

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

For the year ended June 30, 2012



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Paintsville Independent 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 Paintsville Independent School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Paintsville Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Audit Extension Request, and Appendix IV of the Independent Auditor's Contract - Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Paintsville Independent School District as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of the Paintsville Independent 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 34 through 35 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 Paintsville Independent 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 15, 2012

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

As management of the Paintsville Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the ninth 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 \$4,267,027 in 2011 and \$1,746,990 in 2012. This is a decrease of \$2,520,037. Much of this difference can be explained by the decrease in federal monies and the payoff of a bond.
- From 2011 to 2012, total general fund revenue increased by 4.1%. Revenue from the state increased 6.4% and interest on invested funds decreased 78%.
- Among major funds, the General Fund had \$6.5 million in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There were \$6.9 million in expenditures.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulted in several economies due to changed management strategies.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- 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 paid \$1,625,000 in principal payments 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. The District is currently updating its local facilities plan.

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 33 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

This is the ninth 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	\$ 2,058,560	\$ 4,612,240
Noncurrent Assets	<u>7,400,706</u>	<u>6,923,042</u>
Total Assets	<u>\$ 9,459,266</u>	<u>\$11,535,282</u>
Current Liabilities	\$ 396,964	\$ 2,628,516
Noncurrent Liabilities	<u>4,019,474</u>	<u>4,281,327</u>
Total Liabilities	<u>\$ 4,416,438</u>	<u>\$ 6,909,843</u>
Net Assets		
Investment in capital assets (net of debt)	\$ 3,015,568	\$ 892,499
Restricted	504,552	1,842,980
Unrestricted Fund Balance	<u>1,522,708</u>	<u>1,889,960</u>
Total Net Assets	<u>\$ 5,042,828</u>	<u>\$ 4,625,439</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	\$ 2,667,120	\$ 2,592,484
State revenue sources	4,593,179	4,320,293
Federal sources	1,034,813	1,360,543
Investments	<u>36,218</u>	<u>64,451</u>
Total Revenues	<u>8,331,330</u>	<u>8,337,771</u>
Expenses:		
Instruction	5,239,482	5,332,356
Student support services	252,963	256,903
Instructional staff support	524,986	501,982
District administration	369,192	408,876
School administration	408,070	370,792
Business support	186,088	176,278
Plant operations and maintenance	850,734	1,022,199
Student transportation	217,907	266,643
Central office support	-	-
Facilities acquisition and construction	4,628	2,302,879
Community services activities	51,863	72,579
Other	<u>1,814,844</u>	<u>474,777</u>
Total Expenses	<u>9,920,757</u>	<u>11,186,264</u>
Excess (Deficit) Of Revenue Over Expenditures	(1,589,427)	(2,848,493)
Other Financing Sources (Uses)		
Proceeds from the sale of fixed assets	-	-
Bond sale proceeds	<u>-</u>	<u>1,486,274</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,486,274</u>
Excess (Deficit) Of Revenues and Other Financing Sources Over Expenditures And Other Financing Uses	<u>(\$ 1,589,427)</u>	<u>(\$ 1,362,219)</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 instructional staff support, school 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 (55%) as compared with fiscal year 2011 (52%) with local revenue making up (32%) of total revenue in 2012 compared to (31%) in 2011.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2012, net of other financing sources, were \$6.5 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$1,003,609 more than budget.
- The total cost of all general fund programs and services was \$6.9 million net of debt service.
- General fund budget expenditures to actual varied significantly in instruction (\$977,270). 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 \$917,059 in contingency (13%). The General Fund beginning cash balance for beginning the fiscal year was \$2.348 million.

Questions regarding this report should be directed to the Superintendent, Director of Financial Services or by mail at 305 Second Street, Paintsville, KY 41240.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets			
Current Assets:			
Cash and cash equivalents	\$ 1,575,028	\$ 171,962	\$ 1,746,990
Inventory	-	13,463	13,463
Accounts receivable			
Taxes - current	59,377	-	59,377
Taxes - delinquent	14,228	-	14,228
Accounts receivable	5,069	-	5,069
Intergovernmental - State	-	-	-
Intergovernmental - Indirect Federal	210,995	8,438	219,433
Total current assets	<u>1,864,697</u>	<u>193,863</u>	<u>2,058,560</u>
Noncurrent Assets:			
Bond issue costs	120,049	-	120,049
Capital assets, net	<u>7,263,569</u>	<u>17,088</u>	<u>7,280,657</u>
Total noncurrent assets	<u>7,383,618</u>	<u>17,088</u>	<u>7,400,706</u>
Total assets	<u>\$ 9,248,315</u>	<u>\$ 210,951</u>	<u>\$ 9,459,266</u>
Liabilities			
Current Liabilities:			
Accounts payable	\$ 73,314	\$ 4,782	\$ 78,096
Deferred revenue	13,779	-	13,779
Current portion of bond obligations	255,000	-	255,000
Current portion of capital lease payable	7,225	-	7,225
Interest payable	<u>42,864</u>	<u>-</u>	<u>42,864</u>
Total current liabilities	392,182	4,782	396,964
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	3,960,000	-	3,960,000
Noncurrent portion of accrued sick leave	<u>59,474</u>	<u>-</u>	<u>59,474</u>
Total noncurrent liabilities	<u>4,019,474</u>	<u>-</u>	<u>4,019,474</u>
Total liabilities	<u>\$ 4,411,656</u>	<u>\$ 4,782</u>	<u>\$ 4,416,438</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 2,998,480	\$ 17,088	\$ 3,015,568
Restricted for:			
Sick leave	59,474	-	59,474
SFCC Escrow- Current offer	255,997	-	255,997
Inventory	-	13,463	13,463
New assets	-	175,618	175,618
Unrestricted	<u>1,522,708</u>	<u>-</u>	<u>1,522,708</u>
Total net assets	<u>\$ 4,836,659</u>	<u>\$ 206,169</u>	<u>\$ 5,042,828</u>

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

PAINTSVILLE INDEPENDENT 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		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 4,780,202	\$ 47,047	\$ 995,360	\$ -	\$ (3,737,795)	\$ -	\$ (3,737,795)
Support services:							
Student	253,215	-	11,437	-	(241,778)	-	(241,778)
Instruction staff	525,524	-	124,643	-	(400,881)	-	(400,881)
District administrative	385,058	-	-	-	(385,058)	-	(385,058)
School administrative	409,190	-	-	-	(409,190)	-	(409,190)
Business	186,088	-	-	-	(186,088)	-	(186,088)
Plant operation and maintenance	877,316	-	-	-	(877,316)	-	(877,316)
Student transportation	139,459	3,740	1,639	-	(134,080)	-	(134,080)
Central office	-	-	-	-	-	-	-
Facilities acquisition and construction	4,628	-	-	300,351	295,723	-	295,723
Community service activities	51,863	-	51,863	-	-	-	-
Interest on long-term debt	190,885	-	-	-	(190,885)	-	(190,885)
Other	3,000	-	-	-	(3,000)	-	(3,000)
Total governmental activities	7,806,428	50,787	1,184,942	300,351	(6,270,348)	-	(6,270,348)
Business-Type Activities:							
Food service	710,165	262,142	336,513	-	-	(111,510)	(111,510)
Total primary government	\$ 8,516,593	\$ 312,929	\$ 1,521,455	\$ 300,351	(6,270,348)	(111,510)	(6,381,858)
			General Revenues:				
			Taxes:				
			Property taxes		2,065,901	-	2,065,901
			Motor vehicle taxes		118,800	-	118,800
			Utility taxes		427,447	-	427,447
			Investment earnings		36,218	3,997	40,215
			State and formula grants		4,142,699	-	4,142,699
			Miscellaneous		4,185	-	4,185
			Changes in net assets		524,902	(107,513)	417,389
			Net assets - beginning		4,311,757	313,682	4,625,439
			Net assets - ending		<u>\$ 4,836,659</u>	<u>\$ 206,169</u>	<u>\$ 5,042,828</u>

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

FUND FINANCIAL STATEMENTS

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund</u>	<u>Special Revenue</u>	<u>FSPK Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
Assets and Resources:						
Cash and cash equivalents	\$ 1,515,001	\$ (196,759)	\$ 255,997	\$ 789	\$ -	\$ 1,575,028
Accounts receivable						
Taxes - current	59,377	-	-	-	-	59,377
Taxes - delinquent	14,228	-	-	-	-	14,228
Accounts receivable	5,069	-	-	-	-	5,069
Intergovernmental - State	-	-	-	-	-	-
Intergovernmental - Indirect Federal	-	210,995	-	-	-	210,995
Total assets and resources	<u>\$ 1,593,675</u>	<u>\$ 14,236</u>	<u>\$ 255,997</u>	<u>\$ 789</u>	<u>\$ -</u>	<u>\$ 1,864,697</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	\$ 72,857	\$ 457	\$ -	\$ -	\$ -	\$ 73,314
Deferred revenue	-	13,779	-	-	-	13,779
Total liabilities	72,857	14,236	-	-	-	87,093
Fund Balances:						
Restricted For:						
Sick leave payable	59,474	-	-	-	-	59,474
SFCC Escrow- Current Offer	-	-	255,997	-	-	255,997
Debt Services	-	-	-	-	-	-
Assigned To:						
Construction Fund	-	-	-	-	-	-
Unassigned:						
Undesignated, reported in:						
General fund	1,461,344	-	-	-	-	1,461,344
Debt service funds	-	-	-	789	-	789
Total fund balances	<u>1,520,818</u>	<u>-</u>	<u>255,997</u>	<u>789</u>	<u>-</u>	<u>1,777,604</u>
Total liabilities and fund balances	<u>\$ 1,593,675</u>	<u>\$ 14,236</u>	<u>\$ 255,997</u>	<u>\$ 789</u>	<u>\$ -</u>	<u>\$ 1,864,697</u>

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

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

June 30, 2012

Total fund balance per fund financial statements	\$1,777,604
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	7,263,569
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	120,049
Certain liabilities (such as bonds payable, capital lease 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>(4,324,563)</u>
Net assets for governmental activities	<u><u>\$4,836,659</u></u>

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended June 30, 2012

	General Fund	Special Revenue	FSPK Fund	Debt Service Fund	Other Governmental Fund	Total Governmental Fund
Revenues:						
From local sources						
Taxes						
Property	\$ 1,798,983	\$ -	\$ 266,918	\$ -	\$ -	\$ 2,065,901
Motor vehicle	118,800	-	-	-	-	118,800
Utilities	427,447	-	-	-	-	427,447
Tuition and fees	47,047	-	-	-	-	47,047
Earnings on investments	34,450	-	-	1,768	-	36,218
Other local revenues	7,925	-	-	-	-	7,925
Intergovernmental – State	4,141,391	151,437	134,886	90,246	75,219	4,593,179
Intergovernmental – Indirect Federal	1,308	1,033,505	-	-	-	1,034,813
Total revenues	6,577,351	1,184,942	401,804	92,014	75,219	8,331,330
Expenditures:						
Instruction	4,226,419	1,013,063	-	-	-	5,239,482
Support services:						
Student	241,526	11,437	-	-	-	252,963
Instruction staff	400,343	124,643	-	-	-	524,986
District administrative	369,192	-	-	-	-	369,192
School administrative	408,070	-	-	-	-	408,070
Business	186,088	-	-	-	-	186,088
Plant operation and maintenance	850,734	-	-	-	-	850,734
Student transportation	216,268	1,639	-	-	-	217,907
Central office	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	4,628	4,628
Community services activities	-	51,863	-	-	-	51,863
Other	7,496	-	-	1,807,348	-	1,814,844
Total expenditures	6,906,136	1,202,645	-	1,807,348	4,628	9,920,757
Excess (deficit) of revenues over expenditures	(328,785)	(17,703)	401,804	(1,715,334)	70,591	(1,589,427)
Other Financing Sources (Uses):						
Proceeds from the sale of fixed assets	-	-	-	-	-	-
Operating transfers in	-	17,703	-	295,705	-	313,408
Operating transfers out	(20,703)	-	(217,486)	-	(75,219)	(313,408)
Non operating transfers in	-	-	-	1,419,460	-	1,419,460
Non operating transfers out	-	-	-	(1,419,460)	-	(1,419,460)
Total other financing sources (uses)	(20,703)	17,703	(217,486)	295,705	(75,219)	-
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	(349,488)	-	184,318	(1,419,629)	(4,628)	(1,589,427)
Fund balance, July 1, 2011	1,870,306	-	71,679	1,420,418	4,628	3,367,031
Fund balance, June 30, 2012	\$ 1,520,818	\$ -	\$ 255,997	\$ 789	\$ -	\$ 1,777,604

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

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

For the year ended June 30, 2012

Net change in total fund balances per fund financial statements	\$ (1,589,427)
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	493,742
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	1,631,944
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>(11,357)</u>
Change in net assets of governmental activities	<u>\$ 524,902</u>

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2012

	<u>Food Service Fund</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 171,962
Inventory	13,463
Accounts receivable	
Intergovernmental – Indirect Federal	<u>8,438</u>
Total current assets	193,863
Noncurrent Assets:	
Capital assets	91,070
Less: accumulated depreciation	<u>73,982</u>
Total noncurrent assets	<u>17,088</u>
Total assets	<u><u>\$ 210,951</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	<u>\$ 4,782</u>
Total current liabilities	4,782
Net Assets:	
Invested in capital assets, net of related debt	17,088
Restricted For:	
Inventory	13,463
New Assets	<u>175,618</u>
Total net assets	<u><u>\$ 206,169</u></u>

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUND

For the year ended June 30, 2012

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom sales	\$ 262,142
Total operating revenues	262,142
Operating Expenses:	
Salaries and wages	361,991
Materials and supplies	302,435
Depreciation	3,855
Other operating expenses	41,884
Total operating expenses	710,165
Operating loss	(448,023)
Non-Operating Revenues (Expenses):	
Federal grants	225,208
Donated commodities	17,821
State grants	93,484
Interest income	3,997
Total non-operating revenues	340,510
Net income (loss)	(107,513)
Retained earnings, July 1, 2011	313,682
Retained earnings, June 30, 2012	\$ 206,169

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

PAINTSVILLE INDEPENDENT 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 \$ 262,142
Government and state grants 344,897

Cash paid to/for:

Employees (361,991)
Material and supplies (309,507)
Other activities (41,884)

Net cash provided by operating activities (106,343)

Cash Flows from Capital and Related Financing Activities:

Purchases of capital assets -

Cash Flows from Investing Activities:

Receipt of interest income 3,997

Net (decrease) in cash and cash equivalents (102,346)

Balances, beginning of year 274,308

Balances, end of year \$ 171,962

Reconciliation of operating income (loss) to net cash provided

(used) by operating activities

Operating income \$ (107,513)

Adjustments to reconcile operating income to net cash provided

(used) by operating activities 3,855

Depreciation (3,997)

Interest 8,384

Change in assets and liabilities (5,779)

Receivables 8,384

Inventory (5,779)

Accounts payable (1,293)

Net cash provided by operating activities \$ (106,343)

Schedule of non-cash transactions:

Donated commodities received from federal government \$ 17,821

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUND

June 30, 2012

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 93,884
Accounts receivable	<u>290</u>
Total assets	<u>\$ 94,174</u>
Liabilities:	
Accounts payable	\$ 3,750
Due to student groups	<u>90,424</u>
Total liabilities	<u>\$ 94,174</u>

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

PAINTSVILLE INDEPENDENT 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	\$ 414,835
Deductions:	
Cost to activities and project events	<u>412,951</u>
Change in net assets	1,884
Net assets, beginning of year	<u>88,540</u>
Net assets, end of year	<u><u>\$ 90,424</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Paintsville Independent Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Paintsville Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (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.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

PAINTSVILLE INDEPENDENT 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. This is a major fund of the District.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

(D) Debt Service Funds

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.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

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

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 \$.819 per \$100 valuation for real property, \$.819 per \$100 valuation for business personal property and \$.727 per \$100 valuation for motor vehicles.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

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.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 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.

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

It is the 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 no-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.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

NOTE B – ON-BEHALF PAYMENTS

For the year ended June 30, 2012 total payments of \$1,358,509 were made for debt payments, 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 June 30, 2012 the carrying amount of the District's deposits was \$1,840,874 and the bank balance was \$2,012,910. 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 and 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 \$5,752,772.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE D – CASH AND CASH EQUIVALENTS - CONTINUED

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.

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	\$1,575,028
Proprietary funds	171,962
Agency funds	<u>93,884</u>
	<u>\$1,840,874</u>

NOTE E – INVESTMENTS

The District had no investments at June 30, 2012.

NOTE F – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
Land	\$ 3,165,000	\$ -	\$ -	\$ 3,165,000
Land improvements	184,055	-	-	184,055
Buildings and improvement	8,270,000	3,117,374	-	11,387,374
Technology equipment	1,167,707	127,550	28,700	1,266,557
General equipment	190,250	-	-	190,250
Vehicles	502,386	109,500	-	611,886
Construction work in progress	<u>2,643,450</u>	-	<u>2,643,450</u>	-
Totals at historical cost	<u>16,122,848</u>	<u>3,354,424</u>	<u>2,672,150</u>	<u>16,805,122</u>

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE F – CAPITAL ASSETS - CONTINUED

<u>Governmental Activities</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
Less: accumulated depreciation				
Buildings and improvements	8,057,976	5,065	-	8,063,041
Technology equipment	817,583	146,658	28,700	935,541
General equipment	127,547	13,817	-	141,364
Vehicles	<u>349,915</u>	<u>51,692</u>	-	<u>401,607</u>
Total accumulated depreciation	<u>9,353,021</u>	<u>217,232</u>	<u>28,700</u>	<u>9,541,553</u>
Governmental Activities Capital Assets – Net	<u>\$ 6,769,827</u>	<u>\$ 3,137,192</u>	<u>\$2,643,450</u>	<u>\$ 7,263,569</u>
 <u>Business-Type Activities</u>				
General equipment	\$ 89,050	\$ -	\$ -	\$ 89,050
Technology equipment	<u>2,020</u>	<u>-</u>	<u>-</u>	<u>2,020</u>
Totals at historical cost	<u>91,070</u>	<u>-</u>	<u>-</u>	<u>91,070</u>
Less: accumulated depreciation				
General equipment	68,695	3,711	-	72,406
Technology equipment	<u>1,432</u>	<u>144</u>	<u>-</u>	<u>1,576</u>
Total accumulated depreciation	<u>70,127</u>	<u>3,855</u>	<u>-</u>	<u>73,982</u>
Business-Type Activities Capital Assets – Net	<u>\$ 20,943</u>	<u>\$ (3,855)</u>	<u>\$ -</u>	<u>\$ 17,088</u>

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

Instruction	\$142,194
Student support	252
Instruction – staff	538
District administrative	15,494
School administrative	1,120
Plant operation and maintenance	26,582
Student transportation	31,052
Food service	3,855
	<u>\$221,087</u>

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

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	\$1,935,000	4.25% - 4.75%
2003 Refinancing	375,000	1.50% - 3.60%
2008 Refinancing	425,000	2.60% - 3.40%
2010 Refinancing	2,585,000	1.00% - 4.00%
2010 Refinancing	1,525,000	.60% - 2.50%

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 Paintsville Independent 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.

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>PAINTSVILLE INDEPENDENT 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	\$ 197,248	\$ 94,973	\$ 57,752	\$ 32,491	\$ 382,464
2013-2014	200,834	91,249	59,166	31,079	382,328
2014-2015	207,189	86,882	47,811	29,611	371,493
2015-2016	210,802	82,335	49,198	28,228	370,563
2016-2017	212,769	77,127	47,231	26,862	363,989

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

<u>YEAR</u>	<u>PAINTSVILLE INDEPENDENT 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>
2017-2018	223,548	71,933	41,452	25,535	362,468
2018-2019	227,304	66,478	42,696	24,292	360,770
2019-2020	230,854	60,398	44,146	22,840	358,238
2020-2021	239,352	54,213	45,648	21,339	360,552
2021-2022	242,664	47,515	47,336	19,650	357,165
2022-2023	115,911	43,191	49,089	17,899	226,090
2023-2024	124,022	38,729	50,978	16,009	229,738
2024-2025	127,060	33,954	52,940	14,046	228,000
2025-2026	134,942	28,871	55,058	11,929	230,800
2026-2027	137,739	23,474	57,261	9,726	228,200
2027-2028	145,448	17,964	59,552	7,436	230,400
2028-2029	148,066	12,146	61,934	5,054	227,200
2029-2030	<u>155,590</u>	<u>6,224</u>	<u>64,410</u>	<u>2,576</u>	<u>228,800</u>
	<u>\$3,281,342</u>	<u>\$937,656</u>	<u>\$933,658</u>	<u>\$346,602</u>	<u>\$5,499,258</u>

On September 2, 2010 the District refinanced the School Building Revenue Bonds, (Series 2001) with a cumulative savings of \$128,823. The new 2010 bond series was issued for \$1,525,000 with an interest rate ranging from .60% to 2.50%. The proceeds were put in an escrow to call the series 2001 bond over a one year period.

On February 4, 2010, the District issued \$2,585,000 in School Building Revenue Bonds, (Series 2010) with an interest rate ranging from 1.0% to 4.0% to finance a new cafeteria for Paintsville High School.

On June 19, 2008, the District issued revenue refunding bonds of \$425,000 with interest rates varying from 2.60% to 3.40% to advance refund the 1996 revenue bonds with interest rates ranging from 4.55% to 5.70%. The new issue will redeem the outstanding 1996 bonds maturing after August 1, 2008 in the principal amount of \$395,000 on August 1, 2008 at the redemption price of 102%. As a result, the 1996 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$30 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016 using the effective-interest method.

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>
\$5,840,000	\$ -	(\$1,625,000)	\$4,215,000	\$255,000

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE H – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2012</u>
Buses	\$6,800

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2013	<u>\$ 7,507</u>
Total minimum lease payments	7,507
Less: Amount representing interest	<u>(282)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 7,225</u>

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

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statues (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 and account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 2008 contribute an additional 0.5%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE J – RETIREMENT PLANS - CONTINUED

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 Paintsville Independent School District's total payroll for the year was \$6,108,828. The payroll for employees covered under KTRS was \$4,938,069. For the year ended June 30, 2012, the Commonwealth contributed \$558,303 to KTRS for the benefit of participating employees. The School District's contributions to KTRS for the year ending June 30, 2012 was \$119,232, 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 \$233,649, which consisted of \$183,246 from the District and \$50,403 from the employees.

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.

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

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.

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 fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General Fund	\$ 349,488
Construction Fund	\$ 4,628
Debt Service Fund	\$1,419,629
Proprietary Fund	\$ 107,513

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	FSPK	Debt Service	Debt Service	\$ 217,486
Operating	General	Special Revenue	Other	\$ 17,703
Operating	Capital Outlay	Debt Service	Debt Service	\$ 75,219
Operating	General	Debt Service	Debt Service	\$ 3,000
Non-Operating	Debt Service	Debt Service	Debt Service	\$1,419,460

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 15, 2012, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

PAINTSVILLE INDEPENDENT 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	\$ 2,030,000	\$ 2,030,000	\$ 1,798,983	\$ (231,017)
Motor vehicle	130,000	130,000	118,800	(11,200)
Utilities	430,000	430,000	427,447	(2,553)
Tuition and fees	50,000	50,000	47,047	(2,953)
Earnings on investments	50,797	50,797	34,450	(16,347)
Other local revenues	8,000	8,000	7,925	(75)
Intergovernmental - State	2,771,907	2,872,445	4,141,391	1,268,946
Intergovernmental - Indirect Federal	2,500	2,500	1,308	(1,192)
Total revenues	5,473,204	5,573,742	6,577,351	1,003,609
Expenditures:				
Instruction	3,183,611	3,249,149	4,226,419	(977,270)
Support services:				
Student	216,931	251,931	241,526	10,405
Instruction staff	350,887	350,887	400,343	(49,456)
District administrative	968,115	968,115	369,192	598,923
School administrative	332,487	332,487	408,070	(75,583)
Business	164,523	164,523	186,088	(21,565)
Plant operation and maintenance	679,250	679,250	850,734	(171,484)
Student transportation	186,904	186,904	216,268	(29,364)
Central office	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Community service activities	-	-	-	-
Other	7,500	7,500	7,496	4
Total expenditures	6,090,208	6,190,746	6,906,136	(715,390)
Excess (deficit) of revenues over expenditures	(617,004)	(617,004)	(328,785)	288,219
Other Financing Sources (Uses):				
Proceeds from the sale of fixed assets	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(15,000)	(15,000)	(20,703)	(5,703)
Total other financing sources (uses)	(15,000)	(15,000)	(20,703)	(5,703)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(632,004)	(632,004)	(349,488)	282,516
Fund balance, July 1, 2011	632,004	632,004	1,870,306	1,238,302
Fund balance, June 30, 2012	\$ -	\$ -	\$ 1,520,818	\$ 1,520,818

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

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

SPECIAL REVENUE FUND

For the year ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Earnings on investments	\$ -	\$ -	\$ -	\$ -
Other local revenue	-	-	-	-
State aid	110,922	112,018	151,437	39,419
Federal aid	44,359	271,897	1,033,505	761,608
Total revenues	155,281	383,915	1,184,942	801,027
Expenditures:				
Current:				
Instruction	117,506	337,266	1,013,063	(675,797)
Support Services:				
Student	-	-	11,437	(11,437)
Instructional staff	-	-	124,643	(124,643)
District administration	-	-	-	-
School administration	-	-	-	-
Business	-	-	-	-
Plant operations and maintenance	-	-	-	-
Student transportation	-	3,700	1,639	2,061
Central office	-	-	-	-
Community services activities	52,775	51,863	51,863	-
Total expenditures	170,281	392,829	1,202,645	(809,816)
Excess of (deficit) revenues over expenditures	(15,000)	(8,914)	(17,703)	(8,789)
Other Financing Sources (Uses):				
Transfers in	15,000	8,914	17,703	8,789
Transfers out	-	-	-	-
Total other financing sources (uses)	15,000	8,914	17,703	8,789
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.

COMBINING STATEMENTS – NONMAJOR FUNDS

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	<u>Construction Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets and Resources:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivables	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and resources	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	-	-	-
Fund Balances:			
Restricted For:			
SFCC Escrow - Current Offer	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

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

For the year ended June 30, 2012

	Construction Fund	SEEK Capital Outlay Fund	Total Nonmajor Governmental Funds
Revenues:			
From local sources			
Taxes:			
Property	\$ -	\$ -	\$ -
Earnings on investments	-	-	-
Other local revenues	-	-	-
Intergovernmental - State	-	75,219	75,219
Intergovernmental - Indirect Federal	-	-	-
Total revenues	-	75,219	75,219
Expenditures:			
Instruction	-	-	-
Support services:			
Student	-	-	-
Instruction staff	-	-	-
Direct administrative	-	-	-
School administrative	-	-	-
Business	-	-	-
Plant operation and maintenance	-	-	-
Student transportation	-	-	-
Central office	-	-	-
Facilities and construction	4,628	-	4,628
Community service activities	-	-	-
Other	-	-	-
Total expenditures	4,628	-	4,628
Excess (deficit) of revenues over expenditures	(4,628)	75,219	70,591
Other Financing Sources (Uses):			
Operating transfers in	-	-	-
Operating transfers out	-	(75,219)	(75,219)
Total other financing sources (uses)	-	(75,219)	(75,219)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(4,628)	-	(4,628)
Fund balance, July 1, 2011	4,628	-	4,628
Fund balance, June 30, 2012	\$ -	\$ -	\$ -

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

OTHER COMBINING STATEMENTS AND SCHOOL ACTIVITY FUNDS

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
SCHOOL ACTIVITY FUNDS (AGENCY FUND)
JUNE 30, 2012

	<u>PAINTSVILLE HIGH SCHOOL</u>	<u>PAINTSVILLE ELEMENTARY SCHOOL</u>	<u>TOTAL</u>
Assets:			
Cash	\$ 74,716	\$ 19,168	\$ 93,884
Accounts receivable	<u>290</u>	<u>-</u>	<u>290</u>
Total assets	<u><u>\$ 75,006</u></u>	<u><u>\$ 19,168</u></u>	<u><u>\$ 94,174</u></u>
Liabilities and Fund Balances:			
Accounts payable	\$ 3,428	\$ 322	\$ 3,750
Due to student groups	<u>71,578</u>	<u>18,846</u>	<u>90,424</u>
Total liabilities	<u><u>\$ 75,006</u></u>	<u><u>\$ 19,168</u></u>	<u><u>\$ 94,174</u></u>

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES DUE TO STUDENT GROUPS

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2012

	<u>PAINTSVILLE HIGH SCHOOL</u>	<u>PAINTSVILLE ELEMENTARY SCHOOL</u>	<u>TOTALS</u>
Revenues:			
School activities and projects funds	\$ 152,798	\$ 52,735	\$ 205,533
Athletic fund	<u>201,747</u>	<u>7,555</u>	<u>209,302</u>
Total revenues	354,545	60,290	414,835
Expenditures:			
School activities and projects funds	152,774	53,027	205,801
Athletic fund	<u>199,123</u>	<u>8,027</u>	<u>207,150</u>
Total expenditures	<u>351,897</u>	<u>61,054</u>	<u>412,951</u>
Excess (deficit) of revenues over expenditures	2,648	(764)	1,884
Fund balances, July 1, 2011	<u>68,930</u>	<u>19,610</u>	<u>88,540</u>
Fund balances, June 30, 2012	<u>\$ 71,578</u>	<u>\$ 18,846</u>	<u>\$ 90,424</u>

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS DUE STUDENT GROUPS

SCHOOL ACTIVITY FUNDS - (AGENCY FUND)

For the year ended June 30, 2012

	Cash Balances July 1, 2011	Receipts	Disbursements	Cash Balances June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Due Student Groups June 30, 2012
PAINTSVILLE HIGH SCHOOL							
Academic Boosters	\$ 809	\$ 6,588	\$ 6,598	\$ 799	\$ -	\$ -	\$ 799
Athletic	5,842	201,747	199,341	8,248	-	383	7,865
Band Booster Club	1,169	4,970	5,124	1,015	-	-	1,015
Beta Club	71	258	257	72	-	-	72
Cheer Varsity	2,482	39,505	29,049	12,938	290	3,045	10,183
Class of 2008-2009	78	-	78	-	-	-	-
Class of 2009 - 2010	945	169	1,103	11	-	-	11
Class of 2012	240	-	240	-	-	-	-
Class of 2013	1,059	3,649	2,740	1,968	-	-	1,968
Class of 2014	-	12,675	10,457	2,218	-	-	2,218
General	1,042	3,644	4,494	192	-	-	192
Grant	1,880	-	1,880	-	-	-	-
Instruction	97	23,559	23,480	176	-	-	176
Jr. High Cheerleaders	3,739	11,717	15,456	-	-	-	-
Library	491	666	825	332	-	-	332
Media	1,075	845	1,323	597	-	-	597
Middle School Student Fees	4,780	3,392	7,408	764	-	-	764
Newspaper	-	300	-	300	-	-	300
Pep	115	-	-	115	-	-	115
PHS Tiger Madness	40	-	40	-	-	-	-
Project Prom	24,123	21,463	25,306	20,280	-	-	20,280
Pride Club	316	1,895	1,443	768	-	-	768
Science Club	144	-	144	-	-	-	-
Spanish Club	85	-	-	85	-	-	85
Staff Pop	2,146	5,553	5,276	2,423	-	-	2,423
Student Council	1,026	930	1,338	618	-	-	618
Textbooks	16,402	3,701	6,690	13,413	-	-	13,413
Yearbook	165	8,346	2,030	6,481	-	-	6,481
Youth Service Center	803	100	-	903	-	-	903
Totals	\$ 71,164	\$ 355,672	\$ 352,120	\$ 74,716	\$ 290	\$ 3,428	\$ 71,578

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

For the year ended June 30, 2012

	Issue of 2010 Refunding	Issue of 2010	Issue of 2001	Issue of 2003 Refunding	Issue of 2008 Refunding	Total Debt Service Funds
Revenues:						
Earning on investments	\$ 51	\$ 27	\$ 1,670	\$ 10	\$ 10	\$ 1,768
Intergovernmental - State	-	66,988	-	12,820	10,438	90,246
Total revenues	51	67,015	1,670	12,830	10,448	92,014
Expenditures:						
Current:						
Bond payments	25,000	80,000	1,440,000	35,000	45,000	1,625,000
Bond interest	29,942	88,493	47,860	4,140	8,913	179,348
Trust fees	1,000	500	500	500	500	3,000
Total expenditures	55,942	168,993	1,488,360	39,640	54,413	1,807,348
Excess (deficit) of revenues over expenditures	(55,891)	(101,978)	(1,486,690)	(26,810)	(43,965)	(1,715,334)
Other Financing Sources (Uses):						
Operating transfers in	55,942	102,005	66,963	26,820	43,975	295,705
Non operating transfers in	-	-	1,419,460	-	-	1,419,460
Non operating transfers out	(1,419,460)	-	-	-	-	(1,419,460)
Total other financing sources (uses)	(1,363,518)	102,005	1,486,423	26,820	43,975	295,705
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(1,419,409)	27	(267)	10	10	(1,419,629)
Fund balance, July 1, 2011	1,419,460	27	267	611	53	1,420,418
Fund balance, June 30, 2012	\$ 51	\$ 54	\$ -	\$ 621	\$ 63	\$ 789

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2012

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass - Through Grantor's Number	Federal Expenditures
<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	\$ 28,446 133,011 <u>161,457</u>
Passed Through State Dept. of Agriculture:			
Food Donation (In-Kind Commodities)	10.555	1006	<u>17,821</u> <u>179,278</u>
Summer Food Service Program for Children	10.559	7690024 11 7740023 11	1,558 14,898 <u>16,456</u>
School Breakfast Program	10.553	7760005 11 7760005 12	10,053 45,260 <u>55,313</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>251,047</u>
<u>U.S. DEPT. OF EDUCATION</u>			
Passed Through State Dept. of Education:			
<u>TITLE I, PART A CLUSTER</u>			
ARRA - Title I - Grants to Local Educational Agencies, Recovery Act	84.389	4100002 09	<u>16,813</u>
Title I - Grants to Local Educational Agencies	84.010	3100002 10 3100002 11	164,216 124,000 <u>288,216</u> <u>305,029</u>
Career and Technical Education - Basic Grants to States	84.048	4621132 10 4621032 09 4621232 11	432 359 8,900 <u>9,691</u>
Twenty-First Century Community Learning Centers	84.287	3400001 09 3400002 09 3400002 10	2,000 149,009 44,340 <u>195,349</u>
Education Technology State Grants	84.318	3210002 10	<u>599</u>
Rural Education	84.358	3140002 11	<u>8,300</u>
Improving Teacher Quality - State Grants	84.367	3230002 10 3230002 11	15,237 28,050 <u>43,287</u>
			<u>562,255</u>

The accompanying notes are an integral part of this schedule.
(Continued next page)

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2012

(Concluded)

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass - Through Grantor's Number	Federal Expenditures
Education Jobs Fund	84.410	EJOB00 10	<u>76,781</u>
<u>SPECIAL EDUCATION CLUSTER (IDEA)</u>			
Special Education - Grants to States	84.027	3810002 10 3810002 11	50,324 <u>116,600</u> 166,924
ARRA - Special Education - Grants to States, Recovery Act	84.391	4810002 09	<u>21,013</u>
Special Education - Preschool Grants	84.173	3800002 10	<u>5,250</u>
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	4800002 09	<u>11,359</u> <u>204,546</u>
TOTAL U.S. DEPT. OF EDUCATION			<u>843,582</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through Big Sandy Area Community Action Program, Inc.:			
Head Start	93.600	04CH071238	51,706
	93.600	04CH071246	<u>156,183</u> <u>207,889</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>207,889</u>
<u>U. S. DEPARTMENT OF COMMERCE</u>			
Direct Program:			
Congressionally Identified Awards and Projects - Pride Grant	11.469	2726	<u>2,106</u>
TOTAL U. S. DEPARTMENT OF COMMERCE			<u>2,106</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$ 1,304,624</u></u>

The accompanying notes are an integral part of this schedule.

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

NOTE B – FOOD DISTRIBUTION

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 Paintsville Independent 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>
Title I, Part A Cluster		
84.010	Title I – Grants to Local Educational Agencies	\$288,216
84.389	ARRA – Title I – Grants to Local Educational Agencies, Recovery Act	<u>16,813</u>
Total Type A Programs		<u>\$305,029</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAINTSVILLE INDEPENDENT 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 no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes 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 no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.389	ARRA - Title I Grants to Local Educational Agencies, Recovery Act
84.010	Title I – Grants to Local Educational Agencies
84.027	Special Education – Grants to States
84.391	ARRA - Special Education – Grants to States, Recovery Act
84.173	Special Education – Preschool Grants
84.392	ARRA – Special Education – Preschool Grants, Recovery Act

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

Auditee qualified as low-risk auditee? yes no

SECTION II - FINDINGS-FINANCIAL STATEMENTS AUDIT

Head Start 2012-1 Books Not Balanced

Condition: Headstart's monthly reports, bank reconciliations, and general ledger do not reconcile to each other.

Criteria: Bank reconciliations are to be done monthly and agreed back to the general ledger and monthly report for accuracy.

Cause of Condition: Employees have too many job duties and are not properly trained.

Effect: The books were out of balance.

Recommendation: Employees are to be properly trained.

Management's Response: We were unaware this was happening. We will see that everyone is properly trained and supervised.

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

The audit did not disclose any audit findings.

PAINTSVILLE INDEPENDENT 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
Paintsville Independent 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 Paintsville Independent School District, as of and for the year ended June 30, 2012, which collectively comprise the Paintsville Independent School District's basic financial statements and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by The Kentucky State committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report.

Internal Control Over Financial Reporting

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

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

Our consideration of 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 Paintsville Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Paintsville Independent School District, in a separate letter dated October 15, 2012.

Paintsville Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Paintsville Independent 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 Paintsville Independent School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wells & Company PSC

Certified Public Accountants
Paintsville, Kentucky
October 15, 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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**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**

Members of the Board of Education
Paintsville Independent School District
Paintsville, Kentucky

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by The Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, and Appendix II to the Independent Auditor's Contract – State Audit Requirements. 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 Paintsville Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Paintsville Independent School District's compliance with those requirements.

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

Internal Control Over Compliance

Management of Paintsville Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Paintsville Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on

compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Paintsville Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that 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 Paintsville Independent School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 15, 2012

MANAGEMENT LETTER COMMENTS



WELLS & COMPANY, P.S.C.

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Members of the Board of Education of
Paintsville Independent School District
Paintsville, Kentucky

In planning and performing our audit of the financial statements of Paintsville Independent 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 15, 2012 contains our report on the District's internal control structure. This letter does not affect our report dated October 15, 2012 on the financial statements of the Paintsville Independent 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 15, 2012

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2012

PRIOR YEAR COMMENTS

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS - CONTINUED**

June 30, 2012

CURRENT YEAR COMMENTS

High School 12-1 Fundraiser Worksheets Not Completed

Condition: We discovered that fundraiser worksheets are not being completed with each fundraiser.

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

Cause of Condition: Principals 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: Teachers will be made aware of this form and will be required to use them on all fundraisers.