

ROWAN COUNTY SCHOOL DISTRICT

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

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Rowan County School District
Morehead, Kentucky 40351

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 Rowan County School District (the "District") as of 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 the 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; OMB Circular A-133, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements and Appendix II to the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Rowan County School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of Rowan County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in 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 Rowan County School District's financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the schedule of expenditures of federal awards contained on pages 43 and 44 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Rowan County School District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Kelley, Galloway & Company, PSC

October 19, 2012

**ROWAN COUNTY SCHOOL DISTRICT
MOREHEAD, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2012**

As management of the Rowan County School District ("the 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 financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$2,360,858 and the ending balance was approximately \$3,286,584, an increase of approximately \$925,726 for the year, principally due to an increase in tax collections in the current year.
- The General Fund had \$23,514,294 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$23,213,209 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$1,137,200 during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government 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 is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 8 and 9 of this report.

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

The basic fund financial statements can be found on pages 10 through 20 of this report.

Notes to the financial statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by approximately \$12.7 million as of June 30, 2012.

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

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

Net Assets for the period ending June 30, 2012

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 3,687,000	\$ 3,841,000
Noncurrent Assets	44,968,000	46,317,000
Total Assets	<u>\$ 48,655,000</u>	<u>\$ 50,158,000</u>
Current Liabilities	\$ 2,271,000	\$ 2,452,000
Noncurrent Liabilities	33,783,000	34,722,000
Total Liabilities	<u>36,054,000</u>	<u>37,174,000</u>
Net Assets		
Investment in capital assets (net of debt)	10,274,000	10,706,000
Restricted	1,463,000	1,461,000
Unrestricted Fund Balance	924,000	817,000
Total Net Assets	<u>\$ 12,661,000</u>	<u>\$ 12,984,000</u>

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2012, with comparison to 2011.

	<u>2012</u>	<u>2011</u>
Revenues:		
Local Revenue Sources	\$ 8,318,000	\$ 8,118,000
State revenue Sources	20,694,000	19,281,000
Federal Revenue	4,071,000	5,532,000
Other Sources	<u>5,000</u>	<u>119,000</u>
Total Revenues	<u>33,088,000</u>	<u>33,050,000</u>
Expenses:		
Instruction	19,516,000	21,298,000
Student Support Services	1,082,000	1,097,000
Instructional Support	669,000	575,000
District Administration	855,000	905,000
School Administration	1,311,000	1,331,000
Plant Operations	3,075,000	3,146,000
Student Transportation	2,461,000	2,472,000
Business and Other Support Services	227,000	221,000
Community Services	297,000	300,000
Debt Service	1,975,000	1,470,000
Food Services	1,840,000	1,576,000
Day Care Fund	51,000	72,000
Community Ed Fund	<u>7,000</u>	<u>21,000</u>
Total Expenses	<u>33,366,000</u>	<u>34,484,000</u>
Revenues in Deficiency of Expenses	<u>\$ (278,000)</u>	<u>\$ (1,424,000)</u>

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 63% and federal funding of 12% of total revenue. Local revenues make up 25% of total revenue (24% in 2011).

District-Wide Support Allocation

District-wide support services expenditures were Transportation 7%, Maintenance & Operations 9%, and Business Functions 1% (same as in 2011 for each of these).

The total cost of all programs and services for governmental activities was \$31,169,000, compared with \$32,815,000 in 2011. This decrease is due to the loss of grant monies from the Recovery Act.

The District's total revenues for the governmental funds for the fiscal year ended June 30, 2012 and 2011, net of inter-fund transfers and bond proceeds, was approximately \$30,904,000 million and \$31,318,000 million, respectively.

Comments on Budget Comparisons

- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$355,996 more than budget or approximately 1.9%.
- General Fund revenue compared to budget varied from line item to line item more this year than in the past due in part to local property tax collection rates being up due a rate increase.

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 approximately \$1,027,440 in contingency (4.0%). The general fund cash balance for beginning the next fiscal year is \$1,798,633. Significant Board action that impacts the finances include scheduled completion of construction on the new middle school.

Questions regarding this report should be directed to the Superintendent Marvin Moore or to his representative, Director of Financial Services Glen Teager or by mail at:

Rowan County School District
121 E Second Street
Morehead, Kentucky 40351

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 2,970,619	\$ 315,965	\$ 3,286,584
Receivables (net of allowances for uncollectibles):			
Taxes	195,286	-	195,286
Other	60,014		
Intergovernmental - state	183,598	2,544	186,142
Inventories	-	19,027	19,027
Bond issue costs, net of amortization	220,537	-	220,537
Capital assets, not being depreciated	2,027,270	-	2,027,270
Capital assets, being depreciated, net	42,583,148	136,814	42,719,962
Total assets	<u>48,240,472</u>	<u>474,350</u>	<u>48,654,808</u>
Liabilities			
Accounts payable	173,739	2,173	175,912
Accrued interest payable	262,839	-	262,839
Deferred revenue	227,583	-	227,583
Portion due or payable within one year:			
Accrued sick leave	338,549	-	338,549
Bond obligations	1,265,842	-	1,265,842
Portion due or payable after one year:			
Accrued sick leave	575,479	-	575,479
Bond obligations	33,208,017	-	33,208,017
Total liabilities	<u>36,052,048</u>	<u>2,173</u>	<u>36,054,221</u>
Net Assets			
Invested in capital assets, net of related debt	10,136,559	136,814	10,273,373
Restricted for:			
Capital projects	1,128,001	-	1,128,001
Other	-	335,363	335,363
Unrestricted	923,864	-	923,864
Total net assets:	<u>\$ 12,188,424</u>	<u>\$ 472,177</u>	<u>\$ 12,660,601</u>

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

**ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 19,516,158	\$ -	\$ 3,537,903	\$ -	\$ (15,978,255)	\$ -	\$ (15,978,255)
Support services:							
Students	1,082,377	-	261,729	-	(820,648)	-	(820,648)
Instructional staff	668,749	-	262,294	-	(406,455)	-	(406,455)
District administration	855,286	-	600	-	(854,686)	-	(854,686)
School administration	1,311,009	-	86,147	-	(1,224,862)	-	(1,224,862)
Business and other support services	226,624	-	32,467	-	(194,157)	-	(194,157)
Operation and maintenance of plant	3,074,976	-	5,000	-	(3,069,976)	-	(3,069,976)
Student transportation	2,460,949	-	-	-	(2,460,949)	-	(2,460,949)
Community services	297,196	-	297,196	-	-	-	-
Debt service	1,975,338	-	-	670,338	(1,305,000)	-	(1,305,000)
Total governmental activities	31,468,662	-	4,483,336	670,338	(26,314,988)	-	(26,314,988)
Business-type activities:							
Food service	1,840,028	452,812	1,357,067	-	-	(30,149)	(30,149)
Day Care Fund	51,051	67,735	-	-	16,684	16,684	16,684
Community Ed Fund	7,057	5,960	-	-	-	(1,097)	(1,097)
Total business-type activities	1,898,136	526,507	1,357,067	-	-	(14,562)	(14,562)
Total primary government	\$ 33,366,798	\$ 526,507	\$ 5,840,403	\$ 670,338	\$ (26,314,988)	\$ (14,562)	\$ (26,329,550)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 5,350,438	\$ -	\$ 5,350,438
Motor vehicle					515,336	-	515,336
Utilities					1,507,562	-	1,507,562
Revenue in lieu of taxes					101,063	-	101,063
Intergovernmental revenues:							
State					18,254,513	-	18,254,513
Investment earnings					4,239	378	4,617
Gain on sale of assets					5,589	-	5,589
Other local revenues					312,067	-	312,067
Total general revenues and transfers					26,050,807	378	26,051,185
Change in net assets					(264,181)	(14,184)	(278,365)
Net assets, June 30, 2011					12,452,605	486,361	12,938,966
Net assets, June 30, 2012					\$ 12,188,424	\$ 472,177	\$ 12,660,601

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

**ROWAN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Special Revenue Fund	SEEK Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,798,633	\$ 43,985	\$ 465,528	\$ 652,374	\$ 10,099	\$ 2,970,619
Receivables (net of allowances for uncollectibles):						
Taxes	195,286	-	-	-	-	195,286
Other	60,014	-	-	-	-	60,014
Intergovernmental - state	-	183,598	-	-	-	183,598
Total assets	<u>\$ 2,053,933</u>	<u>\$ 227,583</u>	<u>\$ 465,528</u>	<u>\$ 652,374</u>	<u>\$ 10,099</u>	<u>\$ 3,409,517</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 173,739	\$ -	\$ -	\$ -	\$ -	\$ 173,739
Deferred revenue	-	227,583	-	-	-	227,583
Total liabilities	<u>173,739</u>	<u>227,583</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>401,322</u>
Fund balances:						
Assigned	9,265	-	-	-	-	9,265
Committed	194,892	-	-	-	-	194,892
Restricted	-	-	465,528	652,374	10,099	1,128,001
Unassigned	1,676,037	-	-	-	-	1,676,037
Total fund balances	<u>1,880,194</u>	<u>-</u>	<u>465,528</u>	<u>652,374</u>	<u>10,099</u>	<u>3,008,195</u>
Total liabilities and fund balances	<u>\$ 2,053,933</u>	<u>\$ 227,583</u>	<u>\$ 465,528</u>	<u>\$ 652,374</u>	<u>\$ 10,099</u>	<u>\$ 3,409,517</u>

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

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

Fund balances—total governmental funds	\$ 3,008,195
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	44,610,418
Certain other assets and liabilities are not available to pay current period expenditures and therefore are not reported in the funds.	(42,302)
Some liabilities, including bonds, capital leases, and accrued sick leave, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(35,387,887)</u>
Net assets of governmental activities	<u><u>\$ 12,188,424</u></u>

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

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

	General Fund	Special Revenue Funds	SEEK Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes -						
Property	\$ 4,260,438	\$ -	\$ -	\$ 1,090,000	\$ -	\$ 5,350,438
Motor vehicles	515,336	-	-	-	-	515,336
Utilities	1,507,562	-	-	-	-	1,507,562
Revenue in lieu of taxes	101,063	-	-	-	-	101,063
Interest income	4,238	-	-	-	1	4,239
Other local revenues	202,660	109,407	-	-	-	312,067
Intergovernmental - State	17,166,291	1,479,980	285,116	917,928	670,338	20,519,653
Intergovernmental - Indirect federal	-	2,837,417	-	-	-	2,837,417
Intergovernmental - Direct federal	51,117	-	-	-	-	51,117
Total revenues	<u>23,808,705</u>	<u>4,426,804</u>	<u>285,116</u>	<u>2,007,928</u>	<u>670,339</u>	<u>31,198,892</u>
Expenditures:						
Current:						
Instruction	14,508,428	3,537,903	-	-	-	18,046,331
Support services:						
Students	819,341	261,729	-	-	-	1,081,070
Instructional staff	402,736	262,294	-	-	-	665,030
District administration	841,489	600	-	-	-	842,089
School administration	1,224,862	86,147	-	-	-	1,311,009
Business and other support services	194,157	32,467	-	-	-	226,624
Operation and maintenance of plant	3,067,214	5,000	-	-	-	3,072,214
Student transportation	2,337,740	-	-	-	-	2,337,740
Community services	-	297,196	-	-	-	297,196
Facilities acquisition and construction	-	-	-	-	97,959	97,959
Site improvement	-	-	-	-	5,485	5,485
Debt service	117,242	-	-	500	2,981,427	3,099,169
Total expenditures	<u>23,513,209</u>	<u>4,483,336</u>	<u>-</u>	<u>500</u>	<u>3,084,871</u>	<u>31,081,916</u>
Excess (deficiency) of revenues over expenditures	295,496	(56,532)	285,116	2,007,428	(2,414,532)	116,976
Other financing sources (uses):						
Gain on sale of assets	5,589	-	-	-	-	5,589
Bond proceeds	-	-	-	-	5,915,000	5,915,000
Payment to bond escrow agent	-	-	-	-	(5,915,000)	(5,915,000)
Transfers in	-	56,532	-	-	2,311,089	2,367,621
Transfers out	(215,933)	-	(128,014)	(2,023,674)	-	(2,367,621)
Total other financing sources and uses	<u>(210,344)</u>	<u>56,532</u>	<u>(128,014)</u>	<u>(2,023,674)</u>	<u>2,311,089</u>	<u>5,589</u>
Net change in fund balances	85,152	-	157,102	(16,246)	(103,443)	122,565
Fund balances, June 30, 2011, as restated	1,795,042	-	308,426	668,620	113,542	2,885,630
Fund balances, June 30, 2012	<u>\$ 1,880,194</u>	<u>\$ -</u>	<u>\$ 465,528</u>	<u>\$ 652,374</u>	<u>\$ 10,099</u>	<u>\$ 3,008,195</u>

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

**ROWAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balances—total governmental funds \$ 122,565

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	<u>(1,546,092)</u>	(1,546,092)
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Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave		35,515
Interest payable		(44,429)
Bond issue costs, net of amortization		31,060

Bond proceeds are recognized as other financing sources of current financial resources in the fund financial statements but are increases in liabilities in the statement of net assets.		(5,915,000)
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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.		<u>7,052,200</u>
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Change in net assets of governmental activities		<u><u>\$ (264,181)</u></u>
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The accompanying notes to financial statements
are an integral part of this statement.

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 298,480	\$ 20,029	\$ (2,544)	\$ 315,965
Accounts receivable	-	-	2,544	2,544
Inventories	19,027	-	-	19,027
Total current assets	<u>317,507</u>	<u>20,029</u>	<u>-</u>	<u>337,536</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	136,814	-	-	136,814
Total noncurrent assets	<u>136,814</u>	<u>-</u>	<u>-</u>	<u>136,814</u>
 Total assets	 <u>\$ 454,321</u>	 <u>\$ 20,029</u>	 <u>\$ -</u>	 <u>\$ 474,350</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 2,173	\$ -	\$ -	\$ 2,173
Total current liabilities	<u>2,173</u>	<u>-</u>	<u>-</u>	<u>2,173</u>
Total liabilities	<u>2,173</u>	<u>-</u>	<u>-</u>	<u>2,173</u>
Net Assets				
Invested in capital assets	136,814	-	-	136,814
Restricted	315,334	20,029	-	335,363
Total net assets	<u>452,148</u>	<u>20,029</u>	<u>-</u>	<u>472,177</u>
Total liabilities and net assets	<u>\$ 454,321</u>	<u>\$ 20,029</u>	<u>\$ -</u>	<u>\$ 474,350</u>

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

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

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Operating revenues:				
Lunchroom sales	\$ 452,812	\$ -	\$ -	\$ 452,812
Other operating revenues	-	67,735	5,960	73,695
Total operating revenues	<u>452,812</u>	<u>67,735</u>	<u>5,960</u>	<u>526,507</u>
Operating expenses:				
Salaries and wages	610,668	40,453	-	651,121
Employee benefits	300,008	10,497	-	310,505
Materials and supplies	849,005	101	7,057	856,163
Depreciation	16,166	-	-	16,166
Other operating expenses	64,181	-	-	64,181
Total operating expenses	<u>1,840,028</u>	<u>51,051</u>	<u>7,057</u>	<u>1,898,136</u>
Operating income (loss)	<u>(1,387,216)</u>	<u>16,684</u>	<u>(1,097)</u>	<u>(1,371,629)</u>
Nonoperating revenues :				
Federal grants	1,099,809	-	-	1,099,809
Investment income	378	-	-	378
On-behalf payments	156,313	-	-	156,313
Donated commodities	83,043	-	-	83,043
State grants	17,902	-	-	17,902
Total nonoperating revenue	<u>1,357,445</u>	<u>-</u>	<u>-</u>	<u>1,357,445</u>
Increase (decrease) in net assets	(29,771)	16,684	(1,097)	(14,184)
Net assets, June 30, 2011, as restated	<u>481,919</u>	<u>3,345</u>	<u>1,097</u>	<u>486,361</u>
Net assets, June 30, 2012	<u>\$ 452,148</u>	<u>\$ 20,029</u>	<u>\$ -</u>	<u>\$ 472,177</u>

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

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

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Cash flows from operating activities:				
Cash received from:				
Lunchroom sales and fees charged	\$ 452,812	\$ 67,735	\$ 3,416	\$ 523,963
Cash paid to/for:				
Payments to suppliers and providers of goods and services	(752,225)	(101)	(7,057)	(759,383)
Payments to employees	(754,363)	(50,950)	-	(805,313)
Other payments	(64,181)	-	-	(64,181)
Net cash provided by (used for) operating activities	<u>(1,117,957)</u>	<u>16,684</u>	<u>(3,641)</u>	<u>(1,104,914)</u>
Cash flows from noncapital financing activities:				
Government grants	1,117,711	-	-	1,117,711
Net cash provided by noncapital and related financing activities	<u>1,117,711</u>	<u>-</u>	<u>-</u>	<u>1,117,711</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(37,355)	-	-	(37,355)
Net cash used for capital and related financing activities	<u>(37,355)</u>	<u>-</u>	<u>-</u>	<u>(37,355)</u>
Cash flows from investing activities:				
Interest received on investments	378	-	-	378
Net cash provided by investing activities	<u>378</u>	<u>-</u>	<u>-</u>	<u>378</u>
Net increase (decrease) in cash and cash equivalents	(37,223)	16,684	(3,641)	(24,180)
Cash and cash equivalents, June 30, 2011	<u>335,703</u>	<u>3,345</u>	<u>1,097</u>	<u>340,145</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 298,480</u>	<u>\$ 20,029</u>	<u>\$ (2,544)</u>	<u>\$ 315,965</u>
Reconciliation of operating loss to net cash used by operating activities:				
Operating income (loss)	\$ (1,387,216)	\$ 16,684	\$ (1,097)	\$ (1,371,629)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation	16,166	-	-	16,166
Donated commodities	83,043	-	-	83,043
On-behalf payments	156,313	-	-	156,313
Change in assets and liabilities:				
Accounts receivable	-	-	(2,544)	(2,544)
Inventory	11,564	-	-	11,564
Accounts payable	2,173	-	-	2,173
Net cash provided by (used for) operating activities	<u>\$ (1,117,957)</u>	<u>\$ 16,684</u>	<u>\$ (3,641)</u>	<u>\$ (1,104,914)</u>
Non-cash items:				
Donated commodities	\$ 83,043	\$ -	\$ -	\$ 83,043
On-behalf payments	\$ 156,313	\$ -	\$ -	\$ 156,313

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

**ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 43,356	\$ 400,537
Accounts receivable	-	-
Total assets	43,356	400,537
Liabilities		
Accounts payable	-	4,206
Due to students	-	396,331
Total liabilities	-	400,537
Net assets held in trust	\$ 43,356	\$ -

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

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

	Trust Funds
Additions -	
Contributions/donations	\$ 24,348
Deductions -	
Supplies and materials	20,050
Change in net assets	4,298
Net assets, June 30, 2011	39,058
Net assets, June 30, 2012	\$ 43,356

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

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 4,175,000	\$ 4,175,000	\$ 4,260,438	\$ 85,438
Motor vehicles	375,000	375,000	515,336	140,336
Utilities	1,500,000	1,500,000	1,507,562	7,562
Revenue in lieu of taxes	65,000	65,000	101,063	36,063
Interest income	15,000	15,000	4,238	(10,762)
Other local revenues	5,000	5,000	202,660	197,660
Intergovernmental - State	12,701,130	12,701,130	12,759,475	58,345
Intergovernmental - Direct federal	12,000	12,000	51,117	39,117
Total revenues	<u>18,848,130</u>	<u>18,848,130</u>	<u>19,401,889</u>	<u>553,759</u>
Expenditures:				
Current:				
Instruction	11,078,640	11,373,661	11,664,600	(290,939)
Support services:				
Students	576,616	613,771	699,142	(85,371)
Instructional staff	406,007	410,374	314,749	95,625
District administration	693,046	695,016	681,808	13,208
School administration	1,112,250	987,319	1,010,203	(22,884)
Business and other support services	158,409	159,780	160,129	(349)
Operation and maintenance of plant	2,254,324	2,337,080	2,538,302	(201,222)
Student transportation	1,923,396	1,923,396	1,920,218	3,178
Debt service	250,000	250,000	117,242	132,758
Contingency	945,942	1,027,441	-	1,027,441
Total expenditures	<u>19,398,630</u>	<u>19,777,838</u>	<u>19,106,393</u>	<u>671,445</u>
Excess (deficiency) of revenues over expenditures	<u>(550,500)</u>	<u>(929,708)</u>	<u>295,496</u>	<u>1,225,204</u>
Other financing sources (uses):				
Sale of equipment	500	500	5,589	5,089
Transfers out	(50,000)	(50,000)	(215,933)	(165,933)
Total other financing sources and uses	<u>(49,500)</u>	<u>(49,500)</u>	<u>(210,344)</u>	<u>(160,844)</u>
Net change in fund balances	<u>(600,000)</u>	<u>(979,208)</u>	<u>85,152</u>	<u>1,064,360</u>
Fund balances, June 30, 2011, as restated	<u>600,000</u>	<u>979,208</u>	<u>1,795,042</u>	<u>815,834</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,880,194</u>	<u>\$ 1,880,194</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			4,406,816	
On-behalf payments:				
Instruction			(2,843,828)	
Support services:				
Students			(120,199)	
Instructional staff			(87,987)	
District administration			(159,681)	
School administration			(214,659)	
Business and other support services			(34,028)	
Operation and maintenance of plant			(528,912)	
Student transportation			(417,522)	
Fund balance, June 30, 2012 (GAAP basis)			<u>\$ 1,880,194</u>	

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

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest income	\$ -	\$ -	\$ -	\$ -
Other local revenues	-	84,448	109,407	24,959
Intergovernmental - State	1,331,527	1,308,218	1,479,980	171,762
Intergovernmental - Indirect federal	2,160,800	2,389,599	2,837,417	447,818
Intergovernmental - Direct federal	-	-	-	-
Total revenues	<u>3,492,327</u>	<u>3,782,265</u>	<u>4,426,804</u>	<u>644,539</u>
Expenditures:				
Current:				
Instruction	2,985,042	2,902,216	3,537,903	(635,687)
Support services:				
Students	15,422	139,320	261,729	(122,409)
Instructional staff	127,961	260,458	262,294	(1,836)
District administration	600	600	600	-
School administration	-	101,972	86,147	15,825
Business and other support services	31,574	32,284	32,467	(183)
Operation and maintenance of plant	-	10,000	5,000	5,000
Student transportation	80,000	90,640	-	90,640
Community services	301,728	297,099	297,196	(97)
Operation of non-instructional services	-	-	-	-
Total expenditures	<u>3,542,327</u>	<u>3,834,589</u>	<u>4,483,336</u>	<u>(648,747)</u>
Excess (deficiency) of revenues over expenditures	<u>(50,000)</u>	<u>(52,324)</u>	<u>(56,532)</u>	<u>(4,208)</u>
Other financing sources (uses):				
Transfers in	50,000	50,000	56,532	6,532
Transfers out	-	-	-	-
Total other financing sources and uses	<u>50,000</u>	<u>50,000</u>	<u>56,532</u>	<u>6,532</u>
Net change in fund balances	-	(2,324)	-	2,324
Fund balances, June 30, 2011	<u>-</u>	<u>2,324</u>	<u>-</u>	<u>(2,324)</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

ROWAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

(1) REPORTING ENTITY

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

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

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of this organization’s financial statements may be obtained from the District’s Finance Office at 121 E. Second Street, Morehead, Kentucky 40351.

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

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

Basis of Presentation

The accounting policies of the Rowan County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

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

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

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. 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 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.

- (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. This is a major fund of the District.

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

II. Proprietary Fund Types (Enterprise Fund)

- A. 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.
- B. The Community Ed Fund is used to account for fee-based classes. This is listed as a major fund due to the nature of the activity.
- C. The Day Care Fund is used to account for day care activities. This is listed as a major fund due to the nature of the activity.

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

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

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

Basis of Accounting

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

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

Property Taxes

Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the county. 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 \$.527 per \$100 valuation for real property, \$.527 per \$100 valuation for business personal property and \$.490 per \$100 valuation for motor vehicles. In addition, the District assessed a nickel levy in the amount of \$.056 per \$100 valuation for construction purposes, only. The assessed value of property upon which the levy for the 2012 fiscal year was based, was \$1,004,958,651.

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 telegraphic communications services, cablevision services, electric power, water, and gas.

In-Kind

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

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000) 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 capitalized.

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>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
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.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See note (13) for these amounts which were not known by the District at the time the budget was adopted.

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

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

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;

- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

Net Assets

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Interfund Activity

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

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 in the fund financial statements, but is reflected in the statement of net assets.

Future Accounting Pronouncements

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

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

(3) 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(4) CASH AND CASH EQUIVALENTS

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

At year-end, the carrying amount of the District's total cash and cash equivalents was \$3,730,477 and the related bank balances totaled \$3,899,149. Of the total cash balance, \$658,410 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

(5) CAPITAL ASSETS

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

	Balance			Balance
	June 30, 2011	Additions	Deductions	June 30, 2012
<u>Governmental Activities</u>				
Land	\$ 2,027,270	\$ -	\$ -	\$ 2,027,270
Land improvements	1,008,972	-	-	1,008,972
Buildings and improvements	53,397,371	-	-	53,397,371
Technology equipment	2,334,088	-	-	2,334,088
General equipment	531,157	-	-	531,157
Vehicles	4,349,010	-	-	4,349,010
Totals	<u>63,647,868</u>	<u>-</u>	<u>-</u>	<u>63,647,868</u>
Less: accumulated depreciation				
Land improvements	891,839	20,585	-	912,424
Buildings and improvements	11,233,334	1,165,006	-	12,398,340
Technology equipment	1,820,068	197,446	-	2,017,514
General equipment	350,177	12,074	-	362,251
Vehicles	3,195,941	150,981	-	3,346,922
Total accumulated depreciation	<u>17,491,359</u>	<u>1,546,092</u>	<u>-</u>	<u>19,037,451</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 46,156,509</u>	<u>\$ 1,546,092</u>	<u>\$ -</u>	<u>\$ 44,610,417</u>
<u>Business-Type Activities</u>	(As restated)			
Food service equipment	\$ 395,749	\$ 33,721	\$ -	\$ 429,470
Food service technology equipment	<u>25,942</u>	<u>3,634</u>	<u>25,942</u>	<u>3,634</u>
	<u>421,691</u>	<u>37,355</u>	<u>25,942</u>	<u>433,104</u>
Less: accumulated depreciation				
Food service equipment	280,124	15,861	-	295,985
Food service technology equipment	<u>25,942</u>	<u>305</u>	<u>25,942</u>	<u>305</u>
	<u>306,066</u>	<u>16,166</u>	<u>25,942</u>	<u>296,290</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 115,625</u>	<u>\$ 21,189</u>	<u>\$ -</u>	<u>\$ 136,814</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 1,401,898
Student support services	1,307
Instructional staff support services	3,719
District administration	13,197
Plant operation & maintenance	2,762
Student transportation	123,209
	<u>\$ 1,546,092</u>

(6) BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as debt obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Rowan County School District Finance Corporation, with original amounts of issues totaling \$45,945,000.

Bonds

The General Fund, including utility taxes, the Facility Support Program Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide, among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Rowan County School District Finance Corporation, and Kentucky School Facility Construction Commission (KSFCC) to construct school facilities and (2) the District with the 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 original amount of present outstanding issues, the issue dates, and interest rates are summarized below:

<u>ORIGINAL ISSUE</u>	<u>ISSUER</u>	<u>AMOUNT</u>	<u>INTEREST RATES</u>
Issue of 2002R	Rowan County School District Finance Corporation & KSFCC	\$ 1,720,000	2.00% to 3.65%
Issue of 2003	Rowan County School District Finance Corporation & KSFCC	8,875,000	2.00% to 4.65%
Issue of 2005	Rowan County School District Finance Corporation & KSFCC	1,255,000	3.00% to 3.78%
Issue of 2006	Rowan County School District Finance Corporation & KSFCC	2,305,000	4.00% to 4.20%
Issue of 2008	Rowan County School District Finance Corporation & KSFCC	2,030,000	2.40% to 3.65%
Issue of 2008B	Rowan County School District Finance Corporation & KSFCC	9,885,000	4.40% to 4.60%
Issue of 2009	Rowan County School District Finance Corporation & KSFCC	9,945,000	3.50% to 4.25%
Issue of 2010	Rowan County School District Finance Corporation	4,015,000	0.80% to 6.00%
Issue of 2011	Rowan County School District Finance Corporation & KSFCC	5,915,000	1.00% to 2.75%

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

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

Assuming no 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 shown below:

Year	Kentucky School Facilities Construction Commission		Rowan County School District		Total
	Principal	Interest	Principal	Interest	
2013	\$ 469,157	\$ 160,394	\$ 1,175,843	\$ 1,148,323	\$ 2,953,717
2014	366,961	143,954	1,253,039	1,105,551	2,869,505
2015	376,066	131,051	1,298,934	1,061,547	2,867,600
2016	382,385	119,865	1,352,615	1,017,337	2,872,202
2017	386,803	109,884	1,413,197	970,224	2,880,108
2018-2022	1,888,093	384,353	7,906,907	4,046,398	14,225,751
2023-2027	1,210,656	111,786	9,529,344	2,324,680	13,176,466
2028-2031	83,100	3,639	4,751,900	308,842	5,147,481
	<u>\$5,163,221</u>	<u>\$1,164,926</u>	<u>\$ 28,681,779</u>	<u>\$ 11,982,902</u>	<u>\$ 46,992,830</u>

On July 6, 2008, the District sold \$500,000 of Qualified Zone Academy Bonds (“QZAB”). QZAB’s are financing instruments that are used to finance renovations and repairs to schools, with the federal government providing the interest payment and the school district being responsible for the repayment of principal only. A school district must meet certain eligibility criteria to qualify for a QZAB bond issue. To be eligible, a school district must either be located in an Empowerment Zone or Enterprise Community, or, have at least 35% of the school’s students eligible for free or reduced lunches under the Federal National School Lunch Program. Requirements of the QZAB program are as follows: The District must lease the school project through the maturity of July 5, 2021. The District elected to make a prepayment of rentals due thereunder in an amount, which when invested in accordance with the investment agreement, will produce the entire principal amount due on the bonds on or before the maturity date.

On October 21, 2011, the Rowan County School District issued \$5,915,000 in Refunding Revenue Bonds with an average interest rate of 2.35% to advance refund \$5,390,000 of outstanding 2003 Revenue Bonds with an average interest rate of 4.367%. The net proceeds of \$5,838,872 (after payment of \$54,760 of issuance costs, \$26,382 of discount on bonds, plus \$5,014 in accrued interest) were used to provide \$3,541 to open the Bond and Redemption Fund for the 2003 Issue, and \$5,830,317 to refund the 2003 Bond Issue. As a result, \$5,390,000 of the 2003 Series Bonds are considered to be defeased. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt. The District advance refunded \$5,390,000 of the 2003 Series Bonds to reduce its total debt service payments over the next 13 years by approximately \$368,514 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of 5.933% or \$311,236.

Capital Leases Payable

The District has leased buses with a book value of \$907,696 under capital leases through KISTA school bus financing program. The following is a schedule by year of the future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2012:

Year Ending	Capital Lease Payable
2013	\$ 107,460
2014	107,519
2015	108,059
2016	100,308
2017	101,829
2018-2021	179,341
Total minimum lease payments	704,516
Less amount represented by interest	75,657
Present value of net minimum lease payments	<u>\$ 628,859</u>

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

<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
General obligation bonds – \$45,945,000 originally issued with interest rates ranging from 0.80% to 6.00%	\$ 34,887,255	\$ 5,915,000	\$ 6,957,255	\$ 33,845,000
KISTA Loan	723,804	-	94,945	628,859
Accumulated unpaid sick leave benefits (as restated)	949,543	-	35,515	914,028
	<u>\$ 36,560,602</u>	<u>\$ 5,915,000</u>	<u>\$ 7,087,715</u>	<u>\$ 35,387,887</u>

(7) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

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

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

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS. Members hired after July 1, 2008, contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky contributes matching contributions at the rate of 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% for members hired after July 1, 2008. The Federal program for any salaries paid by that program pays the matching contributions.

The District's total payroll for the year was \$17,869,704. The payroll for employees covered under KTRS was \$13,029,141. For the year ended June 30, 2012, the Commonwealth of Kentucky contributed \$1,515,012 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ending June 30, 2012, were \$205,787 which represents those employees covered by Federal programs.

B. Medical Insurance Plan

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

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

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

C. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 18.96% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The District's total payroll for the year was \$17,869,704. The payroll for employees covered under CERS was \$4,840,563. The District's contributions to CERS for the year ending June 30, 2012, 2011, and 2010 were \$798,299, \$728,349, and \$670,112, respectively, equal to the required contributions for the year.

(8) 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 had purchased certain policies, which are retrospective rated, which includes Worker's compensation insurance.

(9) CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor’s review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements.

The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

(10) RISK MANAGEMENT

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

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

(11) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is managements’ opinion that the District is in compliance with the COBRA requirements.

(12) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 56,532
Operating	Building	Debt Service	Debt Service	2,024,174
Construction	Capital Outlay	Debt Service	Debt Service	128,014

(13) ON-BEHALF PAYMENTS

For the year ended June 30, 2012, total payments of \$4,563,129 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance. The On-Behalf payments are not budgeted in the Statement of Revenues, Expenditures, and Changes in Fund balance - Budget and Actual.

On-behalf payments at June 30, 2012 consisted of the following:

Teacher Retirement	\$	1,515,012
Health & Life Insurance		3,048,117

(14) PRIOR PERIOD ADJUSTMENTS

The District had inadvertently overstated the current liability for accrued sick leave in the General Fund in previous years. The liability included what was estimated to be paid within 1 year rather than an accrual for only employees that had given notice at year-end. This did not affect the entity-wide Governmental Activities financial statements of the prior year.

Beginning fund balances have been restated as follows:

	<u>Governmental Funds</u>	
	<u>As Previously Reported</u>	<u>As Restated</u>
General Fund		
Total assets	\$ 1,827,327	\$ 1,827,327
Total liabilities	323,978	32,285
Fund balances:		
Assigned	9,265	9,265
Committed	194,892	194,892
Unassigned	1,299,192	1,590,885
Total fund balances	<u>\$ 1,503,349</u>	<u>\$ 1,795,042</u>

In addition, the District had equipment in the Food Service Fund that had been disposed of in previous years that had not been removed from the depreciation schedule.

Beginning net assets have been restated as follows:

	<u>Business-Type Activities</u>	
	<u>As Previously Reported</u>	<u>As Restated</u>
Statement of Net Assets		
Total assets	\$ 531,161	\$ 486,361
Total liabilities	-	-
Net Assets:		
Invested in capital assets, net of related debt	160,425	115,625
Restricted for:		
Other purposes	370,736	370,736
Total net assets	<u>\$ 531,161</u>	<u>\$ 486,361</u>

SUPPLEMENTARY INFORMATION

**ROWAN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Construction Fund	Debt Service Fund	Total Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and cash equivalents	\$ 10,096	\$ 3	\$ 10,099
Accounts receivable	-	-	-
Total assets	<u>\$ 10,096</u>	<u>\$ 3</u>	<u>\$ 10,099</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted	10,096	3	10,099
Total fund balance	<u>10,096</u>	<u>3</u>	<u>10,099</u>
Total liabilities and fund balances	<u>\$ 10,096</u>	<u>\$ 3</u>	<u>\$ 10,099</u>

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

	Construction Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES:			
From local sources -			
Interest income	\$ 1	\$ -	\$ 1
Intergovernmental - State	-	670,338	670,338
Total revenues	<u>1</u>	<u>670,338</u>	<u>670,339</u>
EXPENDITURES:			
Current -			
Facilities acquisition and construction	97,959	-	97,959
Site improvement	5,485	-	5,485
Debt service	-	2,981,427	2,981,427
Total expenditures	<u>103,444</u>	<u>2,981,427</u>	<u>3,084,871</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(103,443)</u>	<u>(2,311,089)</u>	<u>(2,414,532)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds	-	5,915,000	5,915,000
Payment to bond escrow agent	-	(5,915,000)	(5,915,000)
Operating transfers in	-	2,311,089	2,311,089
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>2,311,089</u>	<u>2,311,089</u>
NET CHANGE IN FUND BALANCE	(103,443)	-	(103,443)
FUND BALANCE JUNE 30, 2011	<u>113,539</u>	<u>3</u>	<u>113,542</u>
FUND BALANCE JUNE 30, 2012	<u>\$ 10,096</u>	<u>\$ 3</u>	<u>\$ 10,099</u>

ROWAN COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR DEBT SERVICE FUNDS
 JUNE 30, 2012

	2011 Bond Fund	2010 Bond Fund	5/1/09 Bond Fund	2008B Bond Fund	3/1/08 Bond Fund	7/1/06 Bond Fund	6/1/05 Bond Fund	7/1/03 Bond Fund	11/1/02 Bond Fund	11/1/98R Bond Fund	Totals Debt Service Fund
ASSETS:											
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ 1	\$ -	\$ -	\$ 3
Total assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ 1	\$ -	\$ -	\$ 3
LIABILITIES AND FUND BALANCE:											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances:											
Restricted	-	-	-	-	-	2	-	1	-	-	3
Total fund balance	-	-	-	-	-	2	-	1	-	-	3
Total liabilities and fund balances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ 1	\$ -	\$ -	\$ 3

ROWAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	2011		2010		5/1/2009		2008B		3/1/08		7/1/06		6/1/05		7/1/03		11/1/02		Totals		
	Bond	Fund	Bond	Fund	Bond	Fund	Bond	Fund	Bond	Fund	Bond	Fund	Bond	Fund	Bond	Fund	Bond	Fund	Debt Service	Fund	
REVENUES:																					
Intergovernmental - State	\$ 40,683		\$ -		\$ 35,403		\$ 12,646		\$ 54,163		\$ 134,298		9,047		\$ 260,178		\$ 123,920		\$ 670,338		
Interest income																					
Total revenues	<u>40,683</u>		<u>-</u>		<u>35,403</u>		<u>12,646</u>		<u>54,163</u>		<u>134,298</u>		<u>9,047</u>		<u>260,178</u>		<u>123,920</u>		<u>670,338</u>		
EXPENDITURES:																					
Debt service	89,427		256,319		837,551		446,350		243,955		144,198		147,596		579,645		236,386		2,981,427		
Total expenditures	<u>89,427</u>		<u>256,319</u>		<u>837,551</u>		<u>446,350</u>		<u>243,955</u>		<u>144,198</u>		<u>147,596</u>		<u>579,645</u>		<u>236,386</u>		<u>2,981,427</u>		
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(48,744)</u>		<u>(256,319)</u>		<u>(802,148)</u>		<u>(433,704)</u>		<u>(189,792)</u>		<u>(9,900)</u>		<u>(138,549)</u>		<u>(319,467)</u>		<u>(112,466)</u>		<u>(2,311,089)</u>		
OTHER FINANCING SOURCES (USES):																					
Bond proceeds	5,915,000		-		-		-		-		-		-		-		-		5,915,000		
Payment to bond escrow agent	(5,915,000)		-		-		-		-		-		-		-		-		(5,915,000)		
Operating transfers in	48,744		256,319		802,148		433,704		189,792		9,900		138,549		319,467		112,466		2,311,089		
Total other financing sources (uses)	<u>48,744</u>		<u>256,319</u>		<u>802,148</u>		<u>433,704</u>		<u>189,792</u>		<u>9,900</u>		<u>138,549</u>		<u>319,467</u>		<u>112,466</u>		<u>2,311,089</u>		
NET CHANGE IN FUND BALANCE	-		-		-		-		-		-		-		-		-		-		-
FUND BALANCE JUNE 30, 2011	-		-		-		-		-		2		-		1		-		-		3
FUND BALANCE JUNE 30, 2012	<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ 2</u>		<u>\$ -</u>		<u>\$ 1</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ 3</u>

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

	Cash Balance June 30, 2011	Receipts	Disbursements	Cash Balance June 30, 2012	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Rowan County High School	\$ 140,437	\$ 321,066	\$ 327,242	\$ 134,261	\$ 1,909	\$ 132,352
Rowan County Middle School	133,896	191,642	187,461	138,077	2,297	135,780
McBrayer Elementary	45,442	141,842	166,710	20,574	-	20,574
Clearfield Elementary	14,236	61,215	68,635	6,816	-	6,816
Rodburn Elementary	53,465	63,557	65,385	51,637	-	51,637
Tilden-Hogge Elementary	41,608	43,248	35,684	49,172	-	49,172
	<u>\$ 429,084</u>	<u>\$ 822,570</u>	<u>\$ 851,117</u>	<u>\$ 400,537</u>	<u>\$ 4,206</u>	<u>\$ 396,331</u>

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
ROWAN COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance June 30, 2011	Receipts	Disburse- ments	Cash Balance June 30, 2012	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Astronomy Club	\$ -	\$ 424	\$ -	\$ 424	\$ -	\$ 424
AP Exams	1,318	3,873	-	5,191	-	5,191
Aviation	1,061	4,850	4,561	1,350	-	1,350
Golf- Girls	28	-	-	28	-	28
Art Club	180	-	1	179	-	179
Swimming	100	-	-	100	-	100
Art Department	16	2,900	2,916	-	-	-
RCSHS Basketball	71	-	-	71	-	71
Athletics	1,402	158,852	154,999	5,255	-	5,255
Boys Basketball	1,289	14,596	15,551	334	-	334
Golf-Boys	315	1,000	300	1,015	-	1,015
Girls Basketball	25	708	617	116	-	116
Tennis-Girls	945	2,435	878	2,502	-	2,502
Fitness	77	-	77	-	-	-
Softball	10	-	-	10	-	10
Football	91	150	-	241	-	241
Band	25	-	-	25	-	25
National Honor Society	164	-	159	5	-	5
Cheerleaders	7,839	11,277	17,718	1,398	-	1,398
Choral	139	5,500	5,639	-	-	-
Class of 2010	1	-	1	-	-	-
Class of 2011	1,607	-	1,607	-	-	-
Class of 2012	3,002	10,620	12,146	1,476	-	1,476
Class of 2013	-	5,927	3,188	2,739	1,909	830
CO-ED-Y.	1,673	9,733	10,845	561	-	561
English Department	2,938	-	102	2,836	-	2,836
FBLA	532	308	643	197	-	197
FCA	161	-	75	86	-	86
FFA	1,605	7,119	6,692	2,032	-	2,032
FCCLA	1,324	1,337	2,116	545	-	545
Foreign Language	-	1	-	1	-	1
Telephone	4,281	-	1,545	2,736	-	2,736
National Honor Society	-	2,731	1,293	1,438	-	1,438
General	11,658	12,389	12,666	11,381	-	11,381
Reserve	8,742	12,081	1,456	19,367	-	19,367
Sealmaster Grant	-	1,262	958	304	-	304
Guidance	2,131	3,013	5,144	-	-	-
Postage	1,896	83	1,896	83	-	83
Balfour	8	-	-	8	-	8
Laura Bush Foundation	-	5,000	-	5,000	-	5,000
Library	1,077	194	1,069	202	-	202
Math Department	219	713	701	231	-	231
Pep Club	537	-	-	537	-	537
Physical Education	74	-	-	74	-	74
Project Prom	3,484	7,721	10,875	330	-	330
Science Club	1,877	897	984	1,790	-	1,790
Physics	125	-	1	124	-	124
Science Department	622	10,199	10,820	1	-	1
Anatomy/Physiology	1,331	-	200	1,131	-	1,131
AP Biology/Calculus	9	-	-	9	-	9
SGA	6,305	-	683	5,622	-	5,622
Spanish Club	32	5	32	5	-	5
Social Studies	1,266	3,700	4,958	8	-	8
Special Education	341	30	292	79	-	79
Speech Department	3,677	3,014	2,282	4,409	-	4,409

ROWAN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
ROWAN COUNTY HIGH SCHOOL - CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2012

	Cash Balance June 30, 2011	Receipts	Disburse- ments	Cash Balance June 30, 2012	Accounts Payable	Deposits Held in Custody for Students June 30, 2012
Sports Medicine	-	1,000	755	245	-	245
STLP	-	500	69	431	-	431
Textbook	50,217	637	12,904	37,950	-	37,950
Vending - Students	3,080	839	3,259	660	-	660
Vending - Teachers	6,518	7,090	5,920	7,688	-	7,688
Viking Voice	727	-	727	-	-	-
Vo-Ag	88	-	88	-	-	-
TSA	-	1,448	1,255	193	-	193
Agriculture Department	-	88	-	88	-	88
Yearbook	1,635	1,851	2,361	1,125	-	1,125
Youth Service Center	542	1,255	568	1,229	-	1,229
Anatomy	-	529	330	199	-	199
School Store	-	857	24	833	-	833
Academic Team	-	330	296	34	-	34
	<u>\$ 140,437</u>	<u>\$ 321,066</u>	<u>\$ 327,242</u>	<u>\$ 134,261</u>	<u>\$ 1,909</u>	<u>\$ 132,352</u>

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100002-11	\$ 1,031,917 *	\$ 908,407
Title I Grants to Local Educational Agencies	84.010	3100002-10	1,042,123 *	191,615
ARRA - Title I Grant for Neglected and Delinquent Children	84.389	3999	10,234 *	5,241
ARRA - Title I Grants to Local Educational Agencies	84.389	3919	609,099 *	21,943
				<u>1,127,206</u>
 Title I Grant for Neglected and Delinquent Children	 84.013	 3100102-11	 28,369	 28,369
				<u>28,369</u>
 Special Education Cluster (IDEA):				
Special Education Grants to States - IDEA, Part B	84.027	3810002-11	703,684 *	545,798
Special Education Grants to States - IDEA, Part B	84.027	3810002-10	721,838 *	91,355
Special Education Grants to States - IDEA, Part B, Preschool	84.173	3800002-11	43,826 *	44,377
ARRA - Special Education Grants to States - IDEA, Part B	84.391	4249	791,395 *	59,157
ARRA - Special Education Preschool Grants	84.392	4239	53,227 *	1,421
				<u>742,108</u>
 Rural Education	 84.358	 3140002-11	 86,523	 81,204
				<u>81,204</u>
 Safe and Drug-Free Schools and Communities State Grants	 84.186	 3410002-10	 14,000	 4,837
				<u>4,837</u>
 Improving Teacher Quality State Grants	 84.367	 3230002-11	 196,658	 123,226
Improving Teacher Quality State Grants	84.367	3230002-10	232,747	113,699
				<u>236,925</u>
 Vocational Education Basic Grants to States	 84.048	 4620732-11	 32,894	 31,206
Vocational Education Basic Grants to States	84.048	4620732-10	34,036	1,141
				<u>32,347</u>
 Education for Homeless Children and Youth	 84.196	 3990001-11	 49,427	 46,111
Education for Homeless Children and Youth	84.196	3990001-10	49,530	557
ARRA - Education for Homeless Children and Youth	84.387	3219	36,864	46
				<u>46,714</u>
 Edu Jobs	 84.410	 EJOB00-10	 720,048 *	 375,097
 ARRA - Educational Technology State Grants	 84.386	 4860	 67,824	 21,449
ARRA - Educational Technology State Grants	84.386	4850	18,636	17,269
				<u>38,718</u>
 Direct:				
Safe and Drug Free Schools and Communities State Grants	84.184	6912	125,000	76,012
Safe and Drug Free Schools and Communities State Grants	84.184	6910	250,000	37,209
				<u>113,221</u>
 Total U.S. Department of Education				 <u>2,826,746</u>

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
Cash Assistance:				
Fresh Fruit and Vegetable Program	10.582	7720012-11		7,783
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002-12	*	616,977
National School Lunch Program	10.555	7750002-11	*	163,262
School Breakfast Program	10.553	7760005-12	*	235,078
School Breakfast Program	10.553	7760005-11	*	62,335
School Food Service for Children	10.559	7690024-11	*	1,333
School Food Service for Children	10.559	7740023-11	*	12,868
				<u>1,091,853</u>
Non-cash Assistance:				
Food Donation	10.555	057502-02	*	83,043
Total child nutrition cluster				<u>1,174,896</u>
Total U.S. Department of Agriculture				<u>1,182,679</u>
				<u>1,182,679</u>
Total expenditures of Federal awards				<u>\$ 4,009,425</u>

* Denotes major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Rowan County School District under the programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Rowan County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, commodities on hand are included in the total inventory of \$19,027.



Kelley,
Galloway &
Company, PSC

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Rowan County School District
Morehead, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Rowan County School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements* and *Appendix III to the Independent Auditor's Contract - Electronic Submission*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

Kelley, Dalloway & Company, PSC

October 19, 2012



Kelley,
Galloway &
Company, PSC

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Rowan County School District
Morehead, Kentucky

Compliance

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

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

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

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control

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

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

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

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

Kelley, Galloway & Company, PSC

October 19, 2012

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

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

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

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

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

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

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

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

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

- Title I (84.010 and 84.389)
- Edu Jobs (84.410)
- Special Education Cluster (IDEA) (84.027, 84.173, 84.391, and 84.392)
- Child Nutrition Cluster (10.555, 10.553, and 10.559)

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

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

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

None noted in the current year.

(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no findings in the current year.

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

There were no findings in the prior year.

**ROWAN COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2012**

No corrective action plan needed in the current year.



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Rowan County School District
Morehead, Kentucky

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

However, during our audit, we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 19, 2012, on the financial statements of the District.

We will review the status of this comment during our next audit engagement. We have already discussed this comment with various District personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of the matter, or to assist you in implementing the recommendation.

Kelley, Galloway & Company, PSC

October 19, 2012

ROWAN COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2012

2012-1 Check Numbers

Statement of Condition: We noted that check numbers are not included in the reports given to the Board each month.

Criteria for Condition: The Board should approve all expenditures.

Cause of Condition: Reports are generated in such a way that check numbers are not included.

Effect of the Condition: Board members are unable to reconcile check numbers from month to month to ensure that all expenditures have been approved.

Recommendation of the Condition: Reports should be generated in such a way that all check numbers are included for Board review and approval.

Management Response: Every effort will be made to include the check numbers in reports provided to the Board for review.

Status of Prior Year Management Points

All prior year conditions have been implemented and corrected. Mr. Marvin Moore, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.