

MENIFEE COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2012

Prepared by:

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INDEPENDENT AUDITORS' REPORT

State Committee for School District Audits
Board of Education of the Menifee County School District
Frenchburg, Kentucky

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Menifee County School District, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Special Revenue Fund, 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 August 31, 2012, on our consideration of the Menifee County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and

not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
August 31, 2012

**MENIFEE COUNTY SCHOOL DISTRICT – FRENCHBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District governmental activities and business-type activities was \$6,736,281 the ending balance was \$3,192,188.
- The general fund balance decreased \$882,881.
- The General Fund had \$8,562,755 in revenue, which primarily consisted of the SEEK program, property taxes, utility and motor vehicle taxes. There was \$9,384,844 in general fund expenditures excluding \$116,341 in transfers to technology and community education, and \$158,237 in debt service payments.
- During fiscal 2012, the district felt a major impact from decreased SEEK funding, increased costs for fuel and utilities as well as increasing salary costs and matching costs for teacher retirement and county retirement. We incurred a \$56,000 cut in SEEK funding mid-year and federal programs are now responsible for paying insurance costs for employees paid from respective programs. We have disbursed all of our federal stimulus funds. While employees did not receive a percentage increase most did receive a step increase and all were employed for a minimum of 187 days, when many districts had already cut employees to 185 day contracts. All of these contributing elements explicate the dramatic decrease in fund balance, while still maintaining a typical fund balance for our district. In the last few years our district retained a larger than normal fund balance due to federal stimulus funds. These factors have made our district watchful of the subsequent general fund budget for the next fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

**MENIFEE COUNTY SCHOOL DISTRICT – FRENCHBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. The total balance for governmental and business-type assets, was \$3,783,455. The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**MENIFEE COUNTY SCHOOL DISTRICT – FRENCHBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

District Net Assets for the period ending June 30, 2012

	2010	2011	2012
CURRENT ASSETS	\$2,361,761	\$7,551,389	\$4,003,541
NON-CURRENT ASSETS	\$7,717,613	\$7,498,068	\$10,064,676
TOTAL ASSETS	\$10,079,374	\$15,049,457	\$14,068,217

	2010	2011	2012
CURRENT LIABILITIES	\$695,935	\$874,606	\$952,842
NON-CURRENT LIABILITIES	\$4,467,641	\$9,714,335	\$9,331,919
TOTAL LIABILITIES	\$5,163,576	\$10,588,942	\$10,284,761

	2010	2011	2012
INVESTMENT IN CAPITAL ASSETS (NET OF DEBT)	\$2,803,032	(\$2,745,401)	\$139,141
RESTRICTED	\$265,550	\$5,470,238	\$2,699,840
UNRESTRICTED	\$1,847,215	\$1,735,677	\$944,474
TOTAL NET ASSETS	\$4,915,797	\$4,460,515	\$3,783,455

CAPITAL ASSETS

At the end of fiscal 2012, the District had \$10 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions and deductions) of \$2,566,608 over last year.

**Capital Assets at Year-End
(Net of Depreciation, in Millions)**

	GOVERNMENTAL ACTIVITIES		BUSINESS –TYPE ACTIVITIES		TOTALS	
	2011	2012	2011	2012	2011	2012
LAND	.05	.05	0	0	.05	.05
LAND IMPROVEMENTS	.12	.11	0	0	.12	.11
BUILDINGS	6.16	5.93	0	0	6.16	5.93
TECHNOLOGY EQUIPMENT	.36	.25	0	0	.36	.25
VEHICLES	.47	.57	0	0	.47	.57
GENERAL EQUIPMENT	.07	.05	.04	.03	.11	.08
CONSTRUCTION IN PROGRESS	.23	3.07	0	0	.23	3.07
TOTALS	7.46	10.03	.04	.03	7.50	10.06

**MENIFEE COUNTY SCHOOL DISTRICT – FRENCHBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

DEBT

The Menifee County School District Finance Corporation refinanced most of the bond issue debt due to lower interest rates that would provide a cost savings for our district. We finance our transportation fleet through KISTA.

**OUTSTANDING DEBT AT YEAR-END
(IN MILLIONS)**

	GOVERNMENTAL ACTIVITIES		
	2010	2011	2012
GENERAL OBLIGATION BONDS	\$4.0	\$9.13	\$8.8
CAPITAL LEASE	\$.93	\$1.12	\$1.12
TOTAL OBLIGATIONS	\$4.93	\$10.25	\$9.92

The following table presents a summary of the total governmental and business type financial statements revenue and expenses for the fiscal year ended June 30, 2012.

SEE SCHEDULE ON NEXT PAGE

**MENIFEE COUNTY SCHOOL DISTRICT – FRENCHBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

REVENUES	2010	2011	2012
CHARGES FOR SERVICES	\$150,447	\$145,235	\$407,046
GENERAL REVENUE	\$8,914,464	\$8,212,784	\$6,571,188
OPERATING GRANTS	\$3,505,025	\$3,389,384	\$4,102,506
CAPITAL GRANTS	\$	\$571,233	\$725,058
TOTAL REVENUES	\$12,569,936	\$12,318,636	\$11,805,798

EXPENDITURES	2010	2011	2012
INSTRUCTION	\$6,143,488	\$6,565,521	\$6,567,284
STUDENT SUPPORT	\$882,833	\$909,793	\$883,602
INSTRUCTIONAL SUPPORT	\$392,108	\$414,901	\$445,456
DISTRICT ADMINISTRATION	\$350,315	\$413,211	\$374,867
SCHOOL ADMINISTRATION	\$419,752	\$477,928	\$508,839
BUSINESS SUPPORT	\$320,352	\$362,416	\$348,954
FOOD SERVICE OPS.	\$2,235	\$9,961	\$3,690
PLANT O&M	\$786,651	\$770,573	\$894,699
STUDENT TRANSPORTATION	\$333,573	\$1,022,253	\$520,443
COMMUNITY SERVICES	\$304,113	\$299,202	\$340,050
AMORTIZATION			\$28,040
DEPRECIATION	\$526,610	\$509,420	\$492,943
INTEREST ON LONG-TERM DEBT	\$368,465	\$177,292	\$522,480
DEBT SERVICE		\$97,883	
FOOD SERVICE	\$697,115	\$757,396	\$647,014
TOTAL EXPENDITURES	\$11,527,611	\$12,787,750	\$12,578,361

EXCESS (DEFICIT)	\$1,042,325	\$(469,114)	\$(772,560)
BEGINNING NET ASSETS	\$3,873,472	\$4,915,797	\$4,460,515
PRIOR PERIOD ADJ.		\$13,832	\$95,500
ENDING NET ASSETS	\$4,915,797	\$4,460,515	\$3,783,455

Governmental activities overall decreased net assets by \$674,747. This is generally due to stabilization in revenue and increasing salary and operating costs. Business-type activities had a decrease in net assets of \$2,313.

General Fund Revenue/Expenditures

The majority of revenue was derived from state funding 85%, federal funding 9% and local and other funding making up 6% of the total revenue.

The greater amount of revenue is spent on instruction expenditures. This makes up 61% of the general fund expenditures. The instruction function includes the site based decision making (SBDM) expenditures for staff and supplies. The student support services make up 7% which

**MENIFEE COUNTY SCHOOL DISTRICT – FRENCHBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

includes attendance services, guidance counseling, health services, psychological testing, speech, and hearing services. The instructional staff support makes up 2.4% which includes staff support personnel and librarians. The district administration support makes up 4% which includes workers comp, sick leave pay for retirees, contingency, property insurance, tax collection fees, and superintendent’s office expenses. The school administration support makes 5.4% which includes principals, high school/middle school guidance and secretary’s expenses. The business support services makes up 3.4% which includes the finance office and other central office expenditures. The plant operation and management makes up 9.3%. The student transportation makes up 5.75%. Other activities have less than 1% impact.

Fund 2 Revenue/Expenditures

The majority of revenue that was derived from federal sources was 60% with the state revenue making up 33.5% and the remaining 6.5% coming from local sources and earnings on investments.

Fund 310 and Fund 320 Revenue/Expenditures

Fund 310 is the capital outlay fund and fund 320 in the building fund (FSPK). State funding makes up the Capital Outlay and the building fund is made up of state and local revenue. During the FY12 Capital Outlay was used to pay some maintenance repair costs as well as property insurance. The Building Fund was used to make bond payments on existing debt.

Fund 360 Revenue/Expenditures

During FY12 the Menifee County School District has been involved in a construction project for the Menifee County High School addition. We expect for the project to be complete through the middle of FY13.

Fund 51 Revenue/Expenditures

This is the food service fund. The revenue is received from local, state and federal monies. The largest being federal which makes up 78.5% of the budget.

BUDGETARY IMPLICATIONS

- In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency.

During fiscal 2012, the district felt a major impact from decreased SEEK funding, increased costs for fuel and utilities as well as increasing salary costs and matching costs for teacher retirement and county retirement. We incurred a \$56,000 cut in SEEK funding mid-year and federal programs are now responsible for paying insurance costs for employees paid from respective programs. We have disbursed all of our federal stimulus funds. While employees

**MENIFEE COUNTY SCHOOL DISTRICT – FRENCHBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

did not receive a percentage increase most did receive a step increase and all were employed for a minimum of 187 days, when many districts had already cut employees to 185 day contracts. All of these contributing elements explicate the dramatic decrease in fund balance, while still maintaining a typical fund balance for our district. In the last few years our district retained a larger than normal fund balance due to federal stimulus funds. These factors have made our district watchful of the subsequent general fund budget for the next fiscal year.

	Revenue & Expenditures by Fund					
	General	Special	Construction	Debt Service	Other Gov't Funds	Food Service
Local Revenue	\$ 1,187,484	\$ 113,037			\$ 91,226	\$ 134,070
State Revenue	\$ 7,285,499	\$ 578,571		\$ 349,773	\$ 375,285	\$ 86,076
Federal Revenue	\$ 74,567	\$ 1,036,382				\$ 550,340
Transfers	\$ 90,675	\$ 25,666		\$ 617,200	\$ -	\$ -
Other	\$ 21,976	\$ 134	\$ 40,872	\$ 2,526,055	\$ -	\$ 1,297
Totals	\$ 8,660,201	\$ 1,753,790	\$ 40,872	\$ 3,493,028	\$ 466,511	\$ 771,783
Instruction	\$ 5,761,038	\$ 859,815				
Student Support	\$ 674,557	\$ 209,045				
Instructional Staff	\$ 222,873	\$ 222,583				
District Admin	\$ 374,867					
School Admin	\$ 508,839					
Business Support	\$ 315,527	\$ 33,427				
Plant Operation & Maintenance	\$ 871,683	\$ 23,016				
Student Transportation	\$ 643,179	\$ 51,839				
Food Service	\$ 3,690	\$ 331,460				\$ 647,014
Community Svc.	\$ 8,590					
Depreciation						\$ 6,292
Debt Service	\$ 158,237	\$ 22,607		\$ 1,004,486	\$ 116,341	
Transfers					\$ 436,356	
Other			\$ 2,840,689	\$ 2,488,543		\$ 120,790
Totals	\$ 9,543,080	\$ 1,753,792	\$ 2,840,689	\$ 3,493,029	\$ 552,697	\$ 774,096
Excess / (Deficiency)	(882,881)	-	(2,799,817)	-	(86,186)	(2,313)

Questions regarding this report should be directed to the Finance Officer, Angela Rhodes at (606) 768-8015 or by mail at Menifee County Board of Education, P.O. Box 110, Frenchburg, KY 40322.

Menifee County School District
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
<u>Current assets</u>			
Cash and cash equivalents	\$ 3,079,612	\$ 112,576	\$ 3,192,188
Investments	200,000		200,000
Receivables (net)	298,771	1,247	300,018
Bond issue costs (net)	295,851		295,851
Inventories		15,465	15,465
Prepaid expenses	21		21
Total current assets	<u>3,874,254</u>	<u>129,287</u>	<u>4,003,541</u>
<u>Noncurrent assets</u>			
Capital assets:			
Land, improvements, and construction in progress	3,118,236		3,118,236
Other capital assets, net of depreciation	6,912,194	34,245	6,946,440
Total noncurrent assets	<u>10,030,431</u>	<u>34,245</u>	<u>10,064,676</u>
Total assets	<u>13,904,685</u>	<u>163,532</u>	<u>14,068,217</u>
LIABILITIES			
<u>Current liabilities</u>			
Accounts payable and accrued expenses	32,793		32,793
Accrued interest payable	63,901		63,901
Deferred revenue	146,155		146,155
Current portion of accumulated sick leave	40,805		40,805
Current portion of bond obligations	495,000		495,000
Current portion of capital lease obligations	174,188		174,188
Total current liabilities	<u>952,843</u>	<u>-</u>	<u>952,843</u>
<u>Noncurrent liabilities</u>			
Long-term liabilities:			
Noncurrent portion of accumulated sick leave	75,572		75,572
Noncurrent portion of bond obligations	8,310,000		8,310,000
Noncurrent portion of capital lease obligations	946,347		946,347
Total noncurrent liabilities	<u>9,331,919</u>	<u>-</u>	<u>9,331,919</u>
Total liabilities	<u>10,284,762</u>	<u>-</u>	<u>10,284,762</u>
NET ASSETS			
Invested in capital assets, net of related debt	104,896	34,245	139,141
Expendable Restricted for:			
Food service		129,287	129,287
Capital projects	2,570,554		2,570,554
Unrestricted	944,474		944,474
Total net assets	<u>\$ 3,619,923</u>	<u>\$ 163,532</u>	<u>\$ 3,783,455</u>

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Activities
Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 6,567,284	\$ 272,977	\$ 2,715,512	\$ -	\$ (3,578,795)		\$ (3,578,795)
Support Services							
Student	883,602		209,045		(674,557)		(674,557)
Instructional Staff	445,456		222,583		(222,873)		(222,873)
District Administration	374,867				(374,867)		(374,867)
School Administration	508,839				(508,839)		(508,839)
Business	348,954		33,427		(315,527)		(315,527)
Food Service Operations	3,690				(3,690)		(3,690)
Plant Operation & Maintenance	894,699		23,016	30,155	(841,528)		(841,528)
Student Transportation	520,443		51,839		(468,603)		(468,603)
Community Services Operations	340,050		331,460		(8,590)		(8,590)
Amortization	28,040				(28,040)		(28,040)
Depreciation	486,651				(486,651)		(486,651)
Interest on long-term debt	522,480			694,903	172,424		172,424
Total governmental activities	<u>11,925,053</u>	<u>272,977</u>	<u>3,586,881</u>	<u>725,058</u>	<u>(7,340,138)</u>		<u>(7,340,138)</u>
Business-type activities:							
Food service operations	647,014	134,070	515,626			\$ 2,682	2,682
Depreciation	6,292					(6,292)	(6,292)
Total business-type activities	<u>653,306</u>	<u>134,070</u>	<u>515,626</u>	<u>-</u>	<u>-</u>	<u>(3,610)</u>	<u>(3,610)</u>
Total primary government	<u>\$ 12,578,359</u>	<u>\$ 407,046</u>	<u>\$ 4,102,506</u>	<u>\$ 725,058</u>	<u>\$ (7,340,138)</u>	<u>(3,610)</u>	<u>\$ (7,343,748)</u>
General revenues:							
Taxes:							
Property taxes					681,714		681,714
Motor vehicle taxes					137,522		137,522
Utility taxes					299,534		299,534
State and formula grants					5,388,139		5,388,139
Unrestricted investment earnings					56,211	1,297	57,509
Sale of equipment					6,771		6,771
Total general revenues					<u>6,569,891</u>	<u>1,297</u>	<u>6,571,188</u>
Change in net assets					(770,247)	(2,313)	(772,560)
Net Assets - beginning					4,294,670	165,845	4,460,515
Prior period adjustment					95,500		95,500
Restated net assets - beginning					4,390,170	165,845	4,556,015
Net assets - ending					<u>\$ 3,619,923</u>	<u>\$ 163,532</u>	<u>\$ 3,783,455</u>

See the accompanying notes to the financial statements.

Menifee County School District
Balance Sheet
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 552,112	\$ -	\$ 2,542,705	\$ -	\$ 30,155	\$ 3,124,972
Investments	200,000					200,000
Receivables, net						
Taxes-current	30,739					30,739
Taxes-delinquent	6,577					6,577
Accounts	69,599	36,843				106,443
Intergovernmental-state		35,082				35,082
Intergovernmental-federal		119,930				119,930
Prepaid expenses	21					21
Total assets	<u>859,048</u>	<u>191,855</u>	<u>2,542,705</u>	<u>-</u>	<u>30,155</u>	<u>3,623,763</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	30,147	340	2,306			32,793
Cash shortage		45,360				45,360
Current portion of accumulated sick leave	40,805					40,805
Deferred revenue		146,155				146,155
Total liabilities	<u>70,952</u>	<u>191,855</u>	<u>2,306</u>	<u>-</u>	<u>-</u>	<u>265,114</u>
Fund balances:						
Restricted			2,540,399		30,155	2,570,554
Nonspendable	21					21
Unassigned	788,075					788,075
Total fund balances	<u>788,096</u>	<u>-</u>	<u>2,540,399</u>	<u>-</u>	<u>30,155</u>	<u>3,358,650</u>
Total liabilities and fund balances	<u>\$ 859,048</u>	<u>\$ 191,855</u>	<u>\$ 2,542,705</u>	<u>\$ -</u>	<u>\$ 30,155</u>	<u>\$ 3,623,763</u>

See the accompanying notes to the financial statements.

Menifee County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets
 June 30, 2012

Total fund balance per fund financial statements	\$	3,358,650
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.</p>		10,030,431
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the bond.</p>		295,851
<p>Certain liabilities are not reported in the fund financial statement (leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets as follows:</p>		
<p>Accrued interest payable</p>		(63,901)
<p>Bonds payable</p>		(8,805,000)
<p>Capital lease payable</p>		(1,120,535)
<p>Noncurrent sick leave payable</p>		(75,572)
		(9,065,008)
Net assets of governmental activities	\$	<u><u>3,619,923</u></u>

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 590,488	\$ -	\$ -	\$ -	\$ 91,226	\$ 681,714
Motor vehicle	137,522					137,522
Utilities	299,534					299,534
Earnings on Investments	15,205	134	40,872			56,211
Other Local Revenue	159,940	113,037				272,977
Intergovernmental - State	7,285,499	578,571		349,773	375,285	8,589,129
Intergovernmental - Federal	74,567	1,036,382				1,110,949
Total revenues	<u>8,562,755</u>	<u>1,728,125</u>	<u>40,872</u>	<u>349,773</u>	<u>466,511</u>	<u>11,148,036</u>
EXPENDITURES						
Instruction	5,761,038	859,815				6,620,853
Support Services						
Student	674,557	209,045				883,602
Instructional Staff	222,873	222,583				445,456
District Administration	374,867					374,867
School Administration	508,839					508,839
Business	315,527	33,427				348,954
Food Service Operations	3,690					3,690
Plant Operation & Maintenance	871,683	23,016				894,699
Student Transportation	643,179	51,839				695,019
Community Services Operations	8,590	331,460				340,050
Facilities Acquisition and Construction						
Building Acquisition & Construction			2,840,689			2,840,689
Debt Service				1,004,486		1,004,486
Total expenditures	<u>9,384,844</u>	<u>1,731,184</u>	<u>2,840,689</u>	<u>1,004,486</u>	<u>-</u>	<u>14,961,203</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(822,089)	(3,059)	(2,799,817)	(654,712)	466,511	(3,813,167)
OTHER FINANCING SOURCES (USES)						
Sale of Equipment	6,771					6,771
Proceeds from Bonds				2,526,055		2,526,055
Bond Discount				(8,439)		(8,439)
Payments to Escrow				(2,301,755)		(2,301,755)
Payments to Manufacturer				(174,576)		(174,576)
Insurance				(3,492)		(3,492)
Rounding amount				(281)		(281)
Operating Transfers In (Out)	90,675	25,666			(116,341)	-
Transfers In/(Out) for Debt Service	(158,237)	(22,607)		617,200	(436,356)	-
Total other financing sources and (uses)	<u>(60,792)</u>	<u>3,059</u>	<u>-</u>	<u>654,712</u>	<u>(552,697)</u>	<u>44,283</u>
NET CHANGE IN FUND BALANCE	(882,881)	0	(2,799,817)	-	(86,186)	(3,768,884)
FUND BALANCE - BEGINNING	<u>1,670,977</u>	<u>-</u>	<u>5,340,216</u>	<u>-</u>	<u>116,341</u>	<u>7,127,533</u>
FUND BALANCE - ENDING	<u>\$ 788,096</u>	<u>\$ 0</u>	<u>\$ 2,540,399</u>	<u>\$ -</u>	<u>\$ 30,155</u>	<u>\$ 3,358,650</u>

See the accompanying notes to the financial statements.

Menifee County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities**
 For the year ended June 30, 2012

Net change in total fund balances per fund financial statements	\$	(3,768,884)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		2,572,900
<p>The difference in the refunding bond issue amount and the amount for payment to escrow the amount to repay the original bonds amortized over the life of the refunded bonds. Bond issuance costs for the sale of the bonds capitalized and amortized over the life of the bonds.</p>		114,666
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.</p>		317,934
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
<p>Accrued interest payable</p>		(16,146)
<p>Noncurrent sick leave payable</p>		9,283
Change in net assets of governmental activities	\$	(770,247)

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
From Local Sources				
Taxes				
Property	\$ 562,805	\$ 617,111	\$ 590,488	\$ (26,623)
Motor vehicle	140,000	140,000	137,522	(2,478)
Utilities	263,872	311,372	299,534	(11,838)
Earnings on Investments	35,000	25,000	15,205	(9,795)
Other Local Revenue	7,200	71,200	159,940	88,740
Intergovernmental - State	5,491,533	5,433,139 *	5,436,336	3,197
Intergovernmental - Federal	62,000	64,000	74,567	10,567
Total revenues	<u>6,562,410</u>	<u>6,661,822</u>	<u>6,713,592</u>	<u>51,770</u>
EXPENDITURES				
Instruction	4,263,243	4,161,211 *	4,192,875	(31,664)
Support Services				
Student	711,060	636,908 *	660,557	(23,649)
Instructional Staff	152,705	159,405	222,873	(63,468)
District Administration	310,387	360,069 *	274,711	85,358
School Administration	387,767	387,767 *	407,854	(20,087)
Business	311,473	310,182 *	286,988	23,194
Food Service Operations	9,615	9,615	3,690	5,925
Plant Operation & Maintenance	928,031	955,725	871,683	84,042
Student Transportation	627,861	597,861 *	605,859	(7,998)
Community Services Operations	512	512	8,590	(8,078)
Total expenditures	<u>7,702,654</u>	<u>7,579,255</u>	<u>7,535,681</u>	<u>43,574</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,140,244)	(917,433)	(822,089)	95,344
OTHER FINANCING SOURCES (USES)				
Sale of Equipment	1,000	1,000	6,771	5,771
Operating Transfers In (Out)	(30,000)	(30,000)	90,675	120,675
Transfers In/(Out) for Debt Service	(174,225)	(174,225)	(158,237)	15,988
Total other financing sources and (uses)	<u>(203,225)</u>	<u>(203,225)</u>	<u>(60,792)</u>	<u>142,433</u>
NET CHANGE IN FUND BALANCE	(1,343,469)	(1,120,658)	(882,881)	237,777
FUND BALANCE - BEGINNING	<u>2,000,000</u>	<u>1,670,977</u>	<u>1,670,977</u>	<u>(0)</u>
FUND BALANCE - ENDING	<u>\$ 656,531</u>	<u>\$ 550,319</u>	<u>\$ 788,096</u>	<u>\$ 237,777</u>

* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$1,849,163.

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From Local Sources				
Taxes				
Earnings on Investments	\$ -	\$ 128	\$ 134	\$ 6
Other Local Revenue		171,101	113,037	(58,064)
Intergovernmental - State	329,012	587,962	578,571	(9,390)
Intergovernmental - Federal	991,402	993,824	1,036,382	42,558
Total revenues	<u>1,320,414</u>	<u>1,753,014</u>	<u>1,728,125</u>	<u>(24,890)</u>
EXPENDITURES				
Instruction	687,263	840,742	859,815	(19,073)
Support Services				
Student	233,122	239,552	209,045	30,507
Instructional Staff	163,256	174,985	222,583	(47,598)
School Administration		700		700
Business	50,000	41,460	33,427	8,033
Plant Operation & Maintenance		23,016	23,016	-
Student Transportation	54,592	66,477	51,839	14,638
Community Services Operations	162,181	391,750	331,460	60,290
Total expenditures	<u>1,350,414</u>	<u>1,778,680</u>	<u>1,731,184</u>	<u>47,496</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(30,000)	(25,666)	(3,059)	22,607
OTHER FINANCING SOURCES (USES)				
Operating Transfers In (Out)	30,000	25,666	3,059	(22,607)
Total other financing sources and (uses)	<u>30,000</u>	<u>25,666</u>	<u>3,059</u>	<u>(22,607)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE - BEGINNING	-	-	-	-
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Net Assets
Proprietary Funds
June 30, 2012

	<u>School Food Services</u>
ASSETS	
<u>Current assets</u>	
Cash and cash equivalents	\$ 112,576
Accounts receivable (net)	1,247
Inventories	15,465
Total current assets	<u>129,287</u>
 <u>Noncurrent assets</u>	
Capital assets:	
Other capital assets, net of depreciation	<u>34,245</u>
Total noncurrent assets	<u>34,245</u>
Total assets	<u><u>163,532</u></u>
 NET ASSETS	
Invested in capital assets, net of related debt	34,245
Expendable Restricted for:	
Food Service	129,287
Total net assets	<u>\$ <u>163,532</u></u>

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2012

		School Food Services
OPERATING REVENUES		
Lunchroom sales	\$	111,970
Other revenue from local sources		22,100
Total operating revenues		<u>134,070</u>
OPERATING EXPENSES		
Depreciation		6,292
Food service operations		647,014
Total operating expenses		<u>653,306</u>
Operating income (loss)		(519,236)
NONOPERATING REVENUES (EXPENSES)		
Federal grants		508,581
State grants		7,045
State on-behalf payments received		79,031
State on-behalf payments used		(79,031)
Commodities received		41,759
Commodities used		(41,759)
Earnings from investments		1,297
Total nonoperating revenues		<u>516,923</u>
CHANGE IN NET ASSETS		(2,313)
NET ASSETS - BEGINNING		<u>165,845</u>
NET ASSETS - ENDING	\$	<u><u>163,532</u></u>

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 134,070
Payments to suppliers	(375,785)
Payments to employees	(271,688)
Net cash provided (used) by operating activities	<u>(513,403)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Intergovernmental revenue	515,626
Net cash provided (used) by noncapital and related financing activities	<u>515,626</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	1,297
Net cash provided (used) by investing activities	<u>1,297</u>
Net increase (decrease) in cash and cash equivalents	3,520
CASH & CASH EQUIVALENTS - BEGINNING	<u>109,056</u>
CASH & CASH EQUIVALENTS - ENDING	<u><u>112,576</u></u>
Reconciliation of operating income (loss) to net cash used	
by operating activities:	
Operating income (loss)	(519,236)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	6,292
Changes in assets and liabilities:	
Accrued liabilities	(5,183)
Accounts receivable	6,506
Inventories	(1,783)
Net cash used by operating activities	<u>\$ (513,403)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$41,759 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

		FIDUCIARY FUND TOTAL
ASSETS		
Cash and cash equivalents	\$	67,384
Accounts receivable		95
Total Assets		<u>67,479</u>
LIABILITIES		
Accounts payable		598
Due to student groups		66,881
Total Liabilities		<u>67,479</u>
NET ASSETS HELD IN TRUST	\$	<u>-</u>

See the accompanying notes to the financial statements.

MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Menifee County Board of Education Finance Corporation

The Board authorized establishment of the Menifee County Board of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Menifee County Board of Education.

Basis of Presentation

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(C) Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

SEEK 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 as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund.

(D) Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund.

II. Proprietary Funds (Enterprise Funds)

(A) Food Service Fund

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates (including exonerations) assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.428 per \$100 valuation of real property, \$.428 per \$100 valuation for business personal property and \$.492 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave.

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

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

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

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

Cash and Cash Equivalents

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

Inventories

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

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

Prepaid Assets

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Net Assets

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets. It is the District's policy to first apply restricted net assets and then unrestricted net assets when an expense is incurred for which both restricted and unrestricted net assets are available.

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.

Contributions of Capital

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

NOTE B – ESTIMATES

The process of preparing financial statements in conformity accounting principles generally accepted in the United States of America requires District’s management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

The District’s cash and cash equivalents are interest bearing accounts that are deposited with the local bank. Due to the liquidity nature of these accounts the carrying value is the fair market value. The deposits are insured with FDIC and assets secured by the local bank.

Investments are certificates of deposits that are secured by FDIC and assets pledged by the local district.

	Bank Balance		
<u>Traditional Bank</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>
FDIC	\$ 50,000	\$ 200,000	\$ 250,000
Securities pledged to district	4,136,165	-	4,136,165
Bank balance	\$ 4,186,165	\$ 200,000	\$ 4,386,165
	Book Balance		
	<u>Cash equivalents</u>	<u>Investments</u>	
Governmental Activities	\$ 3,079,612	\$ 200,000	
Business-type Activities	112,576		
Agency funds	67,384		
Total carrying amount	\$ 3,259,571	\$ 200,000	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE D – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
Land	\$ 50,600	\$ -	\$ -	\$ 50,600
Land improvements	272,052	-	-	272,052
Buildings	8,843,993	-	-	8,843,993
Technology equipment	1,723,489	44,286	3,270	1,764,505
Vehicles	1,445,664	174,576	231,289	1,388,951
General equipment	213,806	-	-	213,806
Construction in progress	226,947	2,840,689	-	3,067,636
Total at historical cost	<u>\$ 12,776,551</u>	<u>\$ 3,059,551</u>	<u>\$ 234,559</u>	<u>\$ 15,601,543</u>
Less: Accumulated depreciation				
Land improvements	\$ 155,406	\$ 10,766	\$ -	\$ 166,172
Buildings	2,686,215	230,226	-	2,916,441
Technology equipment	1,361,553	157,512	3,270	1,515,794
Vehicles	969,307	78,064	231,289	816,082
General equipment	146,540	10,084	-	156,624
Total accumulated depreciation	<u>\$ 5,319,021</u>	<u>\$ 486,651</u>	<u>\$ 234,559</u>	<u>\$ 5,571,112</u>
Governmental Activities				
Capital Assets-net	<u>\$ 7,457,531</u>	<u>\$ 2,572,900</u>	<u>\$ -</u>	<u>\$ 10,030,431</u>
<u>Business-Type Activities</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
Technology equipment	4,528	-	-	4,528
General equipment	217,287	-	-	217,287
Total at historical cost	<u>\$ 221,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 221,815</u>
Less: Accumulated depreciation				
Technology equipment	4,528	-	-	4,528
General equipment	176,749	6,292	-	183,041
Total accumulated depreciation	<u>\$ 181,277</u>	<u>\$ 6,292</u>	<u>\$ -</u>	<u>\$ 187,569</u>
Business-Type Activities				
Capital Assets-net	<u>\$ 40,537</u>	<u>\$ (6,292)</u>	<u>\$ -</u>	<u>\$ 34,245</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE E – BONDED DEBT AND LEASE 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 Menifee County School District Finance Corporation aggregating \$8,805,000, and \$495,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

requirements on bonds issued by the Menifee County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2012 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2011 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2012 Outstanding Balance</u>
Issue of 1998	\$ 1,645,000	2/1/2015	3.5 - 4.2%	\$ 595,000	\$ -	\$ 595,000	\$ -
Issue of 1993	100,000	2/1/2013	5.0 - 6.2%	10,000	-	5,000	5,000
Issue of 2008R	970,000	2/1/2018	2.25 - 3.3%	715,000	-	85,000	630,000
Issue of 2011	5,450,000	5/1/2031	2.0 - 4.5%	5,450,000	-	115,000	5,335,000
Issue of 2003	2,110,000	5/1/2023	2.0 - 4%	1,830,000	-	1,790,000	40,000
Issue of 2009R	635,000	2/1/2019	2.20 - 3.70%	525,000	-	50,000	475,000
Issue of 2012R	\$ 2,345,000	5/1/2023	.50 - 2.15%	\$ -	\$ 2,345,000	\$ 25,000	\$ 2,320,000
Totals				\$ 9,125,000	\$ 2,345,000	\$ 2,665,000	\$ 8,805,000

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>TOTAL</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2013	\$ 285,439	\$ 161,654	\$ 209,561	\$ 111,650	\$ 495,000	\$ 273,304
2014	284,021	157,389	205,979	106,505	490,000	263,894
2015	286,864	153,233	208,136	101,881	495,000	255,114
2016	291,514	148,890	213,486	97,174	505,000	246,064
2017	300,380	141,459	209,620	91,823	510,000	233,283
2018-2022	1,620,204	588,807	864,796	381,361	2,485,000	970,168
2023-2027	1,262,824	374,264	772,176	249,480	2,035,000	623,744
2028-2031	1,069,196	119,623	720,804	81,286	1,790,000	200,909
	\$ 5,400,442	\$ 1,845,318	\$ 3,404,558	\$ 1,221,160	\$ 8,805,000	\$ 3,066,478

NOTE F – ADVANCE REFUNDING OF THE 2003 AND 1998 BOND ISSUES

The 2012 refunded bonds were issued to purchase an escrow scheduled to mature at such time and in such amounts as are necessary and will be adequate, with investment and reinvestments to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

meet the current scheduled principal and interest due beginning 3/28/2012 for the 1998 bonds and 5/1/2012 for the 2003 bonds and refund in advance of maturity the principal and interest of the 1998 and 2003 series bonds. The series 1998 called bonds will be paid on 2/1/2015 and the series 2003 bonds will be paid on 5/1/2013. The proceeds of \$458,026 will be used to retire the 1998 series bond at a gross savings to the District of \$20,142. The present value savings at a percentage of refunded principal of 4.777% is \$21,464. The proceeds of \$1,843,729 will be used to retire the 2003 series bond at a gross savings to the District of \$125,720. The present value savings at a percentage of refunded principal of 6.388% is \$109,788.

NOTE G – CAPITAL LEASE PAYABLE

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

<u>Kista Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>2011</u>			<u>2012</u>	
			<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>	
2011	\$ 285,311	5/1/2021	\$ 285,311	\$ -	\$ 30,856	\$ 254,455	
2003	120,204	9/1/2103	22,286	-	10,922	11,364	
2012	181,055	3/1/2022	-	181,055	-	181,055	
2005	171,547	9/1/2015	68,727	-	17,903	50,824	
2006	123,967	9/1/2016	62,728	-	12,628	50,100	
2008	71,710	9/1/2018	50,012	-	6,804	43,208	
2006 2nd	66,754	9/1/2017	40,674	-	6,524	34,150	
2009	158,476	3/1/2019	124,455	-	14,731	109,724	
NMTC	226,067	9/1/2012	22,607	-	22,607	-	
2009 3rd	192,067	3/1/2020	172,096	-	21,186	150,910	
2009R	\$ 231,660	12/1/2017	188,408	-	25,219	163,189	
2010	\$ 91,387	3/1/2020	81,165	-	9,609	71,556	
Totals			\$ 1,118,469	\$ 181,055	\$ 178,989	\$ 1,120,535	

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:

<u>Year</u>	<u>Local</u>		<u>SFCC</u>		<u>Total</u>		<u>Payments</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$ 149,519	\$ 27,594	\$ 24,669	\$ 3,895	\$ 174,188	\$ 31,488	\$ 205,676
2014	133,664	23,666	23,866	3,409	157,530	27,076	184,606
2015	131,263	20,182	26,825	2,862	158,088	23,045	181,133
2016	116,307	16,507	27,042	2,189	143,349	18,696	162,045
2017	106,001	13,122	30,806	1,362	136,807	14,484	151,291
2018-2022	320,592	23,469	29,981	450	350,573	23,919	374,492
	\$ 957,346	\$ 124,541	\$ 163,189	\$ 14,166	\$ 1,120,535	\$ 138,707	\$ 1,259,242

Total minimum lease payments	\$ 1,259,242
Less: Amount representing interest	(138,707)
Present Value of Net Minimum Lease Payments	\$ 1,120,535

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE H – RETIREMENT PLANS

Kentucky Teachers' Retirement System

Plan Description – The Menifee County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that 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. Members before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS and members after July 1, 2008 contribute 10.855%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 13.605% for members hired before July 1, 2008 and 14.105% for those hired after that date.

Medical Insurance Plan

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Menifee County School System's total payroll for the year was \$7,088,148. The payroll for employees covered under KTRS was \$5,347,494. For the year ended June 30, 2012, the Commonwealth contributed \$625,559 KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2012 were \$83,406, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$792,371 \$834,886, and \$790,934 respectively.

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 18.96%. The District contributed \$322,965 of the employee's compensation during the fiscal year ended June 30, 2012.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$411,325, \$363,032, and \$328,376 respectively.

NOTE I – COMMITMENTS

The Menifee County School District has committed \$2,499,527 for construction of the addition the Menifee County High School which is located in the Construction Fund.

NOTE J - CONTINGENCIES

The District receives funding from Federal, State and Local governmental 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 un-reimbursed disbursements, if any, is not expected to be

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction the funds provided are being spent as intended and the grantors' intent to continue their program.

NOTE K - LITIGATION

The Menifee County School District currently has no pending litigation.

NOTE L – INSURANCE AND RELATED ACTIVITIES

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

NOTE M – RISK MANAGEMENT

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

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

NOTE N – DEFICIT OPERATING BALANCES

The following fund had an operating deficit at the end of the fiscal year causing a reduction in the fund balance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Fund</u>	<u>Reduction in Fund Balance / Net Assets</u>
General Fund	(882,881)
Construction Fund	(2,799,817)
Capital Outlay Fund	(47,252)
FSPK Fund	(38,934)
Food Service Fund	(2,313)

NOTE O - 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 P – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$ 25,666	KETS
Capital Outlay Fund	General Fund	77,407	Operating Expenditures
FSPK Fund	General Fund	38,934	Operating Expenditures
General Fund	Debt Service Fund	158,237	Debt Payments
Special Revenue Fund	Debt Service Fund	22,607	Debt Payments
Capital Outlay Fund	Debt Service Fund	73,171	Debt Payments
FSPK Fund	Debt Service Fund	\$ 363,185	Debt Payments

NOTE Q – ON-BEHALF PAYMENTS

The financial statements include payments made by the State of Kentucky on – behalf of the Menifee County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$1,849,163 for the General Fund and \$79,031 for the School Food Service Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE R – PRIOR PERIOD ADJUSTMENT

Bond discounts were understated by \$95,500 causing net assets to be understated as follows:

Net Assets July 1, 2011	\$4,294,670
Prior Period Adjustment	95,500
Restated Net Assets July 1, 2011	<u><u>\$4,390,170</u></u>

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through August 31, 2012, the date of the audit report.

Menifee County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2012

	Other Governmental Funds		
	Capital Outlay	FSPK Fund	Total
Assets			
Cash and Cash Equivalents	\$ 30,155	\$ -	\$ 30,155
Total Assets	30,155	-	30,155
Fund Balances			
Restricted	30,155		30,155
Total Fund Balances	\$ 30,155	\$ -	\$ 30,155

See the accompanying notes to the financial statements.

Menifee County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
Year ended June 30, 2012

	Other Governmental Funds		
	Capital Outlay	FSPK Fund	Totals
Revenues			
From Local Sources			
Taxes			
Property	\$ -	\$ 91,226	\$ 91,226
Intergovernmental - State	103,326	271,959	375,285
Total Revenues	103,326	363,185	466,511
Expenditures			
Debt Service			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	103,326	363,185	466,511
Other Financing Sources (Uses)			
Operating Transfers In (Out)	(77,407)	(38,934)	(116,341)
Transfers In/(Out) for Debt Service	(73,171)	(363,185)	(436,356)
Total Other Financing Sources (Uses)	(150,578)	(402,119)	(552,697)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(47,252)	(38,934)	(86,186)
Fund Balance Beginning	77,407	38,934	116,341
Fund Balance Ending	\$ 30,155	\$ -	\$ 30,155

See the accompanying notes to the financial statements.

Menifee County School District
Combining Balance Sheet - School Activity Funds
As of June 30, 2012

	SCHOOL ACTIVITY FUNDS			
	MENIFEE COUNTY HIGH SCHOOL	MENIFEE COUNTY ELEMENTARY	BOTTS ELEMENTARY	TOTAL
ASSETS				
Cash and cash equivalents	\$ 15,323	\$ 20,048	\$ 32,013	\$ 67,384
Accounts Receivable	95	-	-	95
Total Assets	15,418	20,048	32,013	67,479
LIABILITIES				
Accounts payable	598	-	-	598
Total Liabilities	598	-	-	598
FUND BALANCE	14,820	20,048	32,013	66,881
Total Liabilities & Fund Balances	\$ 15,418	\$ 20,048	\$ 32,013	\$ 67,479

See the accompanying notes to the financial statements.

Menifee County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance
- School Activity Funds
As of June 30, 2012

	SCHOOL ACTIVITY FUNDS			
	MENIFEE COUNTY HIGH SCHOOL	MENIFEE COUNTY ELEMENTARY	BOTTS ELEMENTARY	TOTAL
REVENUES				
Student revenues	\$ 151,778	\$ 51,817	\$ 31,769	\$ 235,364
EXPENSES				
Student activities	<u>164,970</u>	<u>48,992</u>	<u>33,883</u>	<u>247,846</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(13,193)	2,825	(2,115)	(12,482)
FUND BALANCE July 1, 2011	<u>28,013</u>	<u>17,223</u>	<u>34,127</u>	<u>79,363</u>
FUND BALANCE June 30, 2012	<u>\$ 14,820</u>	<u>\$ 20,048</u>	<u>\$ 32,013</u>	<u>\$ 66,881</u>

See the accompanying notes to the financial statements.

Menifee County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Menifee County High School
As of June 30, 2012

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
GENERAL FUND	\$ 446	\$ 3,094	\$ 4,259	\$ 947	\$ 228
VENDING	126	1,003	-	(1,038)	90
FACULTY VENDING	32	35	-	-	67
ATTENDANCE	41	100	-	-	141
NOW-INTEREST	5	66	-	(68)	3
TEXTBOOK	237	153	350	-	40
PARKING ACCOUNT	14	270	-	-	284
VOLLEYBALL	-	1,322	1,076	-	246
WRESTLING	2	-	43	100	59
ATHLETIC CONCESSION	1,355	17,876	11,937	(7,169)	124
BASEBALL BOYS	-	3,107	4,188	1,081	-
BASKETBALL BOYS	198	7,605	9,396	1,593	-
BASKETBALL GIRLS	419	10,329	13,983	3,235	-
CROSS COUNTRY	53	-	174	125	4
SOFTBALL GIRLS	-	3,115	4,235	1,120	-
TRACK	-	-	703	703	-
GOLF	1,056	120	3,097	2,314	392
SOCCER BOYS	112	3,045	4,510	1,735	382
SOCCER GIRLS	190	2,119	3,502	1,192	-
VARSITY CHEERLEADERS	850	6,140	6,049	800	1,741
FCCLA	580	11,188	10,642	125	1,251
FFA	4,499	25,001	28,257	(40)	1,203
YEARBOOK	6,702	8,133	6,300	(6,821)	1,714
JUNIOR CLASS	509	9,102	5,261	(3,889)	461
SENIOR CLASS	3,924	24,474	30,404	3,924	1,918
BETA CLUB	118	888	964	-	42
F.B.L.A.	2,385	1,091	3,163	-	312
PHOTOGRAPHY CLUB	154	-	-	(154)	-
BAND FUND	617	2,138	2,380	-	375
SPECIAL EDUCATION	20	-	-	-	20
LIBRARY	62	188	-	-	250
LOST LIBRARY BOOKS	451	326	-	-	777
ACADEMIC-KY HIGHLANDS	118	2,021	2,139	-	-
RECYCLING	136	64	200	-	-
F.C.A.	316	52	78	(25)	265
FFA DUES	475	855	760	-	570
FEA FUTURE EDUCATORS	210	-	255	100	55
SPANISH CLASS	155	790	746	-	199
STUDENT COUNCIL	266	1,112	1,419	-	(41)
TECHNOLOGY FUND	291	-	347	60	4
SPANISH HONOR SOCIETY	-	-	-	-	-
SPIRIT CLUB	4	-	-	-	4
CATS	302	200	134	-	368
BOOK CLUB	584	-	169	-	416
START-UP CHANGE	-	800	850	50	-
SPACE SCIENCE	-	3,000	3,000	-	-
GIRLS BK TORNADO	-	855	-	-	855
TOTALS	\$ 28,013	\$ 151,778	\$ 164,970	\$ 0	\$ 14,820

See the accompanying notes to the financial statements.

MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO THE 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 Menifee County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2012, the District had received food commodities totaling \$41,759.

Meniffee County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2012

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Disbursement
U.S. Department of Agriculture				
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 12		510.4950 \$	N/A \$	41,759
Passed Through State Department of Education				
* National School Lunch Program	10.555			
Fiscal Year 12		7750002 12	N/A	229,136
Fiscal Year 11		7750002 11	N/A	69,527
* School Breakfast Program	10.553			
Fiscal Year 12		7760005 12	N/A	133,423
Fiscal Year 11		7760005 11	N/A	39,835
* Summer Food Service Program for Children	10.559			
Fiscal Year 11		7690024 11	N/A	2,361
* Summer Food Service Program for Children	10.559			
Fiscal Year 11		7740023 11	N/A	22,639
Child Nutrition Cluster Subtotal				<u>496,921</u>
Fresh Fruit & Vegetable Program	10.582			
Fiscal Year 12		7720012 12	N/A	11,281
Fiscal Year 11		7720012 11	N/A	-
				<u>11,281</u>
Total U.S. Department of Agriculture				<u>549,961</u>
U.S. Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 12		3100002 12	498,315	355,332
Fiscal Year 12D		3100002 12	55,990	29,401
Fiscal Year 12M		3100002 12	5,658	1,459
Fiscal Year 11		3100002 11	503,296	95,772
Fiscal Year 11D		3100002 11	56,550	50,160
Fiscal Year 11M		3100002 11	5,655	2,678
Fiscal Year 10M		3100002 10	5,636	68
* Title I- School Improvement	84.010A			
Fiscal Year 12		3100202 12	30,563	23,358
* Title I Grants to Local Educational Agencies, Recovery Act	84.389A			
Fiscal Year 09-ARRA		4100002 09	337,029	13,914
Fiscal Year 09M-ARRA		4100002 09	3,404	1,305
Title I Cluster Subtotal				<u>573,446</u>
Special Education Grants to States	84.027A			
Fiscal Year 12		3810002 12	253,763	253,763
Fiscal Year 11		3810002 11	267,237	9,317
Fiscal Year 10P		3810002 10	6,429	6,429
Special Education-Preschool Grants	84.173A			
Fiscal Year 12		3800002 12	8,957	8,957
Special Education Cluster Subtotal				<u>278,466</u>
Vocation Education-Basic Grants to States	84.048			
Fiscal Year 12		4621232 12	15,319	15,319
Fiscal Year 11A		4621232 11	707	707
				<u>16,026</u>
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 12		3230002 12	86,442	86,442
Education Technology State Grants	84.318X			
Fiscal Year 11		3210002 11	1,885	1,035
Fiscal Year 10C		3210002 10	31,123	3,004
Education Technology State Grants, Recovery Act	84.386A			
Fiscal Year 10-ARRA		4210002 10	10,416	1,736
Fiscal Year 10-ARRA Competitive		4210002 10	45,216	19,246
Education Technology State Grants Cluster Subtotal				<u>25,020</u>
Education Jobs Fund	84.410			
Fiscal Year 11		EJOB00 11	334,207	32,263
Rural Education	84.358B			
Fiscal Year 12		3140002 12	24,754	24,754
Fiscal Year 11		3140002 11	31,671	1,526
				<u>26,280</u>
Passed Through Department of Local Government				
Elementary School Counseling Program	84.215E			
Fiscal Year 12		5324	20,000	4,292

Menifee County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2012

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Disbursement
Passed Through Morehead State University Appalachian Higher Education Network	23.011			
Fiscal Year 12		6882	4,600	4,600
Fiscal Year 11		6881	5,000	<u>548</u>
				<u>5,148</u>
Total U.S. Department of Education				<u><u>1,047,384</u></u>
US Department of Health and Human Services Passed Through Kentucky School Board Assistance Medical Assistance Program	93.778			
Fiscal Year 12		110.4810 \$	11,469	<u>11,469</u>
Total U.S. Department of Health and Human Service				<u><u>11,469</u></u>
Grand Totals of All Federal Programs				<u><u>\$ 1,608,813</u></u>

* Major Programs

**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***

State Committee for School District Audits
Menifee County School District
Frenchburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Menifee County School District, as of and for the year ended June 30, 2012, which collectively comprise the Menifee County School District's basic financial statements and have issued our report thereon dated August 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, Appendix III of 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 the Menifee County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Menifee County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Menifee County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Menifee County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency. In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or

regulation identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses [12-1, and 12-2].

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency [12-3].

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Menifee County School District, in a separate letter dated August 31, 2012.

The District's responses to the findings identified in our audit are described in the corrective action plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

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.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
August 31, 2012

**INDEPENDENT AUDITORS' 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**

State Committee for School District Audits
Menifee County School District
Frenchburg, Kentucky

Compliance

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

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

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

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs we identified a deficiency in internal control over compliance that consider to be a significant deficiency.

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 timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency [12-3].

Menifee County School District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit Menifee County School District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use 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.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
August 31, 2012

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

SUMMARY OF AUDITORS' RESULTS

What type of report was issued for the financial statements?	Unqualified
Were there significant deficiencies in internal control disclosed?	Yes
If so, were any significant deficiencies material (GAGAS)?	Yes
Was any material noncompliance reported (GAGAS)?	No
Were there significant deficiencies in internal control disclosed For major programs?	Yes
If so, were any significant deficiencies material weaknesses?	No
What type of report was issued on compliance for major programs?	Unqualified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	Yes
Major Programs	Title I Cluster [CFDA 84.010A, 84.389A] Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

Finding 12-1

Statement of Condition: Identification by the auditor of significant adjustments needed between funds to properly adjust the financial statements for the period under audit that were not initially identified by the entity's internal control.

Criteria for Condition: Amount of auditor adjustments required to properly state the financial statements.

Cause of the Condition: Complicated transactions between funds.

Effect of the Condition: Significant audit adjustments needed to properly report fund balances.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 12-2

Statement of Condition: Bank reconciliations had items that were outstanding since 2009 that were written to Wildcat Exchange Bank.

Criteria for Condition: Checks written by the District are the responsibility of the District until they have cleared.

Cause of the Condition: Deficient control procedures for evaluating reconciling items for the bank reconciliation process.

Effect of the Condition: Employees payroll deductions were not deposited in the account that they had requested and remained in the District's bank account for nearly three years.

SIGNIFICANT DEFICIENCY

Finding 12-3

Statement of Condition: Fixed assets are not properly maintained and an inventory was not initiated.

Criteria for Condition: Fixed assets shall be properly maintained and inventory performed.

Cause of the Condition: An inventory of assets has not taken place.

Effect of the Condition: Fixed assets tested could not be traced to the general ledger.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCY

Finding 12-3 (Please refer to 12-3 above for a description of the finding)

School Breakfast Program CFDA 10.553

National School Lunch Program CFDA 10.555

Summer Food Service Program for Children CFDA 10.559

Equipment and Real Property Inventory

MENIFEE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

There were no findings from the prior year.

MENIFEE COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
Year Ended June 30, 2012

Date: August 31, 2012

Oversight Agency: Kentucky Department of Education and United States Department of Agriculture

The *Meniffee County School District* respectfully submits the following corrective action plan for the year ended June 30, 2012.

Name and Address of Independent Public Accounting Firm: White & Associates, PSC, 1407 Lexington Road, Richmond, Kentucky 40475.

Audit Period: For the year ended June 30, 2012.

The findings from the year ended June 30, 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Finding 12-1

Oversight Agency: Kentucky Department of Education

Recommendation for Correction: Monthly review of financial reports and general journal adjustments and review of key transactions.

Management Response to the Recommendation: The district will review all funds monthly and will track Capital Outlay and Building Funds more diligently. The finance department will try to gain a better understanding from KDE of the coding that needs to take place when making the Capital Funds Expenditure request entries. This oversight occurred due to reserved funds from a previous year.

Implementation: Immediate

Finding 12-2

Oversight Agency: Kentucky Department of Education

Recommendation for Correction: Implement control procedures that will ensure that outstanding bank reconciliation items are investigated.

Management Response to the Recommendation: The finance office will track outstanding checks more closely. They will set a standard time frame for voiding outstanding checks.

MENIFEE COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
Year Ended June 30, 2012

Implementation: Immediate

Finding 12-3

Oversight Agency: United States Department of Agriculture and Kentucky Department of Education

Recommendation for Correction: Develop control procedures to ensure that fixed assets are maintained and perform an annual inventory of fixed assets.

Management Response to the Recommendation: The district will implement through the cooperation of the superintendent, building principals, transportation director, food service director, technology staff, fixed asset coordinator and the finance office a more thorough process to maintain an accurate inventory immediately.

Implementation: Immediate

If the Kentucky Department of Education, or the US Department of Agriculture has questions regarding this plan, please call me at 606-768-8002.

Sincerely yours,

Charles Mitchell

Mr. Charles Mitchell, Superintendent

MANAGEMENT LETTER

Menifee County School District
Frenchburg, Kentucky

In planning and performing our audit of the financial statements of the Menifee County 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 August 31, 2012. This letter does not affect our report dated August 31, 2012, on the financial statements of the Menifee County School District. The conditions observed are as follows:

MENIFEE COUNTY HIGH SCHOOL

1-12

Statement of Condition: The Student Council activity fund account ended the fiscal year (June 30) with a deficit balance.

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to Recommendation: The student council account was in the black for June. In July we received the bill from the June trip they took and the gas expenses were more than anticipated. This is what made the account go into the red in July. In the future we will allow a buffer when estimating gas expenses to make sure this does not happen again. The Student Council has a fundraiser planned which will bring the account back into the black.

MENIFEE COUNTY ELEMENTARY

No conditions

BOTTS ELEMENTARY

No conditions

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. We would like to add that we have seen a tremendous improvement from the previous year throughout all the schools in the area of internal control compliance.

There were no prior year conditions that had to be corrected. Mr. Charles Mitchell, 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.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
August 31, 2012