



*Gaw & Associates, PLLC*  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

To the Board of Education  
Pineville Independent School District

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 the Pineville 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 Pineville Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

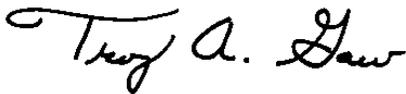
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of Management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

In our opinion, the financial statements referred to previously 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 Pineville 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 February 6, 2013, on our consideration of the Pineville 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 State of America require that the management's discussion and analysis and budgetary comparison information on pages 3 – 11 and 39 – 43 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 audit standards generally accepted in the United State 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 Pineville Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the 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 be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are fairly stated in all material respects in relation to the financial statements as a whole.



Troy A. Gaw, CPA  
Partner

Gaw, & Associates, PLLC  
Harlan, Kentucky

February 6, 2013

# Pineville Independent Schools



**MICHAEL D. WHITE, SUPERINTENDENT**  
401 Virginia Avenue  
Pineville, Kentucky 40977  
Phone (606) 337-5701  
Fax (606) 337-9983



**BOARD OF EDUCATION**  
ANN COMBS GAINES  
JEANETTE CAWOOD  
CAROLYN GOODIN  
JAMES GRAGG, JR.  
SUE GAMBREL

## Management Discussion & Analysis (MD&A)

The discussion and analysis of Pineville Independent School District's financial performance provides an overview of the district's financial activities for the fiscal year ended June 30, 2012 ("FY 2012"). The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements along with the notes to these statements to enhance their understanding of the district's financial performance.

### Financial Highlights

Key financial highlights for FY 2012 are as follows:

- The ending cash balance for the District was (\$186,646) in 2012 and (\$118,688) in 2011.
- From 2012 to 2011 total general fund revenue increased by 6.79%.
- Among major funds, the General Fund had \$3,970,807 in revenue, which primarily consists of ad valorem, utility, federal and state funding (the SEEK program). There were \$4,069,448 in expenditures.

### Using the Annual Report

This annual financial report contains, in addition to this Management Discussion and Analysis, the district's basic financial statements and supplementary information. These three sections together provide a comprehensive overview of the district's finances. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long term information about the district's overall financial position.
- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operation in more detail. These fund financial statements comprise the remaining statements.

Notes to the financials, which are included just following the basic financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including a comparison of the district's budget to actual revenues and expenditures for the year.

Additional elements of this report include sections on State and Federal Award Compliance and Findings and Recommendations.

**The Pineville Board of Education does not discriminate on the basis of race, color, national origin, age, religion, sex or handicap in employment, educational programs or activities.**

## **Overview of the Financial Statements**

### **District-wide Financial Statements – Statement of Net Assets and the Statement of Activities**

While this document contains specific information on the many funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, “How did we do financially during the previous year?” The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the district’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the district has either improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the district’s property tax base, current property tax laws in Kentucky, facility condition, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the district reports governmental activities. Governmental activities are the activities where most of the district’s programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plants and facilities, pupil transportation and extracurricular activities. The district does not have any business-type activities.

The district-wide financial statements can be found on pages 12 – 13 of this report.

### **Fund Financial Statements**

The analysis of the district’s major funds begins on page 14. Fund financial reports provide detailed information about the district’s major funds. The district uses several funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district’s most significant funds and not the district as a whole. The district’s major governmental funds are the General Fund, Special Revenue Fund, Construction Fund and the Debt Service Fund.

### **Governmental Funds**

Nearly all of this district’s activities are reported in governmental funds. Governmental fund financial statements focus on how money flows into and out of these funds and the balance left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

### **Fiduciary Funds**

The district is the trustee, or fiduciary, for student body funds. All of the district’s fiduciary activities are reported in a separate *Statement of Fiduciary Net Assets and Liabilities* on page 20. We exclude these activities from the district’s other financial statements because the district cannot use these assets to finance its operations.

## Notes to the Basic Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found starting on page 22 of this report.

### Financial analysis of the District as a Whole

As stated earlier the *Statement of Net Assets* and the *Statement of Activities* provide a financial glimpse of the District as a whole. Table 1 (Net Assets Summary) provides a summary of the district's net assets for FY 2012 as contained in the Statement of Net Assets and compares that information to FY 2011. As the table shows, our total assets as of June 30, 2012 were \$8,452,702, a decrease of \$510,858 from the prior year.

	June 30, 2011	June 30, 2012	Change	Percentage Change
<b>Assets</b>				
Current and Other Assets	\$ 852,589	\$ 542,713	\$ (309,876)	-36.35%
Capital Assets	8,110,971	7,909,989	(200,982)	-2.48%
<i>Total Assets</i>	<u>\$ 8,963,560</u>	<u>\$ 8,452,702</u>	<u>\$ (510,858)</u>	-5.70%
<b>Liabilities</b>				
Current Liabilities	\$ 765,634	\$ 649,910	\$ (115,724)	-15.11%
Long-Term Liabilities	5,636,892	5,366,526	(270,366)	-4.80%
<i>Total Liabilities</i>	<u>\$ 6,402,526</u>	<u>\$ 6,016,436</u>	<u>\$ (386,090)</u>	-6.03%
<b>Net Assets</b>				
Invested in Capital Assets, Net of De	\$ 2,246,531	\$ 2,311,254	\$ 64,723	2.88%
Restricted	-	-	-	0.00%
Unrestricted	314,503	125,012	(189,491)	-60.25%
<i>Total Net Assets</i>	<u>\$ 2,561,034</u>	<u>\$ 2,436,266</u>	<u>\$ (124,768)</u>	-4.87%

In comparing FY 2012 to the prior year we noted the following:

- Current assets decreased because of operations.
- Current and Long-term liabilities decreased because of bond payment made during year.

Pineville Independent School District  
**MD&A**

Table 2 (Change in Net Assets) reflects data extracted from the *Statement of Activities* and shows the changes in net assets from FY 2011 to FY 2012.

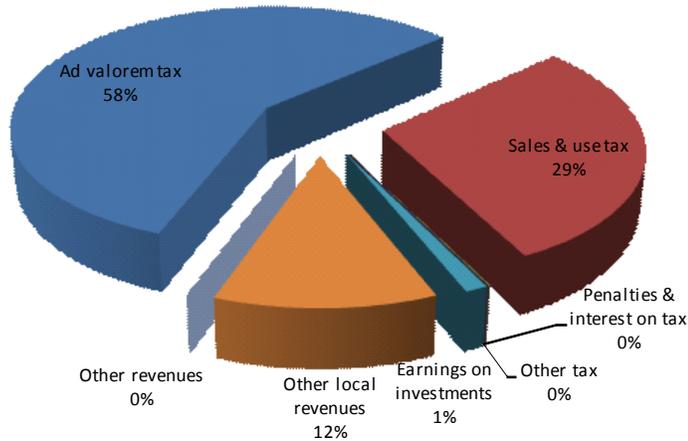
<b>Table 2: Changes in Net Assets</b>				
	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Percentage Change</u>
<b>Revenues</b>				
Program Revenues:				
Charges for Services				
Local sources	47,459	68,322	20,863	43.96%
Operating Grants and Contributions				
State sources	3,807,217	4,097,458	290,241	7.62%
Federal sources	1,165,910	1,037,280	(128,630)	-11.03%
Capital Grants and Contributions				
State sources	81,139	76,842	(4,297)	-5.30%
Federal sources	12,497	17,557	5,060	40.49%
General Revenues:				
Ad valorem tax	304,457	325,507	21,050	6.91%
Sales & use tax	193,004	164,705	(28,299)	-14.66%
Penalties & interest on tax	407	368	(39)	-9.58%
Other tax	2,018	-	(2,018)	-100.00%
Earnings on investments	20,021	6,722	(13,299)	-66.43%
Other local revenues	86,149	65,759	(20,390)	-23.67%
Total local revenue	606,056	563,061	(42,995)	-7.09%
Other revenues	<u>65,532</u>	<u>-</u>	<u>(65,532)</u>	<u>-100.00%</u>
<i>Total Revenues</i>	<u>5,785,810</u>	<u>5,860,520</u>	<u>74,710</u>	<u>1.29%</u>
Program Expenses:				
Instruction	2,771,195	3,034,133	262,938	9.49%
Support services		-		
Student	324,682	333,773	9,091	2.80%
Instruction staff	303,330	293,713	(9,617)	-3.17%
District administration	427,853	465,856	38,003	8.88%
School administration	246,242	237,140	(9,102)	-3.70%
Business	90,846	135,089	44,243	48.70%
Plant operation and maintenance	620,274	605,136	(15,138)	-2.44%
Student transportation	109,661	108,902	(759)	-0.69%
Central Office	-	-	-	0.00%
Total support services	2,122,888	2,179,609	56,721	2.67%
Community service activities	70,304	64,676	(5,628)	-8.01%
Facilities acquisition and construction	-	74,006	74,006	0.00%
Interest Expense	252,117	249,921	(2,196)	-0.87%
Food Service	371,653	359,861	(11,792)	-3.17%
Non-major Fund	<u>26,090</u>	<u>23,082</u>	<u>(3,008)</u>	<u>-11.53%</u>
<i>Total Expenses</i>	<u>5,614,247</u>	<u>5,985,288</u>	<u>371,041</u>	<u>6.61%</u>
Change in Net Assets	<u>171,563</u>	<u>(124,768)</u>	<u>(296,331)</u>	<u>-172.72%</u>

The most significant changes resulted from the following:

- Total local revenue decreased.
- Operating Grants and Contributions increased because of an increase in grants received.
- Depreciation Expense was allotted to individual expense accounts this year.

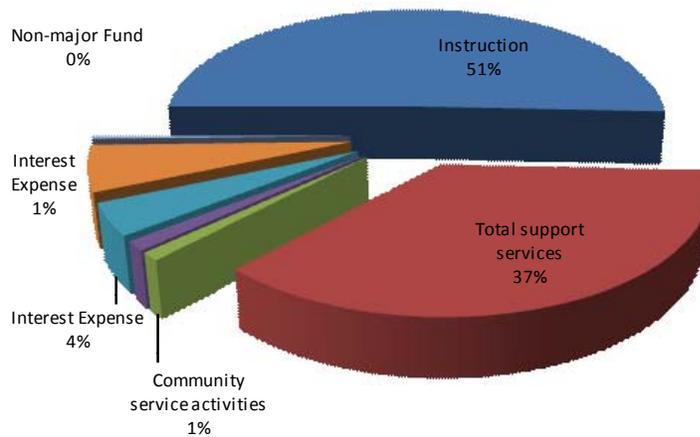
District programs for FY 2012 cost \$5,985,288. To support those programs the district garnered \$5,297,459 million in program revenues. The balance of support came from property taxes and other general revenues. The chart below shows FY 2012 revenues by category.

### FY 2012 Revenues



Instruction comprises 51% of district expenses. Support service expenses make up 37% of the total, with the balance being interest and fiscal charges. The following chart displays FY 2012 expenses by category.

### FY 2012 Expenses



Governmental Activities

The *Statement of Activities* on page 13 shows the cost of program services and the charges for services and grants offsetting those services. Table 3 (Net Cost of Services) extract information from the *Statement of Activities* and compares the net cost of services from one year to the next. It identifies the cost of those services supported by tax revenue and unrestricted state entitlements. The net cost of services increased by \$195,330.

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Percentage</u>
				<u>Change</u>
Instruction	87,900	214,923	127,023	144.51%
Support services		-		
Student	25,051	27,278	2,227	8.89%
Instruction staff	20,951	20,203	(748)	-3.57%
District administration	85,182	85,185	3	0.00%
School administration	12,928	10,640	(2,288)	-17.70%
Business	4,742	5,678	936	19.74%
Plant operation and maintenance	38,754	33,312	(5,442)	-14.04%
Student transportation	11,358	14,369	3,011	26.51%
Community service activities	3,818	2,953	(865)	-22.66%
Facilities acquisition and construction	-	74,006	74,006	0.00%
Interest Expense	<u>198,169</u>	<u>195,974</u>	<u>(2,195)</u>	<u>-1.11%</u>
<i>Total Expenses</i>	<u>488,853</u>	<u>684,521</u>	<u>195,668</u>	<u>40.03%</u>

The program expense categories shown in Table 3 are summarized below.

- “Instruction” expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.
- “Instruction-related services” and “pupil services” include the activities involved with assisting staff with the content and process of teaching to pupils, as well as direct non-instructional services to students (including health, library, transportation, and other services).
- “General administration” costs include expenses associated with the administrative and financial supervision of the district.
- “Plant services” involve keeping the school grounds, buildings, and equipment in good working condition.
- “Facilities acquisition and construction” represents the difference between the amount spent on our facilities and the amount capitalized.
- “Interest and fiscal charges” involve the transactions associated with the payment of interest and other charges related to debt of the district.

**Financial Analysis of the District’s Funds**

The district’s governmental funds report a combined fund balance of \$212,980, which is significantly decreased from last year’s total of \$403,709. Table 4 (Governmental Fund Balances) provides an analysis of the district’s fund balances and the total change in fund balances from the prior year.

<b>Table 4: Governmental Fund Balances</b>				
				Percentage
	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Change</u>
Fund:				
General	308,816	223,534	(85,282)	-27.62%
Special Revenue	-	(953)	(953)	0.00%
Capital Outlay	-	-	-	0.00%
Building Fund	-	(9,601)	(9,601)	0.00%
Construction Fund	94,893	-	(94,893)	-100.00%
Debt Service Fund	-	-	-	0.00%
<i>Total Expenses</i>	<u>403,709</u>	<u>212,980</u>	<u>(190,729)</u>	-47.24%

**General Fund Budgetary Highlights**

The district’s budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting.

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the district overall budget. By Kentucky statute the budget must have a minimum 2% contingency. This district adopted a budget for 2011 and 2012 that satisfies the statute requirement. The general fund revenues and expenditures for the 2012 and 2013 budget cycle increased by 3% respectively.

We do a draft, tentative and working budget. We made minor amendments to the working budget for FY 2012 based upon unexpected changes in the revenues received or expenditures. The working budget is amended only if there is a significant change in revenues or expenditures. Expenditure appropriation adjustments were made to reflect actual staffing, restoration of previously cut programs, increased cost of contracted services, and other changes during the year.

Major differences between final budget amounts and actual revenues and expenditures are identified as follows:

- On behalf adjustment

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of the fiscal year, the district had \$11,437,385 invested in land, building, equipment (including computer equipment, furniture and vehicles), and construction in progress. Table 5 Capital Assets shows FY 2012 balances as compared to FY 2011.

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Percentage Change</u>
Land	305,115	305,115	-	0.00%
Land Improvements	302,989	302,989	-	0.00%
Buildings and improvements	5,076,379	9,616,711	4,540,332	89.44%
Technology Equipment	677,262	677,262	-	0.00%
Vehicles	255,669	255,669	-	0.00%
General equipment	279,639	279,639	-	0.00%
Construction in progress	<u>4,540,332</u>	<u>-</u>	<u>(4,540,332)</u>	<u>-100.00%</u>
Total	<u>11,437,385</u>	<u>11,437,385</u>	<u>-</u>	<u>0.00%</u>
Less: Accumulated Depreciation	<u>3,344,331</u>	<u>3,544,830</u>	<u>200,499</u>	<u>6.00%</u>
<i>Net Capital Assets</i>	<u>8,093,054</u>	<u>7,892,555</u>	<u>(200,499)</u>	<u>-2.48%</u>

For more information see Note C to the Basic Financial Statements.

**Long-Term Debt**

At June 30, 2012 the district had \$5,636,892 in long term debt obligations. The bulk of this total is debt service on general obligation bonds issued by the district to finance its construction and modernization program. The remaining \$117,631 in long term obligations is the amount of compensated absences liability recorded by the district at year end, an increase of \$-0- from the prior year.

Table 6 (Long-Term Debt) shows the district's outstanding debt as of June 30, 2012 as well as comparable data for the prior year. A more detailed discussion is included in Note D to the Basic Financial Statements.

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Change</u>	<u>Percentage Change</u>
General obligation bonds	5,786,653	5,519,261	(267,392)	-4.62%
Compensated absences	<u>117,631</u>	<u>117,969</u>	<u>338</u>	<u>0.29%</u>
<i>Net Long-Term Debt</i>	<u>5,927,913</u>	<u>5,637,230</u>	<u>(290,683)</u>	<u>-4.90%</u>

### **Factors bearing on the District's Future**

- Attendance percentage.
- Continued decrease of area population.
- Property valuation flux.
- Economic downturn.
- State budget shortfalls.
- Changes in SEEK Allotment allocation

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District's Finance Department at 401 Virginia Avenue • Pineville, Kentucky 40977 • Phone: 606.337-5701 • Fax: 606.337.9983.

Pineville Independent School District  
**Statement of Net Assets - District Wide**  
As of June 30, 2012

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ -	\$ 33,101	\$ 33,101
Investments	314,264	-	314,264
Accounts receivable			
Taxes	22,635	-	22,635
Intergovernmental - State	167,915	-	167,915
Intergovernmental - Federal	1,895	-	1,895
Inventory	-	2,903	2,903
<b>Total current assets</b>	<u>506,709</u>	<u>36,004</u>	<u>542,713</u>
<b>Noncurrent Assets</b>			
Capital assets	11,437,385	105,744	11,543,129
Less: Accumulated depreciation	<u>(3,544,830)</u>	<u>(88,310)</u>	<u>(3,633,140)</u>
<b>Total noncurrent assets</b>	<u>7,892,555</u>	<u>17,434</u>	<u>7,909,989</u>
<b>Total assets</b>	<u>\$ 8,399,264</u>	<u>\$ 53,438</u>	<u>\$ 8,452,702</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Overdraft of cash and cash equivalents	\$ 210,042	\$ 7,300	\$ 217,342
Accounts payable	6,624	4,244	10,868
Accrued payroll and withholding obligations	53,836	-	53,836
Accrued interest payable	82,377	-	82,377
Deferrred Revenue	14,783	-	14,783
Current portion of KISTA payable	15,704	-	15,704
Current portion of bonds payable	255,000	-	255,000
<b>Total current liabilities</b>	<u>638,366</u>	<u>11,544</u>	<u>649,910</u>
<b>Noncurrent Liabilities</b>			
Sick leave payable	117,969	-	117,969
KISTA Payable	78,557	-	78,557
Bonds payable	5,170,000	-	5,170,000
<b>Total noncurrent liabilities</b>	<u>5,366,526</u>	<u>-</u>	<u>5,366,526</u>
<b>Total liabilities</b>	<u>\$ 6,004,892</u>	<u>\$ 11,544</u>	<u>\$ 6,016,436</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 2,290,917	\$ 20,337	\$ 2,311,254
Restricted	(9,601)	-	(9,601)
Unrestricted	<u>113,056</u>	<u>21,557</u>	<u>134,613</u>
<b>Total net assets</b>	<u>\$ 2,394,372</u>	<u>\$ 41,894</u>	<u>\$ 2,436,266</u>

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



Pineville Independent School District  
**Balance Sheet - Governmental Funds**  
As of June 30, 2012

	General Fund	Special Revenue	Nonmajor	Total Governmental Funds
<b>ASSETS</b>				
Investments	\$ 314,264	\$ -	\$ -	\$ 314,264
Accounts receivable				
Taxes	22,635	-	-	22,635
Intergovernmental - State	1,371	158,100	-	159,471
Intergovernmental - Federal	1,895	-	-	1,895
<b>Total assets</b>	<u>\$ 340,165</u>	<u>\$ 158,100</u>	<u>\$ -</u>	<u>\$ 498,265</u>
<b>LIABILITIES</b>				
Amount in excess of deposits	\$ 57,516	\$ 142,925	\$ 9,601	\$ 210,042
Accounts payable	5,279	1,345	-	6,624
Payroll taxes payable	53,836	-	-	53,836
Deferred revenue	-	14,783	-	14,783
<b>Total liabilities</b>	<u>116,631</u>	<u>159,053</u>	<u>9,601</u>	<u>285,285</u>
<b>FUND BALANCE</b>				
Non-spendable	-	-	-	-
Restricted	-	-	(9,601)	(9,601)
Assigned	-	-	-	-
Committed	-	-	-	-
Unassigned	223,534	(953)	-	222,581
<b>Total fund balances</b>	<u>223,534</u>	<u>(953)</u>	<u>(9,601)</u>	<u>212,980</u>
<b>Total liabilities and fund balances</b>	<u>\$ 340,165</u>	<u>\$ 158,100</u>	<u>\$ -</u>	<u>\$ 498,265</u>
Total fund balance				\$ 212,980

Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,892,556
Accounts receivables for SFCC are not current financial resources and therefore are not reported as revenues in governmental funds.	8,444
Long-term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	(117,631)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but is presented in the statement of net assets.	(82,377)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,519,261)</u>
Rounding	
Net assets of governmental activities	<u>\$ 2,394,711</u>

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

Pineville Independent School District

**Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental**

For the year ended June 30, 2012

	General Fund	Special Revenue	Nonmajor	Total Governmental Funds
<b>Revenues</b>				
From local sources				
Ad valorem tax	\$ 263,147	\$ -	\$ 62,360	\$ 325,507
Sales & use tax	164,705	-	-	164,705
Penalties & interest on tax	368	-	-	368
Earnings on investments	6,546	-	-	6,546
Other local revenues	64,883	-	-	64,883
State sources				
SEEK	2,614,105	-	-	2,614,105
Other	4,927	300,661	327,279	632,867
Expenditure Reimbursements	7,052	-	-	7,052
Revenue in lieu of tax	12,472	-	-	12,472
On behalf payments	824,944	-	-	824,944
SFCC	-	-	53,947	53,947
Federal sources				
Restricted direct	35,900	6,264	-	42,164
Restricted through state	-	646,317	-	646,317
Reimbursements	14,218	-	70,038	84,256
<b>Total revenues</b>	<u>\$ 4,013,267</u>	<u>\$ 953,242</u>	<u>\$ 513,624</u>	<u>\$ 5,480,133</u>
<b>Expenditures</b>				
Instruction	\$ 2,231,440	\$ 711,456	\$ -	\$ 2,942,896
Support services				
Student	266,629	53,626	-	320,255
Instruction staff	180,715	104,795	-	285,510
District administration	397,372	-	-	397,372
School administration	236,437	-	-	236,437
Business	135,089	-	-	135,089
Plant operation and maintenance	565,546	31,365	-	596,911
Student transportation	98,680	-	-	98,680
Community service activities	-	64,431	-	64,431
Facilities acquisition and construction	-	-	74,006	74,006
Debt Service	20,360	-	499,791	520,151
<b>Total expenditures</b>	<u>4,132,268</u>	<u>965,673</u>	<u>573,797</u>	<u>5,671,738</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(119,001)</u>	<u>(12,431)</u>	<u>(60,173)</u>	<u>(191,605)</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	45,197	11,478	445,844	502,519
Operating transfers out	(11,478)	-	(490,165)	(501,643)
<b>Total other financing sources (uses)</b>	<u>33,719</u>	<u>11,478</u>	<u>(44,321)</u>	<u>876</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(85,282)</u>	<u>(953)</u>	<u>(104,494)</u>	<u>(190,729)</u>
<b>Fund balance, Beginning</b>	<u>308,816</u>	<u>-</u>	<u>94,893</u>	<u>403,709</u>
<b>Fund balance, Ending</b>	<u>\$ 223,534</u>	<u>\$ (953)</u>	<u>\$ (9,601)</u>	<u>\$ 212,980</u>

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

Pineville Independent School District

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities**

For the year ended June 30, 2012

Net change in fund balances--total governmental funds \$ (190,729)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. (200,499)

Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net assets. 267,392

Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities. 2,837

Accounts receivable for SFCC are not recognized as revenue of current financial resources in the governmental fund financial statements, but are increases of assets in the statement of net assets. (301)

Rounding 2

Change in net assets of governmental activities \$ (121,636)

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

Pineville Independent School District  
**Statement of Net Assets - Proprietary Funds**  
As of June 30, 2012

<b>ASSETS</b>	<u>Food Service Fund</u>	<u>Non-major Fund</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 28,848	\$ 4,253	\$ 33,101
Inventory	<u>2,903</u>	<u>-</u>	<u>2,903</u>
<b>Total current assets</b>	<u>31,751</u>	<u>4,253</u>	<u>36,004</u>
<b>Noncurrent Assets</b>			
Furniture and equipment	105,744	-	105,744
Less: Accumulated depreciation	<u>(88,310)</u>	<u>-</u>	<u>(88,310)</u>
<b>Total noncurrent assets</b>	<u>17,434</u>	<u>-</u>	<u>17,434</u>
<b>Total assets</b>	<u>\$ 49,185</u>	<u>\$ 4,253</u>	<u>\$ 53,438</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Amount in excess of deposits	\$ -	\$ 7,300	\$ 7,300
Accounts payable	<u>4,244</u>	<u>-</u>	<u>4,244</u>
<b>Total current liabilities</b>	<u>4,244</u>	<u>7,300</u>	<u>4,244</u>
<b>Noncurrent Liabilities</b>			
<b>Total noncurrent liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>4,244</u>	<u>7,300</u>	<u>4,244</u>
<b>NET ASSETS</b>			
Invested in capital assets and inventory, net of related debt	20,337	-	20,337
Unrestricted	<u>24,604</u>	<u>(3,047)</u>	<u>21,557</u>
<b>Total net assets</b>	<u>\$ 44,941</u>	<u>\$ (3,047)</u>	<u>\$ 41,894</u>

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

Pineville Independent School District

**Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary  
Funds**

For the year ended June 30, 2012

	Food Service Fund	Non-major Fund	Total
<b>Operating Revenues</b>			
Food service sales	\$ 45,320	\$ -	\$ 45,320
Tuition	-	23,002	23,002
<b>Total operating revenues</b>	<u>45,320</u>	<u>23,002</u>	<u>68,322</u>
<b>Operating Expenses</b>			
Salaries and wages	170,654	19,968	190,622
Professional and contract services	5,707	-	5,707
Supplies and materials	181,862	3,114	184,976
Payments to other funds	875	-	875
Depreciation	483	-	483
Other operating expenses	280	-	280
<b>Total operating expenses</b>	<u>359,861</u>	<u>23,082</u>	<u>382,943</u>
<b>Operating income (loss)</b>	<u>(314,541)</u>	<u>(80)</u>	<u>(314,621)</u>
<b>Nonoperating revenues (expenses)</b>			
Federal grants	264,543	-	264,543
State grants	3,528	-	3,528
On-Behalf payments	22,895	2,790	25,685
Commodities Received	17,557	-	17,557
Interest income	176	-	176
<b>Total nonoperating revenues (expenses)</b>	<u>308,699</u>	<u>2,790</u>	<u>311,489</u>
<b>Operating transfers</b>			
Transfers in (out)	-	-	-
<b>Net income (loss)</b>	<u>(5,842)</u>	<u>2,710</u>	<u>(3,132)</u>
<b>Total net assets, beginning</b>	<u>50,783</u>	<u>(5,757)</u>	<u>45,026</u>
<b>Total net assets, ending</b>	<u>\$ 44,941</u>	<u>\$ (3,047)</u>	<u>\$ 41,894</u>

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

Pineville Independent School District

**Statement of Cash Flows - Proprietary Funds**

For the year ended June 30, 2012

	Food Service Fund	Non-major Fund	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from lunchroom sales	\$ 45,320	\$ -	\$ 45,320
Cash received from other activities	-	25,792	25,792
Cash payments to employees for services	(170,654)	(19,967)	(190,621)
Cash payments to suppliers for goods and services	(165,236)	(3,114)	(168,350)
Cash payments for other operating activities	(280)	-	(280)
<b>Net cash from operating activities</b>	<u>(291,725)</u>	<u>2,711</u>	<u>(289,014)</u>
<b>Cash Flows from Capital Financing Activities</b>			
<b>Net cash from capital financing activities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Nonoperating grants received	<u>290,966</u>	<u>-</u>	<u>290,966</u>
<b>Net cash from noncapital financing activities</b>	<u>290,966</u>	<u>-</u>	<u>290,966</u>
<b>Cash Flows from Investing Activities</b>			
Interest on investments	<u>176</u>	<u>-</u>	<u>176</u>
<b>Net cash flows from investing activities</b>	<u>176</u>	<u>-</u>	<u>176</u>
<b>Net increase in cash and cash equivalents</b>	(583)	2,711	2,128
<b>Cash and cash equivalents - beginning</b>	<u>29,431</u>	<u>(5,757)</u>	<u>23,674</u>
<b>Cash and cash equivalents - ending</b>	<u>\$ 28,848</u>	<u>\$ (3,046)</u>	<u>\$ 25,802</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (314,541)	\$ (80)	\$ (314,621)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Depreciation	483	-	483
Commodities usage	17,557	-	17,557
On-Behalf Payments	-	2,791	-
Changes in assets and liabilities:	-	-	-
Inventory	5,029	-	5,029
Accounts payable	(253)	-	(253)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ (291,725)</u>	<u>\$ 2,711</u>	<u>\$ (289,014)</u>

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

Pineville Independent School District  
**Statement of Fiduciary Net Assets - Fiduciary Funds**  
As of June 30, 2012

	<u>Trust/Agency Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ <u>23,168</u>
<b>Total current assets</b>	<u>23,168</u>
<b>Noncurrent Assets</b>	
<b>Total noncurrent assets</b>	<u>-</u>
<b>Total assets</b>	<u>\$ 23,168</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Due to student groups	\$ <u>23,168</u>
<b>Total current liabilities</b>	<u>23,168</u>
<b>Noncurrent Liabilities</b>	
<b>Total noncurrent liabilities</b>	<u>-</u>
<b>Total liabilities</b>	<u>23,168</u>
<b>NET ASSETS</b>	
<b>Net Assets</b>	
<b>Total net assets</b>	<u>\$ -</u>

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

Pineville Independent School District

**Statement of Changes in Fiduciary Net Assets - Fiduciary Funds**

For the year ended June 30, 2012

	<u>Trust/Agency Fund</u>
<b>Additions</b>	
Other additions	\$ 198,069
<b>Total additions</b>	<u>198,069</u>
<b>Deductions</b>	
Other deductions	<u>218,341</u>
<b>Total deductions</b>	<u>218,341</u>
<b>Change in net assets</b>	(20,272)
<b>Net assets - beginning</b>	<u>43,440</u>
<b>Net assets - ending</b>	<u>\$ 23,168</u>

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

## **Note A – Summary of Significant Accounting Policies**

The accounting and reporting framework and the more significant accounting principles and practices of Pineville Independent School District (District) are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2012.

### **Accounting Principles**

The District accounts for its financial transactions in accordance with the policies, procedures, applicable laws and regulations of the State of Kentucky. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U.S. Governmental Accounting Standards Board ("GASB"); and it complies with the requirements of the appropriate version of contracts and grants of agencies from which it receives funds.

### **Reporting Entity**

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials whom, together constitute the Board of Education. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise over-sight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2012, the District is not a component unit of any other reporting entity.

### **Pineville Independent Board of Education Finance Corporation**

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

## **Basis of Presentation**

### Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund activities.

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as 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 exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Agency funds have no measurement focus.

## **Basis of Accounting**

Basis of account refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds use the accrual basis of accounting.

## **Notes to the Basic Financial Statements**

June 30, 2012

### Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected with 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 collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements 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 to be used or the fiscal year when use is first permitted; matching requirement, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under 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 received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with nonexchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

### Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortizations, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

## **Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses as appropriate. The District’s resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District’s accounts are organized into major, non-major, and fiduciary funds as follows:

Pineville Independent School District  
**Notes to the Basic Financial Statements**  
June 30, 2012

Major Governmental Funds:

The General Fund – The general fund is the District’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Construction (Capital Projects) Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Non-major Governmental Funds:

Building Fund – The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission’s construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district’s facility plan.

Capital Outlay Fund – The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district’s facility plan.

Fiduciary Funds:

Agency Funds – The District accounts for activities of student groups and others in a custodial capacity in agency funds. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Proprietary Funds:

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

The Daycare and Renaissance Fund is used to account for revenues and expenses related to services provided to services to the surrounding community.

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

Permanent Funds:

Trust Funds – Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs. These funds do not apply to the Pineville Independent School District.

## **Encumbrances**

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

## **Estimates**

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

## **Assets, Liabilities, and Equity**

### Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

The District is authorized to deposit cash and invest excess fund pursuant to the regulations set forth by Kentucky Revised Statute. The funds maintained by the District are either secured by federal depository insurance or are collateralized.

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds are related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less. Additional cash and investment information, and fair values are presented in Note B.

### Inventories and Prepaid Expenditures

#### *Inventories*

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's inventory is valued at cost and consists of expendable supplies held for consumption.

#### *Prepaid Expenditures*

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Assets.

Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets

Capital assets are those purchased or acquired with an original cost of \$1,000 or more and are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciation assets are as follows:

<u>Description</u>	<u>Estimated Useful Lives in Years</u>
Buildings and improvements	25 – 50
Land improvements	20
Technology equipment	5
Vehicles	5 – 10
Audio-visual equipment	15
Food service equipment	10 – 12
Furniture and fixtures	7
Rolling stock	15
Other	10

Deferred Revenue

Cash received for federal and state special project and programs are recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Compensated Absences

Employees are allowed to accrue ten days of sick leave each year without limit. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Teachers and administrative personnel do not receive paid vacations but are paid only for the number of days they are required to work each year (180 days for teachers and 240 days for administrative personnel).

Maintenance employees are granted vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. The District has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

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

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

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

## **Notes to the Basic Financial Statements**

June 30, 2012

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

### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amounts of the debt issued, premiums, or discounts are reported as other financing sources/uses.

### Fund Balance Reserves and Designations

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds when an expenditure is incurred for which those fund balances are available.

### Net Assets

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

### Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing.

Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. The assessed value of the certified roll, upon which the levy for the 2011 fiscal year was based upon, was approximately \$61.1 million.

Taxes are due on November 1 and become delinquent by February 1 following the October 1 levy date.

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.521 per \$100 valuation for real property, \$.521 per \$100 valuation for business personal property, and \$.553 per \$100 valuation for motor vehicles.

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

### Risk Management

The district is exposed to various risk 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 purchases insurance coverage, from a private insurance agent, through a cooperative on a competitive bidding 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.

There were no significant reductions in insurance coverage in the current fiscal year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivable and payable, as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

### On-Behalf Payments for Fringe Benefits

The District receives on-behalf payments from the State of Kentucky to be used for Kentucky Teacher Retirement contributions, vocational education, health insurance, administrative fees, flexible spending and federal reimbursement. On-behalf payments to the District totaled \$808,170 for the fiscal year ended June 30, 2012. Such payments are recorded as intergovernmental revenue and employee benefit expenses/expenditures in the GAAP basis government-wide and general fund and proprietary financial

Pineville Independent School District  
**Notes to the Basic Financial Statements**  
 June 30, 2012

statements, but are not budgeted and therefore are not included in the general fund budgetary basis financial statements.

Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments

**Note B – Cash and Investments**

The District maintains their cash and investments with various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value. Federal depository insurance and pledged securities covers all account balances as shown below.

Cash and cash equivalents consist of demand deposit accounts that are interest bearing at a rate determined by the bid of the depository.

Investments are time deposits with various maturity dates that consist of certificates of deposits with the various local banks. Federal depository insurance and pledged securities cover these deposits as shown below.

	<u>First State Financial</u>
Cash Balances - interest bearing	\$ 539,517.00
Cash Balances - non intrest bearing	-
Less: FDIC Coverage	<u>(250,000.00)</u>
Unsecured Cash Balances	\$ 289,517.00
Less: Pledged Security Coverage (C-8)	<u>328,367.82</u>
(Over) Under Secured Balance	<u>\$ (38,850.82)</u>

**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 or the District will not be able to recover collateral securities in the possession of an outside party. The District’s policy requires deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service, as determined by a rating of C minus or above by independent rating agencies. Collateral agreements must be approved prior to deposit of funds as provided by law. The District council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of an evaluation committee or the District treasurer, or both.

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The district does not retain any long-term investments.

Pineville Independent School District  
**Notes to the Basic Financial Statements**  
 June 30, 2012

**Concentration of Credit Risk.** The Board places no limit on the amount the District may invest in any one issuer. All of the organization’s cash is held at a local financial institution.

**Foreign Currency Risk** Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

For discussion of adopted deposit and investment policy and other related information, see Note A.

**Note C – Capital Assets**

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

<u>Governmental Activities</u>	Balance	<u>Additions</u>	<u>Deductions</u>	Balance
	<u>July 1, 2011</u>			<u>June 30, 2012</u>
Land	\$ 305,115	\$ -	\$ -	\$ 305,115
Land improvements	302,989	-	-	302,989
Buildings and improvements	5,076,379	4,540,332	-	9,616,711
Technology Equipment	677,262	-	-	677,262
Vehicles	255,669	-	-	255,669
General equipment	279,639	-	-	279,639
Construction in progress	<u>4,540,332</u>	<u>-</u>	<u>4,540,332</u>	<u>-</u>
Totals at historical cost	<u>\$ 11,437,385</u>	<u>\$ 4,540,332</u>	<u>\$ 4,540,332</u>	<u>\$ 11,437,385</u>
Less: accumulated depreciation				
Land improvements	246,009	4,105	-	250,114
Buildings and improvements	2,058,936	110,653	-	2,169,589
Technology Equipment	620,012	59,656	-	679,668
Vehicles	233,380	9,933	-	243,313
General equipment	<u>185,995</u>	<u>16,151</u>	<u>-</u>	<u>202,146</u>
Total accumulated depreciation	<u>3,344,332</u>	<u>200,498</u>	<u>-</u>	<u>3,544,830</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 8,093,054</u>	<u>\$ 4,339,834</u>	<u>\$ 4,540,332</u>	<u>\$ 7,892,555</u>
Business-Type Activities				
Food service and equipment	\$ 105,744	\$ -	\$ -	\$ 105,744
Totals at historical cost	<u>\$ 105,744</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,744</u>
Less: accumulated depreciation				
Food service and equipment	<u>87,827</u>	<u>483</u>	<u>-</u>	<u>88,310</u>
Total accumulated depreciation	<u>87,827</u>	<u>483</u>	<u>-</u>	<u>88,310</u>
Capital Assets - Net	<u>\$ 17,917</u>	<u>\$ (483)</u>	<u>\$ -</u>	<u>\$ 17,434</u>

Depreciation expense was charged to governmental activities as follows:

Pineville Independent School District  
**Notes to the Basic Financial Statements**  
 June 30, 2012

Governmental Activities Depreciation Expense by Function

	<u>June 30, 2012</u>
Instruction	\$ 90,899
Support services	
Student	13,518
Instruction staff	8,203
District administration	68,484
School administration	703
Plant operation and maintenance	8,225
Student transportation	10,222
Community services	<u>244</u>
<b>Total</b>	<b>\$ <u>200,498</u></b>

**Note D – Capital Lease Payable**

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

Description	Maturity	Interest Rates	Original Issue	Principal Balance 7/1/2011	Debt Issued	Debt Paid	Principal Balance 6/30/2012	Due Within One Year
KISTA:								
Issue of 2005	Mar-15	3.00% to 3.625%	\$ 61,533	\$ 24,652	\$ -	\$ 6,422	\$ 18,230	\$ 6,648
Issue of 2009	Mar-20	2.00% to 3.60%	<u>96,767</u>	<u>86,705</u>	<u>-</u>	<u>10,674</u>	<u>76,031</u>	<u>9,056</u>
<b>Total</b>			<b>\$ <u>158,300</u></b>	<b>\$ <u>111,357</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>17,096</u></b>	<b>\$ <u>94,261</u></b>	<b>\$ <u>15,704</u></b>

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

Fiscal Year			District		
Ending June 30,			Interest	Principal	Total
	2013		\$ 2,834	\$ 15,704	\$ 18,538
	2014		2,420	14,968	17,388
	2015		2,012	15,381	17,393
	2016		1,552	9,712	11,264
	2015		1,270	9,974	11,244
2016	thru	2020	1,941	28,522	30,463
2021	thru	2025	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>			<b>\$ <u>12,029</u></b>	<b>\$ <u>94,261</u></b>	<b>\$ <u>106,290</u></b>

Pineville Independent School District  
**Notes to the Basic Financial Statements**  
 June 30, 2012

Total minimum lease payments	\$ 106,290
Less: Amount representing interest	<u>12,029</u>
Present Value of Net Minimum Lease Payments	<u>\$ 94,261</u>

**Note E – Long-Term Obligations**

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Pineville Independent School District Finance Corporation aggregating \$5,425,000 and \$255,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued to construct and repair school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The long-term obligation activity including the original amount of each issue, the issue date, and interest rates and summary of changes are summarized below:

Description	Maturity	Interest Rates	Original Issue	Principal Balance 7/1/2011	Debt Issued	Debt Paid	Principal Balance 6/30/2012	Due Within One Year
BONDS:								
Issue of 2002	Feb-13	1.50% to 3.85%	\$ 1,270,000	\$ 295,000	\$ -	\$ 145,000	\$ 150,000	\$ 150,000
Issue of 2003	Sep-23	3.20% to 4.20%	1,015,000	980,000	-	5,000	975,000	5,000
2007 Tech	Nov-11	-	252,946	25,296	-	25,296	-	-
Issue of 2010	Mar-30	1.00% to 5.50%	4,425,000	4,375,000	-	75,000	4,300,000	100,000
Total			\$ 6,962,946	\$ 5,675,296	\$ -	\$ 250,296	\$ 5,425,000	\$ 255,000

Payments on the General Obligation Bonds are made from the Debt Service Fund using local revenues and SFCC Contributions. Compensated absences are paid by the general fund.

In connection with the school revenue bonds issued after May 1, 1989 the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts 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 amount remains with the District and, as such, to total principal outstanding has been recorded in the financial statements.

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 obligation of the District, including amounts to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are as follows:

Pineville Independent School District  
**Notes to the Basic Financial Statements**  
 June 30, 2012

Fiscal Year			SFCC		District			
Ending								
June 30,			Interest	Principal	Interest	Principal	Total	
	2013		\$ 18,966	\$ 34,982	\$ 223,808	\$ 220,018	\$ 497,774	
	2014		17,928	17,952	216,021	227,048	478,949	
	2015		17,493	18,386	210,136	231,614	477,629	
	2016		16,938	18,941	202,959	241,059	479,897	
	2017		16,403	19,567	194,795	245,433	476,198	
2018	thru	2022	68,827	110,660	815,425	1,349,340	2,344,252	
2023	thru	2027	41,515	122,321	493,975	1,492,679	2,150,490	
2028	thru	2032	9,411	84,059	110,214	990,941	1,194,625	
2033	thru	2037	-	-	-	-	-	
Total			\$ 207,481	\$ 426,868	\$ 2,467,333	\$ 4,998,132	\$ 8,099,814	

**Note F – Commitments under Noncapitalized Leases**

As of June 30, 2012 the District had not entered into any material operating lease agreements.

**Note G – Retirement Plans**

**Kentucky Teachers Retirement System:**

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

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

*Funding Policy* – Contribution rates are established by KRS. For members who have established an account in the retirement system administered by the Commonwealth prior to July 1, 2008, are required to contribute 9.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 13.105% of salaries. For members hired after July 1, 2008, they are required to contribute 10.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

The Pineville Independent School System’s total payroll for the year was \$3,338,691. The payroll for employees covered under KTRS was \$2.6 million. For the year ended June 30, 2012, the Commonwealth contributed \$314,326 in matching to KTRS for the benefit of our participating employees. The School District’s contributions to KTRS for the year ending June 30, 2012 were \$61,455, which represents those employees covered by federal programs.

**Medical Insurance Plan**

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

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

*Funding Policy* – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriations. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**County Employees Retirement System**

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System of Kentucky (CERS) which is a cost sharing, multiple-employer public employees retirement system created by and operating under Kentucky law. The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601.

Funding for the plan is provided through payroll withholdings of 5.00% and a district contribution of 16.17% of the employee’s total compensation subject to contributions. Total payroll for employees covered under CERS was \$0.7 million.

The contribution requirement for CERS for the year ended June 30, 2012 was \$161,756 which consisted of \$113,893 from the District and \$47,863 from the employees.

The following is a summary of contributions paid on-behalf of the employees for the past three years:

Year Ended June 30,	KTRS		CERS
	District	State	
2012	\$ 61,455	\$ 314,326	\$ 113,893
2011	\$ 51,060	\$ 289,313	\$ 105,485
2010	\$ 51,815	\$ 294,604	\$ 82,221

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

The “pension benefits obligation” is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern

**Notes to the Basic Financial Statements**

June 30, 2012

basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

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

Summary of Contributions Paid on Behalf		
	KTRS	CERS
	as of June 30, 2011	as of June 30, 2011
	(in 1,000's of dollars)	
Actuarial accrued liabilities	\$ 25,968,692	\$ 8,918,085,025
Actuarial value of assets	14,908,138	5,629,611,183
Unfunded (overfunded) actuarial accrued liabilities	\$ 11,060,554	\$ 3,288,473,842

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

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

**Note H – Deficit Operating / Fund Balances**

There was two funds of the District that currently has a deficit fund balance. Those funds were the Special Revenue Fund and the Non-major Proprietary Fund with a fund balance of (\$953) and (\$9,601) respectively.

However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Fund	Reduction in Fund Balance
General Fund	\$ (85,282)
Special Revenue Fund	(953)
Capital Outlay Fund	-
Building Fund	(9,601)
Construction Fund	(94,893)
Debt Service Fund	(104,494)
Non-Major Fund	-
Food Service Fund	(5,842)
Daycare Fund	-
Renaissance Fund	-
Fund 54	-
Non-Major Fund	-
Fiduciary Fund	(20,272)

**Note I – Transfer of Funds**

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

For	From Fund	Amount	To Fund	Amount
Matching	General Fund	\$ 11,478	Special Revenue Fund	\$ 11,478
Reimburse for Expenses	Non-Major Fund	490,165	General Fund	44,322
Debt Service Payments			Non-Major Fund	445,843
Indirect Cost	Food Service Fund	876	General Fund	876

**Note J – Commitments and Contingencies**

**Grant Programs**

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

**Litigation**

The District is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

**Future Construction**

All construction was complete as of June 30, 2012.

**COBRA**

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

**Note K – On-Behalf Payments**

The State of Kentucky makes certain health insurance, life insurance, flexible spending, administrative fees and pension plan payments on behalf of the District for its employees. The District records these payments as both a revenue and expenditure in the General Fund and Food Service Fund based upon percentage of payroll.

**Notes to the Basic Financial Statements**

June 30, 2012

The total of the on-behalf payments for the fiscal year ended June 30, 2012 was \$782,484 for the General Fund and \$22,895 for the Food Service Fund. The District is not legally responsible for these contributions.

**Note L – Annual Financial Report Differences**

All adjustments were made to the District's accounting system and all difference between the audited financial statement and the District's Annual Financial Report is due to rounding.

**Note M – Subsequent Events**

The District has evaluated subsequent events through February 6, 2013, the date which the financial statements were available to be issued. During that review the following was discovered and determined should be disclosed.

Kentucky School Board Insurance Trust was founded in the late 1970's to provide liability insurance and workers compensation insurance to local governments. Since its inception it has not been self-sufficient. As a result it can no longer pay its liabilities. To ensure its viability it has decided to rebill all its current and former clients to recoup losses attributed to each by recalculating premiums and claims. As of the date of this report the amount that will be associated with the District has yet to be determined. This amount could have an impact on the financial statements.

**Required Supplemental Information**

Pineville Independent School District  
**Budgetary Comparison Schedules**

Required Supplementary Information  
 For the year ended June 30, 2012

	General Fund					Variance with Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual	Adjustments	Actual	
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	
<b>Revenues</b>						
From local sources						
Ad valorem tax	\$ 251,533	\$ 251,533	\$ 263,147	\$ -	\$ 263,147	\$ 11,614
Sales & use tax	140,000	140,000	164,705	-	164,705	24,705
Penalties & interest on tax	1,000	1,000	368	-	368	(632)
Other tax	6,000	6,000	-	-	-	(6,000)
Earnings on investments	10,000	10,000	6,546	-	6,546	(3,454)
Other local revenues	23,810	23,810	64,883	-	64,883	41,073
State sources						
SEEK	2,614,165	2,614,165	2,614,105	-	2,614,105	(60)
Other	4,600	4,600	4,927	-	4,927	327
Expenditure Reimbursements	-	-	7,052	-	7,052	7,052
Revenue in lieu of tax	10,000	10,000	12,472	-	12,472	2,472
On behalf payments	-	-	824,944	(824,944)	-	-
Federal sources						
Restricted direct	14,300	14,300	35,900	-	35,900	21,600
Reimbursements	12,699	12,699	14,218	-	14,218	1,519
<b>Total revenues</b>	<b>\$ 3,088,107</b>	<b>\$ 3,088,107</b>	<b>\$ 4,013,267</b>	<b>\$ (824,944)</b>	<b>\$ 3,188,323</b>	<b>\$ 100,216</b>
<b>Expenditures</b>						
Instruction	1,535,758	1,535,758	2,231,440	(504,581)	1,726,859	(191,101)
Support services						
Student	222,738	222,738	266,629	(58,603)	208,026	14,712
Instruction staff	135,108	135,108	180,715	(35,136)	145,579	(10,471)
District administration	317,492	317,492	397,372	(51,347)	346,025	(28,533)
School administration	187,510	187,510	236,437	(54,547)	181,890	5,620
Business	72,440	72,440	135,089	(59,902)	75,187	(2,747)
Plant operation and maintenance	515,449	515,449	565,546	(46,304)	519,242	(3,793)
Student transportation	84,845	84,845	98,680	(14,524)	84,156	689
Debt Service	17,767	17,767	20,360	-	20,360	(2,593)
<b>Total expenditures</b>	<b>3,089,107</b>	<b>3,089,107</b>	<b>4,132,268</b>	<b>(824,944)</b>	<b>3,307,324</b>	<b>(218,217)</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(119,001)</b>	<b>-</b>	<b>(119,001)</b>	<b>(118,001)</b>
<b>Other Financing Sources (Uses)</b>						
Operating transfers in	18,000	18,000	45,197	-	45,197	27,197
Operating transfers out	(17,000)	(17,000)	(11,478)	-	(11,478)	5,522
<b>Total other financing sources (uses)</b>	<b>1,000</b>	<b>1,000</b>	<b>33,719</b>	<b>-</b>	<b>33,719</b>	<b>32,719</b>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<b>-</b>	<b>-</b>	<b>(85,282)</b>	<b>-</b>	<b>(85,282)</b>	<b>(85,282)</b>
<b>Fund balance, beginning</b>	<b>251,385</b>	<b>251,385</b>	<b>308,816</b>	<b>-</b>	<b>308,816</b>	<b>57,431</b>
<b>Fund balance, ending</b>	<b>\$ 251,385</b>	<b>\$ 251,385</b>	<b>\$ 223,534</b>	<b>\$ -</b>	<b>\$ 223,534</b>	<b>\$ (27,851)</b>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Pineville Independent School District  
**Budgetary Comparison Schedules**

Required Supplementary Information  
 For the year ended June 30, 2012

	Special Revenue Fund					Variance with Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	
	Original	Final				
<b>Revenues</b>						
State sources						-
Other	20,399	320,000	300,661	-	300,661	(19,339)
Federal sources						-
Restricted direct	-	-	6,264	-	6,264	6,264
Restricted through state	39,351	722,445	646,317	-	646,317	(76,128)
<b>Total revenues</b>	<u>\$ 59,750</u>	<u>\$ 1,042,445</u>	<u>\$ 953,242</u>	<u>\$ -</u>	<u>\$ 953,242</u>	<u>\$ (89,203)</u>
<b>Expenditures</b>						
Instruction	25,399	832,445	711,456	-	711,456	120,989
Support services						
Student	-	50,000	53,626	-	53,626	(3,626)
Instruction staff	44,351	100,000	104,795	-	104,795	(4,795)
Plant operation and maintenance	-	30,000	31,365	-	31,365	(1,365)
Community service activities	-	40,000	64,431	-	64,431	(24,431)
Facilities acquisition and const.			-	-	-	-
Debt Service			-	-	-	-
<b>Total expenditures</b>	<u>69,750</u>	<u>1,052,445</u>	<u>965,673</u>	<u>-</u>	<u>965,673</u>	<u>86,772</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(12,431)</u>	<u>-</u>	<u>(12,431)</u>	<u>(2,431)</u>
<b>Other Financing Sources (Uses)</b>						
Operating transfers in	10,000	10,000	11,478	-	11,478	1,478
<b>Total other financing sources (uses)</b>	<u>10,000</u>	<u>10,000</u>	<u>11,478</u>	<u>-</u>	<u>11,478</u>	<u>1,478</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	-	-	(953)	-	(953)	(953)
<b>Fund balance, beginning</b>	-	-	-	-	-	-
<b>Fund balance, ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (953)</u>	<u>\$ -</u>	<u>\$ (953)</u>	<u>\$ (953)</u>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

**Notes to the Required Supplementary Information**

June 30, 2012

**Note A – Budgets and Budgetary Accounting**

**Budget Policy and Practice**

The district's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting. The budget is presented to the District board for review. In June, the District council adopts the annual fiscal year budgets for District operating funds. Once approved, the District council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Special Revenue funds are budgeted on a project-length basis and are also subjected to the council review and approval process. By state law, the District's board must adopt a final budget no later than July 1. The District's board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund, Special Revenue Fund and Construction Fund are presented as Required Supplementary Information.

**Basis of Budgeting**

Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: Instruction, Support Services, Community Service Activities, Facilities Acquisition and Construction and Debt Service. Budget revisions at this level are managed administratively and reported to the District board. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made throughout the year.

The budgets for the operating funds and proprietary fund operations are prepared on a basis consistent with generally accepted accounting principles for all government funds, except for the Debt Service Fund. A legally adopted budget is not required for this fund. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

**Note B – Excess of Expenditures over Appropriations**

The District did not budget appropriations, in the General Fund, for on-behalf payments provided by the Kentucky Department of Education because they were not measurable at the time of budgeting. Therefore, these expenditures were adjusted out of the actual basis to mirror actual budget basis for review.

As of June 30, 2012, expenditures exceeded appropriation in individual funds as follows:

**Notes to the Required Supplementary Information - Continued**

June 30, 2012

<b>General Fund:</b>	
Instruction	\$ (191,101)
Support services	
Instruction staff	(10,471)
District administration	(28,533)
Business	(2,747)
Plant operation and maintenance	(3,793)
Debt Service	(2,593)
<b>Special Revenue:</b>	
Instruction	\$ (686,057)
Support services	
Student	(53,626)
Instruction staff	(60,444)
Plant operation and maintenance	(31,365)
Community service activities	(64,431)

The excess expenditures were covered by greater than anticipated revenues or available fund balance in the funds.

**Other Supplemental Information**

Pineville Independent School District

**Combining Balance Sheet - Nonmajor Governmental Funds**

For the year ended June 30, 2012

	Capital Outlay Fund	Building	Construction Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Amount in excess of deposits	\$ -	\$ 9,601	\$ -	\$ -	\$ 9,601
<b>Total liabilities</b>	<u>-</u>	<u>9,601</u>	<u>-</u>	<u>-</u>	<u>9,601</u>
<b>Fund Balances</b>					
Non-spendable	-	-	-	-	-
Restricted	-	(9,601)	-	-	(9,601)
Assigned	-	-	-	-	-
Committed	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>Total fund balances</b>	<u>-</u>	<u>(9,601)</u>	<u>-</u>	<u>-</u>	<u>(9,601)</u>
<b>Total liabilities and fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Pineville Independent School District

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds**

For the year ended June 30, 2012

	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund	Total Nonmajor Funds
<b>Revenues</b>					
From local sources					
Ad valorem tax	\$ -	\$ 62,360	\$ -	\$ -	\$ 62,360
State sources					
Other	48,729	278,550	-	-	327,279
SFCC	-	-	-	53,947	53,947
Federal sources					
Reimbursements	-	70,038	-	-	70,038
<b>Total revenues</b>	<u>\$ 48,729</u>	<u>\$ 410,948</u>	<u>\$ -</u>	<u>\$ 53,947</u>	<u>\$ 513,624</u>
<b>Expenditures</b>					
Facilities acquisition and construction	-	-	74,006	-	74,006
Debt Service	-	-	-	499,791	499,791
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>74,006</u>	<u>499,791</u>	<u>573,797</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>48,729</u>	<u>410,948</u>	<u>(74,006)</u>	<u>(445,844)</u>	<u>(60,173)</u>
<b>Other Financing Sources (Uses)</b>					
Operating transfers in	-	-	-	445,844	445,844
Operating transfers out	(48,729)	(420,549)	(20,887)	-	(490,165)
<b>Total other financing sources (uses)</b>	<u>(48,729)</u>	<u>(420,549)</u>	<u>(20,887)</u>	<u>445,844</u>	<u>(44,321)</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>-</u>	<u>(9,601)</u>	<u>(94,893)</u>	<u>-</u>	<u>(104,494)</u>
<b>Fund balance, beginning</b>	<u>-</u>	<u>-</u>	<u>94,893</u>	<u>-</u>	<u>94,893</u>
<b>Fund balance, ending</b>	<u>\$ -</u>	<u>\$ (9,601)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,601)</u>

Pineville Independent School District

**Combining Statement of Net Assets - Nonmajor Proprietary Funds**

For the year ended June 30, 2012

<b>ASSETS</b>	Renaissance		Total
	Daycare Fund	Fund	
<b>Current Assets</b>			
Cash and cash equivalents	\$ -	\$ 4,253	\$ 4,253
<b>Total current assets</b>	<u>-</u>	<u>4,253</u>	<u>4,253</u>
<b>Noncurrent Assets</b>			
<b>Total noncurrent assets</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<u>\$ -</u>	<u>\$ 4,253</u>	<u>\$ 4,253</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Amount in excess of deposits	\$ 7,300	\$ -	\$ 7,300
<b>Total current liabilities</b>	<u>7,300</u>	<u>-</u>	<u>7,300</u>
<b>Noncurrent Liabilities</b>			
<b>Total noncurrent liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>			
Non-spendable	-	-	-
Unrestricted	<u>(7,300)</u>	<u>4,253</u>	<u>(3,047)</u>
<b>Total net assets</b>	<u>\$ (7,300)</u>	<u>\$ 4,253</u>	<u>\$ (3,047)</u>

Pineville Independent School District

**Combining Statement of Revenues, Expenses, and Changes in Net Assets -  
Nonmajor Proprietary Funds**

For the year ended June 30, 2012

	Daycare Fund	Renaissance Fund	Total
<b>Operating Revenues</b>			
Tuition	\$ 19,802	\$ 3,200	\$ 23,002
<b>Total operating revenues</b>	<u>\$ 19,802</u>	<u>\$ 3,200</u>	<u>\$ 23,002</u>
<b>Operating Expenses</b>			
Salaries and wages	19,968	-	19,968
Supplies and materials	<u>-</u>	<u>3,114</u>	<u>3,114</u>
<b>Total operating expenses</b>	<u>19,968</u>	<u>3,114</u>	<u>23,082</u>
<b>Operating income (loss)</b>	<u>(166)</u>	<u>86</u>	<u>(80)</u>
<b>Nonoperating revenues (expenses)</b>			
On-Behalf payments	<u>2,790</u>	<u>-</u>	<u>2,790</u>
<b>Total nonoperating revenues (expenses)</b>	<u>2,790</u>	<u>-</u>	<u>2,790</u>
<b>Operating transfers</b>			
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net income (loss)</b>	<u>2,624</u>	<u>86</u>	<u>2,710</u>
<b>Total net assets, beginning</b>	<u>(9,924)</u>	<u>4,167</u>	<u>(5,757)</u>
<b>Total net assets, ending</b>	<u>\$ (7,300)</u>	<u>\$ 4,253</u>	<u>\$ (3,047)</u>

Pineville Independent School District

**Statement of Revenues, Expenditures and Changes in Fund Balance - Pineville Independent School Activity Funds**

For the year ended June 30, 2012

	Fund Balance Beginning	Receipts	Expenditures	Transfer In	Transfer Out	Fund Balance Ending
Pineville Elementary	\$ 13,572	\$ 26,711	\$ 29,702	\$ -	\$ -	\$ 10,581
Pineville High School	<u>29,868</u>	<u>171,358</u>	<u>188,639</u>	<u>38,186</u>	<u>38,186</u>	<u>12,587</u>
Total	<u>\$ 43,440</u>	<u>\$ 198,069</u>	<u>\$ 218,341</u>	<u>\$ 38,186</u>	<u>\$ 38,186</u>	<u>\$ 23,168</u>

Pineville Independent School District

**Statement of Revenues, Expenditures and Changes in Fund Balance -Pineville Independent High School**

For the year ended June 30, 2012

	Fund					Fund
	Balance					Balance
	Beginning	Receipts	Expenditures	Transfer In	Transfer Out	Ending
Miscellaneous	\$ -	\$ 7,285	\$ 10,756	\$ 3,642	150	\$ 21
Special Projects	18	-	-	-	-	18
Athletics	14,698	62,967	55,397	-	21,990	278
Middle School Football	-	-	-	-	-	-
Girls Basketball	-	-	215	215	-	-
Softball	-	733	-	-	733	-
Laurel Bowl	-	9,429	2,624	-	250	6,555
K-8 Basketball	-	-	140	140	-	-
Boosterball	-	-	-	-	-	-
K-8 Girls Basketball	-	1,240	60	-	-	1,180
5/6 Cheerleaders	-	-	246	246	-	-
K-4 Cheerleaders	-	-	407	407	-	-
Varsity Cheerleader	-	12,289	14,549	2,260	-	-
Baseball	-	133	1,550	1,417	-	-
Middle School Cheer	-	1,169	3,075	1,956	-	50
Boys Basketball	-	4,256	11,358	7,102	-	-
Football	-	7,868	7,684	550	-	734
K-8 Football	-	200	450	250	-	-
Girls Basketball	-	3,087	13,142	10,055	-	-
All A boys Basketball	-	-	-	-	-	-
Golf	-	8	685	677	-	-
Golf Region	-	-	-	-	-	-
Softball	-	572	3,762	3,190	-	-
Tennis	-	179	639	460	-	-
Track	-	239	1,097	858	-	-
13th All A Golf	-	-	-	-	-	-
Bankd	-	2,813	2,830	17	-	-
Home Economics	-	-	701	701	-	-
Future City	144	-	-	-	144	-
SADD	61	-	-	-	-	61
Key Club	49	-	-	-	-	49
Seniors	5,085	23,373	32,198	3,748	-	8
Juniors	512	404	741	295	-	470
Sophomores	3,899	5,534	2,282	-	7,151	-
Yearbook	3,806	5,967	6,912	-	-	2,861
Middle School	1,489	5,693	5,097	-	1,820	265
Project Graduation	107	4,650	4,720	-	-	37
Pine Mountain Classic	-	4,601	2,745	-	1,856	-
All A Girls BBK	-	6,669	2,577	-	4,092	-
<b>Total</b>	<b>\$ 29,868</b>	<b>\$ 171,358</b>	<b>\$ 188,639</b>	<b>\$ 38,186</b>	<b>\$ 38,186</b>	<b>\$ 12,587</b>

Pineville Independent School District

**Schedule of Expenditures of Federal Awards**

For the year ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements	Total per CFDA / Cluster	Total Per Department
<b><u>U.S. Department of Agriculture:</u></b>					
<i>Passed through State Department of Education:</i>					
School Breakfast Program	10.553	7760005-11	\$ 23,518		
School Breakfast Program	10.553	7760005-12	68,701		
National School Lunch Program	10.555	7750002-11	43,366		
National School Lunch Program	10.555	7750002-12	120,412		
Summer Food Service Program for Children	10.559	7690024-11	846		
Summer Food Service Program for Children	10.559	7740023-11	<u>8,140</u>		
Total Child Nutrition Cluster				\$ 264,983	
Child and Adult Care Food Program (CACFP)	10.558	7790021-11	636		
Child and Adult Care Food Program (CACFP)	10.558	7790021-12	<u>2,261</u>		
Total Child and Adult Care Food Program (CACFP)				2,897	
Commodity Supplemental Food Program	10.565	Fund51	<u>17,557</u>		
Total Commodity Supplemental Food Program				<u>17,557</u>	
<b>Total U.S. Department of Agriculture</b>					\$ 285,437
<b><u>Appalachian Regional Commission</u></b>					
<i>Passed Through State Department of Education:</i>					
Appalachian Research, Technical Assistance, and Development	23.011	6882	1,200		
Total Appalachian Research, Technical Assistance, and Development				<u>1,200</u>	
<b>Total Environmental Protection Agency</b>					1,200
<b><u>U.S. Department of Education</u></b>					
<i>Passed Through State Department of Education:</i>					
Title I Grant to Local Educational Agencies	84.010	3100002-10	30,254		
Title I Grant to Local Educational Agencies	84.010	3100002-11	305,437		
Title I Grant to Local Educational Agencies	84.010	3102D	27,375		
Title I Grant to Local Educational Agencies	84.010	3102M	<u>189</u>		
Total Title I , Part A Cluster				363,254	

The accompanying notes to the schedule of expenditures of federal awards are an integral part of these financial statements.

Pineville Independent School District

**Schedule of Expenditures of Federal Awards**

For the year ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements	Total per CFDA / Cluster	Total Per Department
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-10	6,161		
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-11	111,886		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-09	783		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-10	4,073		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-11	<u>4,930</u>		
Total Special Education Cluster (IDEA)				127,832	
Career and Technical Education - Basic Grants to States	84.048	3822	<u>25,400</u>		
Total Career and Technical Education - Basic Grants to States				25,400	
Fund for Improvement of Education	84.215	5329	<u>631</u>		
Total Fund for Improvement of Education				631	
Improving Teacher Quality State Grants	84.367	3230002-11	<u>47,172</u>		
Total Improving Teacher Quality State Grants				47,172	
Education Jobs Fund	84.410	EJOB00	<u>107,869</u>		
Total Education Jobs Fund				<u>107,869</u>	
<b>Total U.S. Department of Education</b>				<u>672,158</u>	
<b>Total Expenditures of Federal Awards</b>					<u>\$ 958,795</u>

The accompanying notes to the schedule of expenditures of federal awards are an integral part of these financial statements.

Pineville Independent School District

**Notes to Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2012

**Note A –Basis of Presentation**

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

**Note B – Food Distribution**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, the District had received food commodities totaling \$17,557 in inventory. Since the district no longer tracks commodities individually, all commodities received are considered expended.



***Gaw & Associates, PLLC***  
CERTIFIED PUBLIC ACCOUNTANTS

**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***

To the Board of Education  
Pineville Independent School District

We have audited the financial statements of the Pineville Independent School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirement*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*.

**Internal Control Over Financial Reporting**

Management of Pineville Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pineville Independent School District's internal control over financial reporting 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 Pineville Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pineville 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 considered to be material weakness, as defined previously.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pineville 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 Pineville Independent School District in a separate letter dated February 6, 2013.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Troy A. Gaw, CPA  
Partner

Gaw, & Associates, PLLC  
Harlan, Kentucky

February 6, 2013



***Gaw & Associates, PLLC***  
CERTIFIED PUBLIC ACCOUNTANTS

**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**

Independent Auditor's Report

To the Board of Education  
Pineville Independent School District

**Compliance**

We have audited the Pineville 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 the Pineville Independent School District's major federal programs for the year ended June 30, 2012. Pineville 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 Pineville Independent School District's management. Our responsibility is to express an opinion on Pineville 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirement, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards 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 Pineville 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 on Pineville Independent School District's compliance with those requirements.

In our opinion, Pineville 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**

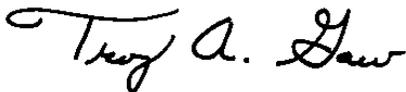
Management of Pineville Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pineville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

Pineville Independent School District's responses to the findings identified in our audit, if any, are described in the accompanying schedule of findings and questioned costs. We did not audit Pineville Independent School District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Troy A. Gaw, CPA  
Partner

Gaw, & Associates, PLLC  
Harlan, Kentucky

February 6, 2013

Pineville Independent School District  
**Schedule of Findings and Questioned Costs**  
 For the Year Ended June 30, 2012

**Section I – Summary of Auditor’s Results**

*Financial Statements*

Type of auditor’s report issued: Unqualified  
 Internal control over financial reporting:  
     Material weakness identified? No  
     Significant deficiencies identified? None Reported  
 Noncompliance material to financial statements noted? No

*Federal Awards*

Internal Control over major programs:  
     Material weakness identified? No  
     Significant deficiencies identified? None Reported  
 Type of auditor’s report issued on compliance for major programs: Unqualified  
 Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

*Identification of major programs:*

C h i l d N u t r i t i o n C l u s t e r	1 0 . 5 5 3 , 1 0 . 5 5 5 & 1 0 . 5 5 9
T i t l e I , P a r t A C l u s t e r	8 4 . 0 1 0
E d u c a t i o n J o b s F u n d	8 4 . 4 1 0

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000  
 Auditee qualified as low-risk auditee? No

**Schedule of Findings and Questioned Costs**

For the Year Ended June 30, 2012

**Section II – Financial Statement Findings**

There were no findings that related to the financial statements.

**Section III – Federal Award Findings and Questioned Costs**

There were no findings that related to the federal awards.

Pineville Independent School District  
**Summary Schedule of Prior Audit Findings**  
For the Year Ended June 30, 2012

There were no prior year findings at the financial statement level or at the federal award program level.

Pineville Independent School District

**Corrective Action Plan**

For the Year Ended June 30, 2012

The corrective actions of each individual finding was included as a response from management on each finding, if any. The corrective action completion date is to be within 30 days of receiving audit report.



*Gaw & Associates, PLLC*  
CERTIFIED PUBLIC ACCOUNTANTS

**Management Points Letter**

To the Board of Education  
Pineville Independent School District

In planning and performing our audit of the financial statements of Pineville Independent School District for the year ended June 30, 2012, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. 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. We previously reported on the District's internal control in our report dated February 6, 2013. This letter does not affect our report dated February 6, 2013, on the financial statements of the Pineville Independent School District. The conditions observed are as follows:

**Board Office**

None

**Pineville High School**

None

**Pineville Elementary School**

None

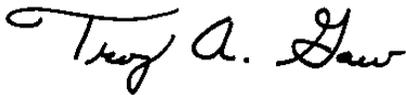
We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study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

Pineville Independent School District's responses to the findings identified in our audit as management points, if any, are described above. We did not audit Pineville Independent School District's responses and, accordingly, we express no opinion on the responses.

There were no repeat conditions from the previous year. All prior year conditions have been implemented and corrected. Mr Mike White, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Troy A. Gaw". The signature is written in a cursive, flowing style.

Troy A. Gaw, CPA  
Partner

Gaw, & Associates, PLLC  
Harlan, Kentucky

February 6, 2013

**REPORT OF EXAMINATION**

**PINEVILLE INDEPENDENT  
SCHOOL DISTRICT**

**FOR THE SCHOOL YEAR  
ENDED JUNE 30, 2012**

**Gaw & Associates, PLLC**

*Certified Public Accountants*

407 Highway 840

P.O. Box 310

Harlan, Kentucky 40831

(606) 573-5300

E-Mail: Firm@gawcpa.com

Web Site: GAWCPA.com

**Table of Contents**

June 30, 2012

Independent Auditor’s Report ..... 1

Management Discussion & Analysis (MD&A) ..... 3

    Financial Highlights ..... 3

    Using the Annual Report ..... 3

    Overview of the Financial Statements ..... 4

        District-wide Financial Statements – Statement of Net Assets and the Statement of Activities..... 4

        Fund Financial Statements..... 4

        Governmental Funds..... 4

        Fiduciary Funds ..... 4

        Notes to the Basic Financial Statement ..... 5

    Financial analysis of the District as a Whole..... 5

    Financial Analysis of the District’s Funds..... 9

    General Fund Budgetary Highlights ..... 9

    Capital Assets and Debt Administration..... 10

        Capital Assets ..... 10

        Long-Term Debt ..... 10

    Factors bearing on the District’s Future ..... 11

    Contacting the District’s Financial Management..... 11

Statement of Net Assets – District wide ..... 12

Statement of Activities – District wide..... 13

Balance Sheet – Governmental Funds ..... 14

Statement of Revenues, Expenditures, & Changes in Fund Balance – Governmental Funds ..... 15

Reconciliation of Statement of Revenues, Expenditures, & Changes in Fund Balance – Governmental Funds to the  
Statement of Activities..... 16

Statement of Net Assets – Proprietary Fund..... 17

Statement of Revenues, Expenses, & Changes in Fund Balance – Proprietary Fund..... 18

Statement of Cash Flows – Proprietary Fund ..... 19

Statement of Fiduciary Net Assets – Fiduciary Fund ..... 20

Statement of Changes in Fiduciary Net Assets – Fiduciary Fund ..... 21

    Note A – Summary of Significant Accounting Policies ..... 22

        Accounting Principles..... 22

        Reporting Entity ..... 22

        Basis of Presentation..... 23

        Basis of Accounting..... 23

        Fund Accounting ..... 24

        Encumbrances..... 26

        Estimates..... 26

        Assets, Liabilities, and Equity ..... 26

    Note B – Cash and Investments ..... 30

    Note C – Capital Assets..... 31

    Note D – Capital Lease Payable ..... 32

    Note E – Long-Term Obligations ..... 33

    Note F – Commitments under Noncapitalized Leases ..... 34

    Note G – Retirement Plans ..... 34

        Kentucky Teachers Retirement System: ..... 34

        Medical Insurance Plan..... 35

        County Employees Retirement System ..... 35

    Note H – Deficit Operating / Fund Balances ..... 36

    Note I – Transfer of Funds..... 37

    Note J – Commitments and Contingencies ..... 37

        Grant Programs..... 37

        Litigation ..... 37

Future Construction .....	37
COBRA .....	37
Note K – On-Behalf Payments .....	37
Note L – Annual Financial Report Differences .....	38
Note M – Subsequent Events.....	38
Required Supplemental Information.....	39
Budgetary Comparison Schedules – General Fund .....	40
Budgetary Comparison Schedules – Special Revenue Fund .....	41
Note A – Budgets and Budgetary Accounting.....	42
Budget Policy and Practice .....	42
Basis of Budgeting.....	42
Note B – Excess of Expenditures over Appropriations .....	42
Other Supplemental Information .....	44
Combining Balance Sheet – Nonmajor Governmental Funds .....	45
Combining Statement of Revenues, Expenditures, & Changes in Fund Balance – Nonmajor Governmental Funds .....	46
Combining Statement of Net Assets – Nonmajor Proprietary Funds .....	47
Combining Statement of Revenues, Expenses, & Changes in Net Assets – Nonmajor Proprietary Funds .....	48
Statement of Revenues, Expenditures, & Changes in Fund Balance – Pineville Independent School Activity Funds .....	49
Statement of Revenues, Expenditures, & Changes in Fund Balance – Pineville Independent High School .....	50
Schedule of Federal Awards.....	51
Note A –Basis of Presentation.....	53
Note B – Food Distribution .....	53
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.....	54
Internal Control Over Financial Reporting.....	54
Compliance and Other Matters .....	55
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.....	56
Compliance.....	56
Internal Control Over Compliance .....	56
Schedule of Findings and Questioned Costs.....	58
Section I – Summary of Auditor’s Results .....	58
Section II – Financial Statement Findings.....	59
Section III – Federal Award Findings and Questioned Costs .....	59
Summary Schedule of Prior Audit Findings.....	60
Corrective Action Plan .....	61
Management Points Letter.....	62
Board Office .....	62
Pineville High School.....	62
Pineville Elementary School.....	62