

**LINCOLN COUNTY SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2012**

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October 19, 2012

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof 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 a report dated October 19, 2012, on our consideration of Lincoln County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 3 through 9 and 16 and 17 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 Lincoln County School District's financial statements taken as a whole. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**LINCOLN COUNTY PUBLIC SCHOOL DISTRICT – STANFORD, KY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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

FINANCIAL HIGHLIGHTS

- The June 30, 2012 cash balance for the District was \$9,125,432 million, as compared with the beginning cash balance of \$9,861,290 million. The ending cash balance consists of General Fund of \$5,532,103, Special Revenue of (\$138,261), Capital Outlay of \$886,817, Building (FSPK) Fund of \$102,325, Construction Fund of \$2,570,498, Food Service of \$171,911 and Community Education of \$39.
- District-wide net assets decreased \$434,801 during the 2012 fiscal year. Total long-term obligations had a net increase of \$803,519.
- The General Fund had \$29.8 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$29.7 million in General Fund expenditures.
- General Fund revenue increased \$1.99 million from last fiscal year and General Fund expenses increased \$1.91 million.
- The financial statements reflect revenues of \$6,769,985 from the state on-behalf of District employees for retirement contributions, health insurance, administration, debt service and technology with a like amount of expenses recorded.

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) district-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.

District-wide financial statements.

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

The district-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements.

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

The basic governmental fund financial statements can be found on pages 12-21 of this report.

Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

The notes to the financial statements can be found on pages 22-37 of this report.

DISTRICT-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 \$18.55 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) 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 and June 30, 2011

A comparison of June 30, 2012 and June 30, 2011 government wide net assets is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 10,182,508	\$ 11,827,464	\$ 214,726	\$ 210,210	\$ 10,397,234	\$ 12,037,674
Capital Assets	41,518,318	40,020,752	304,419	325,307	41,822,737	40,346,059
Total Assets	<u>51,700,826</u>	<u>51,848,216</u>	<u>519,145</u>	<u>535,517</u>	<u>52,219,971</u>	<u>52,383,733</u>
Current Liabilities	2,687,950	3,300,861	12,601	9,075	2,700,551	3,309,936
Non-Current Liabilities	30,973,645	30,093,222	-	-	30,973,645	30,093,222
Total Liabilities	<u>33,661,595</u>	<u>33,394,083</u>	<u>12,601</u>	<u>9,075</u>	<u>33,674,196</u>	<u>33,403,158</u>
Net Assets						
Investment in capital assets (net of related debt)	10,163,849	9,388,470	304,419	325,307	10,468,268	9,713,777
Restricted	3,545,065	4,240,492	202,125	201,136	3,747,190	4,441,628
Unrestricted	4,330,317	4,825,171	-	-	4,330,317	4,825,171
Total Net Assets	<u>\$ 18,039,231</u>	<u>\$ 18,454,133</u>	<u>\$ 506,544</u>	<u>\$ 526,443</u>	<u>\$ 18,545,775</u>	<u>\$ 18,980,576</u>

The following table presents changes in net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUES						
Program revenues						
Charges for services	\$ -	\$ -	\$ 422,718	\$ 496,808	\$ 422,718	\$ 496,808
Operating grants and contributions	7,390,130	9,001,328	1,822,620	1,972,306	9,212,750	10,973,634
Capital grants	1,130,291	1,174,515		67,298	1,130,291	1,241,813
General revenues						
Property taxes	3,913,307	3,546,100			3,913,307	3,546,100
Motor vehicle taxes	707,525	714,325			707,525	714,325
Utility Taxes	1,094,302	1,137,816			1,094,302	1,137,816
Other taxes	14,711	48,624			14,711	48,624
Investment earnings	88,116	119,074	1,651	369	89,767	119,443
State and formula grants	25,019,817	23,035,522			25,019,817	23,035,522
Miscellaneous	344,890	752,615	1,000	2,180	345,890	754,795
Total revenues	<u>39,703,089</u>	<u>39,529,919</u>	<u>2,247,989</u>	<u>2,538,961</u>	<u>41,951,078</u>	<u>42,068,880</u>
EXPENSES						
Program Activities						
Instructional	25,867,887	25,411,446			25,867,887	25,411,446
Student support	1,536,537	1,370,002			1,536,537	1,370,002
Instructional staff Support	1,646,258	1,953,245			1,646,258	1,953,245
District administrative support	509,638	501,255			509,638	501,255
School administrative support	1,761,864	1,745,544			1,761,864	1,745,544
Business support	667,504	590,280			667,504	590,280
Plant operations and maintenance	3,840,319	3,216,458			3,840,319	3,216,458
Student transportation	2,527,457	2,522,928			2,527,457	2,522,928
Community service activities	466,806	463,489			466,806	463,489
Other	8,046	103,552			8,046	103,552
Interest costs	1,285,675	1,279,763			1,285,675	1,279,763
Business-type Activities						
Food service			2,266,888	2,298,477	2,266,888	2,298,477
Community education			1,000	2,565	1,000	2,565
Total expenses	<u>40,117,991</u>	<u>39,157,962</u>	<u>2,267,888</u>	<u>2,301,042</u>	<u>42,385,879</u>	<u>41,459,004</u>
Increase (decrease) in net assets	<u>\$ (414,902)</u>	<u>\$ 371,957</u>	<u>\$ (19,899)</u>	<u>\$ 237,919</u>	<u>\$ (434,801)</u>	<u>\$ 609,876</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2012 and 2011 were \$6,769,985 and \$5,811,901 respectively.

Total revenue decreased \$122,839 and expenses increased \$921,838. Plant operation and maintenance coupled with increased instructional expenses are the principal reason for the increase in expenditures from 2011.

Governmental Activities

For the governmental program expenses instructional expenses comprise 65% of total expenses, support services equate to 31%, and interest and other expenses make up the remaining 4% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Instructional	\$ 25,867,887	\$ 25,411,446	\$ 19,950,681	\$ 18,681,462
Support Services	12,497,623	11,899,965	11,485,710	10,091,460
Other	466,806	566,788	5,795	650
Interest Costs	<u>1,285,675</u>	<u>1,279,763</u>	<u>1,285,675</u>	<u>1,279,763</u>
Total Expenses	<u>\$ 40,117,991</u>	<u>\$ 35,157,962</u>	<u>\$ 32,727,861</u>	<u>\$ 30,053,335</u>

Business-Type Activities

The business type activities at the District are food service and community education. These programs had total revenues of \$2,247,989 and expenses of \$2,267,888 for fiscal year 2012. These revenues were made up of \$422,718 charges for services \$1,822,620 federal and state operating grants \$1,651 earnings on investments and miscellaneous receipts of \$1,000. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 12. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2012 was \$39,705,056 and expenditures were \$42,922,785. The most significance net change in fund balance was the Construction Fund with a Decrease of \$970,202 which is primarily due to continuation of construction projects and issuance of bonds for future construction projects.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$22,536,892 with actual results being \$29,803,486. Budgeted expenditures were \$27,957,068 compared to actual expenditures of \$30,069,568. The most significant causes of the variance between budget and actual revenue were the state on-behalf payments in the amount of \$5,941,566 and tax revenues in excess of budgeted revenues of \$1,028,989. The most significant cause of the expenditures being over budget was the state on-behalf payments noted above. On-behalf payments are not budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for fiscal year 2012-2013 with an approximate 3% contingency.

Significant Board action that impacts the finances includes the Board's salary schedules which were held constant with no raises for the 2012-2013 school year. The State did not mandate any raises for certified or classified employees for the FY 2013. The State decreased the SEEK base from \$3,903 to \$3,833 for the FY 2013. The decrease in SEEK base and a decrease in pupil count results in reduced SEEK funding of \$478,973 for FY 2013. Lincoln County was awarded a one-time stimulus grant called the EduJobs grant in the amount of \$1.054 million in FY 2011. This EduJobs grant was used for professional development of teachers and staff as well as preserving school positions. These additional funds have been exhausted effective September 30, 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2012 fiscal year, the District had invested \$41,822,737 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net increase of \$1,476,678. Depreciation expense for the year was \$1,877,969 and capital additions were \$3,361,650.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 409,580	\$ 409,580	\$ -	\$ -	\$ 409,580	\$ 409,580
Construction in Progress	7,589,127	4,663,790			7,589,127	4,663,790
Land Improvements	311,213	385,247	-	-	311,213	385,247
Buildings and Improvements	30,909,405	31,923,592	-	-	30,909,405	31,923,592
Technology	859,625	1,055,301	9,054	14,129	868,679	1,069,430
Vehicles	712,757	915,489	-	-	712,757	915,489
General Equipment	<u>726,611</u>	<u>667,753</u>	<u>295,365</u>	<u>311,178</u>	<u>1,021,976</u>	<u>978,931</u>
Total	<u>\$ 41,518,318</u>	<u>\$ 40,020,752</u>	<u>\$ 304,419</u>	<u>\$ 325,307</u>	<u>\$ 41,822,737</u>	<u>\$ 40,346,059</u>

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 40,020,752	\$ 31,465,810	\$ 325,307	\$ 306,048	\$ 40,346,059	\$ 31,771,858
Additions	3,324,266	10,283,885	37,386	67,298	3,361,652	10,351,183
Retirements	(1,968)	(1,926)	(5,037)	-	(7,005)	(1,926)
Depreciation	<u>(1,824,732)</u>	<u>(1,727,017)</u>	<u>(53,237)</u>	<u>(48,039)</u>	<u>(1,877,969)</u>	<u>(1,775,056)</u>
Ending Balance	<u>\$ 41,518,318</u>	<u>\$ 40,020,752</u>	<u>\$ 304,419</u>	<u>\$ 325,307</u>	<u>\$ 41,822,737</u>	<u>\$ 40,346,059</u>

Long-Term Debt

The District increased bond debt in Fiscal year 2012 by \$2.15 million for roofing renovations to Hustonville Elementary, Central Office, McKinney Elementary, Lincoln County Middle School and Lincoln County High School. The roofing projects were started during the summer break and should be completed before the end of 2012. In addition the District made scheduled bond principal payments in the amount of \$1,365,000 for a net increase in bond debt of \$780,000. The District made scheduled capital lease payments of \$57,813 reducing the District's capital lease obligations from \$357,282 to \$299,469.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (606) 365-2124.

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

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS:			
Cash & Cash Equivalents - Note C	8,953,482	171,950	9,125,432
Accounts Receivable:			
Taxes - Current	143,808		143,808
Taxes - Delinquent	22,151		22,151
Accounts	5,044		5,044
Intergovernmental - State	11,730		11,730
Intergovernmental - Federal	530,103	9,468	539,571
Bond Issue Costs	516,190		516,190
Inventories for Consumption		33,308	33,308
Total Current Assets	10,182,508	214,726	10,397,234
Noncurrent Assets - Note G			
Land	409,580		409,580
Construction In Progress	7,589,127		7,589,127
Buildings & Improvements	48,060,206		48,060,206
Furniture & Equipment	9,571,995	1,108,804	10,680,799
Less: Accumulated Depreciation	(24,112,590)	(804,385)	(24,916,975)
Total Noncurrent Assets	41,518,318	304,419	41,822,737
TOTAL ASSETS	51,700,826	519,145	52,219,971
LIABILITIES:			
Current Liabilities:			
Accounts Payable	357,963	12,601	370,564
Accrued Salaries & Sick Leave - Note A	323,550		323,550
Deferred Revenues	352,255		352,255
Bond Obligations - Note E	1,320,000		1,320,000
Capital Lease Obligation - Note F	41,163		41,163
Accrued Interest Payable	293,019		293,019
Total Current Liabilities	2,687,950	12,601	2,700,551
Noncurrent Liabilities:			
Bond Obligations - Note E	29,735,000		29,735,000
Capital Lease Obligation - Note F	258,306		258,306
Accrued Sick Leave - Note A	980,339		980,339
Total Noncurrent Liabilities	30,973,645		30,973,645
TOTAL LIABILITIES	33,661,595	12,601	33,674,196
NET ASSETS:			
Invested in Net Assets, Net of Related Debt	10,163,849	304,419	10,468,268
Restricted for:			
Capital Projects	2,653,870		2,653,870
School Based Decision Making	66,609		66,609
Other Purposes	824,586	202,125	1,026,711
Unrestricted	4,330,317		4,330,317
TOTAL NET ASSETS	18,039,231	506,544	18,545,775
TOTAL LIABILITIES AND NET ASSETS	51,700,826	519,145	52,219,971

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

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

FUNCTION/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
GOVERNMENTAL ACTIVITIES:							
Instructional	25,867,887		5,917,206		(19,950,681)		(19,950,681)
Support Services:							
Student Support Services	1,536,537		305,769		(1,230,768)		(1,230,768)
Staff Support Services	1,646,258		580,102		(1,066,156)		(1,066,156)
District Administration	509,638				(509,638)		(509,638)
School Administration	1,761,864				(1,761,864)		(1,761,864)
Business Support Services	667,504				(667,504)		(667,504)
Plant Operation & Maintenance	3,840,319				(3,840,319)		(3,840,319)
Student Transportation	2,527,457		126,042		(2,401,415)		(2,401,415)
Food Service Operations	7,828				(7,828)		(7,828)
Central Office	218				(218)		(218)
Community Service Operations	466,806		461,011		(5,795)		(5,795)
Facilities Acquisition & Construction				1,130,291	1,130,291		1,130,291
Interest on Long-Term Debt	1,285,675				(1,285,675)		(1,285,675)
TOTAL GOVERNMENTAL ACTIVITIES	40,117,991	0	7,390,130	1,130,291	(31,597,570)		(31,597,570)
BUSINESS-TYPE ACTIVITIES:							
Community Education Fund	1,000					(1,000)	(1,000)
Food Service	2,261,851	422,718	1,822,620			(16,513)	(16,513)
TOTAL BUSINESS-TYPE ACTIVITIES	2,262,851	422,718	1,822,620	0	0	(17,513)	(17,513)
TOTAL SCHOOL DISTRICT	42,380,842	422,718	9,212,750	1,130,291	(31,597,570)	(17,513)	(31,615,083)
GENERAL REVENUES:							
Taxes					5,729,845		5,729,845
State Aid - Formula Grants					25,019,817		25,019,817
Investment Earnings					88,116	1,651	89,767
Miscellaneous					340,194	1,000	341,194
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					4,696	(5,037)	(341)
Loss Compensation							0
TOTAL GENERAL & SPECIAL					31,182,668	(2,386)	31,180,282
CHANGE IN NET ASSETS					(414,902)	(19,899)	(434,801)
NET ASSETS - BEGINNING					18,454,133	526,443	18,980,576
NET ASSETS - ENDING					18,039,231	506,544	18,545,775

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

LINCOLN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	5,532,103	(138,261)	2,570,498	989,142	8,953,482
Accounts Receivable:					
Taxes - Current	143,808				143,808
Taxes - Delinquent	22,151				22,151
Accounts	5,044				5,044
Intergovernmental - State	11,551	179			11,730
Intergovernmental - Federal		530,103			530,103
TOTAL ASSETS	<u>5,714,657</u>	<u>392,021</u>	<u>2,570,498</u>	<u>989,142</u>	<u>9,666,318</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	237,013	39,766	81,184		357,963
Accrued Salaries & Sick Leave	323,550				323,550
Deferred Revenues		352,255			352,255
Total Liabilities	<u>560,563</u>	<u>392,021</u>	<u>81,184</u>	<u>0</u>	<u>1,033,768</u>
Fund Balance:					
Restricted for:					
Capital Projects			2,489,314	164,556	2,653,870
Debt Service					0
SFCC Escrow				824,586	824,586
Committed for:					
Accrued Sick Leave	980,339				980,339
Site Based Carryforward	66,609				66,609
Other Purposes					0
Assigned for:					
Purchase Obligations					0
Unassigned Fund Balance	4,107,146				4,107,146
Total Fund Balance	<u>5,154,094</u>	<u>0</u>	<u>2,489,314</u>	<u>989,142</u>	<u>8,632,550</u>
TOTAL LIABILITIES AND NET ASSETS	<u>5,714,657</u>	<u>392,021</u>	<u>2,570,498</u>	<u>989,142</u>	<u>9,666,318</u>

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

LINCOLN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

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

TOTAL GOVERNMENTAL FUND BALANCE		8,632,550
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	65,630,908	
Accumulated Depreciation	<u>(24,112,590)</u>	41,518,318
Bond Issuance Costs		516,190
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(31,055,000)	
Capital Lease Obligation	(299,469)	
Accrued Interest on Bonds	(293,019)	
Accrued Sick Leave	<u>(980,339)</u>	<u>(32,627,827)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u><u>18,039,231</u></u>

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

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

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	5,220,749			509,096	5,729,845
Earnings on Investments	66,792	1,325	14,061	5,938	88,116
Intergovernmental - State	24,298,448	1,013,590		1,818,010	27,130,048
Intergovernmental - Federal	126,697	6,075,504		207,988	6,410,189
Other Sources	40,483	299,711			340,194
TOTAL REVENUES	29,753,169	7,390,130	14,061	2,541,032	39,698,392
EXPENDITURES:					
Instructional	18,741,094	6,009,932			24,751,026
Support Services:					
Student Support Services	1,229,840	305,769			1,535,609
Staff Support Services	1,045,531	580,102			1,625,633
District Administration	503,731				503,731
School Administration	1,759,307				1,759,307
Business Support Services	667,158		71,280		738,438
Plant Operation & Maintenance	3,569,623				3,569,623
Student Transportation	2,165,168	126,042			2,291,210
Central Office					0
Food Service Operation	7,828				7,828
Community Service Operations	5,145	461,011			466,156
Adult Education Operations					0
Facilities Acquisition & Construction			3,057,983		3,057,983
Debt Service:					
Principal				1,422,813	1,422,813
Interest				1,193,428	1,193,428
TOTAL EXPENDITURES	29,694,425	7,482,856	3,129,263	2,616,241	42,922,785
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	58,744	(92,726)	(3,115,202)	(75,209)	(3,224,393)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds			2,145,000		2,145,000
Proceeds from Sale of Assets	6,664				6,664
Operating Transfers In - Note O	43,653	92,726		1,921,584	2,057,963
Operating Transfers Out - Note O	(375,143)			(1,682,820)	(2,057,963)
TOTAL OTHER FINANCING SOURCES	(324,826)	92,726	2,145,000	238,764	2,151,664
NET CHANGE IN FUND BALANCES	(266,082)	0	(970,202)	163,555	(1,072,729)
FUND BALANCES - BEGINNING	5,420,176	0	3,459,516	825,587	9,705,279
FUND BALANCES - ENDING	5,154,094	0	2,489,314	989,142	8,632,550

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

LINCOLN 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

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

NET CHANGES - GOVERNMENTAL FUNDS		(1,072,729)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,824,732)	
Capital Outlays	3,324,266	1,499,534
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
Principal Paid	1,422,813	
Bond Issuance Costs Paid	71,280	
Bond Proceeds	(2,145,000)	(650,907)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Bond Issuance Costs	(38,712)	
Accrued Interest Payable	(53,535)	
Accrued Sick Leave	(96,585)	(188,832)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.</p>		
Gain - Sale of Assets		(1,968)
CHANGES - NET ASSETS GOVERNMENTAL FUNDS		(414,902)

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

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	4,191,760	4,191,760	5,220,749	1,028,989
Other Local Sources			66,792	66,792
State Sources	18,226,479	18,226,479	24,298,448	6,071,969
Federal Sources	15,000	15,000	126,697	111,697
Other Sources	60,000	103,653	90,800	(12,853)
TOTAL REVENUES	22,493,239	22,536,892	29,803,486	7,266,594
EXPENDITURES:				
Instructional	15,563,634	16,076,164	18,741,094	(2,664,930)
Student Support Services	1,119,949	1,129,174	1,229,840	(100,666)
Staff Support Services	1,010,688	1,012,683	1,045,531	(32,848)
District Administration	397,884	450,084	503,731	(53,647)
School Administration	1,418,956	1,418,956	1,759,307	(340,351)
Business Support Services	487,612	487,612	667,158	(179,546)
Plant Operation & Maintenance	3,389,662	3,683,855	3,569,623	114,232
Student Transportation	1,822,398	1,822,398	2,165,168	(342,770)
Central Office				0
Food Service			7,828	
Community Service Operations			5,145	(5,145)
Facility Acquisition & Construction				0
Other	1,819,031	1,876,142	375,143	1,500,999
TOTAL EXPENDITURES	27,029,814	27,957,068	30,069,568	(2,104,672)
NET CHANGE IN FUND BALANCE	(4,536,575)	(5,420,176)	(266,082)	5,161,922
FUND BALANCES - BEGINNING	4,536,575	5,420,176	5,420,176	0
FUND BALANCES - ENDING	0	0	5,154,094	5,161,922

On-behalf payments totaling \$5,941,566 are not budgeted by the Lincoln County School District.

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

LINCOLN 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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes				
Other Local Sources			1,325	1,325
State Sources	734,613	1,126,213	1,013,590	(112,623)
Federal Sources	2,669,527	5,167,950	6,075,504	907,554
Other Sources		386,893	392,437	5,544
TOTAL REVENUES	<u>3,404,140</u>	<u>6,681,056</u>	<u>7,482,856</u>	<u>801,800</u>
EXPENDITURES:				
Instructional	2,838,639	5,317,668	6,009,932	(692,264)
Student Support Services	14,632	307,382	305,769	1,613
Staff Support Services	123,055	481,929	580,102	(98,173)
District Administration				
School Administration				
Business Support Services				
Plant Operation & Maintenance				
Student Transportation	7,374	124,716	126,042	(1,326)
Food Service				
Central Office				
Community Service Operations	419,763	449,361	461,011	(11,650)
Facility Acquisition & Construction				
Other	677		0	
TOTAL EXPENDITURES	<u>3,404,140</u>	<u>6,681,056</u>	<u>7,482,856</u>	<u>(801,800)</u>
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

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

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	COMMUNITY EDUCATION FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	171,911	39	171,950
Investments			0
Accounts Receivable	9,468		9,468
Inventories for Consumption	33,308		33,308
Total Current Assets	214,687	39	214,726
Noncurrent Assets:			
Furniture & Equipment	1,108,804		1,108,804
Less: Accumulated Depreciation	(804,385)		(804,385)
Total Noncurrent Assets	304,419	0	304,419
TOTAL ASSETS	519,106	39	519,145
LIABILITIES:			
Current Liabilities:			
Account Payable	12,601		12,601
Accrued Sick Leave			0
Total Current Liabilities	12,601	0	12,601
Net Assets:			
Invested in Assets, Net of Debt	304,419		304,419
Restricted	202,086	39	202,125
Total Net Assets	506,505	39	506,544
TOTAL LIABILITIES AND NET ASSETS	519,106	39	519,145

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

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	COMMUNITY EDUCATION FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	417,525		417,525
Other Operating Revenues	5,193		5,193
TOTAL OPERATING REVENUES	<u>422,718</u>	<u>0</u>	<u>422,718</u>
OPERATING EXPENSES:			
Salaries & Benefits	985,228		985,228
Contract Services	32,416		32,416
Materials & Supplies	1,163,623	1,000	1,164,623
Depreciation - Note F	53,237		53,237
Other Operating Expenses	27,347		27,347
TOTAL OPERATING EXPENSES	<u>2,261,851</u>	<u>1,000</u>	<u>2,262,851</u>
OPERATING INCOME(LOSS)	(1,839,133)	(1,000)	(1,838,133)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	1,532,478		1,532,478
State Grants	161,923		161,923
Donated Commodities	128,219		128,219
Interest Income	1,649	2	1,651
Gain (Loss) Sale of Assets	(5,037)		(5,037)
Miscellaneous Income		1,000	1,000
TOTAL NONOPERATING REVENUE	<u>1,819,232</u>	<u>1,002</u>	<u>1,820,234</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(19,901)	2	(19,899)
CAPITAL CONTRIBUTIONS		<u>0</u>	<u>0</u>
CHANGE IN NET ASSETS	(19,901)	2	(19,899)
TOTAL NET ASSETS - BEGINNING	<u>526,406</u>	<u>37</u>	<u>526,443</u>
TOTAL NET ASSETS - ENDING	<u><u>506,505</u></u>	<u><u>39</u></u>	<u><u>506,544</u></u>

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

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

	FOOD SERVICE FUND	COMMUNITY EDUCATION FUND
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Lunchroom Sales	417,525	
Other Activities	5,193	
Cash Paid to/for:		
Employees	(844,528)	
Supplies	(1,010,501)	(1,000)
Other Activities	(59,763)	
Net Cash Provided (Used) by Operating Activities	(1,492,074)	(1,000)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Donations		1,000
Federal Grants	1,540,472	
State Grants	21,223	
Net Cash Provided by Non-Capital and Related Financing Activities	1,561,695	1,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	(37,385)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of Interest Income	1,649	2
Net Increase in Cash and Cash Equivalents	33,885	2
Balances, Beginning of Year	138,026	37
Balances, End of Year	171,911	39
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Loss	(1,839,133)	(1,000)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	53,237	
State On-Behalf Payments	140,700	
Donated Commodities	128,219	
Change in Assets and Liabilities:		
Inventory	21,377	
Accounts Payable	3,526	
Net Cash Provided (Used) by Operating Activities	(1,492,074)	(1,000)
Schedule of Non-Cash Transactions:		
Donated Commodities	128,219	0
State On-Behalf Payments	140,700	0

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

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

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	319,684
Accounts Receivable	
TOTAL ASSETS	<u>319,684</u>
LIABILITIES:	
Accounts Payable	
Due to Student Groups	<u>319,684</u>
TOTAL LIABILITIES	<u>319,684</u>
NET ASSETS HELD IN TRUST	<u><u>0</u></u>

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

LINCOLN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lincoln 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 Lincoln County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

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

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

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

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

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust 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 on Pages 42 and 43 in the Schedule of Expenditures of Federal Awards and related notes. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

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

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

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 Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

Property Taxes

Property Tax Revenues – Property taxes are levied each September 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 \$0.419 per \$100 valuation for real property, \$0.419 per \$100 valuation for business personal property, and \$0.542 per \$100 valuation for motor vehicles.

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

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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:

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

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received 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 amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

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

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, 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

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	\$980,339	Long-Term Sick Leave Commitment
General Fund	\$66,609	Site Based Carry-forward

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions of Capital

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

Interfund Activity

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

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$9,445,116. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance and \$9,195,116 was 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 maturity of 90 days or less.

Cash and cash equivalents at June 30, 2012, consisted of the following:

	Bank Balance	Book Balance
Farmers National Bank	10,375,828	9,445,116

Breakdown per financial statements:

Governmental Funds	8,953,482
Proprietary Funds	<u>171,950</u>
Subtotal	9,125,432
Agency Funds	<u>319,684</u>
Total Cash & Cash Equivalents – All Funds	<u>9,445,116</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – INVESTMENTS

The District held no investments on June 30, 2012.

NOTE E – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Lincoln County School District Finance Corporation aggregating \$31,055,000.

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

2001	4,150,000	3.625% - 4.80%
2004	3,650,000	3.635% - 4.80%
2005	7,060,000	2.75% - 4.30%
2009	3,130,000	2.00% - 3.00%
2009 ECB	725,000	1.25% - 2.75%
2010	7,415,000	.70% - 4.90%
2010 ECB	5,335,000	1.50% - 6.25%
2010 Refunding	4,215,000	2.00% - 3.30%
2012	2,145,000	1.15% - 3.20%

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

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2012-13	1,320,000	1,198,214	557,606	1,960,608
2013-14	1,340,000	1,169,626	544,926	1,964,700
2014-15	1,385,000	1,132,799	544,926	1,972,873
2015-16	1,460,000	1,092,756	538,834	2,013,922
2016-17	1,495,000	1,050,356	519,770	2,025,586
2017-18	1,480,000	1,005,852	519,772	1,966,080
2018-19	1,530,000	958,005	519,772	1,968,233
2019-20	1,525,000	907,480	463,460	1,969,020
2020-21	1,430,000	855,777	310,772	1,975,005
2021-22	1,490,000	803,087	310,772	1,982,315
2022-23	1,555,000	743,368	310,772	1,987,596
2023-24	1,620,000	676,325	310,773	1,985,552
2024-25	1,695,000	605,135	310,773	1,989,362
2025-26	1,750,000	529,735	285,139	1,994,596
2026-27	1,660,000	464,792	193,873	1,930,919
2027-28	1,730,000	381,742	193,873	1,917,869
2028-29	1,800,000	293,033	193,874	1,899,159
2029-30	1,870,000	198,023	193,874	1,874,149
2030-31	1,600,000	82,800	151,385	1,531,415
2031-32	1,320,000	42,900	0	1,362,900
	<u>31,055,000</u>	<u>14,191,805</u>	<u>6,974,946</u>	<u>38,271,859</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bond Payable	30,275,000	2,145,000	1,365,000	31,055,000	1,320,000
Capital Lease Obligations	357,282	0	57,813	299,469	41,163
Accrued Sick Leave	<u>1,187,114</u>	<u>159,203</u>	<u>77,871</u>	<u>1,268,446</u>	<u>288,107</u>
Governmental Activities					
Long-Term Liabilities	<u>31,819,396</u>	<u>2,304,203</u>	<u>1,500,684</u>	<u>32,622,915</u>	<u>1,649,270</u>

NOTE F – CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2017. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2012.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2012</u>
Buses	432,531
Accumulated Amortization	<u>(229,694)</u>
	<u>202,837</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2013	51,104
2014	51,089
2015	51,256
2016	51,177
2017	51,128
Thereafter	<u>85,570</u>
Net minimum lease payments	341,324
Amount representing interest	<u>(41,855)</u>
Present value of net minimum lease payments	<u>299,469</u>

Interest rates on capitalized leases vary from 2.00% to 3.90%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – CAPITAL ASSETS

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

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	409,580			409,580
Construction in Progress	4,663,790	2,925,337		7,589,127
Depreciable Assets:				
Buildings & Building Improvements	48,050,006	10,200		48,060,206
Technology Equipment	3,262,452	220,337	56,724	3,426,064
Vehicles	4,963,229	16,826	62,500	4,917,555
General Equipment	1,076,809	151,567		1,228,376
TOTAL AT HISTORICAL COST	<u>62,425,866</u>	<u>3,324,266</u>	<u>119,224</u>	<u>65,630,908</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	15,741,167	1,098,420		16,839,587
Technology Equipment	2,207,151	414,044	54,756	2,566,439
Vehicles	4,047,740	219,558	62,500	4,204,798
General Equipment	409,056	92,710		501,766
TOTAL ACCUMULATED DEPRECIATION	<u>22,405,114</u>	<u>1,824,732</u>	<u>117,256</u>	<u>24,112,590</u>
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u>40,020,752</u>	<u>1,499,534</u>	<u>(1,968)</u>	<u>41,518,318</u>
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	66,571			66,571
General Equipment	1,073,220	37,386	68,373	1,042,233
TOTALS AT HISTORICAL COST	<u>1,139,791</u>	<u>37,386</u>	<u>68,373</u>	<u>1,108,804</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	52,442	5,075		57,517
General Equipment	762,042	48,162	63,336	746,868
TOTAL ACCUMULATED DEPRECIATION	<u>814,484</u>	<u>53,237</u>	<u>63,336</u>	<u>804,385</u>
PROPRIETARY ACTIVITIES CAPITAL NET	<u>325,307</u>	<u>(15,851)</u>	<u>(5,037)</u>	<u>304,419</u>
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,286,559
Student Support Services				928
Staff Support Services				20,625
District Administration				5,907
School Administration				2,557
Business Support Services				346
Plant Operation & Maintenance				270,696
Student Transportation				236,247
Central Office				218
Community Service Operations				650
TOTAL				<u>1,824,732</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2012, as follows:

<u>Year Ending June 30,</u>	
2013	6,287
2014	6,287
2015	<u>524</u>
Total minimum payments	<u>13,098</u>

NOTE I – RETIREMENT PLANS

Certified employees are covered under the Teachers’ Retirement System of Kentucky (“KTRS”), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers’ Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members hired before July 1, 2008, are required to contribute 10.355% of their salaries and for members hired after July 1, 2008 to contribute 10.855% to KTRS. The Commonwealth of Kentucky is required to contribute 13.605% and 14.105% of salaries respectively. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE)

Substantially all other employees (classified personnel) are covered under the County Employee’s Retirement System (“CERS”), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 18.96% of the employee’s total compensation subject to contribution.

The Board’s total payroll for the year was \$23,431,860. The payroll for employees covered under KTRS was \$17,366,185 and for CERS was \$6,065,675.

For the year ended June 30, 2012, the Commonwealth contributed 1,939,093 to KTRS for the benefit of our participating employees. The School District’s contributions to KTRS for the year ending June 30, 2012, were \$362,437, which represent those employees covered by federal programs.

The contribution requirements for CERS for the year ended June 30, 2012, was \$1,464,252, which consisted of \$1,150,054 from the Board and \$314,198 from the employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the Plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following tables present certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2011	CERS June 30, 2011
Assets available for benefits, at fair value	14,908,138,000	5,629,611,183
Pension benefit obligation	<u>(25,968,692,000)</u>	<u>(8,918,085,025)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(11,060,554,000)</u>	<u>(3,288,473,842)</u>

Ten-year historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District’s portion of the unfunded past service cost or the vested benefits of the District’s portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE J – CONTINGENCIES

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district 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 for which coverage was provided) would be returned to the members on a pro rata basis.

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

NOTE M – DEFICIT OPERATING BALANCES

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

Construction Fund	3,115,202
Debt Service Fund	1,922,584
Food Service Fund	19,901

NOTE N – COBRA

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	92,726
Operating	General	Debt Service	Debt Service	282,417
Operating	Building Fund	Debt Service	Debt Service	1,384,440
Operating	SEEK	Debt Service	Debt Service	254,727
Operating	SEEK	General	Operations	<u>43,653</u>
				<u>2,057,963</u>

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2012.

NOTE Q – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 19, 2012. The only material subsequent event is the Lincoln County School District Finance Corporation issued revenue bonds in the amount of \$6,820,000 to refund the 2005 Series Bonds. The District will realize gross savings in excess of \$474,000 as a result of the refunding.

NOTE R – ON-BEHALF PAYMENT

For the year ended June 30, 2012, \$6,769,985 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 5,941,566
Food Service Fund	140,700
Debt Service	<u>687,719</u>
Total	<u>\$ 6,769,985</u>

NOTE S – COMMITMENTS

At June 30, 2012 the District has open projects to have the roofs replaced at Lincoln County Middle School, Lincoln County High School, Hustonville Elementary School, McKinney Elementary School and the Lincoln County Board Office. It is anticipated that the cost of completion of these projects is \$2,021,000.

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

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	102,325	886,817		989,142
Accounts Receivable:				
Taxes				
Accounts				
TOTAL ASSETS	102,325	886,817	0	989,142
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable				
Accrued Sick Leave				
Deferred Revenues				
Total Liabilities	0	0	0	0
Fund Balances:				
Restricted for:				
Capital Projects	102,325	62,231		164,556
Debt Service				
SFCC Escrow		824,586		824,586
Committed for:				
Accrued Sick Leave				
Site Based Carryforward				
Other Purposes				
Assigned for:				
Purchase Obligations				
Unassigned Fund Balance				0
Total Fund Balances	102,325	886,817	0	989,142
TOTAL LIABILITIES AND NET ASSETS	102,325	886,817	0	989,142

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

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

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes	509,096			509,096
Earnings from Investments			5,938	5,938
Intergovernmental - State	769,681	360,610	687,719	1,818,010
Intergovernmental - Federal	207,988			207,988
Other Sources				0
TOTAL REVENUES	1,486,765	360,610	693,657	2,541,032
EXPENDITURES:				
Instructional				0
Student Support Services				0
Staff Support Services				0
District Administration				0
School Administration				0
Business Support Services				0
Plant Operations & Maintenance				0
Student Transportation				0
Central Office				0
Community Service Operations				0
Facilities Acquisition & Construction				0
Debt Service:				0
Principal			1,422,813	1,422,813
Interest			1,193,428	1,193,428
TOTAL EXPENDITURES	0	0	2,616,241	2,616,241
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	1,486,765	360,610	(1,922,584)	(75,209)
OTHER FINANCING SOURCES(USES):				
Proceeds from Sale of Bonds				0
Proceeds from Sale of Assets				0
Operating Transfers In			1,921,584	1,921,584
Operating Transfers Out	(1,384,440)	(298,380)		(1,682,820)
TOTAL OTHER FINANCING SOURCES(USES)	(1,384,440)	(298,380)	1,921,584	238,764
NET CHANGE IN FUND BALANCES	102,325	62,230	(1,000)	163,555
FUND BALANCES - BEGINNING	0	824,587	1,000	825,587
FUND BALANCES - ENDING	102,325	886,817	0	989,142

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

LINCOLN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	FUND BALANCE <u>JULY 1, 2011</u>	REVENUES	EXPENDITURES	FUND BALANCE <u>JUNE 30, 2012</u>
Lincoln County High School	165,539	453,547	514,021	105,065
Fort Logan High School	7,948	4,308	6,675	5,581
Lincoln County Middle School	27,176	196,948	185,034	39,090
McGuffey 6th Grade Center	9,640	34,938	34,765	9,813
Crab Orchard Elementary	6,307	28,448	21,134	13,621
Highland Elementary	23,629	18,863	22,408	20,084
Hustonville Elementary	31,150	59,328	61,911	28,567
McKinney Elementary	29,742	30,222	29,241	30,723
Stanford Elementary	42,339	90,523	89,499	43,363
Waynesburg Elementary	<u>19,968</u>	<u>52,228</u>	<u>48,422</u>	<u>23,774</u>
Total Activity Funds (Due to Student Groups)	<u><u>363,438</u></u>	<u><u>969,353</u></u>	<u><u>1,013,110</u></u>	<u><u>319,681</u></u>

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

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND

FOR THE YEAR ENDED JUNE 30, 2012

	CASH BALANCE JULY 1, 2011	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2012	ACCOUNTS RECEIVABLE JUNE 30, 2012	ACCOUNTS PAYABLE JUNE 30, 2012	FUND BALANCE JUNE 30, 2012
General Fund	4,244	7,233	4,729	6,748			6,748
Extended School Service	166	0	166	0			0
Flower Fund	699	255	160	794			794
Perfect Attendance	76	700		776			776
LCHS Special	2,235	627	2,582	280			280
Locker Account	1,603	1,433	1,215	1,821			1,821
Student Parking	4,730	2,115	1,340	5,505			5,505
Social Committee	2	141	34	109			109
Book Scholarship Fund	2,219	278	770	1,727			1,727
Teacher's Pepsi Account	79	2,157	863	1,373			1,373
Project Graduation	1,566	11,279	11,458	1,387			1,387
Prom Account	3,020	7,000	8,120	1,900			1,900
Yearbook	15,730	8,231	10,318	13,643			13,643
Student Pepsi Account	1,188	4,575	5,061	702			702
Student Vending	354	265	245	374			374
Teacher Vending	96	270	98	268			268
Picture Account	1,129	2,007	1,048	2,088			2,088
Hats On	35	1,911	1,773	173			173
Art Department	995	869	1,235	629			629
Business Department	595	228	271	552			552
Computer Lab	411	0	0	411			411
VO. AG. Special	851	2,335	1,581	1,605			1,605
Floral Design	270	0	0	270			270
Family & Cons. Science	1,980	183	232	1,931			1,931
Horticulture	5,110	806	3,368	2,548			2,548
Industrial Arts	311	70	205	176			176
Journalism	112	70	108	74			74
Language Arts Department	4	229	200	33			33
Math Department	58	0	28	30			30
Media Account	21	0	21	0			0
Physical Education Department	459	150	150	459			459
Science Department	62	353	350	65			65
Science Fair	175	14	0	189			189
VO. AG. Department	6	0	0	6			6
Marketing	3,238	1,073	2,763	1,548			1,548
Unite to Read	199	550	291	458			458
Athletics	129	84,677	84,786	20			20
A.D. Financial Aid	6,749	17,354	22,539	1,564			1,564
Baseball/F.A.	1,192	6,380	7,472	100			100
Boys Basketball/F.A.	4,857	10,965	14,880	942			942

Girls Basketball/F.A.	4,247	11,275	15,067	455	455
Football/F.A.	2,501	13,966	15,575	892	892
Boys Golf/F.A.	278	964	1,142	100	100
Girls Golf/F.A.	578	200	418	360	360
Boys Soccer/F.A.	1,840	45	1,821	64	64
Girls Soccer/F.A.	2,125	1,795	3,008	912	912
Softball/F.A.	286	12,489	12,656	119	119
Boys and Girls Tennis/F.A.	39	1,300	1,335	4	4
Boys Track & Field	478	1,000	1,129	349	349
Cross Country/F.A.	1,206	2,344	3,550	0	0
Girls Volleyball/F.A.	732	3,933	3,905	760	760
District Softball	101	0	0	101	101
Kerry Murphy Memorial	701	300	500	501	501
Baseball District	1,193	1,830	2,999	24	24
Volleyball District	741	715	1,456	0	0
Volleyball Region	2,504	0	2,367	137	137
Cheerleaders	700	19,134	19,780	54	54
Girls Track & Field	331	0	0	331	331
Soccer Field	6,204	6,091	12,295	0	0
Death Valley Bowl	9,552	20,463	25,097	4,918	4,918
District Basketball	3,799	11,355	15,129	25	25
Hospitality Room	1,040	1,200	1,281	959	959
Regional Basketball	11,451	20,661	31,216	896	896
Training/F.A.	2,475	740	2,139	1,076	1,076
Boys/Girls Patriot Account	39	0	39	0	0
Football Playoffs	3,792	6,998	9,953	837	837
BETA Club	1,065	2,191	2,681	575	575
Jr. Guard/JROTC	430	4,066	3,352	1,144	1,144
Dance Patriotettes	684	0	684	0	0
Spring Musical	4,049	5,838	5,361	4,526	4,526
Ecology Club	73	0	73	0	0
F.B.L.A.	1,111	5,816	4,898	2,029	2,029
F.C.A.	33	330	25	338	338
F.F.A.	2,493	21,332	22,818	1,007	1,007
F.C.C.L.A.	1,150	1,588	1,638	1,100	1,100
Guidance Department	738	5,131	4,767	1,102	1,102
Student Energy Team	226	0	226	0	0
Teens For Change	229	210	278	161	161
Library	2,772	1,410	2,049	2,133	2,133
State Basketball	0	8,395	7,400	995	995
Baseball Fence	0	6,193	6,193	0	0
Culinary	0	131	75	56	56
Link-Up Club	117	0	117	0	0
National Honor Society	619	1,368	1,074	913	913
Pep Club	2,057	344	100	2,301	2,301
F.E.A.	567	1,232	1,091	708	708
Science Club	24	0	24	0	0
Spanish Club	39	0	39	0	0

Teens For Christ	79	0	79	0	0
Champions Against	440	950	893	497	497
Ping Pong Club	48	70	38	80	80
Custom Car Club	281	420	701	0	0
Beef Producers Club	54	1,235	1,263	26	26
Drama Club	41	0	41	0	0
Shutterbug	161	0	161	0	0
Diversity Club	1,125	0	0	1,125	1,125
Hacky Sac Club	12	0	12	0	0
NIMS	23	0	23	0	0
Art Honor Society	334	0	0	334	334
Special Dance Account	1,130	0	1,130	0	0
Monty Python Club	113	0	113	0	0
Video Gaming Club	125	40	165	0	0
Music Club	0	994	994	0	0
Band	2,459	16,586	16,268	2,777	2,777
Chorus	223	3,823	3,781	265	265
American Musical	6	0	6	0	0
Anger Management	67	0	67	0	0
Student Council	46	0	0	46	46
Green Club	50	0	0	50	50
Daring Poets Society	62	0	62	0	0
Senior Class	3,992	50,944	49,659	5,277	5,277
Junior Class	61	698	0	759	759
Sophomore Class	759	0	759	0	0
Freshman Class	0	828	618	210	210
Academic Team	70	0	0	70	70
Student Council	549	1,778	889	1,438	1,438
Foreign Language	313	0	0	313	313
Arts & Humanity	9	0	0	9	9
Speak Your Mind	25	0	25	0	0
Fire Fighters Club	3	0	3	0	0
Color Guard	7	0	7	0	0
Relay For Life	44	3,120	3,100	64	64
Auditorium/Tickets	1,304	150	0	1,454	1,454
Auditorium/Rental	822	850	476	1,196	1,196
Textbooks	4,929	369	3,468	1,830	1,830
Harry Potter Club	12	0	12	0	0
Kuna Club	0	2,849	2,794	55	55
Stevens Class	0	185	185	0	0
Day Patriot Time	0	69	69	0	0
Community Service Club	0	3,050	2,600	450	450
Saturday Night Live	79	0	79	0	0
March of Dimes Walk	30	0	30	0	0
Cooking Club	1	204	203	2	2
BBBS	454	41	495	0	0
Redonkulous	78	0	25	53	53
Smash Brothers Club	50	60	0	110	110

Fish & Wildlife	240	285	525	0			0
Class of 1990	335	0	0	335			335
Redefining Beautiful	110	0	110	0			0
L. Parker Fund	<u>20</u>	<u>0</u>	<u>20</u>	<u>0</u>			<u>0</u>
Total All Funds	165,539	470,754	531,228	105,065	0	0	105,065
Interfund Transfers	<u>0</u>	<u>(17,207)</u>	<u>(17,207)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u><u>165,539</u></u>	<u><u>453,547</u></u>	<u><u>514,021</u></u>	<u><u>105,065</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>105,065</u></u>

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

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3101	471,504
Title I - Grants to Local Educational Agencies	84.010	3101D	74,453
Title I - Parent Involvement	84.010	3101M	211
Title I - Parent Involvement	84.010	3102	1,004,546
Title I - Parent Involvement	84.010	3102M	15,301
Title I - Professional Development of District	84.010	3102D	4,706
Title I - School Improvement	84.010	3202	7,257
Title I, Part A - ARRA	84.389	3919	83,563
Title I Cluster			<u>1,661,541</u>
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4012	264,808
Perkins Voc.	84.048	3480	1,227
Perkins Voc.	84.048	3481	8,006
Perkins Voc.	84.048	3481A	1,602
Perkins Voc.	84.048	3482	30,147
Perkins Voc.	84.048	3483	1,950
Total Perkins Voc.			<u>42,932</u>
Federal Ed Tech - Basic	84.318	4251	4,703
Enhancing Education Tech - ARRA	84.386	4850	4,085
Ed Tech Competitive - ARRA	84.386	4860	4,148
Total Ed Tech			<u>12,936</u>
IDEA - Special Education - Grants to State	84.027	3371	20,631
IDEA - Special Education - Grants to State	84.027	3372	828,279
IDEA - Special Education - Grants to State	84.027	3372P	19,874
IDEA - Special Education - Preschool Grants	84.173	3431	24,681
IDEA - Special Education - Preschool Grants	84.173	3432	69,623
IDEA - Special Education - Preschool Grants	84.173	3432P	961
IDEA - Special Education - Preschool Grants - ARRA	84.392	4239	33,250
Special Education Cluster			<u>997,299</u>
21st Century Learning Center	84.287	5500Q	1,637
21st Century Learning Center	84.287	5500Z	24,483
21st Century Learning Center	84.287	5500	62,042
21st Century Learning Center	84.287	5501	78,820
21st Century Learning Center	84.287	5501H	104,554
21st Century Learning Center	84.287	5501J	16,000
21st Century Learning Center Total			<u>287,536 *</u>
Head Start	93.600	6550	
Head Start	93.600	6551	42,591
Head Start	93.600	6552	1,234,902
Head Start - Early Head Start	93.600	6551E	161,338
Head Start - Early Head Start	93.600	6551H	51,411
Head Start - Early Head Start	93.709	6552H	427,438
Head Start Total			<u>1,917,680 *</u>
Migrant Education - State Grant Program	84.011	3111	6,638
Migrant Education - State Grant Program	84.011	3112	43,626
Migrant Education Total			<u>50,264</u>
Education Jobs Funding- ARRA	84.410	4411	752,446 *
Title IV - Rural and Low Income Schools	84.358	3502	<u>88,058</u>
Total U.S. Department of Education			6,075,500
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-11	228,339
National School Lunchroom	10.555	7750002-12	853,489
School Breakfast Program	10.553	7760005-11	86,920
School Breakfast Program	10.553	7760005-12	347,476
Child & Adult Care Food Program	10.558	7790021-11	1,154
Child & Adult Care Food Program	10.558	7790021-12	3,275
Child & Adult Care Food Program	10.558	7800016-11	25
Child & Adult Care Food Program	10.558	7800016-12	27
Summer Food Service Program	10.559	7690024-11	1,908
Summer Food Service Program	10.559	7690024-12	372
Summer Food Service Program	10.559	7740023-11	18,316
Summer Food Service Program	10.559	7740023-12	3,562
Child Nutrition Cluster			<u>1,544,863</u>
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	<u>128,219</u>
Total U.S. Department of Agriculture			1,673,082
Total Federal Financial Assistance			<u><u>7,748,582</u></u>

* Tested as major program

LINCOLN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

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

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit 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 weakness(es)? _____ Yes X None Reported

Noncompliance material to 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 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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600/93.709	Head Start Cluster
84.287	21 st Century Learning Center
84.410	Education Jobs Funding

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

LINCOLN COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2012

There were no prior year audit findings.

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Charles M. White, CPA

Email cmwcpa@windstream.net

October 19, 2012

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

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lincoln County School District, as of and for the year ended June 30, 2012, which collectively comprise the Lincoln County School 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.*

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

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

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

Sincerely

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
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Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

October 19, 2012

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

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

We have audited the Lincoln County School 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 Lincoln County School District's major federal programs for the year ended June 30, 2012. Lincoln County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lincoln County School District's management. Our responsibility is to express an opinion on Lincoln County School District's compliance based on our audit.

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

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

Internal Control over Compliance

Management of Lincoln County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lincoln County School 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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lincoln County School District's internal control over compliance.

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

Our consideration of 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 members of the Kentucky State Committee for School District Audits, members of the Board of Education of Lincoln County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
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Charles M. White, CPA

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October 19, 2012

MANAGEMENT LETTER

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

In planning and performing our audit of the financial statements of Lincoln County School District for the year ended June 30, 2012, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made in the audit report for the year ended June 30, 2011, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

It was noted during the course of the audit that the District's depository, Farmer's National Bank, failed to renew the letter of credit the bank utilizes to collateralize the District's deposits in excess of the FDIC insurance amount. Due to this error on the bank's part, the District, at June 30, 2011, was exposed to deposit risk in the amount of \$9,973,704. We recommend that the District contact the bank 30 days prior to the expiration of the letter of credit to ensure that the bank is obtaining a new letter of credit prior to expiration date. By doing so the District will ensure that there is no lapse in the collateralization of the districts deposits.

Current Year Finding:

As of June 30, 2012, the District was fully collateralized.

Prior Year Recommendation:

During the course of the audit, it was noted that purchase orders below \$10,000 were not being reviewed and approved at the District level prior to the purchase of the goods or services. In order to enhance internal controls, we recommend that purchases below \$10,000 and above \$1,000 be reviewed and approved by the Superintendent prior to the purchase of the goods or services.

Current Year Finding and Recommendation:

All purchase orders between \$1,000 and \$10,000 were reviewed by the Superintendent. However, auditors discovered that there were a few instances where goods were ordered prior to a purchase order being reviewed and approved. It was further determined that, in those instances, purchase order numbers had been given out over the telephone. Thus, the requestor was able to give the vendor the required purchase order number and also place the order without proper authorization. To avoid potential future abuse and circumvention of internal controls, we recommend that no purchase order numbers be given out over the phone and no orders of goods or services be made without proper approval.

Management Response:

We will not give out purchase order numbers over the phone, and we will take measures to ensure that goods and services are not ordered prior to approval.

Current Year Recommendation:

During the audit, the School Food Service Verification Audit was reviewed. This is the audit whereby the District examines students receiving free and reduced meals as required by the Kentucky Department of Education Division of School and Community Nutrition. Part of the verification process requires that a sample of students receiving free or reduced meals be subjected to verification. Based on data input in the Lunch Box online computer system, a sample is generated. The School Food Service Director failed to print the sample generated. Only a hand-written list was maintained; thus, there was no proof that the sample generated by the system actually agreed to the students subjected to verification. We recommend that documentation for the Verification Audit be maintained to support the procedures performed by the District.

Management Response:

We will maintain all relevant documentation for the School Food Service Verification Audit.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to perform any additional study of these matters or to assist you in implementing the recommendations.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
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Lebanon, Kentucky 40033
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Charles M. White, CPA

Email cmwcpa@windstream.net

October 19, 2011

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lincoln County School District for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 23, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Lincoln County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Lincoln County School District and management of Lincoln County School District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants