

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

Year Ended June 30, 2012



Penny R. Stanfield, CPA & Co., PLLC

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606

**NICHOLAS COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2012**

	<u>Page</u>
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets.....	12
Statement of Revenues, Expenditures and Change in Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	16
Statement of Net Assets – Proprietary Funds.....	17
Statements of Revenues, Expenses and Changes in Net Assets - Proprietary Funds.....	18
Statement of Cash Flows – Proprietary Funds.....	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20

**NICHOLAS COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS – CONTINUED
YEAR ENDED JUNE 30, 2012**

Notes to the Basic Financial Statements	21-37
Supplementary Information:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	38
Combining Statement of Revenues, Expenditures and Changes In Fund Balances – Nonmajor Governmental Funds.....	39
Combining Statements – Agency Funds:	
Combining Statement of Revenues, Expenditures and Changes In Fund Balances – Activity Funds.....	40
Statement of Receipts, Disbursements and Fund Balances - Activity Funds:	
High School.....	41
Schedule of Expenditures of Federal Awards	42
Notes to the Schedule of Expenditures of Federal Awards	43
Independent Auditor’s Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	
	44-45
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	
	46-47
Schedule of Findings and Questioned Costs	48
Independent Auditor’s Transmittal Letter for Management Letter Points	49
Management Letter Points	50-52



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Nicholas County School District
Carlisle, Kentucky 40311

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Nicholas 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 the District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

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

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

In accordance with *Government Auditing Standards*, I have also issued a report dated November 12, 2012, on my consideration of Nicholas County School District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my 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 8 and 15 through 16 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 financial statements in an appropriate operational, economic, or historical context. I 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 inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nicholas County School District's financial statements as a whole. The combining and individual non-major fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and related 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Penny Stanfield

PENNY R STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

November 12, 2012

**NICHOLAS COUNTY SCHOOL DISTRICT- CARLISLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD & A)
YEAR ENDED JUNE 30, 2012**

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

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District was \$3,893,000 and the ending balance was \$2,525,000, a decrease of \$1,368,000 for the year, principally due to funds in the construction account being used for the construction project.
- The General Fund had \$7,877,000 in revenue, which included \$1,632,000 of payments made by the State on behalf of the District for health and life insurance, retirement, and flex spending. The major categories of revenue consisted primarily of the state program (SEEK), and property, motor vehicle and utility taxes. The District also received significant local revenues from property taxes in Capital Projects funds.
- The District completed the elementary HVAC project during the 2012 fiscal year, with a total cost to date of \$2,544,028. This project was funded by bond proceeds and local sources.
- The District received Federal Edu Jobs funding in the amount of \$297,536. These funds were utilized by the District to provide job stabilization due to the SEEK shortfall.
- The District began a floor replacement project at the elementary school. This project has an estimated cost of \$172,602 and will be completed during FY13.
- The District’s total debt decreased by \$704,000 during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our 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 11 through 20 of this report.

Notes to the financial statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, total assets exceeded liabilities by \$5,170,000 as of June 30, 2012. Net assets include the amount invested in fixed assets net of related debt of \$2,901,000. The remaining \$654,000 includes funds restricted for capital and other projects and \$1,615,000 which is unrestricted for use in general District operations.

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

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

Net Assets for the period ending June 30, 2012

Comparative data for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 2,843,000	\$ 4,207,000
Noncurrent Assets	<u>15,428,000</u>	<u>14,304,000</u>
Total Assets	18,271,000	18,511,000
Current Liabilities	1,155,000	1,438,000
Noncurrent Liabilities	<u>11,946,000</u>	<u>12,682,000</u>
Total Liabilities	13,101,000	14,120,000
Net Assets		
Investment in capital assets (net of debt)	2,901,000	1,172,000
Restricted	654,000	1,652,000
Unreserved Fund Balance	<u>1,615,000</u>	<u>1,567,000</u>
Total Net Assets	\$ 5,170,000	\$ 4,391,000

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2012, net of interfund transfers and on-behalf payments were \$9,246,000.
- The general fund budget to actual comparison varied slightly from line item to line item with the ending balance being \$1,775,000 more than budget. This apparent favorable result was due to state on-behalf payments that are not accounted for in the budget process.

The following table presents a summary comparison of governmental fund revenues and expenses for the fiscal years ended June 30, 2012 and 2011.

Revenues:	<u>2012</u>	<u>2011</u>
Local revenue sources	\$ 1,847,000	\$ 1,772,000
State revenue sources, on-Behalf	7,663,000	7,533,000
Federal Revenue	<u>1,368,000</u>	<u>1,436,000</u>
Total Revenues	\$10,878,000	\$10,741,000
Expenses:		
Instruction	5,765,000	6,012,000
Student Support Services	292,000	288,000
Instructional Support	353,000	370,000
District Administration	676,000	686,000
School Administration	536,000	575,000
Plant Operations & Maintenance	793,000	929,000
Student Transportation	822,000	835,000
Central Office and Business	224,000	172,000
Community Services	79,000	85,000
Facility Acquisition/Construction	1,267,000	4,018,000
Debt Service	<u>1,160,000</u>	<u>1,052,000</u>
Total Expenses	<u>\$11,967,000</u>	<u>\$15,022,000</u>
Revenue in Excess (Deficit) of Expense	\$(1,089,000)	\$(4,281,000)

General Fund Revenue

The majority of revenue was derived from state funding making up 71% of total revenue. Local revenues make up 17% of total revenue.

Budget Allocation

Site Based Decision Making Councils expended \$6,410,000 of the general fund budget. The majority of the Non-SBDM funds (47%) were spent for facilities acquisition/construction and debt service.

School Allocation

Regular Instruction accounts for 49% of the school level expenditures.

Central Office Support Allocation

Central support services expenditures were Transportation 7%, Maintenance & Operations 7%, and Business Functions 2%.

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$450,000 in contingency (6%). The cash balance for beginning the next fiscal year is \$2,322,000. Significant Board action that impacts the finances include a pay raise for all certified and classified employees.

Questions regarding this report should be directed to the Superintendent Greg Reid or to his **REPRESENTATIVE**, Director of Financial Services Bodie Stevens or by mail at:

Nicholas County School District
395 W. Main Street
Carlisle, Kentucky 40311

BASIC FINANCIAL STATEMENTS

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2012**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,321,699	\$ 203,407	\$ 2,525,106
Accounts receivable:			
Taxes	58,686	-	58,686
Intergovernmental - Federal	244,376	-	244,376
Inventory	-	15,315	15,315
Total Current Assets	2,624,761	218,722	2,843,483
Noncurrent Assets			
Bond Issue Costs	92,419	-	92,419
Capital Assets (Note E)			
Nondepreciable	163,332	-	163,332
Depreciable, net of accumulated depreciation	14,844,380	327,391	15,171,771
Total Noncurrent Assets	15,100,131	327,391	15,427,522
TOTAL ASSETS	\$ 17,724,892	\$ 546,113	\$ 18,271,005
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 208,954	\$ 1,606	\$ 210,560
Accrued Interest Payable	99,137	-	99,137
Deferred Revenues	123,674	-	123,674
Current Portion of Capital Leases and Bonds	721,580	-	721,580
Total Current Liabilities	1,153,345	1,606	1,154,951
Noncurrent Liabilities			
Bonds Payable	11,240,000	-	11,240,000
Capital Leases Payable	466,213	-	466,213
Noncurrent Portion of Accumulated Sick Leave	240,165	-	240,165
Total Noncurrent Liabilities	11,946,378	-	11,946,378
TOTAL LIABILITIES	\$ 13,099,723	\$ 1,606	\$ 13,101,329
NET ASSETS			
Invested in capital assets, net of related debt	2,573,201	327,391	2,900,592
Restricted for:			
Capital projects	387,462	-	387,462
Debt Service	136	-	136
Sick Leave	49,445	-	49,445
Food Service	-	217,116	217,116
Unrestricted	1,614,925	-	1,614,925
TOTAL NET ASSETS	4,625,169	544,507	5,169,676
TOTAL LIABILITIES AND NET ASSETS	\$ 17,724,892	\$ 546,113	\$ 18,271,005

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

	Program Revenue				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
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 5,598,414	\$ -	\$ 1,367,555	\$ -	\$ (4,230,859)	\$ -	\$ (4,230,859)
Support Services:							
Student	294,056	-	-	-	(294,056)	-	(294,056)
Instructional staff	353,660	-	-	-	(353,660)	-	(353,660)
District administration	677,597	-	-	-	(677,597)	-	(677,597)
School administration	535,617	-	-	-	(535,617)	-	(535,617)
Business	224,189	-	-	-	(224,189)	-	(224,189)
Plant operation and maintenance	935,907	-	-	-	(935,907)	-	(935,907)
Student transportation	930,447	-	-	-	(930,447)	-	(930,447)
Community services	81,477	-	-	-	(81,477)	-	(81,477)
Facility Acquisition and Construction	-	-	-	-	-	-	-
Debt Service	462,761	-	186,497	-	(276,264)	-	(276,264)
TOTAL GOVERNMENTAL ACTIVITIES	10,094,125	-	1,554,052	-	(8,540,073)	-	(8,540,073)
BUSINESS-TYPE ACTIVITIES:							
Food Services	722,476	153,847	490,460	-	-	(78,169)	(78,169)
TOTAL BUSINESS-TYPE ACTIVITIES	722,476	153,847	490,460	-	-	(78,169)	(78,169)
TOTAL SCHOOL DISTRICT	\$ 10,816,601	\$ 153,847	\$ 2,044,512	\$ -	\$ (8,540,073)	\$ (78,169)	\$ (8,618,242)
General Revenues							
Property Taxes					911,268	-	911,268
Motor Vehicle Taxes					218,239	-	218,239
Utility Taxes					340,287	-	340,287
Other Taxes					426	-	426
State aid-formula grants					5,843,763	-	5,843,763
Investment earnings					24,110	1,488	25,598
State on-behalf payments					1,632,300	72,196	1,704,496
Gain on Sale of Assets					3,369	-	3,369
Miscellaneous					348,902	-	348,902
Total General Revenues					9,322,664	73,684	9,396,348
Change in Net Assets					782,591	(4,485)	778,106
Net Assets July 1, 2011					3,842,578	548,992	4,391,570
Net Assets June 30, 2012					4,625,169	544,507	5,169,676

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

**NICHOLAS COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	Major Funds			Nonmajor Funds	Total Governmental Funds
	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 1,858,226	\$ -	\$ 246,015	\$ 217,458	\$ 2,321,699
Accounts receivable:					
Taxes	58,686	-	-	-	58,686
Intergovernmental -State	-	-	-	-	-
Intergovernmental - Federal	-	244,376	-	-	244,376
Due from other funds	65,683	-	-	-	65,683
TOTAL ASSETS	<u>\$ 1,982,595</u>	<u>\$ 244,376</u>	<u>\$ 246,015</u>	<u>\$ 217,458</u>	<u>\$ 2,690,444</u>
LIABILITIES					
Accounts payable	\$ 78,060	\$ 55,019	\$ 75,875	\$ -	\$ 208,954
Deferred revenues	-	123,674	-	-	123,674
Due to other funds	-	65,683	-	-	65,683
TOTAL LIABILITIES	78,060	244,376	75,875	-	398,311
FUND BALANCES					
Restricted for:					
Sick leave	49,445	-	-	-	49,445
Debt Service	-	-	-	136	136
Capital Projects	-	-	170,140	217,322	387,462
Unassigned	1,855,090	-	-	-	1,855,090
TOTAL FUND BALANCES	<u>1,904,535</u>	<u>-</u>	<u>170,140</u>	<u>217,458</u>	<u>2,292,133</u>
L LIABILITIES AND FUND BALANCES	<u>\$ 1,982,595</u>	<u>\$ 244,376</u>	<u>\$ 246,015</u>	<u>\$ 217,458</u>	<u>\$ 2,690,444</u>

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

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

Total Fund Balance per Fund Financial Statements **\$ 2,292,133**

Changes required for presentation of
Net Assets in conformity with GASB34:

Capital assets are not reported in the fund financial statements because they are not current financial resources; however they are reported in the Statement of Net Assets.

Total Cost	23,004,490
Accumulated Depreciation	<u>(7,996,778)</u>
	15,007,712

Bond issuance costs reported as expenditures in the governmental funds financial statements are capitalized in the government-wide financial statements. 92,419

Certain liabilities (such as bonds payable, capital leases, the long-term portion of accrued sick leave, and accrued interest) are not reported in the fund financial statements because they are not currently due and payable, but they are presented in the Statement of Net Assets.

Bonds Payable	(11,855,000)
Capital Leases	(572,793)
Accrued sick leave	(240,165)
Accrued interest on bonds	<u>(99,137)</u>
	<u>(12,767,095)</u>

Net Assets for Government Activities **\$ 4,625,169**

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

	General Fund	Special Revenue (Grant) Fund	Construction Fund	Other Funds	TOTAL Governmental Funds
REVENUES:					
Property taxes	\$ 627,668	\$ -	\$ -	\$ 283,600	\$ 911,268
Motor vehicle taxes	218,239	-	-	-	218,239
Utility taxes	340,287	-	-	-	340,287
Other taxes	426	-	-	-	426
Earnings on investments	23,849	238	-	23	24,110
Other local revenues	36,179	223,681	-	-	259,860
State sources	4,949,344	334,426	-	746,490	6,030,260
Federal sources	-	1,367,555	-	-	1,367,555
State on-behalf payments	1,632,300	-	-	-	1,632,300
Other	48,673	-	44,969	-	93,642
TOTAL REVENUES	7,876,965	1,925,900	44,969	1,030,113	10,877,947
EXPENDITURES:					
Current:					
Instruction	4,128,345	1,637,187	-	-	5,765,532
Support Services:					
Student	291,676	-	-	-	291,676
Instructional staff	263,654	89,793	-	-	353,447
District administration	675,778	-	-	-	675,778
School administration	535,617	-	-	-	535,617
Business	224,189	-	-	-	224,189
Plant operations and maintenance	792,714	-	-	-	792,714
Student transportation	681,635	140,124	-	-	821,759
Community Service	-	79,652	-	-	79,652
Facilities acquisition and construction	-	-	1,266,935	-	1,266,935
Debt service	136,710	-	-	1,023,417	1,160,127
TOTAL EXPENDITURES	7,730,318	1,946,756	1,266,935	1,023,417	11,967,426
Excess (Deficit) of Revenues over Expenditures	146,647	(20,856)	(1,221,966)	6,696	(1,089,479)
OTHER FINANCING SOURCES (USES):					
Bond Proceeds	-	-	-	-	-
Bond Issue Costs	-	-	-	-	-
Accrued Interest	-	-	-	-	-
Discount on Bond Sale	-	-	-	-	-
Transfers in	-	20,856	-	830,924	851,780
Transfers out	(20,856)	-	-	(830,924)	(851,780)
TOTAL OTHER FINANCING SOURCES (USES)	(20,856)	20,856	-	-	-
NET CHANGE IN FUND BALANCES	125,791	-	(1,221,966)	6,696	(1,089,479)
FUND BALANCE JULY 1, 2011	1,778,744	-	1,392,106	210,762	3,381,612
FUND BALANCE, JUNE 30, 2012	\$ 1,904,535	\$ -	\$ 170,140	\$ 217,458	\$ 2,292,133

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

**NICHOLAS COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year ended June 30, 2012**

Net change in total fund balances per fund financial statements **\$ (1,089,479)**

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

Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but they are presented as assets in the Statement of Net Assets and depreciated over their estimated economic lives. The difference is the amount by which a capital outlay exceeds depreciation expense for the year.

Total current capital outlays	1,812,216
Depreciation for the year	<u>(649,809)</u>
	1,162,407

Proceeds from the sale of fixed assets are recorded in the fund financial statements but this amount is reduced by the undepreciated basis of the assets in the Statement of Activities	(1,231)
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Bond issuance costs are recognized as expenditures of current financial resources in the fund financial statement but are capitalized and amortized in the District-wide financial statements	(6,993)
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Bond and capital lease principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the Statement of Net Assets.	
Total bond and lease payments	704,359

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the Statement of Activities when they are incurred.

Accrued Sick Leave	<u>13,528</u>
--------------------	---------------

Change in Net Assets of Governmental Activities per Statement of Activities **\$ 782,591**

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012**

GENERAL FUND

	Budgeted Amounts		Actual	Final Budget
	Original	Final		Variance
				Positive (Negative)
REVENUES:				
Property taxes	\$ 535,000	\$ 535,000	\$ 545,840	\$ 10,840
PSC property taxes	65,000	65,000	81,828	16,828
Motor vehicle taxes	200,000	200,000	218,239	18,239
Utility taxes	310,000	310,000	340,287	30,287
Penalties & interest on taxes	-	-	426	426
Earnings on investments	25,000	25,000	23,849	(1,151)
Other local revenues	8,000	8,000	36,179	28,179
State sources	5,018,000	4,948,967	4,949,344	377
State on-behalf payments	-	-	1,632,300	1,632,300
Other	-	-	48,673	48,673
TOTAL REVENUES	6,161,000	6,091,967	7,876,965	1,784,998
EXPENDITURES:				
Current:				
Instruction	3,377,739	3,962,110	4,128,345	(166,235)
Support Services:				
Student	187,520	187,370	291,676	(104,306)
Instructional staff	257,531	253,531	263,654	(10,123)
District administration	614,822	614,822	675,778	(60,956)
School administration	446,348	446,548	535,617	(89,069)
Business	109,314	109,314	224,189	(114,875)
Plant operation and maintenance	893,494	893,494	792,714	100,780
Student transportation	675,232	675,232	681,635	(6,403)
Central Office	-	-	-	-
Debt service	135,000	135,000	136,710	(1,710)
Contingency	450,000	450,000	-	450,000
Facilities acquisition and construction	-	-	-	-
TOTAL EXPENDITURES	7,147,000	7,727,421	7,730,318	(2,897)
Excess (Deficit) of Revenues Over Expenditures	(986,000)	(1,635,454)	146,647	1,782,101
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers (out)	(14,000)	(14,000)	(20,856)	(6,856)
TOTAL OTHER FINANCING SOURCES (USES)	(14,000)	(14,000)	(20,856)	(6,856)
NET CHANGE IN FUND BALANCES	(1,000,000)	(1,649,454)	125,791	1,775,245
FUND BALANCE - JULY 1, 2011	1,000,000	1,649,454	1,778,744	129,290
FUND BALANCE - JUNE 30, 2012	\$ -	\$ -	\$ 1,904,535	\$ 1,904,535

Note: On-behalf payments are recorded in this statement but they are not budgeted.

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012**

SPECIAL REVENUE FUND

	Budgeted Amounts		Actual	Final Budget
	Original	Final		Variance Positive (Negative)
REVENUES:				
Earnings on investments	\$ -	\$ -	\$ 238	\$ 238
Other local revenues	198,869	198,869	223,681	24,812
State sources	317,779	194,836	334,426	139,590
Federal sources	823,768	1,064,507	1,367,555	303,048
TOTAL REVENUES	1,340,416	1,458,212	1,925,900	467,688
EXPENDITURES:				
Current:				
Instruction	1,048,274	1,158,039	1,637,187	(479,148)
Support Services:				
Student	-	-	-	-
Instructional staff	153,814	155,675	89,793	65,882
District administration	-	-	-	-
School administration	-	-	-	-
Plant operations and maintenance	-	-	-	-
Student transportation	74,151	78,844	140,124	(61,280)
Community services	84,177	79,654	79,652	2
Facilities acquisition and construction	-	-	-	-
TOTAL EXPENDITURES	1,360,416	1,472,212	1,946,756	(474,544)
Excess (Deficit) of Revenues Over Expenditures	(20,000)	(14,000)	(20,856)	(6,856)
OTHER FINANCING SOURCES (USES):				
Transfers in	20,000	14,000	20,856	6,856
Transfers (out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	20,000	14,000	20,856	6,856
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCE JULY 1, 2011	-	-	-	-
FUND BALANCE JUNE 30, 2012	\$ -	\$ -	\$ -	\$ -

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012**

	<u>Food Service Fund</u>	<u>TOTAL Proprietary Funds</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 203,407	\$ 203,407
Accounts receivable:		
Accounts	-	-
Intergovernmental - Federal	-	-
Inventories for consumption	15,315	15,315
Total Current Assets	<u>218,722</u>	<u>218,722</u>
Noncurrent assets:		
Furniture and equipment	441,977	441,977
Less accumulated depreciation	(114,586)	(114,586)
Total Noncurrent Assets	<u>327,391</u>	<u>327,391</u>
TOTAL ASSETS	<u><u>\$ 546,113</u></u>	<u><u>\$ 546,113</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 1,606	\$ 1,606
Other Current Liabilities	-	-
Total Current Liabilities	<u>1,606</u>	<u>1,606</u>
TOTAL LIABILITIES	<u>1,606</u>	<u>1,606</u>
NET ASSETS		
Invested in capital assets	327,391	327,391
Restricted-expendable	217,116	217,116
Total Net Assets	<u>544,507</u>	<u>544,507</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 546,113</u></u>	<u><u>\$ 546,113</u></u>

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

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

	Food Service Fund	TOTAL Proprietary Funds
OPERATING REVENUES		
Lunchroom sales	\$ 153,847	\$ 153,847
Other operating revenues	-	-
TOTAL OPERATING REVENUES	153,847	153,847
OPERATING EXPENSES		
Salaries and wages	321,223	321,223
Contract services	6,494	6,494
Materials and supplies	363,819	363,819
Depreciation expense	30,940	30,940
TOTAL OPERATING EXPENSES	722,476	722,476
OPERATING INCOME (LOSS)	(568,629)	(568,629)
NON-OPERATING REVENUES		
Earnings on Investments	1,488	1,488
Gain in Sale of Assets	-	-
Commodities Received	36,256	36,256
Federal Grants	447,262	447,262
State Grants	6,942	6,942
State On-behalf Payments	72,196	72,196
TOTAL NON-OPERATING REVENUES	564,144	564,144
INCOME BEFORE TRANSFERS	(4,485)	(4,485)
Transfers	-	-
NET INCOME	(4,485)	(4,485)
TOTAL NET ASSETS-JULY 1, 2011	548,992	548,992
TOTAL NET ASSETS-JUNE 30, 2012	\$ 544,507	\$ 544,507

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

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

	Food Service Fund	TOTALS
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Lunchroom sales	\$ 153,847	\$ 153,847
Government grants	465,749	465,749
Other activities	-	-
Cash payments to employees for services	(249,027)	(249,027)
Cash payments for contract services	(6,494)	(6,494)
Cash payments to suppliers for goods and services	<u>(330,762)</u>	<u>(330,762)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	33,313	33,313
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Gain on Sale of Asset	-	-
Acquisition of capital assets	<u>-</u>	<u>-</u>
CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>1,488</u>	<u>1,488</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS JULY 1, 2011	<u>\$ 168,606</u>	<u>\$ 168,606</u>
CASH AND CASH EQUIVALENTS JUNE 30, 2012	<u>\$ 203,407</u>	<u>\$ 203,407</u>
 Reconciliation of operating income to net cash used for operating activities		
Operating Income (Loss)	\$ (568,629)	\$ (568,629)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	30,940	30,940
Federal and State Grants	490,460	490,460
State On-behalf Payments	72,196	72,196
Changes in assets and liabilities:		
Receivables	11,545	11,545
Inventory	(4,664)	(4,664)
Accounts Payable	<u>1,465</u>	<u>1,465</u>
 Net cash provided by operating activities	 <u><u>\$ 33,313</u></u>	 <u><u>\$ 33,313</u></u>
 Schedule of non-cash transactions		
Donated commodities received from federal government.	\$ 36,256	\$ 36,256
On-behalf payments from state government	\$ 72,196	\$ 72,196

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

**NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012**

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 113,460
Accounts receivable	<u>-</u>
TOTAL ASSETS	<u><u>\$ 113,460</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	-
Due to student groups	<u>113,460</u>
TOTAL LIABILITIES	<u>113,460</u>
NET ASSETS	
Held in trust for scholarships	-
Held in trust for other purposes	<u>-</u>
TOTAL NET ASSETS	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 113,460</u></u>

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Nicholas 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 Nicholas County Board of Education (“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 Nicholas County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Blended Component Unit

Nicholas County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Nicholas 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 Nicholas County School District Board also comprise the Corporation’s Board of Directors.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 are considered business-type activities.

The government-wide statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing and related cash flows. 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statements of activities present 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 good 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.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

II. Proprietary Fund Types (Enterprise Fund)

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

The District applies all GAS 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. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

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

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - 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 resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

Property Taxes

Property 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 \$.384 per \$100 valuation for real property, \$.384 per \$100 valuation for business personal property and \$.555 per \$100 valuation for motor vehicles. The assessed value, upon which the levy for the 2012 fiscal year was based, was \$282,797,702.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - Continued

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars (\$1,000) with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

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

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

Interfund Balances

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Classified employees are compensated for accrued sick leave by the District purchasing service credits through KTRS, up to 126 days. Anything above 126 days is paid at 30% of the value of accumulated sick leave.

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

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

Budgetary Process

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

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

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

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

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

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, payable 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.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Equity

The District implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance-amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; positive amounts are reported only in the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – 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 – CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$2,502,291 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$2,502,291
--	-------------

NOTE D – COMMITMENTS

The District received approval from the Kentucky Department of Education to execute construction contracts and begin the elementary school floor replacement project. The project, which has an estimated cost of \$172,602, began construction in June 2012. Project costs of \$106,903 were incurred by June 30, 2012. The District anticipates completion of the project in August 2012. The construction project is to be funded by local sources and approved transfers from prior projects.

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE E - CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Land	\$ 56,429	\$ -	\$ -	\$ 56,429
Buildings and improvements	16,897,960	2,749,868	7,384	19,640,444
Technology equipment	1,070,353	79,762	4,005	1,146,110
Vehicles	1,629,657	-	129,458	1,500,199
Other equipment	543,350	11,055	-	554,405
Construction in progress	1,135,372	106,903	1,135,372	106,903
Totals at historical cost	21,333,121	2,947,588	1,276,219	23,004,490
Less accumulated depreciation:				
Buildings and improvements	5,314,733	437,939	6,153	5,746,519
Technology equipment	892,844	96,057	4,005	984,896
Vehicles	950,390	98,956	129,458	919,888
Other equipment	328,618	16,857	-	345,475
Total accumulated depreciation	7,486,585	649,809	139,616	7,996,778
Governmental Activities Capital Assets - Net	\$ 13,846,536	\$ 2,297,779	\$ 1,136,603	\$ 15,007,712
Business-Type Activities				
Food service general equipment	\$ 420,603	\$ -	\$ -	\$ 420,603
Construction in Progress	-	-	-	-
Food service technology equipment	21,374	-	-	21,374
Totals at historical cost	441,977	-	-	441,977
Less accumulated depreciation:				
Food service general equipment	65,306	30,940	-	96,246
Food service technology equipment	18,340	-	-	18,340
Total accumulated depreciation	83,646	30,940	-	114,586
Business-Type Activities Capital Assets - Net	\$ 358,331	\$ (30,940)	\$ -	\$ 327,391

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE F – BONDED DEBT AND LEASE 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 Nicholas County School District Finance Corporation, with original amounts of issue totaling \$13,160,000.

The General Fund, including utility taxes, the Facility Support Program Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide, among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Nicholas County School District Finance Corporation, and Kentucky School Facility Construction Commission (KSFCC) to construct school facilities and (2) the District with the option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The bonds may be called prior to maturity dates at redemption premiums specified in each issue. The original amount of the issue, the issue dates, and interest rates are summarized below:

<u>ORIGINAL ISSUE</u>	<u>ISSUER</u>	<u>AMOUNT</u>	<u>INTEREST RATES</u>
Issue of 1996	KSFCC	\$ 100,000	5.30% to 5.70%
Issue of 2009	Nicholas County School District Finance Corporation & KSFCC	8,285,000	2.00% to 4.125%
Issue of 2009R	Nicholas County School District Finance Corporation & KSFCC	2,630,000	2.00% to 3.60%
Issue of 2011	Nicholas County School District Finance Corporation & KSFCC	<u>2,145,000</u>	1.90% to 4.375%
		<u>\$13,160,000</u>	

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE F: BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2012, for debt service, (principal and interest) are as shown below:

	SCHOOL DISTRICT		KSFCC		TOTAL
	Principal	Interest	Principal	Interest	
2013	486,200	362,435	128,800	57,696	1,035,131
2014	492,884	351,240	132,116	54,380	1,030,620
2015	509,048	338,101	135,952	50,545	1,033,646
2016	524,855	323,248	140,145	46,353	1,034,601
2017	538,131	307,296	141,869	41,914	1,029,210
2018	556,262	290,648	138,738	37,464	1,023,112
2019	571,476	272,850	143,524	32,943	1,020,793
2020	515,044	253,437	59,956	27,961	856,398
2021	532,951	235,656	62,049	25,866	856,522
2022	550,724	216,853	64,276	23,639	855,492
2023	573,355	197,006	66,645	21,271	858,277
2024	595,835	175,907	69,165	18,751	859,658
2025	618,072	152,288	71,928	15,987	858,275
2026	640,199	127,785	74,801	13,114	855,899
2027	672,203	101,987	77,797	10,118	862,105
2028	699,088	74,897	80,912	7,004	861,901
2029	725,847	46,724	84,153	3,764	860,488
2030	181,818	16,341	3,182	284	201,625
2031	191,679	8,386	3,321	145	203,531
TOTALS	<u>\$ 10,175,671</u>	<u>\$ 3,853,085</u>	<u>\$ 1,679,329</u>	<u>\$ 489,199</u>	<u>\$ 16,197,284</u>

Summary of Long-Term Debt for the year ended June 30, 2012 was as follows:

	District	KSFCC	TOTAL
Long-Term Debt at June 30, 2011	\$ 9,920,811	\$ 2,524,189	\$ 12,445,000
New Debt Issued in 2012	-	-	-
Payments during 2011-2012	(464,134)	(125,866)	(590,000)
Long-Term Debt at June 30, 2012	<u>\$ 9,456,677</u>	<u>\$ 2,398,323</u>	<u>\$ 11,855,000</u>

Current portion of Long-Term Debt as of June 30, 2012 is \$615,000.

NOTE G: CAPITAL LEASE PAYABLE

The District has leased buses with a book value \$1,029,453 under a capital lease through KISTA school bus financing program. The following is a schedule of years of the future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2012:

Year Ending	Capital Lease Payable
June 2013	125,421
June 2014	114,952
June 2015	105,707
June 2016	91,701
June 2017	73,254
June 2018-2021	133,371
Total minimum lease payments	\$ 644,406
Less amount representing interest	(71,613)
Present Value of Net Minimum Lease Payments	<u>\$ 572,793</u>

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE H – RETIREMENT PLANS

Pension Plan

The Nicholas County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that the members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

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

Funding policy - Contribution rates are established by KRS. Members before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS and members after July 1, 2008 contribute 10.855%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 13.605% for members hired before July 1, 2008 and 14.105% for those hired after that date.

The Nicholas County School District's total payroll for the year was \$5,899,372. The payroll for the employees covered under KTRS was \$4,453,122. For the year ended June 30, 2012, the Commonwealth contributed \$558,679 to KTRS for the benefit of participating employees. The School district's contributions to KTRS for the year ending June 30, 2012 were \$33,818, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the Kentucky County Employees Retirement System (CERS), a cost sharing, multiple-employer, public employers' retirement system. Funding for the CERS Plan is provided through payroll withholdings of 5.00%, plus an additional 1% for employees hired after September 1, 2008, and a District contribution of 18.96% of the eligible employee's total compensation. The contribution requirement for CERS for the year ended June 30, 2012 was \$342,358 which consisted of \$269,307 from the District and \$73,051 from employees.

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 increases 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 pension's funding status on a going-

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE H – RETIREMENT PLANS - CONTINUED

concern basis, assess progress made in accumulating sufficient assets by pay benefits when due, and make comparisons between the plans and employers. The funding status and progress, actuarially determined contribution requirements, and trend information may be found in the Commonwealth of Kentucky Comprehensive annual Report for the year ended June 30, 2012, under “Notes to the General Purpose Financial Statements-Pension Plans” which is scheduled for release in December 2012.

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.

Medical Insurance Plan

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

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

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

NOTE I – INSURANCE AND RELATED ACTIVITIES

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

**NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2012**

NOTE J – CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor's review the fund are considered not to have been used for the intended purpose, the grantors may request 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 program is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE K – DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures (including other financing sources and uses, such as transfers) resulting in a corresponding reduction of fund balance/net assets:

Construction Fund	\$ (1,221,966)
Debt Service Fund	\$ (5,973)

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 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 is terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

**NICHOLAS COUNTY SCHOOL DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 Year Ended June 30, 2012**

NOTE L – RISK MANAGEMENT- CONTINUED

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

NOTE M - COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 20,856
Operating	Building Fund	Debt Service	Debt Service	726,641
Operating	Capital Outlay	Debt Service	Debt Service	104,283

NOTE O - ON-BEHALF PAYMENTS

For the year ended June 30, 2012, total payments of \$1,704,496 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, KTRS matching, administrative fees and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense accounts in the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance. The On-Behalf payments are not budgeted in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

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

Teacher Retirement	\$ 561,776
Insurance and related expenses	1,075,132
Technology	59,590
Vocational Education	<u>7,998</u>
Total	<u>\$ 1,704,496</u>

**NICHOLAS COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Govt Funds</u>
ASSETS				
Cash and cash equivalents	\$ 63,561	\$ 153,761	\$ 136	\$ 217,458
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 63,561</u>	<u>\$ 153,761</u>	<u>\$ 136</u>	<u>\$ 217,458</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	-	-	-	-
Fund Balances				
Restricted	63,561	153,761	136	217,458
Unassigned	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>63,561</u>	<u>153,761</u>	<u>136</u>	<u>217,458</u>
Total Liabilities and Fund Balances	<u>\$ 63,561</u>	<u>\$ 153,761</u>	<u>\$ 136</u>	<u>\$ 217,458</u>

**NICHOLAS COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2012**

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Govt Funds
Revenues				
From local sources				
Property taxes	\$ -	\$ 283,600	\$ -	\$ 283,600
Earnings on investments	-	-	23	23
State sources	104,283	455,710	186,497	746,490
Other	-	-	-	-
	<u>104,283</u>	<u>739,310</u>	<u>186,520</u>	<u>1,030,113</u>
Total Revenues				
Expenditures				
Instruction	-	-	-	-
Support services				
Instructional staff	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Debt service	-	-	1,023,417	1,023,417
	<u>-</u>	<u>-</u>	<u>1,023,417</u>	<u>-</u>
Total Expenditures				
	<u>-</u>	<u>-</u>	<u>1,023,417</u>	<u>1,023,417</u>
Excess (Deficit) of Revenues Over Expenditures				
	104,283	739,310	(836,897)	6,696
Other Financing Sources (Uses)				
Operating transfers in	-	-	830,924	830,924
Operating transfers (out)	(104,283)	(726,641)	-	(830,924)
Total Other Financing Sources (Uses)				
	<u>(104,283)</u>	<u>(726,641)</u>	<u>830,924</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses				
	-	12,669	(5,973)	6,696
Fund Balance, July 1, 2011	63,561	141,092	6,109	210,762
Fund Balance, June 30, 2012	<u>\$ 63,561</u>	<u>\$ 153,761</u>	<u>\$ 136</u>	<u>\$ 217,458</u>

**NICHOLAS COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FIDUCIARY FUND TYPE - ACTIVITY FUNDS
 YEAR ENDED JUNE 30, 2012**

	<u>REVENUE</u>	<u>EXPENDITURES</u>	EXCESS (DEFICIENCY) OF REVENUES OVER <u>EXPENDITURES</u>	<u>DEPOSITS HELD IN CUSTODY FOR STUDENTS</u>	
				<u>JUNE 30, 2011</u>	<u>JUNE 30, 2012</u>
High School	\$ 481,113	\$ 477,205	\$ 3,908	\$ 89,421	\$ 93,330
Elementary	69,167	61,764	7,403	12,727	20,130
TOTALS - ACTIVITY FUNDS	<u><u>\$ 550,280</u></u>	<u><u>\$ 538,969</u></u>	<u><u>\$ 11,311</u></u>	<u><u>\$ 102,148</u></u>	<u><u>\$ 113,460</u></u>

NICHOLAS COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
HIGH SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2012

	CASH				CASH	RECEIVABLE	IN CUSTODY
	BALANCES		DISBURSE-	TRANSFERS	BALANCES	(PAYABLE)	FOR STUDENTS
	JULY 1, 2011	RECEIPTS	MENTS		JUNE 30, 2012	JUNE 30, 2012	JUNE 30, 2012
General	\$ 2,035	\$ 19,980	\$ 19,616	\$ (104)	\$ 2,295	\$ -	\$ 2,295
Social Studies	51	-	49	(2)	-	-	-
Health - PE	432	-	-	-	432	-	432
Testing Incentives	4,783	3,227	3,666	-	4,344	-	4,344
Class 2015 FR	-	1,538	935	-	603	-	603
Christmas Fund	-	150	150	-	-	-	-
Band	923	5,500	6,268	-	155	-	155
Class of 2011	1,663	-	-	-	1,663	-	1,663
Class of 2009	117	-	-	-	117	-	117
Project Prom	437	500	937	-	-	-	-
Project Graduation	2,500	16,082	16,527	199	2,254	-	2,254
Chess Club	62	-	-	-	62	-	62
KYA/KUNA	226	-	-	-	226	-	226
Science Lab/Chemistry	914	550	53	-	1,411	-	1,411
Class of 2012	4,778	1,033	4,988	(15)	808	-	808
Senior Trip	712	33,885	34,603	432	426	-	426
Poster Machine	853	126	548	229	660	-	660
Hot Shot Club	2	-	-	-	2	-	2
Class of 2013	3,061	12,332	11,434	(20)	3,939	-	3,939
Earth Science	193	-	-	-	193	-	193
FFA	3,802	14,339	18,035	(85)	21	-	21
Vocational Ag	46	-	-	-	46	-	46
FCCLA	149	3,313	2,975	-	487	-	487
Home Economics	46	-	-	-	46	-	46
Industrial Arts	206	2,047	1,718	-	535	-	535
Class of 2014	763	1,956	1,176	-	1,543	-	1,543
School Newspaper	505	685	1,062	-	128	-	128
Integrated Science	-	250	30	-	220	-	220
Embroidery Shop	219	-	-	-	219	-	219
Library	108	2,354	1,771	-	691	-	691
Pep Club	447	-	447	-	-	-	-
Academic Team	27	-	-	-	27	-	27
Yearbook	10,648	15,837	14,694	-	11,791	-	11,791
Ecology Club	32	-	-	2	34	-	34
Student Council	105	-	62	-	43	-	43
Art Club	211	-	-	11	222	-	222
Science Fair/Biology	1,162	523	697	-	988	-	988
Twin Towers	-	825	800	-	25	-	25
FBLA	125	1,807	1,967	35	-	-	-
Scrapbooking Club	73	-	-	-	73	-	73
Travel	408	3,023	3,431	-	-	-	-
Class of 2010	182	-	-	-	182	-	182
FCA	55	-	-	-	55	-	55
College Math	-	1,135	1,135	-	-	-	-
Honors Chemistry	58	-	-	-	58	-	58
Sci Tech	960	-	925	-	35	-	35
Drumline	24	750	740	-	34	-	34
NCHS Honor	245	370	229	-	386	-	386
Cheer Competition	-	6,203	3,159	565	3,609	-	3,609
Athletic Fund	17,003	136,141	131,226	(6,598)	15,320	-	15,320
Athletic Uniforms	1,268	-	500	-	768	-	768
All A	3,483	5,715	6,008	(28)	3,162	-	3,162
Volleyball 38th	-	742	633	-	109	-	109
38th District BB	-	17,662	14,699	(84)	2,879	-	2,879
38th SB	-	475	475	-	-	-	-
Volleyball Boosters	975	7,865	8,130	(109)	601	-	601
Football Boosters	1,354	21,208	17,101	(163)	5,298	-	5,298
Baseball Boosters	167	9,894	8,872	(365)	824	-	824
Boys Basketball	2,220	14,072	15,317	(121)	854	-	854
Band Booster	2,231	33,633	31,127	(1,244)	3,493	-	3,493
Girls Basketball	2,456	11,922	12,935	142	1,585	-	1,585
Softball Boosters	1,436	7,883	7,439	(719)	1,161	-	1,161
Training Facilities	1,102	2,618	3,167	500	1,053	-	1,053
Girls Golf Booster	284	-	85	-	199	-	199
MS Football	3,386	12,040	14,833	614	1,207	-	1,207
MS Girls BB	81	9,238	7,631	(600)	1,088	-	1,088
MS Boys BB	12	10,585	10,326	(20)	251	-	251
MS Volleyball	1,089	420	535	(149)	825	-	825
MS Softball	1,234	5,443	5,694	-	983	-	983
MS Baseball	-	435	204	(48)	183	-	183
Ohio Valley Conf	1,673	-	1,673	-	-	-	-
MS Athletic	1,789	1,312	4,980	7,768	5,889	-	5,889
7th Science Fees	788	490	84	-	1,194	-	1,194
MS Honor Society	937	19,925	17,898	(20)	2,944	-	2,944
MS FCA	5	-	-	-	5	-	5
MS Classroom	100	400	150	-	350	-	350
8th Science Fees	-	675	655	(3)	17	-	17
TOTALS	\$ 89,421	\$ 481,113	\$ 477,204	-	\$ 93,330	\$ -	\$ 93,330

**NICHOLAS COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER/AWARD NUMBER</u>	<u>EXPENDITURES</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
Child Nutrition Cluster			
National School Breakfast	10.553	7760005-11	28,061
National School Breakfast	10.553	7760005-10	99,811
National School Lunch	10.555	7750002-11	67,466
National School Lunch	10.555	7750002-12	251,924
National School Lunch- Non-cash Commodities	10.555	2011	36,256
Total Child Nutrition Cluster			<u>483,518</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>483,518</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	3100002-10	93,468
Title I Grants to Local Educational Agencies	84.010	3100002-11	241,623
Total Title I Cluster			<u>335,091</u>
Migrant Education	84.011	3110002-10	42,844
Migrant Education	84.011	3110002-11	118,875
Special Education Cluster			
IDEA B - Special Education	84.027	3810002-10	5,058
IDEA B - Special Education	84.027	3810002-11	228,611
IDEA B - Special Education - Preschool Grant	84.173	3800002-11	7,997
Total Special Education Cluster			<u>241,666</u>
Career and Technical Education	84.048	4621232-11	14,310
Career and Technical Education	84.048	4621032-09	469
Tech Prep	84.243	4621232-11	96,416
Twenty-First Century Community Learning Centers	84.287	3400002-10	63,375
Twenty-First Century Community Learning Centers	84.287	3400001-09	1,000
Twenty-First Century Community Learning Centers	84.287	3400002-09	56,381
Rural Education	84.358	3140002-09	1,316
Rural Education	84.358	3140002-10	30,857
Rural Education	84.358	3140002-11	1,362
Improving Teacher Quality	84.367	3230002-10	13,923
Improving Teacher Quality	84.367	3230002-11	47,134
Education Jobs Fund - ARRA	84.410	EJOB00-10	297,536
Appalachian Higher Education	23.011	6882	5,000
TOTAL DEPARTMENT OF EDUCATION			<u>1,367,555</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 1,851,073</u>

SUPPLEMENTARY INFORMATION

NICHOLAS COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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 Nicholas County School District and is presented on the accrual basis of accounting which is the same basis used in the basic financial statements. 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.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2012, the District had food commodities totaling approximately \$15,315 in inventory.



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Nicholas County School District
Carlisle, Kentucky 40311

I have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Nicholas County School District as of and for the year ended June 30, 2012, which collectively comprise the Nicholas County School District's basic financial statements and have issued my report thereon dated November 12, 2012. I conducted my 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 audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*.

Internal Control Over Financial Reporting

Management of Nicholas County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Nicholas County School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nicholas County School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Nicholas 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 reasonable possibility that a material misstatement of Nicholas County School District's financial statements will not be prevented, or detected and corrected on a timely basis.

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nicholas County School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

I noted certain other matters that I reported to management of Nicholas County School District in a separate letter dated November 12, 2012.

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

Penny Stanfield

PENNY R STANFIELD, CPA & CO., PLLC

Maysville, Kentucky

November 12, 2012



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Nicholas County School District
Carlisle, Kentucky 40311

Compliance

I have audited Nicholas County School District's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Nicholas County School District's major federal programs for the year ended June 30, 2012. Nicholas 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 Nicholas County School District's management. My responsibility is to express an opinion on Nicholas County School District's compliance based on my audit.

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

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

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

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Internal Control Over Compliance

Management of Nicholas County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Nicholas County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of Nicholas 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

Nicholas County School District's responses to the findings in my audit, if any, is described in the accompanying schedule of findings and questioned costs. I did not audit Nicholas County School District's responses and, accordingly, I express no opinion on the responses.

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

Penny Stanfield

PENNY R STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

November 12, 2012

**NICHOLAS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Nicholas County School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*.
3. No instances of noncompliance material to the financial statement of Nicholas County School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Nicholas County School District expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs for the year ended June 30, 2012 include:

	<u>CFDA #</u>
Child Nutrition Cluster	10.553, 10.555
Education Jobs Fund	84.410

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT
NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT
NONE

D. STATUS OF PRIOR YEAR FINDINGS
THERE WERE NO FINDINGS IN THE PRIOR YEAR.



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

Kentucky State Committee for School District Audits
Members of the Board of Education
Carlisle, Kentucky 40311

In planning and performing my audit of the basic financial statements of Nicholas County School District for the year ended June 30, 2012, I considered the District's internal control over financial reporting to determine my auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal controls over financial reporting.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated November 12, 2012, on the basic financial statements of Nicholas County School District.

I will review the status of these comments and suggestions with various District personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Penny Stanfield

PENNY R STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

November 12, 2012

2202 Old Main Street, Maysville, KY 41056
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**NICHOLAS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
Year Ended June 30, 2012**

Status of Prior Year Management Points

Recommendations from the prior year have been implemented with the exception of findings 12-3, 12-4, and 12-5 which are repeated from prior year.

CENTRAL OFFICE

12-1 VOIDING CHECKS

Condition: When examining payroll tax liabilities, I discovered that checks are being printed for electronic tax payments and are not voided properly.

Recommendation: I recommend all checks be properly voided by writing "Void" across the face of the check and removing the signature line.

Management

Response: The payroll clerk will implement this recommendation immediately.

12-2 DISBURSEMENTS

Condition: Purchases made with a credit card were documented with the original receipt for the purchase. However, documentation of credit card purchases should be expanded to include, at a minimum, the purpose of the transaction.

Recommendation: To increase controls on credit card usage, all purchases should be properly documented by indicating the business purpose.

Management

Response: This recommendation has been implemented.

HIGH/MIDDLE SCHOOL

12-3 BOOSTER CLUBS

Condition: A booster club did not submit a budget or a list of officers. The Red Book requires that all booster clubs submit an annual financial report to the principal by July 25 and a budget and list of officers within the first thirty days of the school year.

Recommendation: The District should review the Red Book booster club requirements to ensure compliance.

Management

Response: The Booster Club in question will be contacted and the importance of completing this documentation will be expressed.

**NICHOLAS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
Year Ended June 30, 2012**

12-4 MULTIPLE RECEIPT FORMS

Condition: Multiple Receipt Forms were noted during the audit that lacked the proper signatures. Multiple Receipt Forms are required to be signed by the student and the person remitting the money to the office.

Recommendation: I recommend that all Multiple Receipt Forms be signed by both the student and the person submitting the money to the office for deposit.

Management

Response: The school treasurer will ensure that multiple receipt forms are properly used to document receipt of funds and that the student and teacher will sign to document agreement that the amounts shown are correct.

12-5 FUND RAISER WORKSHEETS

Condition: Fund Raiser Worksheet (F-SA-2B) is not being utilized for all fundraising events that require one.

Recommendation: For each fundraising event, the sponsor responsible for the administration of the fundraiser must fill out the Fund Raiser Worksheet.

Management

Response: Fundraising sponsors will be instructed to complete the required documentation in a timely manner.

12-6 PURCHASE ORDERS

Condition: The use and completeness of purchase orders needs improvement. When reviewing disbursements, I noted instances of missing purchase orders, purchase orders with no vendor name, and some that were dated after the invoice date.

Recommendation: In order to maintain proper controls over the purchasing process, all purchase orders should be properly completed and approved for each purchase.

Management

Response: Purchases will not be made without a properly completed and approved purchase order.

**NICHOLAS COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
Year Ended June 30, 2012**

**ELEMENTARY SCHOOL
12-7 PURCHASE ORDERS**

Condition: Purchase orders are not being completed consistently. For instance, some purchase orders were not dated, while others were not signed to indicate approval.

Recommendation: A purchase order should be prepared completely and approved.

Management

Response: Purchase order use will be monitored and improved.

12-8 DEPOSITS

Condition: No deposits were made during the month of December 2012, however, multiple receipt forms were submitted during the month.

Recommendation: All monies collected should be deposited on a daily basis, or once the funds collected exceed \$100. This is a Red Book requirement.

Management

Response: All money collected will be deposited timely.