36 through 37 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 Johnson County School District's financial statements as a whole. The budget comparison and the combining 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 budget comparison 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 it.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 22, 2012

**JOHNSON COUNTY SCHOOL DISTRICT – PAINTSVILLE, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012**

As management of the Johnson County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the tenth year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$7,572,655 in 2011 and \$8,860,173 in 2012. This is an increase of \$1,287,518. Much of this difference can be explained by the increase in debt service fund cash due to a bond sale.
- From 2011 to 2012, total general fund revenue increased by 5.8%. Revenue from the state increased 6.5%. Revenues from federal sources decreased 32%.
- Among major funds, the General Fund had \$27.2 million in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There were \$27 million in expenditures.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulting in several economies due to changed management strategies.
- Due to the issuance of bonds, interest income increased by \$16,269, this represents a 28.2% increase.
- The Board initiated a roof improvement project during the fiscal year 2012 at different locations. On July 20, 2011, the District issued \$1,875,000 in School Building Revenue Bonds (Series 2011) to finance the improvements. In addition, the District refinanced the School Revenue Bonds, (Series 2001 and Series 2004) with a cumulative savings of \$326,239.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$3,431,898 during the current fiscal year.
- State law requires districts to update a priority list of construction and renovation needs, called a local facilities plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. To be eligible to share in that money, the District updated its facilities plan in April 2008. With the age and size of our facility, there is a focus on investing in plant management. The District was granted an extension on its current facility plan for four more years during 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.

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

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

The government-wide financial statements can be found on pages 7 through 8 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 proprietary fund includes the food service and vending operation. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9 through 17 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 18 through 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and general fixed assets), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

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

Net Assets for the period ending June 30, 2012 and 2011

This is the tenth year that the District is following GASB 34 and comparing assets, liabilities and net assets. 2012 Government Wide Net Assets compared to 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 9,731,443	\$ 9,219,110
Noncurrent Assets	<u>27,617,772</u>	<u>27,687,823</u>
Total Assets	<u>\$37,349,215</u>	<u>\$36,906,933</u>
Current Liabilities	\$ 2,050,336	\$ 3,880,584
Noncurrent Liabilities	<u>17,300,499</u>	<u>15,086,255</u>
Total Liabilities	<u>\$19,350,835</u>	<u>\$18,966,839</u>
Net Assets		
Investment in capital assets (net of debt)	\$ 8,701,325	\$11,106,372
Restricted	2,820,017	1,033,972
Unrestricted Fund Balance	<u>6,477,038</u>	<u>5,799,750</u>
Total Net Assets	<u>\$17,998,380</u>	<u>\$17,940,094</u>

There has been no significant change in the financial position of the District since the last audit.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Revenues		
Local revenue sources	\$ 4,532,238	\$ 4,402,169
State revenue sources	26,527,145	24,910,332
Federal revenue	<u>4,254,155</u>	<u>6,261,120</u>
Total Revenues	<u>35,313,538</u>	<u>35,573,621</u>
Expenses		
Instruction	22,435,280	22,882,282
Student support services	827,854	470,838
Instructional support	206,426	216,501
District administration	1,077,167	881,180
School administration	1,648,576	1,808,750
Business support	455,981	453,584
Plant operations	3,166,708	3,472,265
Student transportation	2,332,575	2,437,296
Central office support	-	-
Facilities acquisition and construction	1,500,727	4,059,576
Community support	692,715	701,848
Other	<u>4,143,582</u>	<u>2,274,765</u>
Total expenses	<u>38,487,591</u>	<u>39,658,885</u>
Excess (Deficit) Of Revenues Over Expenses	(3,174,053)	(4,085,264)
Other Financing Sources (Uses)		
Bond sale proceeds	5,493,791	3,711,209
Proceeds from sale of fixed assets	<u>6,548</u>	<u>8,445</u>
Total Other Financing Sources (Uses)	<u>5,500,339</u>	<u>3,719,654</u>
Excess (Deficit) Of Revenues And Other Financing Sources Over Expenditures And Other Financing Uses	<u>(\$ 2,326,286)</u>	<u>(\$ 365,610)</u>

- On-behalf of amounts are included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits and administration fees. Further discussion of these can be found in Note B. Expenses that increased from 2011 to 2012 include student support services, district administration, business support, and other.

The changes in the balances and transactions of individual funds have not been material. Changes in final budget when compared to original are not material.

- The majority of revenue in 2012 was derived from state funding (75%) as compared with fiscal year 2011 (70%) with federal revenue making up 12% of total revenue in 2012 compared to 18% in 2011.

Comments on Budget Comparisons

- The District's general fund total revenues for the fiscal year ended June 30, 2012, net of Interfund transfers, were \$27.2 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$6.7 million more than budget.
- The total cost of all General Fund programs and services was \$27 million net of debt service.
- General fund budget expenditures to actual varied significantly in instruction (\$3.9 million). This resulted from the Board recording the on-behalf payments made for the District.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal 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 budget with \$2.9 million in contingency (10%). The General Fund beginning cash balance for beginning the fiscal year was \$5.8 million.

Questions regarding this report should be directed to the Superintendent or Misty Goble, Director of Finances or by mail at 253 North Mayo Trail, Paintsville, Ky 41240.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 8,487,957	\$ 372,216	\$ 8,860,173
Inventory	-	61,035	61,035
Accounts receivable			
Taxes - current	59,311	-	59,311
Taxes - delinquent	4,000	-	4,000
Accounts receivable	66,353	-	66,353
Intergovernmental - State	32,506	-	32,506
Intergovernmental - Indirect Federal	497,381	4,658	502,039
Prepaid expenditures	50,096	-	50,096
Investments	95,930	-	95,930
Total current assets	9,293,534	437,909	9,731,443
Noncurrent Assets:			
Bond issue costs	317,775	-	317,775
Capital assets, net	27,220,402	79,595	27,299,997
Total noncurrent assets	27,538,177	79,595	27,617,772
Total assets	\$ 36,831,711	\$ 517,504	\$ 37,349,215
Liabilities			
Current Liabilities:			
Accounts payable	\$ 77,017	\$ 885	\$ 77,902
Payroll liabilities	130,899	-	130,899
Deferred revenue	308,694	-	308,694
Current portion of bond obligations	1,398,722	-	1,398,722
Interest payable	134,119	-	134,119
Total current liabilities	2,049,451	885	2,050,336
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	17,065,831	-	17,065,831
Noncurrent portion of accrued sick leave	234,668	-	234,668
Total noncurrent liabilities	17,300,499	-	17,300,499
Total liabilities	\$ 19,349,950	\$ 885	\$ 19,350,835
Net Assets:			
Invested in capital assets, net of related debt	\$ 8,621,730	\$ 79,595	\$ 8,701,325
Restricted for:			
Future construction	118,435	-	118,435
SFCC escrow	334,371	-	334,371
FSPK fund	50,096	-	50,096
Sick leave	234,668	-	234,668
Debt service	1,645,423	-	1,645,423
Inventory	-	61,035	61,035
New assets	-	375,989	375,989
Unrestricted	6,477,038	-	6,477,038
Total net assets	\$ 17,481,761	\$ 516,619	\$ 17,998,380

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
Instruction	\$ 23,110,888	\$ 213,476	\$ 4,847,529	\$ -	\$ (18,049,883)	\$ -	\$ (18,049,883)
Support services:							
Student	830,071	-	160,802	-	(669,269)	-	(669,269)
Instruction staff	227,158	-	22,282	-	(204,876)	-	(204,876)
District administrative	1,096,989	-	399,151	-	(697,838)	-	(697,838)
School administrative	1,653,732	-	-	-	(1,653,732)	-	(1,653,732)
Business	463,297	-	-	-	(463,297)	-	(463,297)
Plant operation and maintenance	3,441,168	-	51,321	-	(3,389,847)	-	(3,389,847)
Student transportation	2,327,911	-	-	-	(2,327,911)	-	(2,327,911)
Central office	-	-	-	-	-	-	-
Facilities acquisition and construction	639,124	-	-	1,775,496	1,136,372	-	1,136,372
Community service activities	692,715	-	399,380	-	(293,335)	-	(293,335)
Interest on long-term debt	763,523	-	-	-	(763,523)	-	(763,523)
Other	2,000	-	-	-	(2,000)	-	(2,000)
Total governmental activities	35,248,576	213,476	5,880,465	1,775,496	(27,379,139)	-	(27,379,139)
Business-Type Activities:							
Food service	2,168,277	498,395	1,654,371	-	-	(15,511)	(15,511)
Total primary government	\$ 37,416,853	\$ 711,871	\$ 7,534,836	\$ 1,775,496	(27,379,139)	(15,511)	(27,394,650)
			General Revenues:				
			Taxes:				
			Property taxes		2,468,606	-	2,468,606
			Motor vehicle taxes		652,628	-	652,628
			Utility taxes		1,037,302	-	1,037,302
			Investment earnings		73,937	2,287	76,224
			State and formula grants		23,125,339	-	23,125,339
			Gain (loss) on sales of fixed assets		6,548	-	6,548
			Miscellaneous		86,289	-	86,289
			Changes in net assets		71,510	(13,224)	58,286
			Net assets - beginning		17,410,251	529,843	17,940,094
			Net assets - ending		\$ 17,481,761	\$ 516,619	\$ 17,998,380

See independent auditor's report and accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

JOHNSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	Special Revenue	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:					
Cash and cash equivalents	\$ 6,500,448	\$ (181,273)	\$ 1,645,423	\$ 523,359	\$ 8,487,957
Accounts receivable					
Taxes - current	59,311	-	-	-	59,311
Taxes - delinquent	4,000	-	-	-	4,000
Accounts receivable	61,574	-	-	4,779	66,353
Intergovernmental - State	-	32,506	-	-	32,506
Intergovernmental - Indirect Federal	-	497,381	-	-	497,381
Prepaid expenditures	-	-	-	50,096	50,096
Investments	95,930	-	-	-	95,930
	<u>6,721,263</u>	<u>348,614</u>	<u>1,645,423</u>	<u>578,234</u>	<u>9,293,534</u>
Total assets and resources	\$ 6,721,263	\$ 348,614	\$ 1,645,423	\$ 578,234	\$ 9,293,534
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 21,547	\$ 39,920	\$ -	\$ 15,550	\$ 77,017
Payroll liabilities	130,899	-	-	-	130,899
Deferred revenue	-	308,694	-	-	308,694
	<u>152,446</u>	<u>348,614</u>	<u>-</u>	<u>15,550</u>	<u>516,610</u>
Total liabilities	152,446	348,614	-	15,550	516,610
Fund Balances:					
Restricted For:					
Future construction	-	-	-	118,435	118,435
SFCC escrow	-	-	-	334,371	334,371
FSPK fund	-	-	-	50,096	50,096
Sick leave payable	234,668	-	-	-	234,668
Debt service	-	-	1,645,423	-	1,645,423
Assigned To:					
Purchase obligations - current	53,640	-	-	-	53,640
Permanent fund	-	-	-	59,782	59,782
Unassigned:					
Undesignated, reported in:					
General fund	6,280,509	-	-	-	6,280,509
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
	<u>6,568,817</u>	<u>-</u>	<u>1,645,423</u>	<u>562,684</u>	<u>8,776,924</u>
Total fund balances	6,568,817	-	1,645,423	562,684	8,776,924
Total liabilities and fund balances	\$ 6,721,263	\$ 348,614	\$ 1,645,423	\$ 578,234	\$ 9,293,534

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

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

June 30, 2012

Total fund balance per fund financial statement	\$ 8,776,924
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets	27,220,402
Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets	317,775
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets	<u>(18,833,340)</u>
Net assets for governmental activities	<u><u>\$ 17,481,761</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended June 30, 2012

	General Fund	Special Revenue	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources					
Taxes					
Property	\$ 2,083,888	\$ -	\$ -	\$ 384,718	\$ 2,468,606
Motor vehicle	652,628	-	-	-	652,628
Utilities	1,037,302	-	-	-	1,037,302
Tuition and fees	213,476	-	-	-	213,476
Earnings on investments	47,543	449	24,131	1,814	73,937
Other local revenues	78,244	-	-	8,045	86,289
Intergovernmental – State	23,039,651	1,812,190	521,011	1,154,293	26,527,145
Intergovernmental – Indirect Federal	85,688	4,068,275	100,192	-	4,254,155
Total revenues	27,238,420	5,880,914	645,334	1,548,870	35,313,538
Expenditures:					
Instruction	17,418,818	5,014,762	-	1,700	22,435,280
Support services:					
Student	667,052	160,802	-	-	827,854
Instruction staff	184,144	22,282	-	-	206,426
District administrative	733,966	339,151	-	4,050	1,077,167
School administrative	1,648,576	-	-	-	1,648,576
Business	455,981	-	-	-	455,981
Plant operation and maintenance	3,115,387	51,321	-	-	3,166,708
Student transportation	2,332,575	-	-	-	2,332,575
Central office	-	-	-	-	-
Facilities acquisition and construction	-	-	-	1,500,727	1,500,727
Community service activities	293,335	399,380	-	-	692,715
Other	153,176	-	3,990,406	-	4,143,582
Total expenditures	27,003,010	5,987,698	3,990,406	1,506,477	38,487,591
Excess (deficit) of revenues over expenditures	235,410	(106,784)	(3,345,072)	42,393	(3,174,053)
Other Financing Sources (Uses):					
Bond proceeds	-	-	5,493,791	-	5,493,791
Proceeds from sale of fixed assets	6,548	-	-	-	6,548
Operating transfers in	378,119	106,784	1,311,629	-	1,796,532
Operating transfers out	(108,784)	-	-	(1,687,748)	(1,796,532)
Non operating transfers in	-	-	3,678,866	1,814,925	5,493,791
Non operating transfers out	-	-	(5,493,791)	-	(5,493,791)
Total other financing sources (uses)	275,883	106,784	4,990,495	127,177	5,500,339
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	511,293	-	1,645,423	169,570	2,326,286
Fund balance, July 1, 2011	6,057,524	-	-	393,114	6,450,638
Fund balance, June 30, 2012	\$ 6,568,817	\$ -	\$ 1,645,423	\$ 562,684	\$ 8,776,924

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

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

For the year ended June 30, 2012

Net change in total fund balances per fund financial statements	\$ 2,326,286
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation for the year	(166,078)
The issuance of long-term debt (bonds and financial obligations) provides current financial resources to government funds, while 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	(2,061,893)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred	<u>(26,805)</u>
Change in net assets of governmental activities	<u>\$ 71,510</u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2012

	<u>Food Service Fund</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 372,216
Inventory	61,035
Accounts receivable	
Intergovernmental – Indirect Federal	<u>4,658</u>
Total current assets	437,909
Noncurrent Assets:	
Capital assets	535,026
Less: accumulated depreciation	<u>455,431</u>
Total noncurrent assets	<u>79,595</u>
Total assets	<u><u>\$ 517,504</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	<u>\$ 885</u>
Total current liabilities	885
Net Assets:	
Invested in capital assets, net of related debt	79,595
Restricted For:	
Inventory	61,035
New Assets	370,977
Assigned To:	
Purchase obligations - current	<u>5,012</u>
Total net assets	<u><u>\$ 516,619</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUND

For the year ended June 30, 2012

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom sales	\$ 498,395
Total operating revenues	498,395
Operating Expenses:	
Employee wages and benefits	1,010,284
Materials and supplies	1,063,681
Depreciation	20,261
Other operating expenses	74,051
Total operating expenses	<u>2,168,277</u>
Operating loss	(1,669,882)
Non-Operating Revenues (Expenses):	
Federal grants	1,369,849
Donated commodities	120,907
State grants	163,615
Interest income	2,287
Total non-operating revenues	<u>1,656,658</u>
Net income (loss)	(13,224)
Retained earnings, July 1, 2011	<u>529,843</u>
Retained earnings, June 30, 2012	<u><u>\$ 516,619</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the year ended June 30, 2012

Cash Flows from Operating Activities:

Cash received from:	
Lunchroom sales	\$ 498,395
Government grants	1,658,718
Cash paid to/for:	
Employees	(1,010,284)
Material and supplies	(1,063,306)
Other activities	<u>(74,051)</u>
Net cash provided (used) by operating activities	9,472

Cash Flows from Capital and Related Financing Activities:

Purchases of capital assets	(6,656)
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Cash Flows from Investing Activities:

Receipt of interest income	<u>2,287</u>
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Net (decrease) in cash and cash equivalents	5,103
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Balances, beginning of year	<u>367,113</u>
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Balances, end of year	<u><u>\$ 372,216</u></u>
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Reconciliation of operating income (loss) to net cash provided

(used) by operating activities	
Net income (loss)	\$ (13,224)

Adjustments to reconcile operating income to net cash provided

(used) by operating activities	
Depreciation	20,261
Interest	(2,287)
Change in assets and liabilities	
Receivables	4,347
Inventory	1,440
Accounts payable	<u>(1,065)</u>

Net cash provided (used) by operating activities	<u><u>\$ 9,472</u></u>
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Schedule of non-cash transactions:

Donated commodities received from federal government	<u><u>\$ 120,907</u></u>
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See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUND

June 30, 2012

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 323,299
Accounts receivable	<u>1,433</u>
Total assets	<u><u>\$ 324,732</u></u>
Liabilities:	
Accounts payable	\$ 10,552
Due student groups	<u>314,180</u>
Total liabilities	<u><u>\$ 324,732</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the year ended June 30, 2012

	<u>Agency Fund</u>
Additions:	
School activities and project receipts	\$ 1,456,839
Deductions:	
Cost of activities and project events	<u>1,505,973</u>
Change in net assets	(49,134)
Net assets, beginning of year	<u>363,314</u>
Net assets, end of year	<u><u>\$ 314,180</u></u>

See independent auditor's report and accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

The financial statements of the 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:

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

Basis of Presentation

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The district may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

The District has the following funds:

I. Governmental Fund Types

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

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

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

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

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

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

Basis of Accounting

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

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

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

Property Taxes

Property Tax Revenues – Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.36 per \$100 valuation for real property, \$.36 per \$100 valuation for business personal property and \$.525 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

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.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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.

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgetary Process

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

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

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

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

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

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund is stated at cost and uses the specific identification method and the general fund is stated at cost and uses the first-in, first-out method for inventory.

Prepaid Assets

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

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. All realized gains and losses and changes in fair value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

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, 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, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves 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. Fund equity reserves have been established for inventories and fixed assets.

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the district using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the District or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the district issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

For resources considered assigned, the district has designated the board to carry out the intent of the school district.

It is policy of the District to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the district incurs no liability until performance has occurred on the part of the party with whom the district has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

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.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE B – ON-BEHALF PAYMENTS

For the year ended June 30, 2012 total payments of \$5,391,900 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities. However, the on-behalf payments are not budgeted on the Budget to Actual statements.

NOTE C – ESTIMATES

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

NOTE D – CASH AND CASH EQUIVALENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation insurance.

At year-end, the carrying amount of the District's deposits was \$9,183,472 and the bank balance was \$10,396,292. The entire bank balance throughout the year was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

The deposits were deemed collateralized under Kentucky Law during the year. The Kentucky Department of Education maintains copies of all safekeeping receipts in the name of the District. The following is disclosed:

- a. Name of bank: Citizens National Bank.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$13,450,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

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

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE D – CASH AND CASH EQUIVALENTS - CONTINUED

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

Breakdown per financial statements:

Governmental funds	\$8,487,957
Proprietary funds	372,216
Agency funds	<u>323,299</u>
	<u>\$9,183,472</u>

NOTE E – INVESTMENTS

At year-end the District's investment was as follows:

	<u>Fair Value</u>
Certificate of Deposit	<u>\$95,930</u>

Johnson County School District has a certificate of deposit at Citizens National Bank that matures every 12 months. This CD has a fixed interest rate of 1.5%. Interest from this CD is reinvested quarterly back in to the CD.

NOTE F – CAPITAL ASSETS

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

Governmental Activities	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
Land	\$ 1,375,069	\$ -	\$ -	\$ 1,375,069
Construction work in progress	2,857,951	-	2,857,951	-
Land improvements	1,444,131	-	-	1,444,131
Buildings and improvements	32,133,271	3,719,554	-	35,852,825
Technology equipment	3,734,417	132,369	116,117	3,750,669
General equipment	569,794	-	-	569,794
Vehicles	<u>4,696,117</u>	<u>276,977</u>	<u>295,816</u>	<u>4,677,278</u>
Totals at historical cost	<u>46,810,750</u>	<u>4,128,900</u>	<u>3,269,884</u>	<u>47,669,766</u>
Less: accumulated depreciation				
Land improvements	767,828	67,763	-	835,591
Buildings and improvements	11,610,766	830,401	-	12,441,167
Technology equipment	3,228,044	240,881	116,117	3,352,808
Vehicles	3,367,499	272,491	295,816	3,344,174
General equipment	<u>450,133</u>	<u>25,491</u>	<u>-</u>	<u>475,624</u>
Total accumulated depreciation	<u>19,424,270</u>	<u>1,437,027</u>	<u>411,933</u>	<u>20,449,364</u>
Governmental Activities				
Capital Assets – Net	<u>\$27,386,480</u>	<u>\$2,691,873</u>	<u>\$2,857,951</u>	<u>\$27,220,402</u>

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE F – CAPITAL ASSETS – CONTINUED

Business-Type Activities

General equipment	\$ 506,063	\$ -	\$ -	\$ 506,063
Technology equipment	23,367	6,656	1,059	28,964
Totals at historical cost	<u>529,430</u>	<u>6,656</u>	<u>1,059</u>	<u>535,027</u>
Less: accumulated depreciation				
General equipment	416,153	18,185	-	434,338
Technology equipment	20,077	2,076	1,059	21,094
Total accumulated depreciation	<u>436,230</u>	<u>20,261</u>	<u>1,059</u>	<u>455,432</u>
Business-Type Activities				
Capital Assets – Net	<u>\$ 93,200</u>	<u>\$ (13,605)</u>	<u>\$ -</u>	<u>\$ 79,595</u>

Depreciation expense has been charged to the following functions in the statement of activities:

Instruction	\$ 835,011
Instruction – staff	20,732
District administrative	19,822
School administrative	5,156
Plant operation and maintenance	274,460
Student transportation	272,313
Business support services	7,316
Student support services	2,217
Food service	20,261
	<u>\$1,457,288</u>

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS

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

<u>Issue Date</u>	<u>Amounts</u>	<u>Interest Rates</u>
2001	\$2,200,000	2.700% - 4.600%
2003 Refinancing	3,145,000	1.100% - 3.500%
2004	1,815,000	2.150% - 4.900%
2005	1,730,000	3.250% - 4.150%
2007 Refinancing	3,695,000	3.400% - 3.700%
2007	990,000	3.700% - 4.000%
2009 Refinancing	4,505,000	1.500% - 3.625%
2010	1,955,000	.750% - 4.300%
2011	1,875,000	1.250% - 4.250%
2011 Refinancing	2,020,000	.500% - 3.000%
2012 Refinancing	1,755,000	1.050% - 2.450%

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

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

On March 7, 2012, the District refinanced the School Building Revenue Bonds (Series 2004) with a cumulative savings of \$140,545. The new 2012 bond series was issued for \$1,755,000 with an interest rate ranging from 1.05% to 2.45%.

On July 20, 2011, the District issued \$1,875,000 in School Building Revenue Bonds (Series 2011) with an interest rate ranging from 1.25% to 4.25% to finance roof improvements at various locations.

On July 12, 2011, the District refinanced the School Building Revenue Bonds (Series 2001) with a cumulative savings of \$185,694. The new 2011 bond series was issued for \$2,020,000 with an interest rate ranging from .5% to 3.0%.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS – CONTINUED

On December 6, 2010, the District issued \$1,955,000 in School Building Revenue Bonds (Series 2010) with an interest rate ranging from .750% to 4.30% to finance roof improvements at various locations.

On April 1, 2009, the District refinanced the School Building Revenue Bonds (Series 1998 and Series 1999) with a cumulative savings of \$297,440. The new 2009 bond series was issued for \$4,505,000 with an interest rate ranging from 1.5% to 3.625%.

On May 9, 2007, the District issued \$990,000 in School Building Revenue Bonds (Series 2007) with an average interest rate of 3.85% to finance Johnson Central High School renovations.

On January 23, 2007, the District refinanced the School Building Revenue Bonds (Series 1997) with a cumulative savings of \$197,676. The new 2007 bond series was issued for \$3,695,000 with an interest rate ranging from 3.4% to 3.7%.

On November 1, 2005, the District issued \$1,730,000 in School Building Revenue Bonds (Series 2005) with an average interest rate of 3.70% to finance Johnson Central High School swimming pool renovations.

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

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

<u>YEAR</u>	<u>JOHNSON COUNTY SCHOOL DISTRICT</u>		<u>KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION</u>		<u>TOTAL REQUIREMENTS FOR YEAR</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012-2013	\$ 921,067	\$ 462,898	\$ 398,933	\$ 117,021	\$ 1,899,919
2013-2014	2,365,465	434,359	259,535	103,543	3,162,902
2014-2015	934,499	336,892	270,501	98,656	1,640,548
2015-2016	967,641	306,478	277,359	91,257	1,642,735
2016-2017	999,992	275,006	285,008	83,376	1,643,382
2017-2018	1,031,326	239,527	293,674	74,884	1,639,411
2018-2019	814,428	204,430	255,572	65,605	1,340,035
2019-2020	842,325	178,458	147,675	57,144	1,225,602
2020-2021	872,584	153,181	152,416	52,403	1,230,584
2021-2022	897,442	126,152	157,558	47,261	1,228,413
2022-2023	522,060	103,875	162,940	41,880	830,755
2023-2024	541,314	86,526	168,686	36,133	832,659
2024-2025	372,393	68,086	137,607	30,090	608,176
2025-2026	384,378	53,446	135,622	24,746	598,192
2026-2027	225,329	41,747	114,671	19,740	401,487
2027-2028	168,753	32,942	101,247	15,009	317,951
2028-2029	174,489	26,214	105,511	10,744	316,958
2029-2030	184,974	18,969	110,026	6,230	320,199
2030-2031	193,416	11,123	91,584	1,946	298,069
2031-2032	<u>165,000</u>	<u>3,506</u>	<u>-</u>	<u>-</u>	<u>168,506</u>
	<u>\$13,578,875</u>	<u>\$3,163,815</u>	<u>\$3,626,125</u>	<u>\$ 977,668</u>	<u>\$21,346,483</u>

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

During the year ended June 30, 2012 the District's debt obligation was as follows:

<u>AMOUNT OUTSTANDING 6/30/11</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>AMOUNT OUTSTANDING 6/30/12</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
\$14,755,000	\$5,650,000	\$3,200,000	\$17,205,000	\$1,320,000

QUALIFIED ZONE ACADEMY BONDS

The Johnson County School District Finance Corporation issued \$1,825,000 of Qualified Zone Academy Bonds (QZAB), Series 2010, December 1, 2010 under a guaranteed investment contract whereby the Johnson County School District will remit to the low bidder Monticello Banking Company contributions to an escrow account \$1,338,275 over an eighteen year period. The federal government will pay directly to the bank most of the annual interest expense leaving the board a small portion of interest due twice a year. Funds from the escrow will be used to defease the entire bond upon maturity December 1, 2027. The minimum obligations of the funds at June 30, 2012 for the escrow and interest are as follows:

<u>Year</u>	<u>Johnson County School District</u>		<u>Federal Rebate</u>	<u>Total Requirements For Year</u>
	<u>Escrow</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
2012-2013	\$ 78,722	\$ 2,007	\$ 100,193	\$ 180,922
2013-2014	78,722	2,008	100,192	180,922
2014-2015	78,722	2,007	100,193	180,922
2015-2016	78,722	2,008	100,192	180,922
2016-2017	78,722	2,007	100,193	180,922
2017-2018	78,722	2,008	100,192	180,922
2018-2019	78,722	2,007	100,193	180,922
2019-2020	78,722	2,008	100,192	180,922
2020-2021	78,722	2,007	100,193	180,922
2021-2022	78,722	2,008	100,192	180,922
2022-2023	78,722	2,007	100,193	180,922
2023-2024	78,722	2,008	100,192	180,922
2024-2025	78,722	2,007	100,193	180,922
2025-2026	78,722	2,008	100,192	180,922
2026-2027	78,722	2,007	100,193	180,922
2027	<u>78,723</u>	<u>1,003</u>	<u>50,096</u>	<u>129,822</u>
	<u>\$1,259,553</u>	<u>\$31,115</u>	<u>\$1,552,984</u>	<u>\$2,843,652</u>

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

During the year ended June 30, 2012 the District's QZAB debt obligation to the escrow was as follows:

<u>AMOUNT OUTSTANDING 6/30/11</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>AMOUNT OUTSTANDING 6/30/12</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
\$1,338,275	\$ -	\$78,722	\$1,259,553	\$78,722

The Johnson County School District Finance Corporation issued \$1,223,000 of Qualified Zone Academy Bonds (QZAB), Series 2007, October 9, 2007 under a guaranteed investment contract whereby the Johnson County School District remitted to the low bidder, Citizens National Bank, Paying Agent, \$670,000. This initial investment was required to defease the entire bond issue due October 8, 2022. This money was put into a guaranteed escrow account that will be used to defease the bond upon maturity.

The District issued a (QZAB), Series 2001, December 27, 2000 where a one time payment of \$1,705,000 was required to defease the entire bond issue due January 11, 2014. This money was put into a guaranteed escrow account that will be used to defease the bond upon maturity.

The District issued a (QZAB), Series 2006, January 12, 2006 where a one time payment of \$285,000 was required to defease the entire bond issue due January 25, 2021. This money was put into a guaranteed escrow account that will be used to defease the bond upon maturity.

The private business contribution requirement for Qualified Zone Academy Bonds (QZAB) as set out in Section 1397E of the Internal Revenue Code of 1986, as amended states that the issuer must certify that written assurances from private business contribution be met with respect to such bonds.

The Johnson County School District Educational Assistance Foundation, Inc., a private non-stock, non-profit charitable and educational corporation having for its corporate purpose the promotion of education and educational opportunities resolved and executed a written contribution contract with the Johnson County School District as required by the Internal Revenue Code for Qualified Zone Academy Bonds. These contributions for academy bond purposes can be from cash to goods in kind and is schedule as follows:

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
2013	\$ 38,780
2014	38,085
2015	11,453
2016	10,831
2017	10,242
2018	9,685
2019	9,158
2020	8,660
2021	8,189
2022	5,642
2023	<u>5,332</u>
	<u>\$156,057</u>

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

The private business contribution requirement for Qualified Zone Academy Bonds (QZAB) as set out in Section 1397E of the Internal Revenue Code of 1986, was met from private business contributions. The amount provided was \$194,426 with the requirement being \$39,516.

NOTE H – CAPITAL LEASE PAYABLE

On December 28, 2006 the Central Kentucky Educational Cooperative, Incorporated entered into a lease with the Johnson County School District. The District received \$1,531,760 in technology equipment and has elected to make payments over a five year period at 0% interest and have a portion of those payments held by US Bank, National Association, as an escrow agent under an Escrow Deposit Agreement.

As part of the KISTA New Market Tax Credit Program, coal severance funds is to be directly issued to help fund the program but are only guaranteed for two years, however it is anticipated that the funds will be appropriated in future years. This lease was paid in full during 2011/2012 school year.

NOTE I – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District had no commitments under noncapitalized leases at June 30, 2012.

NOTE J – PENSION PLANS

KENTUCKY TEACHER' RETIREMENT

The Johnson County 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://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.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE J – PENSION PLANS – CONTINUED

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-retirement 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. Members 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 Johnson County School District's total payroll for the year was \$22,141,689. The payroll for employees covered under KTRS was \$16,689,638. For the year ended June 30, 2012, the Commonwealth contributed \$2,190,364 to KTRS for the benefit of participating employees. The School District's contributions to KTRS for the year ending June 30, 2012 was \$456,699, which represents those employees covered by federal programs.

COUNTY EMPLOYEES' RETIREMENT SYSTEM

Classified employees (substantially all full-time Board employees other than certified employees) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature.

Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5.00% of their annual salary if hired before September 1, 2008 and 6% if hired on or after September 1, 2008 through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 18.96% of the employee's total covered compensation. The District's contributions to CERS for the year ended June 30, 2012 was \$1,111,330, which consisted of \$872,822 from the District and \$238,508 from the employees.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE J – PENSION PLANS – CONTINUED

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE K - CONTINGENCIES

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

NOTE L - LITIGATION

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

NOTE M - INSURANCE AND RELATED ACTIVITIES

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

NOTE N - RISK MANAGEMENT

The District is exposed to various risks of loss of 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.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE N - RISK MANAGEMENT – CONTINUED

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.

NOTE O – DEFICIT OPERATING BALANCES

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

Proprietary Fund	\$13,224
Agency Fund	\$49,134

NOTE P - COBRA

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

NOTE Q - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Construction	General	General	\$ 197,577
Operating	General	Special Revenue	Contribution	\$ 106,784
Operating	Capital Outlay	Debt Service	Debt Service	\$ 159,211
Operating	FSPK	Debt Service	Debt Service	\$ 1,150,417
Operating	General	Debt Service	Trustee Fees	\$ 2,000
Operating	Capital Outlay	General	General	\$ 180,543
Non operating	Debt Service	Construction	Construction	\$ 1,814,925
Non operating	Debt Service	Debt Service	Debt Service	\$ 3,678,866

NOTE R – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2012.

NOTE S – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 22, 2012, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

JOHNSON COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

GENERAL FUND

For the year ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources				
Taxes				
Property	\$ 1,531,000	\$ 1,631,641	\$ 2,083,888	\$ 452,247
Motor vehicle	496,032	496,032	652,628	156,596
Utilities	721,032	721,032	1,037,302	316,270
Tuition and fees	175,000	175,000	213,476	38,476
Earnings on investments	40,000	40,000	47,543	7,543
Other local revenues	50,000	50,000	78,244	28,244
Intergovernmental - State	17,361,118	17,361,118	23,039,651	5,678,533
Intergovernmental - Indirect Federal	50,000	50,000	85,688	35,688
Total revenues	<u>20,424,182</u>	<u>20,524,823</u>	<u>27,238,420</u>	<u>6,713,597</u>
Expenditures:				
Instruction	13,391,095	13,491,736	17,418,818	(3,927,082)
Support services:				
Student	395,188	395,188	667,052	(271,864)
Instruction staff	193,548	193,548	184,144	9,404
District administrative	3,754,766	3,754,766	733,966	3,020,800
School administrative	1,563,168	1,563,167	1,648,576	(85,409)
Business	419,182	419,182	455,981	(36,799)
Plant operation and maintenance	3,569,163	3,569,162	3,115,387	453,775
Student transportation	2,360,021	2,360,022	2,332,575	27,447
Central office	-	-	-	-
Community service activities	238,131	238,132	293,335	(55,203)
Other	308,852	306,352	153,176	153,176
Total expenditures	<u>26,193,114</u>	<u>26,291,255</u>	<u>27,003,010</u>	<u>(711,755)</u>
Excess (deficit) of revenues over expenditures	<u>(5,768,932)</u>	<u>(5,766,432)</u>	<u>235,410</u>	<u>6,001,842</u>
Other Financing Sources (Uses):				
Proceeds from sale of fixed assets	-	-	6,548	6,548
Operating transfers in	-	-	378,119	378,119
Operating transfers out	-	(2,500)	(108,784)	(106,284)
Total other financing sources (uses)	<u>-</u>	<u>(2,500)</u>	<u>275,883</u>	<u>278,383</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(5,768,932)</u>	<u>(5,768,932)</u>	<u>511,293</u>	<u>6,280,225</u>
Fund balance, July 1, 2011	<u>5,768,932</u>	<u>5,768,932</u>	<u>6,057,524</u>	<u>288,592</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,568,817</u>	<u>\$ 6,568,817</u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY 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 (GAAP Basis)</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Earnings on investments	\$ -	\$ -	\$ 449	\$ 449
State aid	1,271,965	1,317,698	1,812,190	494,492
Federal aid	4,368,494	4,276,087	4,068,275	(207,812)
Total revenues	5,640,459	5,593,785	5,880,914	287,129
Expenditures:				
Current:				
Instruction	4,931,634	4,869,267	5,014,762	(145,495)
Support Services:				
Student	122,668	162,322	160,802	1,520
Instructional staff	29,292	14,675	22,282	(7,607)
District administration	144,138	144,138	339,151	(195,013)
School administration	-	-	-	-
Business	-	-	-	-
Plant operations and maintenance	-	-	51,321	(51,321)
Student transportation	-	-	-	-
Central office	-	-	-	-
Community services activities	412,727	403,383	399,380	4,003
Other	-	-	-	-
Total expenditures	5,640,459	5,593,785	5,987,698	(393,913)
Excess (deficit) of revenues over expenditures	-	-	(106,784)	(106,784)
Other Financing Sources (Uses):				
Transfers in	-	-	106,784	106,784
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	106,784	106,784
Net change in fund balances	-	-	-	-
Fund balance July 1, 2011	-	-	-	-
Fund balance June 30, 2012	\$ -	\$ -	\$ -	\$ -

See independent auditor's report and accompanying notes to financial statements.

OTHER COMBINING STATEMENTS AND SCHOOL ACTIVITY FUNDS

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	<u>FSPK Fund</u>	<u>Seek Capital Outlay Fund</u>	<u>Construction Fund</u>	<u>Permanent Trust Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets and Resources:					
Cash and cash equivalents	\$ -	\$334,371	\$ 133,985	\$ 55,003	\$ 523,359
Accounts receivables	-	-	-	4,779	4,779
Prepaid expenditures	<u>50,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,096</u>
Total assets and resources	<u><u>\$ 50,096</u></u>	<u><u>\$334,371</u></u>	<u><u>\$ 133,985</u></u>	<u><u>\$ 59,782</u></u>	<u><u>\$ 578,234</u></u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,550</u>	<u>\$ -</u>	<u>\$ 15,550</u>
Total liabilities	-	-	15,550	-	15,550
Fund Balances:					
Restricted For:					
Future construction	-	-	118,435	-	118,435
SFCC escrow	-	334,371	-	-	334,371
FSPK fund	50,096	-	-	-	50,096
Assigned To:					
Purchase obligations - current	-	-	-	-	-
Permanent fund	-	-	-	59,782	59,782
Unreserved:					
Undesignated, reported in:					
Capital project fund	-	-	-	-	-
Debt service funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>50,096</u>	<u>334,371</u>	<u>118,435</u>	<u>59,782</u>	<u>562,684</u>
Total liabilities and fund balances	<u><u>\$ 50,096</u></u>	<u><u>\$334,371</u></u>	<u><u>\$ 133,985</u></u>	<u><u>\$ 59,782</u></u>	<u><u>\$ 578,234</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2012

	FSPK Fund	SEEK Capital Outlay Fund	Construction Fund	Permanent Trust Fund	Total Nonmajor Governmental Funds
Revenues:					
From local sources					
Taxes:					
Property	\$ 384,718	\$ -	\$ -	\$ -	\$ 384,718
Earnings on investments	-	-	1,814	-	1,814
Other local revenues	-	-	-	8,045	8,045
Intergovernmental - State	814,539	339,754	-	-	1,154,293
Intergovernmental - Indirect Federal	-	-	-	-	-
Total revenues	1,199,257	339,754	1,814	8,045	1,548,870
Expenditures:					
Instruction	-	-	-	1,700	1,700
Support services:					
Student	-	-	-	-	-
Instruction staff	-	-	-	-	-
Direct administrative	-	-	-	4,050	4,050
School administrative	-	-	-	-	-
Business	-	-	-	-	-
Plant operation and maintenance	-	-	-	-	-
Student transportation	-	-	-	-	-
Central office	-	-	-	-	-
Facilities and construction	-	-	1,500,727	-	1,500,727
Community service activities	-	-	-	-	-
Other	-	-	-	-	-
Total expenditures	-	-	1,500,727	5,750	1,506,477
Excess (deficit) of revenues over expenditures	1,199,257	339,754	(1,498,913)	2,295	42,393
Other Financing Sources (Uses):					
Bond proceeds	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	(1,150,417)	(339,754)	(197,577)	-	(1,687,748)
Non operating transfers in	-	-	1,814,925	-	1,814,925
Total other financing sources (uses)	(1,150,417)	(339,754)	1,617,348	-	127,177
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	48,840	-	118,435	2,295	169,570
Fund balance, July 1, 2011	1,256	334,371	-	57,487	393,114
Fund balance, June 30, 2012	\$ 50,096	\$ 334,371	\$ 118,435	\$ 59,782	\$ 562,684

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2012

	Johnson County Elementary Athletic Association	Johnson Central High School	Central Elementary	Flat Gap Elementary	Meade Memorial Elementary	Highlands Elementary	Porter Elementary	W. R. Castle Memorial Elementary	Johnson County Alternative School	Johnson County Middle School	Totals
Assets:											
Cash	\$ 651	\$ 87,031	\$ 23,534	\$ 20,230	\$ 24,543	\$ 52,408	\$ 31,409	\$ 12,087	\$ 2,806	\$ 68,600	\$ 323,299
Accounts receivable	-	1,303	-	-	-	130	-	-	-	-	1,433
Total assets	\$ 651	\$ 88,334	\$ 23,534	\$ 20,230	\$ 24,543	\$ 52,538	\$ 31,409	\$ 12,087	\$ 2,806	\$ 68,600	\$ 324,732
Liabilities and Fund Balances:											
Accounts payable	\$ -	\$ 3,643	\$ 504	\$ 1,117	\$ -	\$ 81	\$ 352	\$ 123	\$ -	\$ 4,732	\$ 10,552
Due to student groups	651	84,691	23,030	19,113	24,543	52,457	31,057	11,964	2,806	63,868	314,180
Total liabilities	\$ 651	\$ 88,334	\$ 23,534	\$ 20,230	\$ 24,543	\$ 52,538	\$ 31,409	\$ 12,087	\$ 2,806	\$ 68,600	\$ 324,732

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES DUE STUDENT GROUPS

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2012

	<u>Johnson County Athletic Association</u>	<u>Johnson Central High School</u>	<u>Central Elementary</u>	<u>Flat Gap Elementary</u>	<u>Meade Memorial Elementary</u>	<u>Highlands Elementary</u>	<u>Porter Elementary</u>	<u>W. R. Castle Memorial Elementary</u>	<u>Johnson County Alternative School</u>	<u>Johnson County Middle School</u>	<u>Totals</u>
Revenues:											
School activities and projects funds	\$ -	\$ 437,915	\$ 66,151	\$ 62,317	\$ 22,283	\$ 99,871	\$ 66,775	\$ 49,731	\$ 3,019	\$ 173,069	\$ 981,131
Athletic fund	<u>49,997</u>	<u>241,819</u>	<u>17,678</u>	<u>24,670</u>	<u>8,386</u>	<u>34,265</u>	<u>20,618</u>	<u>27,128</u>	<u>-</u>	<u>51,147</u>	<u>475,708</u>
Total revenues	49,997	679,734	83,829	86,987	30,669	134,136	87,393	76,859	3,019	224,216	1,456,839
Expenditures:											
School activities and projects funds	-	457,426	64,720	70,513	26,136	114,170	64,399	52,356	2,496	151,440	1,003,656
Athletic fund	<u>49,924</u>	<u>246,702</u>	<u>14,837</u>	<u>22,877</u>	<u>10,408</u>	<u>33,914</u>	<u>20,234</u>	<u>24,625</u>	<u>-</u>	<u>78,796</u>	<u>502,317</u>
Total expenditures	49,924	704,128	79,557	93,390	36,544	148,084	84,633	76,981	2,496	230,236	1,505,973
Excess (deficiency) of revenues over expenditures	73	(24,394)	4,272	(6,403)	(5,875)	(13,948)	2,760	(122)	523	(6,020)	(49,134)
Due Student Groups, July 1, 2011	578	109,085	18,758	25,516	30,418	66,405	28,297	12,086	2,283	69,888	363,314
Due Student Groups, June 30, 2012	<u>\$ 651</u>	<u>\$ 84,691</u>	<u>\$ 23,030</u>	<u>\$ 19,113</u>	<u>\$ 24,543</u>	<u>\$ 52,457</u>	<u>\$ 31,057</u>	<u>\$ 11,964</u>	<u>\$ 2,806</u>	<u>\$ 63,868</u>	<u>\$ 314,180</u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS DUE STUDENT GROUPS

SCHOOL ACTIVITY FUNDS - JOHNSON CENTRAL HIGH SCHOOL (AGENCY FUND)

For the year ended June 30, 2012

Name of Activity:	Cash			Cash Balances June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012
	Balances July 1, 2011	Receipts	Disbursements				
Academic	\$ 758	\$ 22,489	\$ 22,698	\$ 549	\$ -	\$ -	\$ 549
All CTE Programs	34	6,959	4,995	1,998	-	-	1,998
Americorp/YSC	2,622	5,519	3,064	5,077	-	-	5,077
Apple Blossom Pageant	-	5,496	5,496	-	-	-	-
Art	249	150	134	265	-	-	265
Athletics	19,185	241,819	248,738	12,266	-	3,255	9,011
Band	3,323	11,838	15,161	-	-	-	-
Bass Fishing Club	3,421	11,875	11,761	3,535	-	-	3,535
Beta Club	186	900	535	551	-	-	551
Carpentry - Skills USA	737	81	400	418	-	-	418
Choir	435	3,148	3,570	13	-	-	13
Culinary	77	19	19	77	-	-	77
DECA Fund	68	1,895	1,608	355	-	-	355
Eagle's Cry Newspaper Fund	148	-	-	148	-	-	148
FBLA Fund	755	4,349	4,386	718	-	-	718
FCA Fund	2,423	1,378	1,446	2,355	-	-	2,355
FCCLA National	4,085	4,979	5,703	3,361	-	-	3,361
FFA Fund	-	3,218	2,414	804	-	-	804
Freshman Class	25	-	-	25	-	-	25
Future Educators of America	319	-	-	319	-	-	319
HOSA	3,004	25,989	26,375	2,618	-	-	2,618
HOSA Cap	4,847	-	622	4,225	-	-	4,225
Interact Club	711	1,225	774	1,162	-	-	1,162
Junior Class	5,203	25,029	23,971	6,261	-	-	6,261
Key Club	1,006	13,135	12,129	2,012	-	-	2,012
Musical Theater	1,177	2,467	2,221	1,423	-	-	1,423
Needles and Pins	699	1,351	681	1,369	-	-	1,369
Project Prom	1,390	5,413	5,730	1,073	-	-	1,073
Project Prom Scholarship	8,990	7,250	8,000	8,240	-	-	8,240
Public Relations	105	-	-	105	-	-	105
Scholarship Program	7,838	13,446	15,381	5,903	-	-	5,903
School Library	1,571	208	342	1,437	-	-	1,437
Senior Class	-	5,847	5,847	-	-	-	-
Service Learning Grant	75	-	-	75	-	-	75
Sophomore Class	357	-	-	357	-	-	357
Spanish Club	94	-	-	94	-	-	94
STLP Student Tech Lead Program	-	11,387	11,013	374	-	222	152
Store Fund	29,307	182,144	208,671	2,780	468	166	3,082
Student Council Fund	3,073	3,494	3,479	3,088	-	-	3,088
Teachers Discretionary	1,224	30,862	31,406	680	-	-	680
Television Station	2,232	6,320	5,935	2,617	-	-	2,617
Vo-Ag Greenhouse	1,634	4,262	3,149	2,747	835	-	3,582
Yearbook	915	14,845	10,666	5,094	-	-	5,094
Young Democrats	305	-	-	305	-	-	305
Young Republicans	48	-	-	48	-	-	48
YSC Tee Shirt Fund	-	2,279	2,169	110	-	-	110
Totals	\$ 114,655	\$ 683,065	\$ 710,689	\$ 87,031	\$ 1,303	\$ 3,643	\$ 84,691

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

For the year ended June 30, 2012

	<u>Issue of 2001</u>	<u>Issue of 2003 Refunding</u>	<u>Issue of 2004</u>	<u>Issue of 2005</u>	<u>Issue of 2007 Refunding</u>	<u>Issue of 2007</u>	<u>Issue of 2009 Refunding</u>	<u>QZAB Series 2010</u>	<u>Issue of 2010</u>	<u>Issue of 2011 Refunding</u>	<u>Issue of 2011</u>	<u>Issue of 2012 Refunding</u>	<u>Total Debt Service Funds</u>
Revenues:													
Earning on investments	\$ -	\$ -	\$ 9,648	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,232	\$ 7,192	\$ 3,059	\$ 24,131
Intergovernmental - State	-	149,820	8,202	33,286	-	18,154	166,370	-	116,257	-	-	28,922	521,011
Intergovernmental - Federal	-	-	-	-	-	-	-	100,192	-	-	-	-	100,192
Total revenues	-	149,820	17,850	33,286	-	18,154	166,370	100,192	116,257	4,232	7,192	31,981	645,334
Expenditures:													
Current:													
Bond payments	1,910,000	310,000	40,000	35,000	305,000	25,000	370,000	78,722	65,000	75,000	-	65,000	3,278,722
Bond interest	61,519	22,225	72,750	63,063	86,970	35,485	121,469	102,200	64,644	35,967	38,725	4,667	709,684
Trust fees	-	400	400	400	400	400	-	-	-	-	-	-	2,000
Total expenditures	1,971,519	332,625	113,150	98,463	392,370	60,885	491,469	180,922	129,644	110,967	38,725	69,667	3,990,406
Excess (deficit) of revenues over expenditures	(1,971,519)	(182,805)	(95,300)	(65,177)	(392,370)	(42,731)	(325,099)	(80,730)	(13,387)	(106,735)	(31,533)	(37,686)	(3,345,072)
Other Financing Sources (Uses):													
Bond proceeds	-	-	-	-	-	-	-	-	-	1,971,519	1,814,925	1,707,347	5,493,791
Operating transfers in	-	182,805	28,573	65,177	392,370	42,731	325,099	80,730	13,387	111,538	31,533	37,686	1,311,629
Non operating transfers in	1,971,519	-	1,707,347	-	-	-	-	-	-	-	-	-	3,678,866
Non operating transfers out	-	-	-	-	-	-	-	-	-	(1,971,519)	(1,814,925)	(1,707,347)	(5,493,791)
Total other financing sources (uses)	1,971,519	182,805	1,735,920	65,177	392,370	42,731	325,099	80,730	13,387	111,538	31,533	37,686	4,990,495
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	1,640,620	-	-	-	-	-	-	4,803	-	-	1,645,423
Fund balance, July 1, 2011	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund balance, June 30, 2012	\$ -	\$ -	\$1,640,620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,803	\$ -	\$ -	\$1,645,423

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2012

<u>FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPT. OF AGRICULTURE</u>			
Passed Through State Dept. of Education:			
<u>CHILD NUTRITION CLUSTER</u>			
National School Lunch Program	10.555	7750002 11 7750002 12	\$ 248,920 793,805 <u>1,042,725</u>
Passed Through State Dept. of Agriculture:			
Food Donation (In-Kind Commodities)	10.555	1007	<u>120,907</u> <u>1,163,632</u>
School Breakfast Program	10.553	7760005 11 7760005 12	73,557 237,085 <u>310,642</u>
Summer Food Service Program for Children	10.559	7690024 11 7690024 12 7740023 11 7740023 12	1,380 173 13,256 1,673 <u>16,482</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>1,490,756</u>
<u>U.S. DEPT. OF EDUCATION</u>			
Passed Through State Dept. of Education:			
Title I - Grants to Local Educational Agencies	84.010	3100002 11	<u>1,117,942</u>
Rural Education	84.358	3140002 11	<u>81,006</u>
<u>EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER</u>			
ARRA - Education Technology State Grants, Recovery Act	84.386	4210002 09	16,888
Education Technology State Grants	84.318	3210002 10	1,022 <u>17,910</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3790G	<u>153,339</u>
Improving Teacher Quality - State Grants	84.367	3230002 10 3230002 11	32,615 274,334 <u>306,949</u>
Career and Technical Education - Basic Grants to States	84.048	4621032 09 4621110 10 4621132 10 4621232 11	1,701 110 2,525 41,502 <u>45,838</u> <u>1,722,984</u>

The accompanying notes are an integral part of this schedule.

(Continued next page)

JOHNSON COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
 For the year ended June 30, 2012

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>Federal CFDA Number</u>	<u>Through Grantor's Number</u>	<u>Federal Expenditures</u>
Education Jobs Fund	84.410	EJOB00 10	<u>962,737</u>
<u>SPECIAL EDUCATION CLUSTER (IDEA)</u>			
Special Education - Grants to States	84.027	3810002 10 3810002 11	<u>30,554</u> <u>814,202</u> <u>844,756</u>
Special Education - Preschool Grants	84.173	3800002 10 3800002 11	<u>7,381</u> <u>33,235</u> <u>40,616</u> <u>885,372</u>
TOTAL U.S. DEPT. OF EDUCATION			<u>3,571,093</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through Big Sandy Area Community Action Program, Inc.:			
Head Start	93.600	04CH0712 45 04CH0712 46	<u>169,133</u> <u>358,128</u> <u>527,261</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>527,261</u>
<u>U. S. DEPARTMENT OF LABOR</u>			
Passed through State Department of Education WIA Adult Program			
	17.258	273SR10 10	<u>50,800</u>
TOTAL U. S. DEPARTMENT OF LABOR			<u>50,800</u>
<u>APPALACHIAN REGIONAL COMMISSION</u>			
Direct Program:			
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	6882	<u>889</u>
TOTAL APPALACHIAN REGIONAL COMMISSION			<u>889</u>
<u>U. S. DEPARTMENT OF ENERGY</u>			
Passed through the Kentucky School Board Association ARRA - State Energy Program, Recovery Act			
	81.041	5691/5692	<u>66,336</u>
TOTAL U. S. DEPARTMENT OF ENERGY			<u>66,336</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 5,707,135</u>

The accompanying notes are an integral part of this schedule.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Johnson County 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

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2012, the District had no food commodities in inventory.

NOTE C – TYPE A PROGRAMS

Type A programs for the Johnson County School District is any program for which total expenditures of federal awards exceeded \$300,000 for fiscal year 2012. The District had the following programs and clusters that met the Type A program definition for fiscal year 2012:

<u>CFDA#</u>	<u>PROGRAM TITLE</u>	<u>EXPENDITURES</u>
Child Nutrition Cluster:		
10.555	Food Donation (In-Kind Contributions)	\$ 120,907
10.555	National School Lunch Program	1,042,725
10.553	School Breakfast Program	310,642
10.559	Summer Food Service Program for Children	<u>16,482</u>
		<u>1,490,756</u>
Special Education Cluster (IDEA):		
84.027	Special Education – Grants to States	844,756
84.173	Special Education – Preschool Grants	<u>40,616</u>
		<u>885,372</u>
84.010	Title I – Grants to Local Educational Agencies	<u>1,117,942</u>
84.367	Improving Teacher Quality – State Grants	306,949
84.410	Education Jobs Fund	962,737
93.600	Head Start	<u>527,261</u>
	Total Type A Programs	<u>\$ 5,291,017</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JOHNSON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the year ended June 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued *unqualified*:

Internal control over financial reporting:

- Material weakness(es) identified? ___yes X_no
- Significant deficiency(ies) identified? ___yes X_none reported

Noncompliance material to financial statements noted? X_yes ___no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___yes X_no
- Significant deficiency(ies) identified? ___Yes X_none reported

Type of auditor's report issued on compliance for major programs *unqualified*:

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ___yes X_no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Food Donation (In-Kind Contributions)
10.559	Summer Food Service Program for Children
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects
81.041	ARRA-State Energy Program, Recovery Act
84.318	Education Technology-State Grants
84.367	Improving Teacher Quality – State Grants
84.386	ARRA-Education Technology-State Grants, Recovery Act
84.410	Education Jobs Fund

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X_yes ___no

SECTION II - FINDINGS-FINANCIAL STATEMENTS AUDIT

2012 – 1 MONEY UNACCOUNTED FOR

Condition: At Johnson Central High School we found where \$990.15 was unaccounted for from a fundraiser. Individual responsible for the fundraiser went four months without turning in the money to the bookkeeper or notifying anyone that the money was missing.

Criteria: Money collected from fundraisers is to be turned in daily to the bookkeeper for deposit.

Cause of Condition: Money was not turned in timely.

Effect: \$990.15 was unaccounted for.

Recommendation: Principal needs to hold faculty and staff members accountable for their actions and require all monies collected by employees to be turned in daily to the bookkeeper along with the multiple receipt form or fundraiser worksheet for support.

Management's Response: All principals will be made aware of this situation and ask to require all employees to turn in funds collected by the end of the school day to the bookkeeper for deposit. In addition, people collecting money will be properly trained.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

The audit did not disclose any audit findings.

JOHNSON COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2012

All prior year comments were addressed by the District. Corrections were initiated and improvements made in the documentation that was recommended.

**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***



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**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**

Members of the Board of Education
Johnson County School District
Paintsville, 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 Johnson County School District, as of and for the year ended June 30, 2012, which collectively comprise the Johnson County School District's basic financial statements and have issued our report thereon dated October 22, 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 Requirement, 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 Johnson County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Johnson County 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 Johnson County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Johnson County 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 the 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 Johnson County 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Johnson County School District, in a separate letter dated October 22, 2012.

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

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Johnson County 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. However, this report is a matter of public record and its distribution is not limited.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 22, 2012

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



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WITH OMB CIRCULAR A-133**

Members of the Board of Education
Johnson County School District
Paintsville, Kentucky

Compliance

We have audited Johnson County 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 Johnson County School District's major federal programs for the year ended June 30, 2012. Johnson County 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 Johnson County School District's management. Our responsibility is to express an opinion on Johnson County 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 to the Independent Auditor's Contract – General Audit Requirements, and Appendix II to the Independent Auditor's Contract – State Audit Requirement. 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 Johnson County 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 Johnson County School District's compliance with those requirements.

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

Internal Control Over Compliance

Management of Johnson County 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 Johnson County 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 Johnson County 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Johnson County 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. However, this report is a matter of public record and its distribution is not limited.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 22, 2012

MANAGEMENT LETTER COMMENTS



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Members of the Board of Education of
Johnson County School District
Paintsville, Kentucky

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 22, 2012 contains our report on the District's internal control structure. This letter does not affect our report dated October 22, 2012 on the financial statements of the Johnson County School District.

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

Respectfully,

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 22, 2012

JOHNSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2012

PRIOR YEAR COMMENTS

All prior year comments were addressed and corrected by the District. Corrections were initiated and improvements made in the documentation that was recommended.

JOHNSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2012

CURRENT YEAR COMMENTS

Activity Fund 12-1 Multiple Receipt Forms Not Completed

Condition: Teachers were not having the students sign the multiple receipt form nor turning supporting documents into the bookkeeper for verification of monies collected at Flat Gap and Porter Elementary.

Criteria: Multiple receipt forms are to be accurately completed and turned into the bookkeeper for back up when collecting money.

Cause of Condition: Principals are failing to enforce this requirement.

Effect: Bookkeeper has no idea if all money collected is being turned in for deposit.

Recommendation: We recommend that multiple receipts forms are completed by teachers and signed by students when money is collected from or issued to students. The multiple receipt forms should be turned in to bookkeeping daily.

Management's Response: Principals will be made aware of this requirement and ask to have their teachers comply.

Activity Fund 12-2 Fundraiser Worksheets Not Completed

Condition: We discovered that fundraiser worksheets are not being completed with each fundraiser at W. R. Castle Elementary.

Criteria: Fundraiser worksheets help determine profit/loss and ending inventory.

Cause of Condition: Principal failed to enforce teachers to use the fundraiser worksheets with each fundraiser.

Effect: Profits and ending inventory are not being monitored.

Recommendation: We recommend that all schools use this worksheet with each fundraiser.

Management's Response: Principals will be made aware of this form and will be required to use them on all fundraisers.