

PADUCAH INDEPENDENT SCHOOL DISTRICT



FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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Independent Auditor's Report

Kentucky State Committee For School
District Audits
Members of the Board
Paducah Independent School District
Paducah, Kentucky

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012 on our consideration of Paducah Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 36 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Paducah Independent School District's financial statements as a whole. The additional information shown on pages 38 through 50 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards on pages 51 and 52 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams, Williams + Lentz, LLP

November 7, 2012

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012

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

FINANCIAL HIGHLIGHTS

- The District had fund balances on July 1, 2010, of \$10.32 million. The balance decreased to \$8.89 million on June 30, 2011. By the end of the school year, June 30, 2012, the balance had increased to \$17.98 million. Excluding bonds sold for construction of the new Paducah Middle School, the fund decreased to \$4.45 million. These totals incorporate all funds including Governmental, Proprietary, and Fiduciary.
- The General Fund had \$27,424,438 in revenue (receipts plus beginning balance) primarily from the state program (SEEK), property taxes, local occupational license taxes, utility taxes, motor vehicle taxes, and state insurance and retirement on-behalf payments. On-behalf payments are payments made directly by the state for our staff (i.e. retirement and insurance). Subtracting the \$4,492,533 in on-behalf payments, General Fund revenue amounted to \$22,931,905. This is an increase from last year of \$695,606. Increased receipts were a result of an increase in the collection of property taxes and utility taxes.
- General Fund had total expenditures equaling \$22,031,652 excluding the on-behalf expenses.
- The District's carry forward balance in General Fund decreased from \$1,970,046 (amount prior to restricted sick leave adjustment) at the start of the year to \$900,253 by the end of the year.
- The District continues to renovate facilities consistent with a long-range facilities plan established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District sold bonds during the school year in the amount of \$18,312,000 for construction of the middle school.
- There were no significant changes in any of the individual funds affecting the use of resources.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The District's basic financial statements are comprised of 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.

Government-wide financial statements: The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of 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, the changes in net assets, both increases and decreases, may serve as an indicator of the District's financial position. Increases in net assets indicate an improving financial position and decreases indicate a deteriorating position. However, the reader must understand that the District's goal is to provide quality services to our students, not to generate profits as commercial entities strive to do. Many non-financial factors must be considered when looking at the position of the District, such as the property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs, and other factors.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. The District uses an accrual basis of accounting commonly used by private-sector businesses. This accounting practice takes into account all of the current year's revenues and expenses, regardless of when cash is received and paid.

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

The government-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements: A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to guarantee and exhibit compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Our only proprietary fund is food service operations. Fiduciary funds are held as trust funds established by benefactors to aid in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statement can be found on pages 10-18 of this report.

Notes to the financial statements: The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 19-35 of this report.

COMMENTS ON AFR BUDGET COMPARISONS

- During the fiscal year ended June 30, 2012, the District amended its General Fund budget numerous times. Most amendments were due to changes in expenditure priorities.
- The District's General Fund total revenues (receipts plus beginning balance) for the fiscal year ended June 30, 2012, net of state on-behalf payments, were \$22.93 million. This includes a beginning balance of \$1.97 million and receipts of \$20.96 million.
- General Fund budget, compared to actual revenue, excluding on-behalf payments, varied slightly from line item to line item, with the ending actual balance \$.73 million more than budget or approximately 3.62 percent.
- The total cost of all General Fund programs and services was \$21.58 million excluding transfers for gifted and technology programs to special revenue fund and state on-behalf payments.
- General Fund actual expenditures, compared to budgeted appropriations, were \$.62 million less.
- Actual expenditures of \$22.03 million including transfers were \$.9 million less than the actual receipts and beginning balance of \$22.93 million.
- By comparing actual receipts of \$20.96 million and expenditures of \$22.03 million, the District decreased its beginning balance by \$1.07 million from \$1.97 million (this figure reflects a restricted sick leave adjustment) to \$.90 million.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9.08 million as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any related debt used to acquire those assets that is still outstanding and restrictions for capital projects. The District uses these capital assets to provide services to its students; as a result, 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 cannot be used to liquidate these liabilities.

The District's financial position is the result 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.

(Continued)

Net Assets for the Years Ended June 30

GASB 34 allows the District to compare this year's assets with last year's assets.

	2012	2011
Current assets	\$20,479,598	\$13,666,983
Non-current assets	38,791,949	30,993,812
Total assets	59,271,547	44,660,795
Current liabilities	3,747,796	5,861,317
Non-current liabilities	46,442,963	29,131,620
Total liabilities	50,190,759	34,992,937
Net Assets:		
Investment in capital assets (net of debt)	4,716,645	4,337,051
Restricted	6,231,061	6,474,512
Unreserved fund balance	(1,866,918)	(1,143,705)
TOTAL NET ASSETS	\$ 9,080,788	\$ 9,667,858

The following are significant current year transactions that have had an impact on the statement of net assets:

- The District continued renovating the high school with funds from new and prior bond sales. A new bond issue in the amount of \$18,312,000 was obtained to finance construction on the new middle school.
- Technology purchases continued by replacing outdated systems.

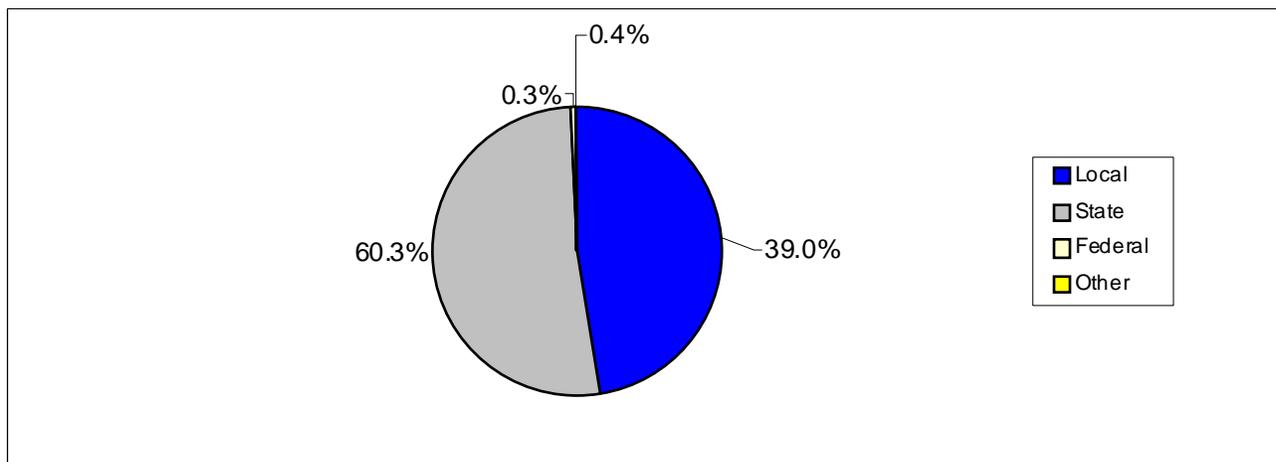
The following table presents a summary of government-wide revenues and expenses for the fiscal years ended June 30:

	2012	2011
Revenues:		
Charges for services	\$ 427,102	\$ 417,470
Operating grants and contributions	7,049,842	8,931,903
Capital grants and contributions	1,765,238	1,051,753
Taxes	10,234,692	10,068,757
State aid	10,845,914	9,483,216
Federal aid	101,030	73,424
Investment earnings	54,499	29,367
On-behalf payments	4,596,094	4,384,941
Erate proceeds	259,665	887,985
Gain on sale of equipment	13,870	10,101
Other	174,433	247,924
Total revenues	35,522,379	35,586,841
Expenses:		
Instruction	19,448,185	18,066,116
Student support services	1,259,753	1,201,703
Instructional support	1,292,238	1,389,744
District administration	1,150,449	1,343,747
School administration	2,368,191	2,367,059
Business support	1,022,672	1,081,433
Plant operations	4,029,546	4,150,859
Student transportation	1,462,252	1,686,498
Community support	387,928	408,989
Food service operations	1,930,695	1,911,267
Facility acquisition and construction	35,957	200,454
Other	1,721,583	912,362
Total expenses	36,109,449	34,720,231
CHANGE IN NET ASSETS	\$ (587,070)	\$ 866,610

(Continued)

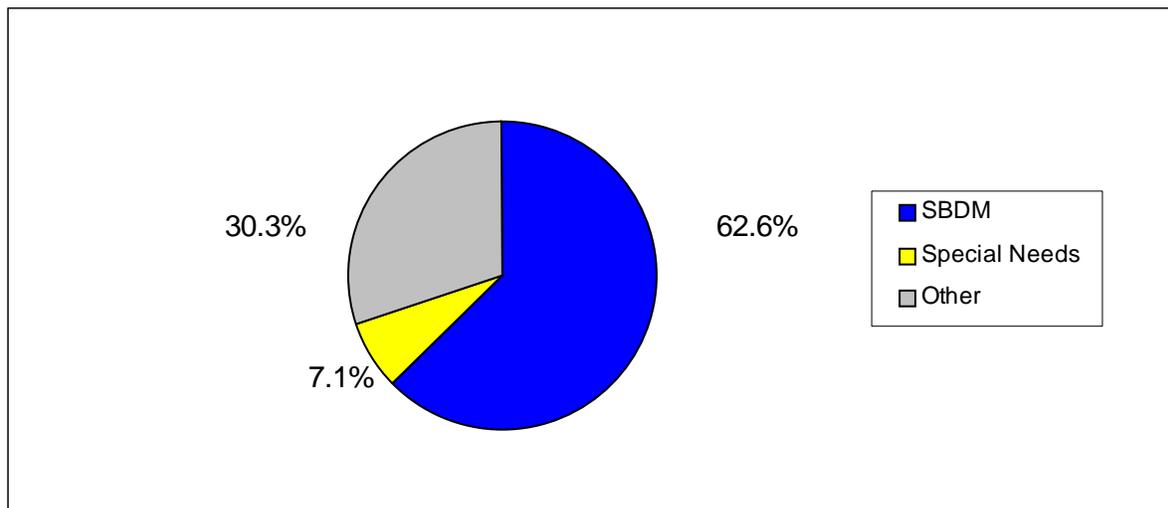
Due to the requirements of GASB Statement No. 34, bond proceeds are reported as liabilities in the statement of net assets and any payments for bonds are reductions in bond liabilities. Expenditures for fixed assets are reported as assets on the statement of net assets while they are expenses on the fund statements. Therefore, the above revenues and expenses for 2012 do not reflect bond proceeds of \$18,517,696 received and construction related expenses of \$9,095,581 which are reflected in the statement of revenues, expenditures, and changes in fund balances - governmental funds. Expenses over revenues on the fund statements as of June 30, 2012, were \$9.08 million compared to the loss of \$.6 million shown on the government-wide statement of activities.

General Fund Revenue Chart 1



The majority of revenue was derived from state funding at 60.3% and local funding at 39%. All other funding sources accounted for less than 1 percent of total General Fund revenue.

General Fund Budget Allocation Chart



Site Based Decision Making Councils expended 62.6% or \$13.78 million of the General Fund budget. An additional \$1.58 million or 7.1% of Non-SBDM money was spent serving children with special needs. The remaining 30.3% was expended in district-wide support services and central office support.

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the District had \$38,010,307 invested in land, buildings, and equipment. Of that amount, \$37,970,388 is in governmental activities.

See footnote 5 for a breakdown of additions by class on page 28.

Debt Administration

The District had \$47,227,403 in bonds outstanding on June 30, 2012. A total of \$1,043,940 is due within one year.

See note 6 on pages 28-31 for a detailed listing.

BUDGETARY IMPLICATIONS

In Kentucky, the fiscal year for public schools runs from July 1 through June 30; other programs, e.g., federal programs such as Head Start, operate on a different fiscal calendar, but are reflected in the District overall budget.

By law, the District must maintain a 2% contingency. The District ended the year with a 2.75% contingency. The District has developed a working budget for the next fiscal year that contains a 3.39% contingency. Significant Board actions may impact this budget during the year. No pay raises have been required by the Commonwealth of Kentucky; and, therefore, no Board action has been taken to increase pay schedules.

Questions regarding this report should be directed to the Superintendent, Dr. Randy Greene (270-444-5600), or Julie D. Huff, Director of Finance (270-444-5600 Ext. 5611), or by mail at P. O. Box 2550, Paducah, KY 42002-2550.

BASIC FINANCIAL STATEMENTS

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
 JUNE 30, 2012

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$ 2,912,246	\$ 80,641	\$ 2,992,887
Accounts receivable:			
Taxes	283,911	-	283,911
Delinquent taxes, net of allowance of \$130,000	279,789	-	279,789
Accounts	368,817	-	368,817
Intergovernmental - state	6,110	-	6,110
Intergovernmental - federal	356,307	-	356,307
Investment	15,879,687		15,879,687
Investment - prefunded escrow	253,525		253,525
Inventories	-	58,565	58,565
Deferred bond issuance costs and discounts	781,642	-	781,642
Nondepreciated capital assets:			
Land	663,386	-	663,386
Construction-in-progress	18,060,660	-	18,060,660
Depreciated capital assets:			
Land improvements	1,035,888	-	1,035,888
Buildings	34,539,777	-	34,539,777
Furniture and equipment	8,323,463	457,450	8,780,913
Less: accumulated depreciation	<u>(24,652,786)</u>	<u>(417,531)</u>	<u>(25,070,317)</u>
TOTAL ASSETS	<u>\$ 59,092,422</u>	<u>\$ 179,125</u>	<u>\$ 59,271,547</u>
 <u>LIABILITIES AND NET ASSETS</u> 			
Liabilities:			
Accounts payable	\$ 1,790,617	\$ 1,889	\$ 1,792,506
Deferred revenues	236,933	-	236,933
Long-term obligations:			
Due within one year:			
Note payable	-	-	-
Bond and lease obligations	1,043,940	-	1,043,940
Interest payable	326,939	-	326,939
Construction retainage	347,478	-	347,478
Due beyond one year:			
Bond and lease obligations	46,183,463	-	46,183,463
Accrued sick leave payable	<u>259,500</u>	<u>-</u>	<u>259,500</u>
Total liabilities	<u>50,188,870</u>	<u>1,889</u>	<u>50,190,759</u>
Net Assets:			
Invested in capital assets, net of related debt	4,676,726	39,919	4,716,645
Restricted for:			
Capital projects	5,556,541	-	5,556,541
Debt service	362,807	-	362,807
Encumbrances	256,613	-	256,613
Accrued sick leave	55,100	-	55,100
Unrestricted	<u>(2,004,235)</u>	<u>137,317</u>	<u>(1,866,918)</u>
Total net assets	<u>8,903,552</u>	<u>177,236</u>	<u>9,080,788</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 59,092,422</u>	<u>\$ 179,125</u>	<u>\$ 59,271,547</u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			
Governmental Activities:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Instruction	\$19,448,185	\$206,242	\$4,020,693	\$ -
Support services:				
Student	1,259,753	-	60,442	-
Instructional staff	1,292,238	-	489,995	-
District administration	1,150,449	-	-	-
School administration	2,368,191	-	252,665	-
Business	1,022,672	360	12,396	-
Plant operations and maintenance	4,029,546	-	45,027	-
Student transportation	1,462,252	-	152,028	-
Community service	387,928	-	382,605	-
Facility acquisition and construction	35,957	-	-	1,020,150
Interest on long-term debt	1,721,583	-	-	745,088
	<u>34,178,754</u>	<u>206,602</u>	<u>5,415,851</u>	<u>1,765,238</u>
Business-type Activities:				
Food services	1,930,695	220,500	1,633,991	-
TOTAL SCHOOL DISTRICT	<u><u>\$36,109,449</u></u>	<u><u>\$427,102</u></u>	<u><u>\$7,049,842</u></u>	<u><u>\$ 1,765,238</u></u>

General revenue and receipts:

Taxes:

Property
Motor vehicle
Utility
In lieu
State aid
State aid - on-behalf
Federal - formula grant
Investment earnings
Erate proceeds
Other

Special items:

Gain on sale of equipment
Transfers

Total general revenue and special items

Change in nets assets

Net assets, July 1, 2011

NET ASSETS, JUNE 30, 2012

See notes to financial statements.

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business-type Activities	Total
\$(15,221,250)	\$ -	\$(15,221,250)
(1,199,311)	-	(1,199,311)
(802,243)	-	(802,243)
(1,150,449)	-	(1,150,449)
(2,115,526)	-	(2,115,526)
(1,009,916)	-	(1,009,916)
(3,984,519)	-	(3,984,519)
(1,310,224)	-	(1,310,224)
(5,323)	-	(5,323)
984,193	-	984,193
(976,495)	-	(976,495)
<u>(26,791,063)</u>	<u>-</u>	<u>(26,791,063)</u>
<u>-</u>	<u>(76,204)</u>	<u>(76,204)</u>
<u>(26,791,063)</u>	<u>(76,204)</u>	<u>(26,867,267)</u>
6,831,233	-	6,831,233
678,257	-	678,257
1,969,086	-	1,969,086
756,116	-	756,116
10,845,914	-	10,845,914
4,492,533	103,561	4,596,094
101,030	-	101,030
54,276	223	54,499
259,665	-	259,665
174,433	-	174,433
13,870	-	13,870
16,871	(16,871)	-
<u>26,193,284</u>	<u>86,913</u>	<u>26,280,197</u>
(597,779)	10,709	(587,070)
<u>9,501,331</u>	<u>166,527</u>	<u>9,667,858</u>
<u>\$ 8,903,552</u>	<u>\$177,236</u>	<u>\$ 9,080,788</u>

PADUCAH INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue (Grant) Fund</u>	<u>FSPK Fund</u>
Cash and cash equivalents	\$ 858,282	\$ (107,878)	\$2,848,670
Accounts receivable:			
Taxes	283,911	-	-
Accounts	62,527	2,115	-
Intergovernmental - state	6,110	-	-
Intergovernmental - federal	-	356,307	-
Investments	-	-	-
TOTAL ASSETS	<u><u>\$1,210,830</u></u>	<u><u>\$ 250,544</u></u>	<u><u>\$2,848,670</u></u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 310,577	\$ 13,611	\$ -
Deferred revenues	-	236,933	-
Total liabilities	<u>310,577</u>	<u>250,544</u>	<u>-</u>
Fund Balances:			
Restricted for:			
Future construction contracts	-	-	-
SFCC escrow	-	-	2,848,670
Committed for:			
Contingency	789,868	-	-
Sick leave	55,100	-	-
Assigned for:			
Bond payments	-	-	-
Other purposes	55,285	-	-
Unassigned	-	-	-
Total fund balances	<u>900,253</u>	<u>-</u>	<u>2,848,670</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$1,210,830</u></u>	<u><u>\$ 250,544</u></u>	<u><u>\$2,848,670</u></u>

See notes to financial statements.

Construction Fund	Nonmajor Funds	Total Governmental Funds
<u>\$(1,179,796)</u>	<u>\$492,968</u>	<u>\$ 2,912,246</u>
-	-	283,911
304,175	-	368,817
-	-	6,110
-	-	356,307
<u>15,879,687</u>	<u>-</u>	<u>15,879,687</u>
<u><u>\$15,004,066</u></u>	<u><u>\$492,968</u></u>	<u><u>\$19,807,078</u></u>
<u>\$ 1,466,429</u>	<u>\$ -</u>	<u>\$ 1,790,617</u>
<u>-</u>	<u>-</u>	<u>236,933</u>
<u>1,466,429</u>	<u>-</u>	<u>2,027,550</u>
13,281,024	-	13,281,024
-	383,686	3,232,356
-	-	789,868
-	-	55,100
-	109,282	109,282
256,613	-	311,898
<u>-</u>	<u>-</u>	<u>-</u>
<u>13,537,637</u>	<u>492,968</u>	<u>17,779,528</u>
<u><u>\$15,004,066</u></u>	<u><u>\$492,968</u></u>	<u><u>\$19,807,078</u></u>

PADUCAH INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total fund balances per fund financial statement		\$17,779,528
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Cost	\$ 62,623,174	
Accumulated depreciation	<u>(24,652,786)</u>	37,970,388
Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.		
Delinquent taxes	279,789	
Investments - prefunded escrow	<u>253,525</u>	533,314
Deferred charges including debt issue costs are amortized in the governmental activities, but were recognized in full in the governmental funds.		
		781,642
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.		
Interest payable	(326,939)	
Construction retainage	<u>(347,478)</u>	(674,417)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bond and lease obligations	(47,227,403)	
Accrued sick leave payable	<u>(259,500)</u>	<u>(47,486,903)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u>\$ 8,903,552</u>

Note: Nonmajor funds consists of the SEEK Capital Outlay Fund and the Debt Service Fund.

See notes to financial statements.

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

	General Fund	Special Revenue (Grant) Fund	FSPK Fund
Revenues:			
Taxes	\$9,320,468	\$ -	\$1,045,288
Earnings on investments	5,316	538	15,211
Intergovernmental - state	10,845,914	674,086	767,244
Intergovernmental - on-behalf	4,492,533	-	-
Intergovernmental - federal	101,030	4,741,765	-
Other	603,673	37,027	-
	<hr/>	<hr/>	<hr/>
Total revenues	25,368,934	5,453,416	1,827,743
	<hr/>	<hr/>	<hr/>
Expenditures:			
Current:			
Instruction	14,686,331	4,200,148	-
Support services:			
Student	1,193,386	60,442	-
Instructional staff	789,417	489,995	-
District administration	1,407,157	-	-
School administration	2,090,914	252,665	-
Business	981,278	12,396	-
Plant operations and maintenance	3,599,255	45,027	-
Student transportation	1,321,011	152,028	-
Community service	-	382,605	-
Facility acquisition and construction	-	-	-
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	26,068,749	5,595,306	-
	<hr/>	<hr/>	<hr/>
Excess (deficit) of revenues over expenditures	(699,815)	(141,890)	1,827,743
	<hr/>	<hr/>	<hr/>
Other Financing Sources			
(Uses):			
Bond proceeds	-	-	-
Proceeds from sale of assets	13,870	-	-
Operating transfers in	71,588	196,607	-
Operating transfers out	(455,436)	(54,717)	(1,743,910)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(369,978)	141,890	(1,743,910)
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(1,069,793)	-	83,833
Fund balances, July 1, 2011	1,970,046	-	2,764,837
	<hr/>	<hr/>	<hr/>
FUND BALANCES, JUNE 30, 2012	\$ 900,253	\$ -	\$2,848,670
	<hr/>	<hr/>	<hr/>

See notes to financial statements.

Construction Fund	Nonmajor Funds	Totals Governmental Funds
\$ -	\$ -	\$10,365,756
13,686	1,602	36,353
-	330,471	12,617,715
-	-	4,492,533
-	667,523	5,510,318
-	-	640,700
<u>13,686</u>	<u>999,596</u>	<u>33,663,375</u>
-	-	18,886,479
-	-	1,253,828
-	-	1,279,412
-	-	1,407,157
-	-	2,343,579
-	-	993,674
-	-	3,644,282
-	-	1,473,039
-	-	382,605
8,257,680	-	8,257,680
-	1,400,602	1,400,602
245,469	1,568,153	1,813,622
<u>8,503,149</u>	<u>2,968,755</u>	<u>43,135,959</u>
<u>(8,489,463)</u>	<u>(1,969,159)</u>	<u>(9,472,584)</u>
18,312,000	211,000	18,523,000
-	-	13,870
105,476	2,007,961	2,381,632
-	(110,698)	(2,364,761)
<u>18,417,476</u>	<u>2,108,263</u>	<u>18,553,741</u>
9,928,013	139,104	9,081,157
3,609,624	353,864	8,698,371
<u>\$13,537,637</u>	<u>\$ 492,968</u>	<u>\$17,779,528</u>

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

Net change in fund balance \$ 9,081,157

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense for the year.

Depreciation expense	(1,502,353)	
Capital outlays	<u>9,095,581</u>	7,593,228

The loss on disposal of capital assets is not recorded in the governmental funds because the assets were recorded as expenditures when purchased.

Bond proceeds are reported as financing sources in governmental funds and, thus, contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Bond proceeds	(18,517,696)	
Principal paid	<u>1,227,104</u>	(17,290,592)

Governmental funds report the effect of issuance costs and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.

Bond issuance costs deferred on new bond issues	253,569	
Amortization of deferred bond issuance costs and discounts	<u>(62,535)</u>	191,034

Generally, revenue is recognized in this fund financial statement when it becomes both measurable and available to finance expenditures of the current period.

Delinquent taxes	(131,064)	
Prefunded escrow and interest earned	<u>253,525</u>	122,461

Construction retainage payable is not recognized on the fund statements since it does not require the use of current financial resources. The expense is recognized when incurred in the statement of activities.

Construction retainage		(177,819)
------------------------	--	-----------

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred. These net differences are as follows:

Accrued interest expense	(80,548)	
Accrued sick leave	<u>(36,700)</u>	<u>(117,248)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (597,779)</u>
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See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

<u>ASSETS</u>	<u>Nonmajor Enterprise Fund Food Services</u>
Current Assets:	
Cash and cash equivalents	\$ 80,641
Inventories	58,565
Total current assets	<u>139,206</u>
Noncurrent Assets:	
Furniture and equipment	457,450
Less accumulated depreciation	<u>(417,531)</u>
Total noncurrent assets	<u>39,919</u>
TOTAL ASSETS	<u><u>\$179,125</u></u>
 <u>LIABILITIES AND NET ASSETS</u>	
Liabilities:	
Accounts payable	<u>\$ 1,889</u>
Net Assets:	
Invested in capital assets	39,919
Unrestricted	<u>137,317</u>
Total net assets	<u>177,236</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$179,125</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Nonmajor Enterprise Fund Food Services</u>
Operating Revenues:	
Lunchroom sales	\$ 203,262
Other operating revenues	17,238
Total operating revenues	<u>220,500</u>
Operating Expenses:	
Salaries and wages	874,965
In-kind commodities	92,711
Materials and supplies	906,502
Depreciation expense	4,851
Other operating expenses	51,666
Total operating expenses	<u>1,930,695</u>
Operating loss	<u>(1,710,195)</u>
Non-Operating Revenues:	
Federal grants	1,522,277
Federal grants - in-kind commodities	92,711
State grants	19,003
State - on-behalf	103,561
Interest income	223
Total non-operating revenues	<u>1,737,775</u>
Operating Transfers:	
Transfers out	<u>(16,871)</u>
Change in net assets	10,709
Net assets, July 1, 2011	<u>166,527</u>
NET ASSETS, JUNE 30, 2012	<u><u>\$ 177,236</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Nonmajor Enterprise Fund Type Enterprise Fund</u>
Cash Flows from Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 220,500
Cash paid to/for:	
Employees	(874,965)
Supplies	(901,326)
Other activities	(51,666)
	<hr/>
Net cash used by operating activities	(1,607,457)
	<hr/>
Cash Flows from Non-Capital Financing Activities:	
Transfers to other funds	(16,871)
Government grants	1,644,841
	<hr/>
Net cash provided by non-capital financing	1,627,970
	<hr/>
Cash Flows from Investing Activities:	
Purchases of equipment	(18,726)
Receipt of interest income	223
	<hr/>
Net cash used by investing activities	(18,503)
	<hr/>
Net increase in cash and cash equivalents	2,010
Cash and cash equivalents, July 1, 2011	78,631
	<hr/>
CASH AND CASH EQUIVALENTS, JUNE 30, 2012	<u><u>\$ 80,641</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$(1,710,195)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	4,851
Commodities used	92,711
Change in assets and liabilities:	
Inventory	4,661
Accounts payable	515
	<hr/>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (1,607,457)</u></u>
Schedule of Non-Cash Transactions:	
Donated commodities received from federal government	<u><u>\$ 92,711</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Private- Purpose Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$23,971	\$391,126
Accounts receivable	-	4,137
Total assets	23,971	395,263
Liabilities:		
Accounts payable	-	9,577
Due to student groups	-	43,312
Due to students in general	-	339,900
Due to teachers	-	2,474
Total liabilities	-	395,263
NET ASSETS HELD IN TRUST FOR SCHOLARSHIPS	\$23,971	\$ -

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Private- Purpose Trust Funds
Additions	<u>\$ 8,395</u>
Deductions:	
Benefits paid	<u>5,300</u>
Total deductions	<u>5,300</u>
Change in net assets	3,095
Net assets, beginning of year	<u>20,876</u>
NET ASSETS, END OF YEAR	<u><u>\$23,971</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 - Reporting Entity:

The Paducah Board of Education, 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 the Paducah Independent School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirement 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 because 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 Paducah Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations, nor has any influence over the operation of the organizations.

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

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

Paducah Independent School District Finance Corporation – In 1989, the Paducah Independent School District resolved to authorize the establishment of the Paducah Independent School District Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Paducah Independent School District also comprise the Corporation's Board of Directors.

Paducah Public Schools Foundation, Inc. – The Paducah Public Schools Foundation, Inc. (Foundation) was organized as a nonprofit corporation under Chapter 273 of the Kentucky Revised Statutes. The Foundation was formed for the purpose of establishing an education endowment fund to support education programs of the Paducah Public Schools. Resources for activities of the Foundation are primarily provided by contributions from the public. The Foundation is financially accountable to the District. Copies of the Foundation's audit can be obtained by contacting the board office of the Paducah Independent School District.

Note 2 - Summary of Significant Accounting Policies:

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

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 all financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

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

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Non-major 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, current liabilities, and fund balances, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenue and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resource measurement focus.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

The District has the following funds:

a. Governmental Fund Type

The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.

The Special Revenue (Grant) Fund accounts 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 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.

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 funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

The Debt Service Fund is 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.

b. Proprietary Fund Type (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$92,711 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is not a major fund of the District.

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

Agency Funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These activity funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*. The other funds are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Fund Accounting

The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

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

Exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the 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 resources are expected to be received within sixty days of the fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the 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 the modified accrual basis, revenue from non-exchange 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.

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 within the School District. The billings are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they are levied.

The property tax rates assessed for the year ended June 30, 2012 to finance operations were \$.747 per \$100 valuation for real property, \$.747 per \$100 valuation for business personal property, and \$.566 per \$100 valuation for motor vehicles.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Property Taxes

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

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

Cash and Cash Equivalents

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

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the proprietary fund. Inventory consists of purchased food held for consumption and is expensed when used. The purchased food is valued at cost.

Debt Costs

Unamortized debt issuance costs in the amount of \$335,783 and unamortized discounts of \$445,859 are included in the government-wide statements. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the effective interest method.

Capital Assets

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

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

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Capital Assets

the value of the asset or materially extend the asset's life are not. Technology assets acquired through E-rate are capitalized at full cost with the portion paid by E-rate being treated as donated assets.

All capital assets except land 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 governmental and business-type capital 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	12 years
Furniture and fixtures	10 years
Rolling stock	15 years
Other	10 years

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted a policy of providing at retirement a percentage of their accumulated unused 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 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 sick leave is the amount expected to be paid using expendable available resources. These amounts, when applicable, are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, 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 liabilities 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 liabilities in the fund financial statements until due.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Fund Balance Classifications

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows the District's Superintendent or his designee to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts, except negative balances, that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. The Board committed funds to ensure fund balance remains above this level. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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. The government-wide statement of net assets reports \$6,231,061 of restricted net assets, of which \$5,611,641 is restricted by enabling legislation.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2 - Summary of Significant Accounting Policies:

Operating Revenues and Expenses

Operating revenues and expenses are those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

Use of Restricted Sources

When an expense is incurred for which there are both restricted and unrestricted net assets available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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. Interfund transfers between funds of the same type are eliminated in the government-wide statements. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Subsequent Events

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through November 7, 2012, the date the financial statements were available to be issued.

Note 3 - Estimates:

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

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 4 - Cash and Cash Equivalents:

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the Board to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptance for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

At year end, the carrying amount of the District's cash and cash equivalents was \$3,407,984 which includes \$104,409 in the Federated U.S. Government Bond Fund and \$652,561 in Bank of New York Bond Funds, which are valued at fair market value. Both the Federated and Bank of New York accounts invest in Government Obligations. The bank balance excluding the bond funds was \$4,074,649. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was subject to 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. Of the remaining balance, \$3,822,684 was uninsured and collateralized with securities held by the pledging bank's agent, not in the District's name and \$1,965 was uninsured and uncollateralized.

In December 2011, the District deposited bond proceeds from Qualified School Construction Bonds into a Bond Construction account which invests in Government Obligation Funds. The fair market value of this account at June 30, 2012 was \$15,879,687.

On June 1, 2012, the District made the first sinking fund payment on the 2011 Qualified Zone Academy Bonds into a prefunded escrow account which invests in Government Obligation Funds. The fair market value of this account at June 30, 2012 was \$253,525.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 5 - Capital Assets:

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

	Balance			Balance
	July 1, 2011	Additions	Deductions	June 30, 2012
Governmental Activities:				
Land	\$ 663,386	\$ -	\$ -	\$ 663,386
Construction-in-progress	9,649,332	8,411,328	-	18,060,660
Equipment not placed in service	147,935	(147,935)	-	-
Land improvements	1,035,888	-	-	1,035,888
Buildings and improvements	34,454,210	85,567	-	34,539,777
Technology equipment	4,051,947	622,560	10,517	4,663,990
General equipment	727,158	28,612	-	755,770
Vehicles	<u>2,808,254</u>	<u>95,449</u>	<u>-</u>	<u>2,903,703</u>
Totals at historical cost	<u>53,538,110</u>	<u>9,095,581</u>	<u>10,517</u>	<u>62,623,174</u>
Less accumulated depreciation:				
Land improvements	945,679	7,451	-	953,130
Building and improvements	17,651,985	806,531	-	18,458,516
Technology equipment	2,662,960	455,882	10,517	3,108,325
General equipment	395,986	41,124	-	437,110
Vehicles	<u>1,504,340</u>	<u>191,365</u>	<u>-</u>	<u>1,695,705</u>
Total accumulated depreciation	<u>23,160,950</u>	<u>1,502,353</u>	<u>10,517</u>	<u>24,652,786</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS – NET	<u>\$30,377,160</u>	<u>\$ 7,593,228</u>	<u>\$ -</u>	<u>\$37,970,388</u>
Business-type Activities:	Balance			Balance
	July 1, 2011	Additions	Deductions	June 30, 2012
Food service and equipment	\$ 422,403	\$18,726	\$ -	\$ 441,129
Technology equipment	<u>16,321</u>	<u>-</u>	<u>-</u>	<u>16,321</u>
Totals at historical cost	<u>438,724</u>	<u>18,726</u>	<u>-</u>	<u>457,450</u>
Less accumulated depreciation:				
Food service equipment	396,359	4,851	-	401,210
Technology equipment	<u>16,321</u>	<u>-</u>	<u>-</u>	<u>16,321</u>
Total accumulated depreciation	<u>412,680</u>	<u>4,851</u>	<u>-</u>	<u>417,531</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS – NET	<u>\$ 26,044</u>	<u>\$13,875</u>	<u>\$ -</u>	<u>\$ 39,919</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 677,218
Support services:	
Student	5,925
Instructional staff	12,826
District administration	31,376
School administration	49,141
Business	28,998
Plant operations and maintenance	521,030
Student transportation	170,516
Community services	<u>5,323</u>
TOTAL DEPRECIATION EXPENSE	<u>\$1,502,353</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 6 - Short-Term Note Payable:

In October 2010, the District established a line of credit in the amount of \$2,500,000 with Paducah Bank to fund property acquisitions associated with the new Paducah Middle School until a bond issue could be completed. The line of credit matured on October 29, 2011 and had an interest rate of 4.65%. Advances from the line of credit were deposited into a real estate trust account held by Whitlow, Roberts, Houston & Straub, LLC. Purchases of real estate were paid from this account. The line of credit was paid in full along with \$2,471 in interest during July 2012.

Note 7 - Bond and Lease Obligations:

The amount shown in the accompanying government-wide financial statements as lease obligations represents the District's future obligations to make lease payments related to school building revenue bonds issued by the Paducah Independent School District Finance Corporation (the Finance Corporation) on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund is obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security for the holders of the bonds.

The KISTA school bus acquisition bonds provide for the title of the equipment (buses) to vest in the District subject to a first lien, and if nonrenewal or default occurs, the title will revert to KISTA. The District leases and rents the equipment from KISTA on an annual basis and has an exclusive option to renew this lease from year to year for the period of time of the pooled bond issue (approximately 10 years). The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to keep the equipment in good repair and provide insurance coverage.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
March 1, 2007	\$4,520,000	3.85%
July 1, 2008	2,650,000	3.00%-4.20%
January 1, 2009 refunding	3,915,000	2.00%-3.40%
April 9, 2009	6,720,000	2.00%-4.25%
May 24, 2010	5,045,000	2.00%-5.50%
June 21, 2010 KISTA	685,515	4.5%
July 15, 2010 refunding	440,000	1.20%-3.00%
June 29, 2011	3,170,000	3.597%
June 29, 2011 QZAB	3,950,000	4.859%
July 12, 2011 refunding	211,000	2.98%
December 22, 2011 QSCB	18,312,000	5.00%

In March 2009, the District issued bonds to redeem its outstanding January 15, 1998, May 1 1998, and January 1, 1999 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2012, \$3,775,000 of bonds outstanding is considered defeased. In the Statement of Net Assets, the net costs associated with the early retirement of the issues are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the new debt issued to finance the refunding. Total deferred costs were \$53,197. Amortization for the year was \$7,933 and is included as a component of interest expense.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 7 - Bond and Lease Obligations:

In 2009, the District entered into a “participation agreement” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amounts remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

In May 2010, the District issued \$5,045,000 in School Building Revenue Bonds (Build America Bonds). The District will receive a subsidy payment from the federal government equal to thirty-five percent of each interest payment on the Build America Bonds. The subsidy payment is included in interest expense on the financial statements. These payments are disclosed below.

In July 2010, the District issued bonds to redeem its outstanding March 1, 2000 revenue bonds. The liabilities for the defeased bonds are not included in the District’s financial statements. On June 30, 2012, \$415,000 of bonds outstanding is considered defeased. In the Statement of Net Assets, the net costs associated with the early retirement of the issues are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the new debt issued to finance the refunding. Total deferred costs were \$3,871. Amortization for the year was \$1,154 and is included as a component of interest expense.

On June 29, 2011, the District issued \$3,950,000 in Qualified Zone Academy Bonds which is a tax credit bond. The District is required to make annual sinking fund payments to be held in escrow by the purchaser of the bonds. The purchaser of the bonds receives a tax credit for purchasing them and guarantees the payments in escrow plus the compounded interest earned on it over the life of the bonds will equal exactly \$3,950,000 at June 1, 2027, which is the maturity date. At maturity, the escrow will be transferred back to the District’s bond accounts to pay the bonds in full. One hundred percent of the interest will be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. The interest subsidy payments are included in interest expense on the financial statements. These payments are disclosed below.

In July 2011, the District issued bonds to redeem its outstanding April 1, 2001 revenue bonds. The liabilities for the defeased bonds are not included in the District’s financial statements. On June 30, 2012, \$195,000 of bonds outstanding is considered defeased. In the Statement of Net Assets, the net costs associated with the early retirement of the issues are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the new debt issued to finance the refunding. Total deferred costs were \$5,304. Amortization for the year was \$888 and is included as a component of interest expense.

The December 2011 bond issue is a \$18,312,000 Qualified School Construction Bond which is a tax credit bond. The District received \$18,312,000, less the issuance cost of \$242,998 to deposit into its construction fund. The District and the Kentucky School Facility Construction Commission are required to make annual sinking fund payments to The Bank of New York Mellon Trust Company, an escrow agent commencing June 1, 2012 and such amounts shall be held and invested by the escrow agent for payment of principal of \$18,312,000 at the bonds maturity on December 1, 2030. District’s sinking fund requirements are \$56,945 for the first seven years, \$51,945 for years eight and nine, \$111,945 in year ten, and \$301,945 for years eleven through nineteen. The Kentucky School Facility Construction Commission will pay annual sinking fund payments of \$604,522. One hundred percent of the interest will be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. The interest subsidy payments are included in interest expense on the financial statements. These payments are disclosed below.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 7 - Bond and Lease Obligations:

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

Fiscal Year	Paducah Independent School District		Federal Subsidy	Kentucky School Facilities Construction Commission		Total
	Principal	Interest		Principal	Interest	
2012-2013	\$ 1,002,126	\$ 1,847,328	\$ (1,191,594)	\$ 41,814	\$ 35,751	\$ 1,735,425
2013-2014	1,038,187	1,821,553	(1,189,720)	42,859	34,706	1,747,585
2014-2015	1,074,540	1,788,827	(1,186,864)	44,145	33,420	1,754,068
2015-2016	1,114,395	1,754,029	(1,183,829)	45,469	32,095	1,762,159
2016-2017	1,151,320	1,717,510	(1,180,706)	46,833	30,731	1,765,688
2017-2022	6,313,696	7,955,102	(5,853,458)	260,019	127,802	8,803,161
2022-2027	11,519,036	6,612,715	(5,758,407)	315,964	62,754	12,752,062
2027-2031	<u>8,613,762</u>	<u>3,649,796</u>	<u>(3,291,708)</u>	<u>14,603,238</u>	<u>18,462</u>	<u>23,593,550</u>
TOTALS	<u>\$31,827,062</u>	<u>\$ 27,146,860</u>	<u>\$(20,836,286)</u>	<u>\$15,400,341</u>	<u>\$375,721</u>	<u>\$53,913,698</u>

Interest expense paid for fiscal year ending June 30, 2012, was \$1,721,583 including \$667,523 in federal subsidy payments on the 2010 Build America Bonds, the 2011 Qualified Zone Academy Bonds, and the 2011 Qualified School Construction Bonds.

A summary of the bond and lease principal balance activity was as follows:

	Balance July 1, 2011	Issued	Retired	Deferred Cost Amortization	Balance June 30, 2012
District	\$28,953,043	\$ 4,065,533	\$1,196,185	\$ 4,671	\$31,827,062
Commission	<u>983,768</u>	<u>14,457,467</u>	<u>40,894</u>	<u>-</u>	<u>15,400,341</u>
TOTALS	<u>\$29,936,811</u>	<u>\$18,523,000</u>	<u>\$1,237,079</u>	<u>\$ 4,671</u>	<u>\$47,227,403</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 8 - Commitments Under Non-Capitalized Leases:

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

<u>Fiscal Year</u>	
2012-2013	\$ 7,786
2013-2014	7,177
2014-2015	<u>7,055</u>
 TOTAL	 <u>\$22,018</u>

Rent expense for the year ended June 30, 2012, was \$8,712.

Note 9 - Retirement Plans:

Plan Descriptions

The Paducah Independent School District participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing multiple-employer defined benefit pension plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system and other public educational agencies in Kentucky.

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan administrator.

Kentucky Teachers' Retirement System 479 Versailles Road Frankfort, Kentucky 40601-3800 (502) 573-3266	Kentucky Retirement Systems Perimeter Park West 1260 Louisville Road Frankfort, Kentucky 40601-6124 (502) 564-4646
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Funding Policies

Contribution rates are established by the Kentucky Revised Statutes. Plan members of KTRS are required to contribute 10.355% of their annual covered salary if employed before July 1, 2008, and 10.855% if employment began after July 1, 2008, and the State provides a contribution of 13.605% and 14.105%, respectively, except for federal programs. The 13.605% and 14.105% matching contribution for covered salaries of federal programs are paid by those programs. Beginning July 1, 2010, the District contributes an additional .50% for employee medical insurance. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education. Plan members of CERS are required to contribute 5.000% of their annual covered salary, and the Paducah Independent School District provides a contribution of 18.96% of that salary. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed to a health insurance account. The District's total payroll for the year was \$19,525,089. The payroll for employees covered under KTRS was \$14,246,806. For the year ended June 30, 2012, the Commonwealth contributed \$1,682,114 to KTRS for the benefit of participating employees. The District's contribution to KTRS for the year ended June 30, 2012, was \$203,080, which relates to those employees covered by federal programs. The contribution requirements and the amounts contributed to CERS were \$1,231,084, \$1,125,364, and \$1,090,903, respectively, for the years ended June 30, 2012, 2011, and 2010.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 10 - Benefits Funded by Kentucky State Department of Education:

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2012:

Contributions to Kentucky Teachers' Retirement System	\$1,682,114
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	2,803,855
Vocational	30,370
Technology	<u>79,755</u>
TOTAL	<u>\$4,596,094</u>

These payments are recorded in the General and Food Service Funds as revenues and expenditures. The District is not legally responsible for these contributions. These payments are not budgeted by the District.

On-behalf contributions were charged to governmental functions as follows:

Instruction	\$3,238,840
Support services:	
Student	155,621
Instructional staff	103,352
District administration	69,893
School administration	453,838
Business	172,495
Plant operations and management	191,685
Student transportation	106,809
Food services	<u>103,561</u>
TOTAL ON-BEHALF CONTRIBUTIONS	<u>\$4,596,094</u>

Note 11 - Commitments and Contingencies:

Grant Contingencies

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

Note 12 - Insurance and Related Activities:

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

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 13 - Risk Management:

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

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss, including the coverage listed on pages 47 through 49 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 14 - COBRA:

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

Note 15 - Commitments for School Construction:

The District approved agreements for major renovations to Paducah Tilghman and the Area Technology Center. The estimated cost of this project is \$9,375,000. As of the balance sheet date, \$9,242,188 has been completed and is included in the statement of net assets as construction in progress. The cost of construction as of June 30, 2012, has been funded by the 2010 Build America Bond issue and the 2011 Qualified Zone Academy Bond issue.

The District has approved agreement for construction of a new middle school. The estimated cost of this project is \$21,900,000 with completion expected by the fall of 2013. As of the balance sheet date, \$8,818,472 has been completed and is included in the statement of net assets as construction in progress. The cost of construction as of June 30, 2012, has been funded by the 2011 School Building Revenue Bond issue.

Note 16 - Excess of Expenditures over Appropriations:

The District has no funds with a deficit balance. However, the Special Revenue Fund had excess current year expenditures over current year appropriations totaling \$98,993. General Fund had \$167,218 less in expenditures than appropriations when excluding on-behalf payments of \$4,492,533 which are not budgeted.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

Note 17 - 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	1	2	Grant Overspent	\$ 196,607
Operating	1	360	Refund on project	105,476
Operating	1	400	Debt Service	153,353
Operating	310	400	Debt Service	110,698
Operating	320	400	Debt Service	1,743,910
Operating	2	1	Indirect Costs	54,717
Operating	51	1	Indirect Costs	16,871

Note 18 - Change in Accounting Standards:

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows and deferred inflows of resources. It amends the net asset reporting requirements in GASB Statement No. 34. It will be effective for Paducah Independent School District for the fiscal year beginning July 1, 2012. This statement will change the presentation deferred assets and deferred liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 8,122,360	\$ 8,972,360	\$9,320,468	\$ 348,108
Other	248,000	574,287	608,989	34,702
Intergovernmental - state	10,511,727	10,531,727	10,845,914	314,187
Intergovernmental - on-behalf	-	-	4,492,533	4,492,533
Intergovernmental - federal	65,000	72,500	101,030	28,530
Other sources	68,790	77,950	85,458	7,508
Total revenues	19,015,877	20,228,824	25,454,392	5,225,568
Expenditures:				
Instruction	10,568,014	11,113,732	14,686,331	(3,572,599)
Support services:				
Student	872,877	1,060,978	1,193,386	(132,408)
Instructional staff	725,484	709,565	789,417	(79,852)
District administration	1,094,280	1,055,928	1,407,157	(351,229)
School administration	1,603,449	1,644,930	2,090,914	(445,984)
Business	864,202	862,977	981,278	(118,301)
Plant operations and maintenance	3,077,437	3,210,010	3,599,255	(389,245)
Student transportation	1,236,050	1,250,175	1,321,011	(70,836)
Facility acquisition and construction	40,850	850	-	850
Debt service	148,000	70,000	-	70,000
Contingency	1,403,814	1,038,305	-	1,038,305
Other	181,420	181,420	455,436	(274,016)
Total expenditures	21,815,877	22,198,870	26,524,185	(4,325,315)
Net change in fund balances	(2,800,000)	(1,970,046)	(1,069,793)	900,253
Fund balances, July 1, 2011	2,800,000	1,970,046	1,970,046	-
FUND BALANCES, JUNE 30, 2012	\$ -	\$ -	\$ 900,253	\$ 900,253

Note 1 - Benefits Funded by Kentucky State Department of Education:

The budget presented above does not include on-behalf payments provided by the Kentucky State Department of Education. If on-behalf payments had been included, budgetary revenues would total \$24,721,357 and budgetary expenditures would total \$26,691,403.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Earnings on investments	\$ 28	\$ 42	\$ 538	\$ 496
Intergovernmental - state	760,415	655,784	674,086	18,302
Intergovernmental - federal	4,584,154	4,699,284	4,741,765	42,481
Other sources	181,420	195,920	233,634	37,714
Total revenues	5,526,017	5,551,030	5,650,023	98,993
Expenditures:				
Instruction	4,182,512	4,209,360	4,200,148	9,212
Support services:				
Student	91,403	96,812	60,442	36,370
Instructional staff	420,902	439,266	489,995	(50,729)
School administration	256,272	251,338	252,665	(1,327)
Business	11,296	11,297	12,396	(1,099)
Plant operations and maintenance	24,261	32,631	45,027	(12,396)
Student transportation	108,680	109,100	152,028	(42,928)
Community service activities	387,781	357,201	382,605	(25,404)
Other	42,910	44,025	54,717	(10,692)
Total expenditures	5,526,017	5,551,030	5,650,023	(98,993)
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2011	-	-	-	-
FUND BALANCES, JUNE 30, 2012	\$ -	\$ -	\$ -	\$ -

OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

<u>ASSETS</u>	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	<u>\$383,686</u>	<u>\$109,282</u>	<u>\$492,968</u>
TOTAL ASSETS	<u><u>\$383,686</u></u>	<u><u>\$109,282</u></u>	<u><u>\$492,968</u></u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Fund balances:			
Restricted for:			
SFCC - escrow	383,686	-	383,686
Assigned for :			
Bond payment	<u>-</u>	<u>109,282</u>	<u>109,282</u>
Total fund balances	<u>383,686</u>	<u>109,282</u>	<u>492,968</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$383,686</u></u>	<u><u>\$109,282</u></u>	<u><u>\$492,968</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:			
Earnings on investments	\$ 1,602	\$ -	\$ 1,602
Intergovernmental - state	252,906	77,565	330,471
Intergovernmental - federal	-	667,523	667,523
Total revenues	254,508	745,088	999,596
Expenditures:			
Debt service:			
Principal	-	1,400,602	1,400,602
Interest	-	1,568,153	1,568,153
Total expenditures	-	2,968,755	2,968,755
Excess (deficit) of revenues over expenditures	254,508	(2,223,667)	(1,969,159)
Other Financing Sources (Uses):			
Bond proceeds	-	211,000	211,000
Operating transfers in	-	2,007,961	2,007,961
Operating transfers out	(110,698)	-	(110,698)
Total other financing sources (uses)	(110,698)	2,218,961	2,108,263
Net change in fund balances	143,810	(4,706)	139,104
Fund balances, July 1, 2011	239,876	113,988	353,864
FUND BALANCES, JUNE 30, 2012	\$383,686	\$ 109,282	\$ 492,968

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH TILGHMAN HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Due to Student Groups and Others July 1, 2011	Revenues Actual (1)	Expenditures Actual (1)	Net Transfers	Due to Student Groups and Others June 30, 2012
A.P. Test Fees Fund	\$ -	\$ 16,198	\$ 15,175	\$ (955)	\$ 68
American Studies Fund	-	20,132	20,252	120	-
Art Club Fund	-	9,059	9,281	222	-
Athletic Association Fund	3,353	223,422	243,511	18,959	2,223
Band Fund	-	11,672	12,193	521	-
Band Trip	115	-	-	(115)	-
Bell Fund	-	4,817	4,100	(618)	99
Beta Club Fund	-	1,409	905	(504)	-
Book Fund	-	70	701	631	-
Boys' Track Cards	260	3,855	3,570	(545)	-
Building Rentals Fund	3,310	(97)	1,217	(1,996)	-
Choir Fund	-	4,974	11,338	6,364	-
Clearing Fund	-	2,800	2,800	-	-
DDA Interest	-	15,458	-	(15,458)	-
FACS	-	539	829	290	-
FBLA Fund	-	491	1,464	973	-
FCCLA Fund	-	4,414	4,243	(171)	-
Film Fund	-	-	25	25	-
French Club	52	-	-	(52)	-
General Fund	7,685	63,086	46,215	(20,624)	3,932
GTC: Debate & A Team Fund	-	80	3,358	3,278	-
Ice Cream Social	600	1,057	943	(714)	-
Library Fund	-	150	316	166	-
McRight Fund	-	100	40	-	60
Mock Trial	-	73	73	-	-
National Honor Society Fund	-	930	614	(316)	-
NJROTC Activity Fund	43	18,707	34,441	16,331	640
NJROTC Training Expense	-	47,764	47,903	139	-
Open House Night	6	-	-	-	6
Orientation Fund	-	7,854	4,786	(3,068)	-
Pathways Fund	-	20,240	17,105	(3,135)	-
Prime Rib/Concordia	-	600	1,691	1,091	-
Prom Fund	-	4,640	4,229	(411)	-
PTHS Recycle	-	300	-	(300)	-
School Store Fund	-	16,363	17,564	1,201	-
Social Account Fund	-	100	1,680	1,580	-
Spanish Club Fund	23	-	-	(23)	-
Special Boys' Track Fund	136	2,413	1,525	(1,024)	-
Special Business	-	-	96	96	-
Special Cross Country	-	2,674	-	(2,674)	-
Special English	-	592	-	(592)	-
Special Football Fund	-	246	480	234	-
Special Girls' Basketball	-	6,252	6,240	(12)	-
Special Girls' Track Fund	-	700	148	(552)	-
Special Golf Fund	135	1,076	-	(1,211)	-
Special Softball	-	7,506	8,494	1,052	64
Special Swim Team	-	380	-	(380)	-

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH TILGHMAN HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Due to Student Groups and Others July 1, 2011	Revenues Actual (1)	Expenditures Actual (1)	Net Transfers	Due to Student Groups and Others June 30, 2012
Speech Team	\$ -	\$ 4,071	\$ 7,041	\$ 2,970	\$ -
Student Council Fund	-	1,837	949	(888)	-
Student Fees Fund	-	11,428	12,793	1,365	-
Technology Fund	-	260	22	(238)	-
Teen Link	-	729	2,235	1,506	-
Tiny Tornado Meet	-	-	539	539	-
Tornado League	-	14,059	12,414	(1,336)	309
Transcripts Fund	-	34	-	-	34
Uniform Maintenance	36	1,571	1,721	145	31
Unit Maintenance	210	1,270	865	(615)	-
Vendor Fund	-	5,539	4,268	(1,271)	-
TOTALS	<u>\$15,964</u>	<u>\$563,894</u>	<u>\$572,392</u>	<u>\$ -</u>	<u>\$7,466</u>

(1) Interfund transfers total \$180,649.55.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Paducah Middle</u>	<u>Emma Morgan</u>	<u>McNabb</u>	<u>Clark</u>	<u>Totals</u>
Due to student groups and others, July 1, 2011	<u>\$42,189</u>	<u>\$ 7,948</u>	<u>\$22,617</u>	<u>\$43,174</u>	<u>\$115,928</u>
Revenues:					
Student activities	<u>101,375</u>	<u>46,106</u>	<u>29,726</u>	<u>62,317</u>	<u>239,524</u>
Expenditures:					
Student activities	<u>98,580</u>	<u>43,876</u>	<u>26,112</u>	<u>67,581</u>	<u>236,149</u>
DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2012	<u><u>\$44,984</u></u>	<u><u>\$10,178</u></u>	<u><u>\$26,231</u></u>	<u><u>\$37,910</u></u>	<u><u>\$119,303</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
SPECIAL ACTIVITIES FUND
FOR THE YEAR ENDED JUNE 30, 2012

Revenues:

From local sources:	
Earnings on investments	\$ 886
Other local revenues	<u>59,564</u>
Total revenues	<u>60,450</u>

Expenditures:

Student activities	<u>37,008</u>
Excess (deficit) of revenues over expenditures	23,442
Due to student groups and others, July 1, 2011	<u>235,475</u>
DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2012	<u><u>\$258,917</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT DIFFERENCES
FOR THE YEAR ENDED JUNE 30, 2012

In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the District has not recorded certain revenues and expenditures of the expendable trust funds. The following is a reconciliation of the revenues and expenditures reported in the District's AFR with that shown in the financial statements and the supplemental schedules.

Expendable Trust Funds (Special Activities Fund):

Other local revenue as reported to the Department of Education	\$ 66,714
Private purpose trust increase in value	(7,527)
Additional revenue not recorded	<u>377</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others- agency funds-special activities fund	<u>59,564</u>
Net interest and investment gains/(losses) as reported to the Department of Education	15,284
Private purpose trust interest	(869)
Revenues moved to construction fund	(13,552)
Additional interest not recorded	<u>23</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others- agency funds-special activities fund	<u>886</u>
TOTAL	<u><u>\$ 60,450</u></u>
Expenditures as reported to the Department of Education	\$2,260,995
Private purpose trust benefits paid	(5,300)
Expenses moved to construction fund	(2,220,000)
Additional expenditures not recorded	<u>1,313</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others- agency funds-special activities fund	<u><u>\$ 37,008</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
JUNE 30, 2012

General Fund:

Accounts receivable reported in Board's annual financial report to the State Department of Education, Division of Finance	\$ (74)
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Additional accounts receivable recorded subsequent to the annual financial report:

City of Paducah - property taxes	83,329
KY State Treasurer - revenue in lieu of taxes	6,110
KY State Treasurer - utility taxes	158,977
McCracken County Clerk - motor vehicle taxes	41,605
Miscellaneous	5,200
Paducah Tilgman High School - travel expense reimbursement	35,291
Substitute Pay - reimbursement for overpayment	15,873
Tuition from various local school boards	6,237

TOTAL ACCOUNTS RECEIVABLE	\$352,548
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See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS PAYABLE
JUNE 30, 2012

General Fund:

Accounts payable reported in Board's annual financial report to the State Department of Education, Division of Finance	\$249,774
Additional accounts payable recorded subsequent to the annual financial report:	
Paducah Power	73,295
AT&T	3,476
Infinite Campus	17,004
Industrial Maintenance	9,450
McCracken County Public Schools	1,598
Parlant Technology, Inc.	4,964
School Dude	2,695
Tyler Technologies	1,989
Bank of America	2,205
Miscellaneous	14,804
Adjustment for duplicate payroll posting	(48,453)
Peel & Holland Financial Group - Workers' compensation	(22,224)
TOTAL ACCOUNTS PAYABLE	<u><u>\$310,577</u></u>

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2012

Property Covered:	Type of Coverage	Amount
School buildings and contents - all school buildings and dwelling and Paducah Tilghman Stadium	Earthquake	\$ 1,000,000
	Flood	50,000
	Fire, lightning and extended coverage, vandalism and malicious mischief	135,924,758
	Equipment breakdown	250,000
	Mower and trailers	45,998
	Computer equipment	351,000
Workmen's compensation	Kentucky statutory coverage	500,000
School board members, superintendents, administrators, teachers, and classified employees	Comprehensive general liability	1,000,000 2,000,000
	Sexual misconduct and molestation liability	1,000,000
	Miscellaneous school property floater	440,120
School board members and employee liability insurance	Errors and omissions wrongful acts	1,000,000
School law enforcement	School law enforcement professional liability	1,000,000 1,000,000
Student Insurance:		
Catastrophic accident medical expense		5,000,000
Accidental death, dismemberment and loss of sight		20,000

See auditor's report on pages 1-2.

<u>Deductible Per Occurrence</u>	<u>Type of Limit</u>
10%	Deductible
10%	Deductible
\$ 5,000	Per occurrence
5,000	Per occurrence
500	Per occurrence
1,000	Deductible
	Per occurrence
	Per occurrence
	Annual aggregate
	Per occurrence
250	Deductible
10,000	Per occurrence
2,500	Per occurrence
	Annual aggregate
25,000	Deductible

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2012

Automobile Liability:	<u>Amount of Coverage</u>	<u>Comprehensive</u>	<u>Collision Deductible</u>
1995 Ford 3/4 ton truck		ACV	\$500
2002 Ford Windstar		ACV	500
2002 Ford Windstar		ACV	500
1997 Ford pickup 4 by 4		ACV	500
1997 Ford Contour		ACV	500
1998 Ford Econoline van		ACV	500
1999 Ford van (diesel)		ACV	500
1999 Ford van (diesel)		ACV	500
2002 Ford Excursion		ACV	500
2002 Ford Excursion		ACV	500
2010 Toyota RAV 4		ACV	500
2011 Ford Escape		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F350		ACV	500
2011 Ford F350		ACV	500
Coverage on all the above vehicles includes:			
Liability limit per occurrence, including property damage and bodily injury	\$2,000,000		
Property damage	ACV		
Uninsured motorists	500,000		
Underinsured motorists	500,000		
Head Start Vehicles:			
1997 International bus - 70 passenger		ACV	250
1991 Chevrolet bus - 30 passenger		ACV	500
Coverage on Head Start vehicles includes:			
Liability limit per occurrence	2,000,000		
Personal injury protection	10,000		
Uninsured motorist	500,000		
Bus Liability:			
Twenty-nine school buses - coverage includes:			
Public liability	2,000,000		
Uninsured motorists	500,000		
Underinsured motorists	500,000		
Comprehensive		ACV	250
Collision		ACV	500

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2012

Fidelity Bonds:	<u>Amount</u>
Treasurer of the Board	\$300,000
Depository Bonds:	
The Paducah Bank and Trust Company, Paducah, Kentucky on deposit with Compass Bank of Birmingham, Alabama:	
Federal Government Agency Obligations	160,000

See auditor's report on pages 1-2.

**MEMBERS OF THE PADUCAH INDEPENDENT SCHOOL BOARD OF EDUCATION
AS OF JUNE 30, 2012**

<u>Name</u>	<u>Date Elected</u>	<u>Term Expires</u>
Danette Humphrey Chair	November, 2002	January, 2015
Felix Akojie	November, 2003	January, 2015
William R. Black, Jr.	November, 1988	January, 2013
Janice Howard	November, 2004	January, 2013
Carl LeBuhn Vice Chair	November, 2005	January, 2013

Other Officials:

Dr. Randy Greene, Superintendent and Director of Personnel

Mr. Donald Shively, Assistant Superintendent, Director of District Instructional Programs

Ms. Julie Huff, Finance Officer and Treasurer of the Board

Ms. Lisa Mitchell, Secretary of the Board

Mr. Troy Brock, Director of Pupil Personnel Services

Ms. Aime Tooley, Director of Special Programs

Mr. Dale Weaver, Director of Technology

See auditor's report on pages 1-2.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

U.S. Department of Education:	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Direct Programs:			
Impact Aid	84.041	5212	\$ 23,874
Passed-through Kentucky Department of Education:			
Special Education - Grants to States (IDEA, Part B)	84.027	3810002 10 3810002 11	780,772
ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391A	4810002 09 3800002 10 3800002 11	76,079
Special Education - Preschool Grants (IDEA, Preschool)	84.173	3800002 11	<u>59,307</u>
Special Education Cluster Sub-Total			<u>916,158</u>
		3100202 09 3100002 10 3100002 11	1,636,189
Title I Grants to Local Educational Agencies (LEAs)	84.010	3100002 11	1,636,189
ARRA - Title I Grants to Local Educational Agencies (LEAs), Recovery Act	84.389A	4100002 09	<u>15,502</u>
Title I Cluster Sub-Total			<u>1,651,691</u>
		3230002 09 3230002 10 3230002 11 3300002 09 3300002 10 3300002 11	242,315
Improving Teacher Quality State Grants	84.367	3230002 11	242,315
English Language Acquisition Grants	84.365	3300002 11	14,201
Education Technology State Grant	84.318X	3210002 09	13,111
ARRA - Educational Technology State Grants, Recovery Act	84.386	4210002 09	<u>46,827</u>
Education Technology Cluster Sub-Total			<u>59,938</u>
ARRA - School Improvement Grants, Recovery Act	84.388	4100302 09	146,161
Passed-through West Kentucky Educational Cooperative:			
Career and Technical Education - Basic Grants to States	84.048	4621110 10 4621232 11	<u>29,829</u>
Total U.S. Department of Education			<u>3,084,167</u>
U.S. Department of Agriculture:			
Passed-through Kentucky Department of Agriculture:			
National School Lunch Program	10.555	7750002 11 7750002 12	1,068,053
Food Commodities (1)	10.555	2012	92,711
School Breakfast Program	10.553	7760005 11 7760005 12	<u>454,224</u>
Child Nutrition Cluster Sub-Total			<u>1,614,988</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Health and Human Services:			
Direct Programs:			
Head Start	93.600	6551 6552	\$1,681,472
U.S. Department of Defense:			
Direct Program:			
ROTC Language and Culture Training Grants	12.357	5041	77,156
TOTAL FEDERAL AWARDS			\$6,457,783

- (1) Expense recognized is the total dollar value of commodities used during the year. Amounts are based on dollar values reported by the State Department of Agriculture. This amount is included in the combined statement of revenues, expenditures, and changes in net assets.

Note 1 - Basis of Presentation

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

Note 2 - Federal Interest Subsidy

The United States Treasury pays a portion of the semi-annual interest payments on three separate bond issues made by Paducah Independent School District. The interest is paid directly to the issuer or its designee paying agent and is to be applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Interest subsidy payments are reported as intergovernmental federal revenues and interest expense on the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, they are not required to be reported on the Schedule of Expenditures of Federal Awards.

Federal revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds	\$5,510,318
Federal grants as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Fund	1,522,277
Federal grants - in-kind commodities as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Fund	92,711
Total federal expenditures	7,125,306
Less federal interest subsidy	(667,523)
TOTAL FEDERAL AWARDS	\$6,457,783

See auditor's report on pages 1-2.

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**Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Kentucky State Committee for
School District Audits
Members of the Board of Education
Paducah Independent School District
Paducah, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paducah Independent School District as of and for the year ended June 30, 2012, which collectively comprise the Paducah Independent School District's basic financial statements and have issued our report thereon dated November 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2012-1 A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Paducah Independent School District in a separate letter dated November 7, 2012.

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

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

Williams, Williams + Lentz, LLP

November 7, 2012

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**Independent Auditor's Report on Compliance with Requirements
That Could have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in Accordance
with OMB Circular A-133**

Kentucky State Committee for
Audits of School Districts
Members of the Board of Education
Paducah Independent School District
Paducah, Kentucky

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Paducah Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Paducah Independent School District's compliance with those requirements.

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

Internal Control Over Compliance

Management of Paducah Independent School District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Paducah Independent School District's internal control over compliance with requirements that could have a direct and material

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

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

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

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

Williams, Williams + Lentz, LLP

November 7, 2012

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2012

Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Paducah Independent School District.
2. Significant deficiencies relating to the audit of the financial statements of the Paducah Independent School District are reported in this Schedule.
3. No instances of noncompliance material to the financial statements of the Paducah Independent 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 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.
5. The auditor's report on compliance for the major federal awards programs for the Paducah Independent School District expresses an unqualified opinion.
6. There are no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

Name	CFDA #
National School Lunch Program	10.555/
School Breakfast Program	10.553 (Cluster)
Education Technology State Grants	84.318/
ARRA Education Technology State Grants, Recovery Act	84.386 (Cluster)
ARRA School Improvement Grants, Recovery Act	84.388

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

Findings - Financial Statements Audit

2011-1 Fixed Assets

Finding and Criteria: As stated in the prior three years, fixed assets are not being tagged prior to being placed in service. Therefore, they are not being submitted to the appropriate individuals in order for them to be recorded in the fixed asset funds and on the government-wide financial statements. The number of assets without tags and unrecorded continues to be substantial.

Cause: Fixed asset purchases are being delivered to a number of different locations and a number of different individuals with no consistency in the process of tagging the assets and providing the fixed asset information to the individual responsible for recording them.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

Findings - Financial Statements Audit

Effect: Technology equipment is very susceptible to fraudulent acts. The District has purchased large amounts of technology equipment throughout the year. With the current processes for tagging these assets, it is unlikely any fraudulent activity would be discovered.

Auditor Recommendation: It is recommended to designate an individual at the board office to receive, tag, and record in MUNIS all technology equipment prior to distributing the assets to their final destination. All assets purchased during the fiscal year should be recorded in MUNIS by June 30, with the exception of assets under construction which may have other factors to consider. It may be necessary to designate an individual at each location to do a physical inventory of all fixed assets tagging any not previously tagged. The inventory should be performed as close to June 30 as possible.

Management Response: Each year management tries to encourage people more and more to send the fixed asset tag numbers to finance when they receive merchandise. The warehouse does a great job of doing this; but, the schools do not. The District has moved to the cloud this year with internet access. Management plans on having the tech who sets these computers up, or the school representative in charge of technology, enter these items into MUNIS with the tag number, serial number, and vendor name. Hopefully, this will encourage them to keep this information updated. The Superintendent has repeatedly told principals to get this done. We hope this new procedure helps.

Findings and Questioned Costs - Major Federal Awards Programs

None

**PADUCAH INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

There are no prior year audit findings relative to federal awards to report.

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 1		<u>Debit</u>	<u>Credit</u>
10 6101	Cash	\$ 17,000.00	
110 1990	Miscellaneous		\$ 17,000.00
	Reimbursement from fund 360 for wire fee which is a construction related expense.		
10 6153	Accounts Receivable	352,548.30	
110 1111	General Property Tax		11,352.68
110 1113	Public Service Property Tax		64,102.94
110 1115	Delinquent Property Tax		3,437.69
110 1117	Motor Vehicle Tax		41,605.12
110 1121	Utilities Tax		158,977.34
110 1140	Penalty & Interest on Tax		6,479.70
110 1320	Tuition from Other Govt Sources		6,237.00
110 1440	Transp Fees Other Priv (Not Ind)		2,711.85
110 1990	Miscellaneous		20,901.84
110 3800	Revenue in Lieu of Tax		6,110.15
110 4800	Federal Reimbursement		15,474.75
10 7421	Accounts Payable		736.44
0101918 0120	Certified Substitute Pay		3,172.40
0201918 0120	Certified Substitute Pay		2,600.00
0801918 0120	Certified Substitute Pay		2,600.00
1501918 0120	Certified Substitute Pay		2,800.00
1601918 0120	Certified Substitute Pay		2,350.00
1701918 0120	Certified Substitute Pay		2,350.00
0011084 0610	General Supplies		407.95
0011087 0532	Telephone Services		66.67
0011099 0338	Registration Fees		55.00
1601179 0610	General Supplies		63.00
0011071 0311	Tax Collection Fees	2,044.22	
	To record unrecorded accounts receivable.		
0001029 0580	Travel	108.43	
0001029 0610	General Supplies	7.20	
0001052 0338	Registration Fees	650.00	
0001052 0580	Travel	41.04	
0001118 0580 310x	Travel	37.92	
0001137 0580	Travel	375.53	
0011071 0291 0080	Accrued Sick Leave Paid	1,597.51	
0011071 0349	Other Professional Services	21,968.49	
0011071 0490	Other Purchased Property Serv	1,260.00	
0011071 0524	Fleet Insurance	69.00	
0011071 0610	General Supplies	821.25	
0011071 0630	Food	248.99	
0011077 0610	General Supplies	111.30	
0011080 0352	Other Technical Services	1,989.00	
0011080 0610	General Supplies	42.98	
0011087 0532	Telephone Service	2,100.58	
0011087 0621	Natural Gas	76.49	
0011087 0622	Electricity	4,905.30	
0011089 0580	Travel	99.60	
0011098 0580	Travel	612.79	
0011100 0580	Travel	50.69	
0101987 0532	Telephone Service	177.68	
0101987 0622	Electricity	11,648.17	
0201987 0532	Telephone Service	151.33	

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 1		<u>Debit</u>	<u>Credit</u>
0201987 0622	Electricity	\$ 8,025.67	
0351987 0532	Telephone Service	13.18	
0351987 0621	Natural Gas	156.29	
0351987 0622	Electricity	7,520.65	
0801987 0411	Water/Sewage	52.60	
0801987 0532	Telephone Service	190.87	
0801987 0622	Electricity	5,982.28	
1501059 0641	Library Books	918.75	
1501118 0553	Publications-Print/Binding	119.56	
1501987 0411	Water/Sewage	52.60	
1501987 0532	Telephone Service	151.33	
1501987 0622	Electricity	4,937.47	
1601087 0610	General Supplies	170.00	
1601179 0444	Copier Rental	250.11	
1601987 0532	Telephone Service	121.86	
1601987 0622	Electricity	58.23	
1701087 0610	General Supplies	93.71	
1701987 0532	Telephone Service	568.93	
1701987 0622	Electricity	28,957.28	
9011092 0439	Other Repairs and Maintenance	435.00	
9011092 0449	Other Rental	104.64	
9011092 0580	Travel	1,535.51	
9011092 0610	General Supplies	23.62	
9011092 0626	Gasoline	580.25	
9011092 0627	Diesel Fuel	803.83	
9011096 0435	Vehicle Repair Maintenance	75.00	
9201134 0338	Registration Fees	80.00	
9201134 0434	Building Repairs Maintenance	910.00	
9201134 0431	Non-Tech Related Reprs & Maint	271.09	
9201134 0433	Equipment Repair Maintenance	27.26	
9201134 0434	Building Repairs Maintenance	10,623.86	
9201134 0610	General Supplies	5.86	
9201134 0650	Technology Supplies	2,695.00	
10 7461	Accrued Salary/Benefit Payable	58,998.97	
10 7469	Local Income Tax Payable	124,177.98	
10 7421	Accounts Payable		\$ 308,840.51
	To record unrecorded accounts payable.		
10 7421	Accounts Payable	29.02	
0101987 0622	Supplies		29.02
	To reverse prior year a/p.		
10 7461	Salaries and Benefits Payable	22,224.27	
0001137 0260	Workers Compensation		93.66
0001029 0260	Workers Compensation		113.19
0001037 0260	Workers Compensation		90.96
0001051 0260	Workers Compensation		45.24
0001052 0260	Workers Compensation		123.30
0001987 0260	Workers Compensation		177.39
0001123 0260	Workers Compensation		120.30
0011089 0260	Workers Compensation		37.15
0001019 0260	Workers Compensation		43.77
0011071 0260	Workers Compensation		308.04
0011075 0260	Workers Compensation		155.60
0011077 0260	Workers Compensation		37.42
0011080 0260	Workers Compensation		206.05

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 1		<u>Debit</u>	<u>Credit</u>
0011084 0260	Workers Compensation		\$ 205.13
0011098 0260	Workers Compensation		27.99
0011099 0260	Workers Compensation		35.37
0011100 0260	Workers Compensation		141.46
0011087 0260	Workers Compensation		197.09
0101118 0260	Workers Compensation		1,239.59
0101918 0260	Workers Compensation		95.70
0101121 0260	Workers Compensation		262.65
0101022 0260	Workers Compensation		116.41
0101031 0260	Workers Compensation		106.32
0101059 0260	Workers Compensation		55.63
0101977 0260	Workers Compensation		76.23
0101077 0260	Workers Compensation		216.60
0101087 0260	Workers Compensation		625.67
0101019 0260	Workers Compensation		60.50
0201118 0260	Workers Compensation		1,335.84
0201918 0260	Workers Compensation		52.23
0201121 0260	Workers Compensation		203.81
0201031 0260	Workers Compensation		53.45
0201059 0260	Workers Compensation		45.78
0201977 0260	Workers Compensation		34.95
0201077 0260	Workers Compensation		136.59
0201087 0260	Workers Compensation		440.78
0801118 0260	Workers Compensation		1,106.42
0801918 0260	Workers Compensation		56.55
0801121 0260	Workers Compensation		259.34
0801031 0260	Workers Compensation		44.96
0801059 0260	Workers Compensation		53.45
0801977 0260	Workers Compensation		37.31
0801077 0260	Workers Compensation		139.83
0801087 0260	Workers Compensation		467.56
1501118 0260	Workers Compensation		1,105.11
1501918 0260	Workers Compensation		38.05
1501121 0260	Workers Compensation		281.38
1501031 0260	Workers Compensation		40.89
1501059 0260	Workers Compensation		48.46
1501977 0260	Workers Compensation		36.18
1501077 0260	Workers Compensation		143.64
1501087 0260	Workers Compensation		392.94
1601179 0260	Workers Compensation		458.25
1601087 0260	Workers Compensation		46.65
1701118 0260	Workers Compensation		1,820.83
1701918 0260	Workers Compensation		93.83
1701121 0260	Workers Compensation		319.25
1701022 0260	Workers Compensation		630.68
1701031 0260	Workers Compensation		150.19
1701059 0260	Workers Compensation		53.45
1701977 0260	Workers Compensation		109.46
1701077 0260	Workers Compensation		310.71
1701087 0260	Workers Compensation		1,389.79
1701089 0260	Workers Compensation		30.14
1701019 0260	Workers Compensation		189.72
9011091 0260	Workers Compensation		101.26
9011092 0260	Workers Compensation		1,472.73
9011093 0260	Workers Compensation		172.48
9011093 0260	Workers Compensation		67.90

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 1		<u>Debit</u>	<u>Credit</u>
9011132 0260	Workers Compensation		\$ 152.89
9011096 0260	Workers Compensation		452.90
9011792 0260	Workers Compensation		529.62
9201134 0260	Workers Compensation		1,995.80
	To adjust to ending balance.		
10 7461	Accrued Salary/Benefit Payable	\$ 235,940.18	
10 7461H	Humana Health Insurance		105,358.07
10 7461W	Workers Comp Payable		130,582.11
	To reclassify.		
10 8742	Committed - Sick Leave Payable		55,100.00
10 8770	Unassigned Fund Balance	55,100.00	
	To adjust committed sick leave payable.		
10 6101	Cash	2,111.57	
011071 0291 0080	Accrued Sick Leave Paid		2,111.57
	To move to fund 2.		
0011199 0533 16MX	On-Behalf Payments	35,657.01	
0101118 0280	On-Behalf Payments		51,148.66
0201118 0280	On-Behalf Payments		54,172.87
0801118 0280	On-Behalf Payments		48,387.41
1501118 0280	On-Behalf Payments		44,968.74
1701118 0280	On-Behalf Payments		63,422.54
0101271 0280	On-Behalf Payments		6,026.90
0201271 0280	On-Behalf Payments		3,669.15
0801271 0280	On-Behalf Payments		5,483.01
1501271 0280	On-Behalf Payments		3,658.10
1701271 0280	On-Behalf Payments		8,771.16
0101220 0280	On-Behalf Payments		3,599.23
0201220 0280	On-Behalf Payments		3,366.37
0801220 0280	On-Behalf Payments		3,837.59
1501220 0280	On-Behalf Payments		3,564.40
1701220 0280	On-Behalf Payments		3,967.77
0011071 0280	On-Behalf Payments		5,277.88
0101077 0280	On-Behalf Payments		8,112.29
0201077 0280	On-Behalf Payments		4,896.85
0801077 0280	On-Behalf Payments		5,550.51
1501077 0280	On-Behalf Payments		4,794.83
1701077 0280	On-Behalf Payments		14,429.82
0011080 0280	On-Behalf Payments		16,452.89
9201407 0280	On-Behalf Payments		34,006.45
9011092 0280	On-Behalf Payments		18,948.76
110 3900	On-Behalf	384,857.17	
	To record On-Behalf payments.		
110 1990	Miscellaneous	140,047.09	
110 1111	General Real Property Tax		158,026.70
110 1113	PSC Real Property Tax		3,775.86
110 1115	Delinquent Property Tax	37,389.15	
110 1140	Penalty & Interest on Tax		17,243.57
0011071 0311	Tax Collection Fees	1,609.89	
110 1191	Omitted Property Tax	69,228.71	
110 1117	Motor Vehicle Tax		69,228.71
	To reclassify taxes.		

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 1		<u>Debit</u>	<u>Credit</u>
10 6101	Cash	\$ 33,198.00	
110 1111	General Real Property Tax To reclassify SEEK.		\$ 33,198.00
10 7474	KTRS W/H Payable	475.76	
10 7475	CERS w/h Payable	350.57	
10 7461	Salary and Benefits Payable	46,870.14	
0011071 0221	Employer Fica Contribution	38.12	
1701118 0231	KTRS Employer Contribution		475.76
9011092 0232	CERS Employer Contribution		350.57
0011071 0291	Accrued Sick Leave Paid		47,664.98
10 7469	Local Income Tax Payable	685.97	
10 7473	State w/h Payable	44.22	
10 7472	FICA w/h Payable		38.12
10 7471	Fed w/h Payable To reclassify.	64.65	
0011071 0490	Other Purchased Property Services	217,999.50	
9201134 0434	Building Repairs and Maintenance	41,666.00	
110 1920	Refund of Prior Year Expense To record USF (erate) payments on-behalf of district.		259,665.50
10 6101	Cash	16,871.13	
110 5220	Indirect Costs Transfer To record indirect costs paid by food service.		16,871.13
10 6101	Cash	14,540.74	
0011071 0343	Legal Services To move legal fees to fund 360.		14,540.74
10 8770	Unreserved Fund Balance	789,868.58	
10 8747	Committed for Contingency To reclassify.		789,868.58
110 1990	Miscellaneous	421.67	
10 6101	Cash To correct project 0161 on fund 2.		421.67
10 8735	Assigned-Purchase Obligations-current	5,109.36	
10 7603	Encumbrances		5,109.36
10 8770	Unassigned Fund Balance	129,263.98	
10 8755	Assigned-Purchase Obligation - period 13YE To reclassify encumbrances.		129,263.98
110 1140	Penalty & Interest on Tax	3,888.05	
110 1440	Transp Fees Other Priv		3,888.05
110 1440	Transp Fees Other Priv		2,539.54
110 1140	Penalty & Interest on Tax To reclassify.	2,539.54	
0001113 0910	Fund Transfers Out	153,352.10	
10 6101	Cash in Bank To reimburse capital outlay and building funds for general fund portion of bond payments on 2007 issue.		153,352.10
10 6101	Cash in Bank	28,362.23	
9201134 0434	Building Repairs and Maintenance		17,200.00

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 1		<u>Debit</u>	<u>Credit</u>
0011071 0490	Other Purchased Property Services	\$ 7,259.00	
0011071 0739	Other Equipment Reimbursement from fund 360 for construction expenses.		\$ 18,421.23
10 6131	Receivable from Spec Rev	73.70	
10 6101	Cash in Bank To correct interfund receivable balance.		73.70
10 6101	Cash in Bank	775.15	
110 1990	Miscellaneous Revenue To move to correct fund.		775.15
110 1990	Miscellaneous Revenue	50,695.12	
110 4800	Federal Reimbursements		30,878.52
110 1440	Transp Fees Other Priv		19,816.60
110 5210	Fund Transfer	44,025.00	
110 5220	Indirect Costs Transfer To reclassify.		44,025.00
10 6101	Cash	149,666.22	
110 1990	Miscellaneous Revenue		146,845.79
0101118 0231	KTRS Employer Contribution		500.00
0201118 0231	KTRS Employer Contribution		500.00
0801118 0231	KTRS Employer Contribution		500.00
1501118 0231	KTRS Employer Contribution		500.00
1701118 0231	KTRS Employer Contribution		500.00
1601179 0231	KTRS Employer Contribution To void check that was reissued for a different amount.		320.43
10 6101	Cash	20,667.48	
0801118 0130	Classified Regular Salary		15,969.96
0801118 0214	Group Dental Insurance		300.00
0801118 0221	Employer FICA Contribution		913.80
0801118 0222	Employer Medicare Contribution		213.72
0801118 0232	CERS Employer Contribution		3,027.96
0801118 0253	KSBA Unemployment Insurance		163.80
0801118 0260	Workers Compensation To move Title I salary to correct fund.		78.24
0001113 0910	Fund Transfers Out	105,476.36	
110 1980	Refund of Prior Yr Exp To correct reversal of prior year a/r to correct fund.		105,476.36
1702104 0610 1251	General Supplies	6,598.23	
0002118 0610 1620	General Supplies	6,938.39	
Fund 2			
20 7481	Deferred Revenue	13,536.62	
220 3200 1251	Restricted State Revenue		6,598.23
220 3200 1620	Restricted State Revenue		6,938.39
20 7421	Accounts Payable To reverse prior year deferred revenue.		13,536.62
20 6130	Interfund Receivables		73.70
20 6101	Cash in Bank To correct interfund receivable balance.	73.70	

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 2		<u>Debit</u>	<u>Credit</u>
20 6101	Cash in Bank	\$ 421.67	
20 8770	Unassigned Fund Balance		\$ 421.67
0102104 0610 0161	Supplies	421.67	
20 6153	Accounts receivable To correct project 0161.		421.67
220 4500 4860	Restricted Federal Thru State	8,505.20	
220 3200 4860	Restricted State Revenue		8,505.20
220 3200 3202	Restricted State Revenue	61.30	
220 4500 3202	Restricted Federal Thru State To reclassify to correct projects 3202 and 4860.		61.30
20 8770	Unassigned Fund Balance	59,401.56	
20 8755	Assigned Purchase Obligation Period 13YE To correct encumbrance balances at year end.		59,401.56
0002118 0291 3102	Accrued Sick Leave Paid	2,111.57	
20 6101	Cash		2,111.57
20 6153	Accounts Receivable	2,111.57	
220 4500 3102	Federal Restricted Thru State To reclassify accrued sick leave from fund 1.		2,111.57
082118 0130 3102	Classified Regular Salary	15,969.96	
0802118 0214 3102	Group Dental Insurance	300.00	
0802118 0221 3102	Employer FICA Contribution	913.80	
0802118 0222 3102	Employer Medicare Contribution	213.72	
0802118 0232 3102	CERS Employer Contribution	3,027.96	
0802118 0253 3102	KSBA Unemployment Insurance	163.80	
0802118 0260 3102	Workers Compensation	78.24	
20 6101	Cash To move Title I salary to correct fund.		20,667.48
Fund 310			
31 6101	Cash	30,670.42	
0003113 0914	Fund Transfer Reimbursement from general fund for it's portion of bond payments on 2007 issue.		30,670.42
310 3200	Restricted State Revenue	775.15	
31 6101	Cash in Bank To move to correct fund.		775.15
31 6101	Cash	108,661.90	
0003113 0914	Fund Transfer To move excess funds from debt service fund.		108,661.90
31 8738	Restricted SFCC Escrow Current	24,786.73	
31 8734	Restricted SFCC Escrow Prior		120,924.77
31 8770	Unassigned Fund Balance To reclassify fund balances.	96,138.04	
Fund 320			
32 8738	Restricted SFCC Escrow Current	1,654,833.71	
32 8734	Restricted SFCC Escrow Prior		1,573,221.31
32 8770	Unassigned Fund Balance To reclassify fund balances.		81,612.40

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 320		<u>Debit</u>	<u>Credit</u>
32 6101	Cash	\$ 434,647.56	
0003213 0914	Fund Transfer To move excess funds from debt service fund.		\$ 434,647.56
320 1111	General Real Property Tax	33,198.00	
32 6101	Cash To reclassify SEEK.		33,198.00
32 6101	Cash	122,681.68	
0003213 0914	Fund Transfer Reimbursement from general fund for its portion of bond payments on 2007 issue.		122,681.68
Fund 360			
0003610 0833 2012	Amortization of Bond Issue Costs	17,000.00	
36 6101	Cash in Bank To reimburse general fund for wire fee related to bond issue.		17,000.00
36 8757	Assigned-Bond Payments	2,390,926.34	
36 8735	Restricted Future Construction		7,696,556.02
36 8770	Unassigned Fund Balance To reclassify fund balances.	5,305,629.68	
0003610 0490 8900	Other Purchased Property Service	5,000.00	
0003610 0490 2011	Other Purchased Property Service	2,527.00	
0003610 0349 8011	Other Professional Services	20,835.23	
36 6101	Cash To reimburse general fund for construction expenses.		28,362.23
0003610 0720 2011	Land and Improvements	296,487.98	
0003610 0346 2011	Architect		19,030.93
0003610 0490 2011	Other Purchased Property Services		16,900.00
0003610 0492 2011	Asbestos Removal	24,024.00	
0003610 0349 2011	Other Professional Services	17,453.00	
0003610 0346 8011	Architect		172,478.64
0003610 0349 8011	Other Professional Services		268,072.90
0003610 0450 8011	Construction Services		2,585,603.80
0003610 0610 8011	General Supplies		700,359.00
0003610 0734 8011	Tech-Related Hardware	130,791.66	
0003610 0349 8011	Other Professional Services	183,721.45	
0003610 0450 2011Q	Construction Services	2,390,839.61	
0003610 0459 2011Q	Construction Other	99,414.15	
0003610 0734 2011Q	Tech-Related Hardware	42,690.00	
0003610 0349 2011Q	Other Professional Services	25,688.33	
0003610 0450 2013	Construction Services		3,576,657.96
0003610 0346 2012	Architect	480,975.61	
0003610 0349 2012	Other Professional Services	7,907.80	
0003610 0450 2012	Construction Services	3,544,512.67	
0003610 0349 2012	Other Professional Services	94,257.42	
0003610 0450 8800	Construction Services To reclassify to correct projects.	339.55	
0003610 0720 2011	Land and Improvements		296,487.98
36 6153	Accounts Receivable To record receivable for refund of property expenditures.	296,487.98	
36 6153	Accounts Receivable	7,687.00	

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 360		<u>Debit</u>	<u>Credit</u>
0003610 0349 8011	Other Professional Services		\$ 93,976.98
0003610 0450 8011	Construction Services		1,331,652.22
0003610 0450 2011Q	Construction Services	\$ 116,190.90	
0003610 0349 2012	Other Professional Services	4,652.25	
0003610 0450 2012	Construction Services	1,337,898.53	
36 7421	Accounts Payable To record additional accounts payable.		40,799.48
0003610 0343	Legal Services	14,540.74	
36 6101	Cash To move legal fees from fund 1.		14,540.74
36 6111	Investments	15,879,687.49	
360 5110 2012	Bond Proceeds		15,866,001.52
360 1510 2012	Interest Income To move QSCB bond proceeds and investment account to fund 360.		13,685.97
360 5110 2012	Bond Proceeds		225,998.48
0003613 0833 2012	Amrt Bond Issue Costs To gross up bond proceeds on QSCB Bond.	225,998.48	
360 5210	Fund Transfers		105,476.36
0003610 0734 8011	Tech Related Hardware To correct reversal of prior year a/r to correct fund.	105,476.36	
Fund 400			
40 7421	Accounts Payable	7,385.00	
0004112 0832 2009	Interest	4,443.78	
0004112 0832 2008	Interest	262.50	
40 6101	Cash		29.96
40 6102 2008	Cash		262.50
39 6102 6009	Cash		4,443.75
40 6102 6112	Cash		3,285.00
40 6102 6112B	Cash		4,100.00
400 5210	Fund Transfer	29.96	
400 1510 2009	Interest Income		0.01
400 1510 2011	Interest Income To adjust bond account balances.		0.02
0004112 0832 2011	Interest	10,570.78	
400 5110 2010	Bond Proceeds		211,000.00
0004112 0831 2001	Redemption of Principal	195,000.00	
0004112 0832 2001	Interest To record refunding bond issue and payoff of 2001 issue.	5,429.22	
0004112 0832 2011Q	Interest	80,113.67	
0004112 0832 2009B	Interest		125,970.00
0004112 0832 2010	Interest	170,100.12	
400 4800 2010	Federal Subsidy Reimbursement		88,219.62
400 4800 2011Q	Federal Subsidy Reimbursement		174,913.67
400 4800 2012	Federal Subsidy Reimbursement		404,390.00
40 6102 2010	Cash	44,089.50	
40 6102 2011Q	Cash in Bank QZAB	94,800.00	
40 6102 2012	Cash QSCB To gross up federal subsidy interest payments.	404,390.00	

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 400		<u>Debit</u>	<u>Credit</u>
400 5210 2010	Fund Transfer	\$ 44,089.50	
40 6102 2010A	Cash In Bank 2010A		\$ 44,089.50
400 5210 2011Q	Fund Transfer	94,800.00	
40 6102 2011Q	Cash In Bank QZAB		94,800.00
400 5210 2012	Fund Transfer	404,390.00	
40 6102 2012	Cash QSCB		404,390.00
	To move excess funds back to 310 and 320.		
0004112 0832 2009	Bond interest	40,381.25	
0004112 0832 2012	Bond interest		40,381.25
0004112 0831 2010	Redemption of principal	192,105.00	
0004112 0832 2010	Bond interest		192,105.00
0004112 0832 2012	Bond interest		53,024.38
0004112 0832 2008	Bond interest	53,024.38	
0004112 0831 2008	Redemption of principal	15,000.00	
0004112 0831 2012	Redemption of principal		15,000.00
0004112 0832 2010	Bond interest		607.39
0004112 0832 2011	Bond interest	607.39	
0004112 0832 2012	Interest	404,390.00	
0004112 0832 2011Q	Interest		404,390.00
	To reclassify bond payments to correct codes.		
40 8736	Restricted - Debt Service	4,706.25	
40 8770	Unassigned Fund Balance		4,706.25
	To reclassify for GASB 54.		
Fund 51			
510 3900	On-Behalf	18,372.61	
0105101 0280	On-Behalf Payments		3,518.36
0205101 0280	On-Behalf Payments		3,393.42
0805101 0280	On-Behalf Payments		3,393.42
1505101 0280	On-Behalf Payments		3,310.75
1605101 0280	On-Behalf Payments		914.95
1705101 0280	On-Behalf Payments		3,841.71
	To record On-Behalf payments.		
0005113 0913	Indirect Costs	16,871.13	
51 6101	Cash		16,871.13
	To record indirect costs paid to general fund.		
0005101 0630	Food	292.17	
0005101 0580	Travel	1,553.62	
51 7421	Accounts Payable		1,845.79
	To record additional accounts payable.		
51 6171	Inventories for Consumption		4,660.35
0005101 0630	Food	4,660.35	
	To adjust inventory.		
0005101 0630	Food	92,711.00	
510 4950	Donated Commodities		92,711.00
	To record commodities received.		
51 6101	Cash in Bank	20.62	
510 1990	Miscellaneous Income		20.62
	To record income remaining in food service account.		

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
AUDIT ADJUSTMENTS
JUNE 30, 2012

Fund 7000		<u>Debit</u>	<u>Credit</u>
700 0999 9960	Beginning Balance	\$ 6,000.00	
700 0999 9961	Beginning Balance	2,500.00	
700 0999 9950	Beginning Balance		\$ 9,000.00
700 0999 9962	Beginning Balance	500.00	
	To correct beginning balances.		
0007002 0679 9960	Other Student accounts	3,400.00	
0007002 0679 9961	Other Student accounts	1,500.00	
0007002 0679 9962	Other Student accounts	400.00	
0007002 0679 9950	Other Student accounts		5,300.00
70 6101	Cash	5,300.00	
70 6111	Investments		5,300.00
	To reclassify scholarships paid.		
700 5110 9939	Bond Proceeds	18,086,001.52	
700 1510 9939	Interest Income	13,552.40	
70 6111	Investments		15,879,553.92
0007002 0450 9939	Purchased Property Services		2,220,000.00
	To move investment and bond proceeds to fund 360.		
700 1990 9914	Miscellaneous Revenue	36.17	
700 0999 9914	Beginning Balance		36.17
	To correct beginning balance.		
700 6101	Cash	6,500.00	
700 6153	Accounts Receivable		6,386.05
700 1990 9914	Miscellaneous Revenue		113.95
	To correct accounts receivable.		
Fund 90			
90 6304	Amount Retire Long Term Debt	17,311,343.67	
90 7511	Bonds Payable Long Term		17,274,643.67
90 8742	Committed Sick Leave Payable		36,700.00
	To record long term debt on fund 9.		
Fund 8			
80 6221	Building & Bldg Improvement	83,321.67	
80 6222	Accumulatd Depreciation Building		4,481.09
80 6231	Technology Equipment	622,560.89	
80 6232	Accumulated Depreciation Technology Equipment		11,626.97
80 6241	Vehicles	95,449.00	
80 6251	General Equipment	28,612.31	
80 6252	Accumulated Depreciation General Equipment		1,647.70
80 6271	Infrastructure	2,245.00	
80 6272	Accumulated Depreciation Infrastructure		102.90
80 8710	Investment in Govt Assets		832,188.87
8881100 0740	Property	5,474.05	
8882100 0740	Property	3,033.92	
8882200 0740	Property	948.77	
8882300 0740	Property	1,729.87	
8882400 0740	Property	971.72	
8882500 0740	Property	71.55	
8882600 0740	Property	5,394.34	
8882700 0740	Property	234.44	
	To record fixed asset activity.		
Fund 81			
81 6251	General Equipment	18,726.00	
81 8711	Investment in Assets		18,726.00
0008101 0740	Depreciation Expense	780.25	
81 6252	Accum Depr General Equipment		780.25
	To record fixed asset additions and depreciation expense.		

Statement of Certification

State Committee for School District Audits
Frankfort, KY

The Paducah Independent School District certifies that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report.

SUBMITTED, Nov 7, 2012

R. J. Green Superintendent

Julie D. Duff Finance Officer

**Original signed statement is due to KDE by close of business on November 15, 2012.
Please send to:**

**Division of District Support
Kentucky Department of Education
500 Mero Street, CPT 15th Floor
Frankfort, KY 40601**

PADUCAH INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2012

WILLIAMS, WILLIAMS & LENTZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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PADUCAH, KENTUCKY 42001

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ROGER G. HARRIS
MICHAEL F. KARNES
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Paducah Independent School District
Members of the Board
Paducah, Kentucky

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

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate letter dated November 5, 2012, contains our communication of significant deficiencies in the District's internal control. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. This letter does not affect our report dated November 5, 2012 on the financial statements of Paducah Independent School District.

GENERAL PROCEDURES

Finding: As noted in the prior year, the school PTO's and booster clubs appear to be using the Paducah Board of Education's federal identification number for their bank accounts.

Criteria: PTO's and booster clubs are separate organizations from the District and are not included in the District's audit.

Cause: In many cases, it is easier to use the District's identification number. If these organizations apply for a separate identification number, they need to go through the process of applying for federal tax-exempt status.

Effect: Due to the close proximity in which these organizations work with the District, it may lead the public to believe they are part of the District.

Recommendation: We recommend these organizations apply for their own federal identification numbers to use for their bank accounts and apply for tax-exempt status. This would provide a sense of separation from the District.

Management's Response: All principals have been notified to get the organizations to apply for their own federal id. We will continue to check to see if this has been done.

DISBURSEMENTS

Finding: During our disbursements testing, we identified two disbursements for which the individual receiving goods did not initial the packing slip/invoice.

Criteria: When goods are purchased and shipped to the District, the individual receiving the purchase must initial the packing slip or invoice to indicate all items purchased were received prior to paying the invoice.

Cause: Lack of initials on the packing slip/invoice is a weakness in internal controls.

Effect: The initials provide accountability and reassurance that the goods have been received and the invoice is ready for payment. This mitigates the risk of paying an invoice for items that were not received. It also mitigates the risk of unauthorized purchases through the District that may be shipped to another location.

Recommendation: Extra care should be used to make sure the proper internal control procedures are in place and being always followed.

Management's Response: The AP clerk has been encouraged to pay close attention to having a packing slip. If it is not received, she has been instructed to contact the vendor for a copy and then get the personnel to sign off on the receipt of goods. Custodial staff has also been informed about the importance of having a packing or receiving slip.

Finding: District personnel discovered a payroll check was issued in November to a retired employee. The discovery was made by District personnel and corrections were made in the payroll system. However, the federal and state payroll returns and KTRS reports were not corrected for the error. The federal 941 was corrected in September 2012.

Criteria: When errors in payroll are discovered, steps must be taken to correct the errors in the payroll and general ledger systems as well as the appropriate federal, state, and local payroll returns and retirement reports.

Cause: An individual other than the payroll clerk prepares some of the payroll returns and retirement reports. The federal 941's were prepared by a different individual each quarter. Changes that need to be made are not always communicated to the appropriate individuals in order to make the necessary corrections. There is a breakdown in internal controls that allowed the system to generate a check for a retired employee.

Effect: If corrections are not made to retirement reports, it will have an effect on the retirement the employees affected will be eligible to receive. Penalties could result from inaccurate payroll returns. When a different individual prepares reports every time, there are inconsistencies in the way reports are prepared; and, breakdowns in internal controls and communications are more likely to occur.

Recommendation: Any payroll corrections should be immediately communicated to individuals preparing payroll returns and retirement reports. A single individual should prepare them with another individual reviewing them before they are filed.

Management's Response: We continue to have two to three people review the main proofs. We will now require a second person to look at all proofs even special pays.

TRUST AGENCY FUNDS

Finding: Scholarship accounts held in a Federated bank account are to be used to pay scholarships and are accounted for as separate projects within the Trust Agency Fund. Scholarships are awarded every year. However, funds to pay these scholarships are never physically withdrawn from the Federated Scholarship investment bank accounts and deposited into the bank account from which they are paid. At June 30, 2012, the accumulated balances that should be transferred out of these accounts total \$19,308.

Criteria: When scholarships are paid, they should be paid from the scholarship accounts. The scholarship accounts should at least reimburse the account from which they were paid to accurately reflect the funds available to pay scholarships. The Federated bank statement balances should agree to the general ledger balances for each of the scholarship accounts.

Cause: Sufficient funds may have been available in other accounts, and it was not considered necessary to transfer funds previously.

Effect: The general ledger reflects the amounts actually available to pay scholarships and has been appropriately adjusted to decrease balances by scholarships paid. The Federated bank statement balances do not agree to the general ledger.

Recommendation: Funds should be physically withdrawn from the Federated scholarship bank accounts and deposited into the account from which scholarships have been paid. Since scholarships are paid once a year, this would only be necessary on an annual basis. The Federated accounts should be reconciled to the individual project account balances in the Trust Agency Fund.

Management's Response: We will try to pay these earlier in the year and get the reimbursement done before the end of the year.

FOOD SERVICE

Finding: Although the process of reconciling the food service bank account to MUNIS is being performed monthly, there is a lack of adequate documentation of this process.

Criteria: Bank reconciliations should be prepared monthly, be properly documented, and reviewed by someone not involved in the reconciliation process.

Cause: This could be caused by a breakdown in internal controls.

Effect: Reconciliations provide a control over cash receipts and disbursements to make sure all are accounted for in the general ledger.

Recommendation: We recommend keeping a binder with bank statements, SCN D-2 reports including the electronic filings, and the monthly support for any reporting and reconciliation processes performed.

Management's Response: Documentation of reconciliations are now being done in a manner that is evident. Bank records are also organized in a more orderly manner.

All prior year recommendations appear to have been properly addressed.

ACTIVITY FUNDS

Paducah Tilghman High School

Finding: One out of nine disbursements lacked appropriate purchase orders.

Criteria: Purchase orders should be completed with the necessary approval signatures prior to making purchases.

Cause: This was due to a break down in the internal controls over purchases. This is a repeat comment from 2011 and 2010.

Effect: Purchase orders act as an estimate of costs expected to be incurred. They also serve as an approval mechanism for management. Incomplete or missing purchase orders denote an error in the internal controls. Missing or incomplete purchase orders could serve as a way to misappropriate funds.

Recommendation: The individual in charge of purchases should always make sure a signed purchase order is available prior to making purchases.

Management's Response: The principal will discuss with staff the importance of obtaining a purchase order prior to purchasing an item. Neither the school, nor the district, is obligated to reimburse the staff without prior approval. If merchandise is shipped to the school, the materials will not be released to the staff member who ordered it until a signed (by an administrator) purchase order is obtained.

Finding: The invoices for two out of nine disbursements selected for testing were not properly cancelled.

Criteria: Invoices are properly cancelled using a paid stamp including the check number, amount, and an authorization for payment noted by a signature or initials.

Cause: This was due to a break down in internal controls over payment of invoices.

Effect: When invoices are not properly cancelled, the risk for duplicate payment increases as well as the risk of unauthorized purchases.

Recommendation: Invoices should be viewed along with the checks for payment and canceled at the time the checks are signed.

Management's Response: The new treasurer will be trained to cancel invoices as they are entered into the system. Periodically the principal will spot check this procedure.

Finding: Ticket reports are inaccurate and incomplete.

Criteria: All three reports selected had discrepancies. The ending ticket is not being attached to any ticket reports. The beginning ticket numbers on the reports do not agree to the ticket number on the ticket attached to the report. The calculations for the number of tickets sold at each price are incorrect. Cash counts and total sales adjusted for change have amounts marked out and others written in. Cash shortages and overages range from \$37 to \$130 per gate with no explanations. Signatures are missing.

Cause: There is a breakdown in internal controls over ticket sales and ticket reports. Many times volunteers work the gates at ball games. The appropriate procedures may not have been communicated to the individuals.

Effect: The risk of altering the ticket reports in an attempt to misappropriate funds increases when proper procedures are not followed. These reports serve as protection for individuals collecting money at athletic events if there were ever to be a question of funds being misappropriated.

Recommendation: The proper procedures for completing ticket reports should be communicated to those working gates at all athletic events. The completeness and accuracy of ticket reports should be verified by the central fund treasurer when the reports are turned in. Any discrepancies should be corrected at that time. Reasons for any discrepancies should be noted on the report. The first ticket on the remaining ticket roll should be noted to ensure that the beginning ticket rolls at the beginning of the following school year are correct and traceable.

Management's Response: The principal, the athletic director, and the treasurer will explain the ticket reports to staff at a meeting. Specific processes such as first ticket, cash counting and signing of reports will be stressed.

Finding: We noted several old outstanding checks.

Criteria: Five checks over 90 days old are still outstanding including two checks that are over six months old.

Cause: The checks have not been cashed, possibly due to being misplaced, and have not been followed up on to determine if they should be voided or reissued.

Effect: These checks could represent errors in bank reconciliations or methods of covering up fraudulent activities.

Recommendation: Checks greater than 90 days old should be followed up on to see if they need to be voided and reissued. If the checks are to be voided, they should be voided by entering them as negative disbursements.

Management's Response: The new treasurer will address this issue immediately. Old checks will be voided and reissued if necessary.

Finding: Receipts for individual athletic activity funds are all being deposited into the general athletic fund and being transferred out to the individual funds at year end to zero the funds.

Criteria: Receipts for individual activity funds should be deposited into the individual activity funds responsible for generating the receipts.

Cause: This is caused by a breakdown in internal controls over recordkeeping.

Effect: There is no accurate picture of what the individual activity funds have generated throughout the year. It does not properly reflect the balance of any unspent funds remaining at year end.

Recommendation: Receipts should be deposited into the individual activity funds as they are received throughout the year. Disbursements related to individual activity fund accounts should be disbursed from the individual funds throughout the year. Transfers from the general fund should be made to cover any shortages within activity funds.

Management's Response: The retiring treasurer preferred to do it this way. The finance director will talk to the new treasurer and emphasize why the auditors prefer this system. Ultimately it will be the principal's decision to make.

Finding: Transfers appear to be made between unrelated activity funds to clear negative balances at the end of the year. These are being reversed at the beginning of the following year.

Criteria: Activity funds are not allowed to have negative balances at year end, according to the guidance governing school activity funds published by the Kentucky Department of Education. Funds are to be transferred from the general fund to cover these deficits.

Cause: This may be due to a lack of knowledge regarding the activity fund guidance.

Effect: The balances in individual activity fund accounts are not accurate balances if funds are being transferred to cover deficits in unrelated funds. The receipts generated for specific activities are being used for activities for which they were not intended.

Recommendation: Funds should only be transferred from the general fund to cover any deficit balances at year end.

Management's Response: I believe this is a result of one treasurer retiring and the other treasurer not starting until July 1. Since this is a procedure that happens once a year, I believe it got missed in the training. The treasurer will be attending a Redbook training at some point this year.

Finding: A budget was not available for 2011-2012.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), a budget should be prepared for all activity funds for the school year unless the school has been specifically exempted by regulations of the Board. Budgets provide a guide for the coming year's revenues and expenditures. This helps the principal, central fund treasurer, and corresponding sponsor have an approximation of the funding that will be available so they may plan activities accordingly. Budgets also provide a reasonable estimate that can be compared to the actual numbers and allow for any large discrepancies to be investigated.

Cause: This could be due to a lack of understanding the budgeting process. Adequate time and effort was not spent on preparing the budget.

Effect: The budget in its current format is not useful in determining the funds each activity fund has remaining to spend nor very useful in identifying discrepancies.

Recommendation: A budget should be prepared for each activity fund on an annual basis. The beginning balances should equal the ending actual balances from the prior year. The columns should be totaled. For each individual account, and in total, the beginning balance plus budgeted receipts less budgeted expenditures should equal the ending budgeted balance. An excel spreadsheet with formulas would be helpful in preparing the budget.

Management's Response: Again not sure why it was not shared between the two treasurers. This is normally an excel spreadsheet kept on the treasurer's computer. Since we did not have access at the time, we failed to provide it. Next year you will not see this remark.

Finding: No receivables and payables listing was available.

Criteria: Any receipts or disbursements received or paid after June 30th that applied to the previous fiscal year are considered accounts receivable and accounts payable.

Cause: The central fund treasurer is new and was not aware this needed to be prepared.

Effect: Accounts receivable and payable need to be taken into consideration when checking to make sure no funds have a negative balance at year end. Activity funds are reported on the accrual basis in the audit report sent to the Kentucky Department of Education. Activity funds are not allowed to have a negative balance at year end.

Recommendation: The central fund treasurer should complete a listing of all accounts receivable and payable as of June 30.

Management's Response: As with other responses, this is a process that the new treasurer was not trained about. The finance director will explain the procedure to the new treasurer.

All other prior year recommendations appear to have been properly addressed.

Paducah Middle School

Finding: One of two ticket reports selected for testing was found to be incomplete.

Criteria: The calculation sections for cash are not fully completed. Total sales plus change returned adjusted for cash over/short should equal the amount total of the cash counted. The cash counted section was blank. The total number of tickets sold should equal the beginning ticket number less the next ticket available number. This calculation was off by one ticket. However, there is no overage of cash reported.

Cause: There is a breakdown in internal controls over ticket sales and ticket reports. Many times volunteers work the gates at ball games. The appropriate procedures may not have been communicated to the individuals.

Effect: If the reports are completed accurately, the total cash counted should equal the total sales plus change. If there are discrepancies, they need to be investigated. These reports serve as protection for individuals collecting money at athletic events if there were ever to be a question of funds being misappropriated.

Recommendation: Extra care should be used to communicate proper procedures for completing ticket reports. The treasurer should review the reports at the time they are turned in for incomplete or inaccurate information. Reasons for any discrepancies should be noted on the report.

Management's Response: Ticket reports have always been an issue in one way or another. Again this year the process will be explained to all staff. One administrator will review the ticket reports on the following work day. Errors will be addressed with appropriate staff.

Finding: One of two secondary receipts selected for testing was not turned into the treasurer in a timely manner.

Criteria: The secondary receipt was dated February 29, 2012. The primary receipt was not dated until five days later on March 5, 2012.

Cause: There was a weekend included in the five day period. However, two days passed prior to the weekend.

Effect: By not turning the collections in promptly, the risks of the teacher misplacing it or someone stealing it were greater.

Recommendation: The requirements for handling collections from students and secondary receipts should be communicated to all teachers especially the new teachers at the beginning of each school year.

Management's Response: During a staff meeting the importance of turning in money/receipts promptly will be stressed.

All other prior year recommendations appear to have been properly addressed.

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We will review the status of these comments during our next audit engagement. We have already discussed many of these comment and suggestions with various District personnel; and, we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. This report is intended solely for the Board, management, and others within the organization as deemed appropriate.

Williams, Williams + Lentz, LLP

November 7, 2012