

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

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September 24, 2012

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Marion 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 Marion County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2012, on our consideration of Marion County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 3 through 10 and 17 and 18 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 Marion County School District's financial statements taken as a whole. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**MARION COUNTY PUBLIC SCHOOL DISTRICT – LEBANON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

Management’s discussion and analysis of the Marion County School District (District) offers readers of the District’s financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2012. We encourage readers to review the information presented here in conjunction with additional information found within the body of these financial statements.

FINANCIAL HIGHLIGHTS

- The beginning general fund balance for the District was \$4,954,964. The ending general fund balance was \$6,283,790.
- Total local taxes collected were \$7,109,347 including property, vehicles, and utility taxes. Penalties and interest, omitted property taxes, and revenue in lieu taxes are also included in this amount. \$548,212 of the total local taxes collected was the building fund (5 Cent Levy) required for participation in the School Facilities Construction Commission (SFCC). SFCC funds must be used for projects identified in the District’s Facility Plan.
- The District’s total revenues for the fiscal year ended June 30, 2012 were \$32,908,234. The total cost of all programs and services was \$31,234,370, excluding facilities acquisition and construction costs which were funded with bond proceeds.
- The District received money from the Education Jobs (Ed Jobs) Program in the amount of \$748,129 during the fiscal year ended June 30, 2012. The Ed Jobs program was a Federal program that provided \$10 billion in assistance to States to save or create education jobs. Jobs funded under this program included those that provided educational and related services for early childhood, elementary, and secondary education. The Ed Jobs money was distributed on a reimbursement basis for allowable expenses incurred. The District incurred expenses and was reimbursed for the year ended June 30, 2012, utilizing the Ed Jobs money.
- During the fiscal year ended June 30, 2012, Bond Series 2012 was issued with a par value of \$3,210,000 to refund Bond Series 2003, which was issued for the purpose of improvements to Glasscock Elementary. This defeasance creates a savings to the District of \$321,744 over the next 12 years, and was possible due to the decline in interest rates.

FACILITIES AND CONSTRUCTION HIGHLIGHTS

- State law requires districts to update a priority list of construction and renovation needs, called a Local Facilities Plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. The district updated its facilities plan during fiscal year 2011. The plan indicated over \$28 million dollars in needs.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. During the year ended June 30, 2012, \$1,030,000 in School Building Revenue Bonds were sold to finance a renovation of Marion County High School, and a partial roof replacement at Calvary Elementary.

- The board initiated a renovation project at Marion County High School during 2012. This renovation included the replacement of lighting fixtures in the classrooms, halls and cafeteria for energy efficiency, the replacement of windows, and the renovation of the restroom facilities. Total costs were estimated at approximately \$993,388 (BG-1). The project was substantially complete by August 2012, and within budget.
- A partial roof replacement for Calvary Elementary was also initiated during the fiscal year ended June 30, 2012. Total costs were estimated at approximately \$295,510 (BG-1). The project was substantially completed by August 2012, and within budget.

OVERVIEW OF FINANCIAL STATEMENTS

This overview is intended to serve as an introduction to the District's basic financial statements, which are comprised of three components:

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (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.

The government-wide financial statements can be found on pages 11-12 of this report.

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

The basic governmental fund financial statements can be found on pages 13 - 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 - 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$18.9 million as of June 30, 2012.

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

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

Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>FY11</u>	<u>FY12</u>	<u>FY11</u>	<u>FY12</u>	<u>FY11</u>	<u>FY12</u>
Current Assets	\$ 7,071,896	\$ 8,660,162	\$ 443,898	\$ 572,053	\$ 7,515,794	\$ 9,232,215
Non-Current Assets	32,286,868	31,978,917	226,184	226,582	32,513,052	32,205,499
Total Assets	39,358,764	40,639,079	670,082	798,635	40,028,846	41,437,714
Current Liabilities	2,645,567	2,362,558	-	2,736	2,645,567	2,365,294
Non-Current Liabilities	20,206,126	20,221,403	-	-	20,206,126	20,221,403
Total Liabilities	22,851,693	22,583,961	-	2,736	22,851,693	22,586,697
Net Assets:						
Invested in capital (net of debt)	10,981,868	10,643,917	226,184	226,582	11,208,052	10,870,499
Restricted	456,527	1,148,540	443,898	569,317	900,425	1,717,857
Unrestricted	5,068,676	6,262,661			5,068,676	6,262,661
Total Net Assets	\$ 16,507,071	\$ 18,055,118	\$ 670,082	\$ 795,899	\$ 17,177,153	\$ 18,851,017

Statement of Net Assets

Total net assets increased from \$17,177,153 at June 30, 2011 to \$18,851,017 at June 30, 2012. This is an increase of \$1,673,864. Of that increase \$125,817 is from business type activities and \$1,548,047 is from government type activities. Total assets increased from \$40,028,846 at June 30, 2011 to \$41,437,714 at June 30, 2012. The increase in total assets was primarily due to an increase in cash from proceeds received from the bond issuance of \$1,030,000 for the renovation of the Marion County High School and partial roof replacement at Calvary Elementary. Total liabilities decreased

from \$22,851,693 at June 30, 2011 to \$22,586,697 at June 30, 2012. This decrease is primarily due to a decrease in accounts payable at June 30, 2012.

Statement of Activities

Revenues	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>FY11</u>	<u>FY12</u>	<u>FY11</u>	<u>FY12</u>	<u>FY11</u>	<u>FY12</u>
<u>Program Revenues:</u>						
Charges for Services	\$ 120,200	\$ 99,597	\$ 682,168	\$ 656,879	\$ 802,368	\$ 756,476
Operating Grants and Contributions	4,587,992	4,185,364	1,722,621	1,554,390	6,310,613	5,739,754
Capital Grants and Contributions	793,052	769,949			793,052	769,949
<u>General Revenue:</u>						
Property Taxes	4,896,814	5,166,451			4,896,814	5,166,451
Motor Vehicle Taxes	482,354	510,354			482,354	510,354
Utility Taxes	1,332,691	1,327,447			1,332,691	1,327,447
Other Taxes	62,912	105,095			62,912	105,095
State Aid - Formula Grants	17,388,636	18,365,975			17,388,636	18,365,975
Investment Earnings	100,172	105,065	3,629	5,688	103,801	110,753
Miscellaneous Revenues	25,772	9,140			25,772	9,140
Gain (Loss) on Sale of Capital Assets	24,882	8,327	(1,240)		23,642	8,327
Loss Compensation	-	38,513			-	38,513
Total Revenues	29,815,477	30,691,277	2,407,178	2,216,957	32,222,655	32,908,234
Expenses						
Instructional	19,150,969	19,991,728			19,150,969	19,991,728
Student Support Services	739,236	766,028			739,236	766,028
Staff Support Services	1,365,130	1,200,348			1,365,130	1,200,348
District Administration	327,811	287,088			327,811	287,088
School Administration	974,508	1,201,361			974,508	1,201,361
Business Support Services	473,229	479,624			473,229	479,624
Plant Operation & Maintenance	2,147,500	2,096,637			2,147,500	2,096,637
Student Transportation	2,304,827	1,678,543			2,304,827	1,678,543
Food Service	3,463	1,717	2,286,858	2,091,140	2,290,321	2,092,857
Community Service Operations	283,570	278,631			283,570	278,631
Facilities Acquisition & Construction	20,981	-			20,981	-
Interest on Long-Term Debt	1,020,158	1,161,525			1,020,158	1,161,525
Total Expenses	28,811,382	29,143,230	2,286,858	2,091,140	31,098,240	31,234,370
Change in Net Assets	1,004,095	1,548,047	120,320	125,817	1,124,415	1,673,864
Net Assets July 1,	15,502,976	16,507,071	549,762	670,082	16,052,738	17,177,153
Net Assets June 30,	\$ 16,507,071	\$ 18,055,118	\$ 670,082	\$ 795,899	\$ 17,177,153	\$ 18,851,017

On-Behalf Payments

On-behalf amounts are included in the figures above. The State of Kentucky makes on-behalf payments for school districts in areas of health and life insurance, retirement benefits, vocational education, technology, and debt service. The following table presents a summary of the on-behalf payments.

On-Behalf Distribution 2011-2012	
Health Insurance and/or Flexible Benefits	\$ 2,611,434
Life Insurance	\$ 41,813
Kentucky Teachers Retirement	\$ 1,646,786
Area Technology Center	\$ 81,675
Technology	\$ 66,198
Debt Service	\$ 731,186
Total On-Behalf Payments	\$ 5,179,092

Governmental Activities

Total expenses increased from \$28,811,382 for the year ended June 30, 2011 to \$29,143,230 for fiscal year ended June 30, 2012. This is an increase of \$331,848 primarily due to an increase in instructional expenses. Total revenue increased from \$29,815,477 at June 30, 2011 to \$30,691,277 at June 30, 2012. This is a total increase of \$875,800 primarily due to increased tax revenues and increased revenue from the state. The change in net assets for June 30, 2011 was \$1,004,095 compared to \$1,548,047 at June 30, 2012. This is an increase of \$543,952 for the current fiscal year.

For the governmental program expenses, instructional expenses comprise 69% of total expenses, support services equate to 26%, and interest and other expenses make up the remaining 5% of the total.

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

	Governmental Activities Total Cost of Services		Governmental Activities Net Cost of Services	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Instructional	\$ 19,991,728	\$ 19,150,969	\$ 16,297,097	\$ 15,020,030
Support Services	7,711,346	8,335,704	7,379,147	8,026,910
Other	278,631	304,551	20,500	15,111
Interest Costs	1,161,525	1,020,158	1,161,525	1,020,158
Total Expenses	<u>\$ 29,143,230</u>	<u>\$ 28,811,382</u>	<u>\$ 24,858,269</u>	<u>\$ 24,082,209</u>

BUSINESS-TYPE ACTIVITIES

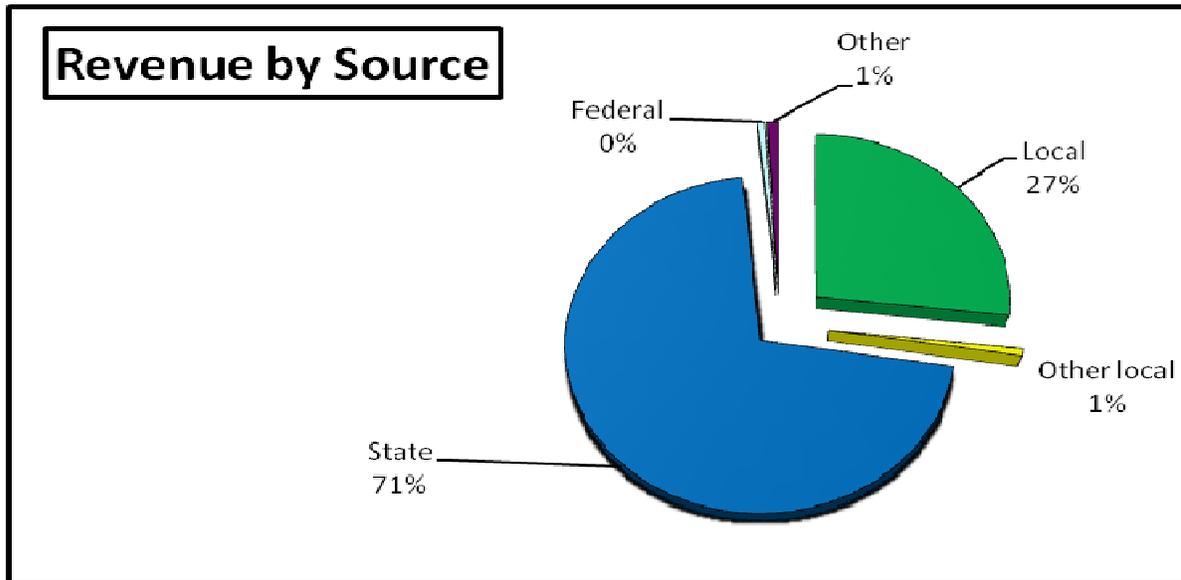
The only business type activity at the District is food service. This program had total revenues of \$2,216,957 and expenses of \$2,091,140 for fiscal year 2012. These revenues were made up of \$656,879 charges for services \$1,554,390 federal and state operating grants and \$5,688 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

THE SCHOOL DISTRICT'S FUNDS

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenues for all governmental funds for 2012 were \$ 30,682,950 and expenditures were \$32,924,219. The most significant changes in fund balance were the General Fund with an increase in fund balance of \$1,328,826, primarily due to an increase in tax revenues combined with an increase in intergovernmental state revenues, and the Construction Fund with an increase of \$935,059, primarily due to the issuance of \$1,030,000 of bonds for which only a portion of construction was complete at June 30, 2012.

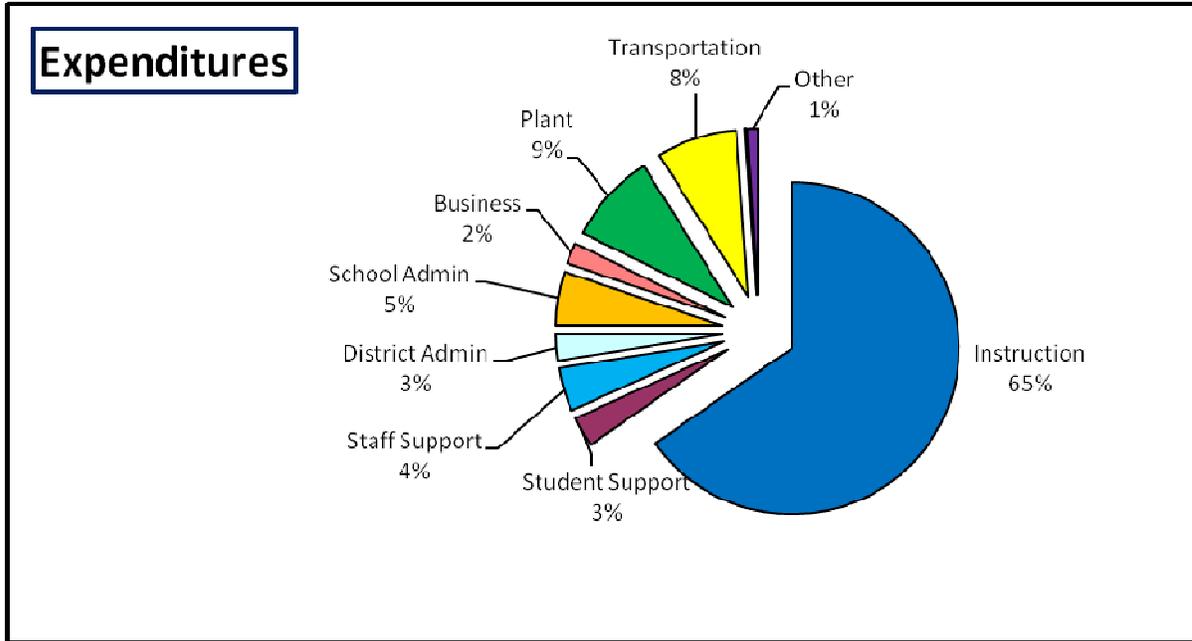
General Fund Revenue Chart 1.

The majority of general revenue was derived from state funding (71%), with local taxes making up 27% of total general revenue.



General Fund Expenditures Chart 2.

Approximately 65% of the general fund expenses were spent for instruction. A breakdown of all general fund expenditures is found in the chart below.



GENERAL FUND BUDGETARY HIGHLIGHTS

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

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$18,580,025 with actual results being \$24,496,989. Budgeted expenditures were \$23,398,864 compared to actual expenditures of \$23,158,163. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$4,246,585 which are not budgeted.

FUTURE BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with a contingency slightly over 5%, which is recommended.

Significant Board action that impacts the finances includes the Board's salary schedules which were increased 1% for the 2012-2013 school year. The State did not mandate any raises for certified or classified employees for the FY 2013. The State decreased the SEEK base from \$3,903 to \$3,833 for the FY 2013. The decrease in SEEK base and a decrease in pupil count results in reduced SEEK funding of \$110,242 for FY 2013.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2012 fiscal year, the District had invested \$32,205,499 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$307,553. Depreciation expense for the year was \$1,865,776 and capital additions were \$1,559,161.

The table below shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2012 and 2011.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 814,396	\$ 814,396	\$ -	\$ -	\$ 814,396	\$ 814,396
Construction in Progress	248,957	-	-	-	248,957	-
Buildings and Improvements	27,890,814	28,993,770	-	-	27,890,814	28,993,770
Technology	1,577,093	1,224,307	2,942	3,923	1,580,035	1,228,230
Vehicles	1,063,604	951,841	-	-	1,063,604	951,841
General Equipment	384,053	302,554	223,640	222,261	607,693	524,815
Total	\$ 31,978,917	\$ 32,286,868	\$ 226,582	\$ 226,184	\$ 32,205,499	\$ 32,513,052

The table below shows the changes in capital assets for fiscal years ended June 30, 2012 and 2011.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 32,286,868	\$ 30,416,763	\$ 226,184	\$ 248,891	\$ 32,513,052	\$ 30,665,654
Additions	1,521,490	3,538,290	37,671	16,468	1,559,161	3,554,758
Retirements	(938)	(11,437)	-	(1,241)	(938)	(12,678)
Depreciation	(1,828,503)	(1,656,748)	(37,273)	(37,934)	(1,865,776)	(1,694,682)
Ending Balance	\$ 31,978,917	\$ 32,286,868	\$ 226,582	\$ 226,184	\$ 32,205,499	\$ 32,513,052

Long-Term Debt

At year-end the District had \$21,335,000 in bonds outstanding. Bond issues during the fiscal year ended June 30, 2012 totaled \$4,240,000. Bonded debt principal paid for the year ended June 30, 2012 was \$4,210,000. A total of \$1,350,000 is due within one year.

Contacting the District's Financial Management

Questions regarding this report should be directed to Chuck Hamilton, Superintendent, or to Lisa Caldwell, Finance Director, at (270) 692-3721 or by mail at 755 East Main Street, Lebanon, KY 40033.

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	7,851,635	543,559	8,395,194
Accounts Receivable:			
Taxes - Current	137,364		137,364
Taxes - Delinquent	8,334		8,334
Accounts	8,394		8,394
Intergovernmental - State	19,439		19,439
Intergovernmental - Federal	206,992		206,992
Bond Issue Costs	428,004	16,333	444,337
Inventories for Consumption		12,161	12,161
Total Current Assets	8,660,162	572,053	9,232,215
Noncurrent Assets - Note F			
Land	814,396		814,396
Buildings & Improvements	43,995,603		43,995,603
Furniture & Equipment	8,023,035	753,391	8,776,426
Construction in Progress	248,957		248,957
Less: Accumulated Depreciation	(21,103,074)	(526,809)	(21,629,883)
Total Noncurrent Assets	31,978,917	226,582	32,205,499
TOTAL ASSETS	40,639,079	798,635	41,437,714
LIABILITIES:			
Current Liabilities:			
Accounts Payable	192,767	2,736	195,503
Accrued Sick Leave - Note A	90,066		90,066
Accrued Salaries & Benefits	256,898		256,898
Deferred Revenues	287,843		287,843
Bond Obligations - Note E	1,350,000		1,350,000
Accrued Interest Payable	184,984		184,984
Total Current Liabilities	2,362,558	2,736	2,365,294
Noncurrent Liabilities:			
Bond Obligations - Note E	19,985,000		19,985,000
Accrued Sick Leave - Note A	236,403		236,403
Total Noncurrent Liabilities	20,221,403		20,221,403
TOTAL LIABILITIES	22,583,961	2,736	22,586,697
NET ASSETS:			
Invested in Net Assets, Net of Related Debt	10,643,917	226,582	10,870,499
Restricted for:			
Capital Projects	1,044,179		1,044,179
School Based Decision Making	27,746		27,746
School Food Service		569,317	569,317
Debt Service	76,615		76,615
Unrestricted	6,262,661		6,262,661
TOTAL NET ASSETS	18,055,118	795,899	18,851,017
TOTAL LIABILITIES AND NET ASSETS	40,639,079	798,635	41,437,714

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

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

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	19,991,728	73,526	3,621,105		(16,297,097)		(16,297,097)
Support Services:							
Student Support Services	766,028		91,686		(674,342)		(674,342)
Staff Support Services	1,200,348		214,442		(985,906)		(985,906)
District Administration	287,088				(287,088)		(287,088)
School Administration	1,201,361				(1,201,361)		(1,201,361)
Business Support Services	479,624				(479,624)		(479,624)
Plant Operation & Maintenance	2,096,637				(2,096,637)		(2,096,637)
Student Transportation	1,678,543	26,071			(1,652,472)		(1,652,472)
Food Service Operations	1,717				(1,717)		(1,717)
Community Service Operations	278,631		258,131		(20,500)		(20,500)
Facilities Acquisition & Construction	0			769,949	769,949		769,949
Interest on Long-Term Debt	1,161,525				(1,161,525)		(1,161,525)
TOTAL GOVERNMENTAL ACTIVITIES	29,143,230	99,597	4,185,364	769,949	(24,088,320)		(24,088,320)
BUSINESS-TYPE ACTIVITIES:							
Food Service	2,091,140	656,879	1,554,390			120,129	120,129
TOTAL BUSINESS-TYPE ACTIVITIES	2,091,140	656,879	1,554,390	0	0	120,129	120,129
TOTAL SCHOOL DISTRICT	31,234,370	756,476	5,739,754	769,949	(24,088,320)	120,129	(23,968,191)
GENERAL REVENUES:							
Taxes					7,109,347		7,109,347
State Aid - Formula Grants					18,365,975		18,365,975
Investment Earnings					105,065	5,688	110,753
Miscellaneous					9,140		9,140
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					8,327		8,327
Loss Compensation					38,513		38,513
TOTAL GENERAL & SPECIAL					25,636,367	5,688	25,642,055
CHANGE IN NET ASSETS							
NET ASSETS - BEGINNING					16,507,071	670,082	17,177,153
NET ASSETS - ENDING					18,055,118	795,899	18,851,017

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

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

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash & Cash Equivalents	6,652,353	64,351	1,058,316	76,615		7,851,635
Accounts Receivable:						
Taxes - Current	137,364					137,364
Taxes - Delinquent	8,334					8,334
Accounts	8,394					8,394
Intergovernmental - State		19,439				19,439
Intergovernmental - Federal		206,992				206,992
TOTAL ASSETS	<u>6,806,445</u>	<u>290,782</u>	<u>1,058,316</u>	<u>76,615</u>	<u>0</u>	<u>8,232,158</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts Payable	175,691	2,939	14,137			192,767
Accrued Salaries & Sick Leave	346,964					346,964
Deferred Revenues		287,843				287,843
Total Liabilities	<u>522,655</u>	<u>290,782</u>	<u>14,137</u>	<u>0</u>	<u>0</u>	<u>827,574</u>
Fund Balance:						
Restricted for:						
Capital Projects			1,044,179			1,044,179
Debt Service				76,615		76,615
Committed for:						
Accrued Sick Leave	236,403					236,403
Assigned for:						
Site Based Carryforward	27,746					27,746
Unassigned Fund Balance	6,019,641					6,019,641
Total Fund Balance	<u>6,283,790</u>	<u>0</u>	<u>1,044,179</u>	<u>76,615</u>	<u>0</u>	<u>7,404,584</u>
TOTAL LIABILITIES AND NET ASSETS	<u>6,806,445</u>	<u>290,782</u>	<u>1,058,316</u>	<u>76,615</u>	<u>0</u>	<u>8,232,158</u>

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

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

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

TOTAL GOVERNMENTAL FUND BALANCE		7,404,584
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
Cost of Capital Assets	53,081,991	
Accumulated Depreciation	<u>(21,103,074)</u>	31,978,917
Bond Issuance Costs		428,004
<p>Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>		
<p>Long-term liabilities at year end consist of:</p>		
Bonds Payable	(21,335,000)	
Accrued Interest on Bonds	(184,984)	
Accrued Sick Leave	<u>(236,403)</u>	<u>(21,756,387)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u><u>18,055,118</u></u>

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

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

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes	6,561,135				548,212	7,109,347
Earnings on Investments	101,697	1,113	2,248	7		105,065
Intergovernmental - State	17,379,968	1,137,961		731,186	769,949	20,019,064
Intergovernmental - Federal	143,006	2,939,482		111,678		3,194,166
Other Sources	147,261	108,047				255,308
TOTAL REVENUES	24,333,067	4,186,603	2,248	842,871	1,318,161	30,682,950
EXPENDITURES:						
Instructional	15,125,868	3,685,477				18,811,345
Support Services:						
Student Support Services	674,342	91,686				766,028
Staff Support Services	981,377	214,442				1,195,819
District Administration	593,294					593,294
School Administration	1,210,076					1,210,076
Business Support Services	474,910			71,544		546,454
Plant Operation & Maintenance	2,032,449					2,032,449
Student Transportation	1,804,461					1,804,461
Central Office						
Food Service Operation		1,717				1,717
Community Service Operations	22,217	256,414				278,631
Adult Education Operations						
Facilities Acquisition & Construction			440,496			440,496
Debt Service:						
Principal				4,210,000		4,210,000
Interest				1,033,449		1,033,449
TOTAL EXPENDITURES	22,918,994	4,249,736	440,496	5,314,993	0	32,924,219
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	1,414,073	(63,133)	(438,248)	(4,472,122)	1,318,161	(2,241,269)
OTHER FINANCING SOURCES(USES):						
Proceeds from Sale of Bonds			1,030,000	3,210,000		4,240,000
Proceeds from Sale of Assets	9,266					9,266
Operating Transfers In - Note N	144,656	64,372	343,307	1,267,967		1,820,302
Operating Transfers Out - Note N	(239,169)	(1,239)		(2,835)	(1,577,059)	(1,820,302)
TOTAL OTHER FINANCING SOURCES	(85,247)	63,133	1,373,307	4,475,132	(1,577,059)	4,249,266
NET CHANGE IN FUND BALANCES	1,328,826	0	935,059	3,010	(258,898)	2,007,997
FUND BALANCES - BEGINNING	4,954,964	0	109,120	73,605	258,898	5,396,587
FUND BALANCES - ENDING	6,283,790	0	1,044,179	76,615	0	7,404,584

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

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

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

NET CHANGES - GOVERNMENTAL FUNDS		2,007,997
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,828,503)	
Capital Outlays	<u>1,521,490</u>	(307,013)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
Principal Paid	4,210,000	
Bond Proceeds	<u>(4,240,000)</u>	(30,000)
Bond Issuance Costs		106,354
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Bond Issuance Costs	(137,181)	
Accrued Interest Payable	9,105	
Accrued Sick Leave	<u>(100,276)</u>	(228,352)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.</p>		
Loss - Sale of Assets		<u>(939)</u>
CHANGES - NET ASSETS GOVERNMENTAL FUNDS		<u><u>1,548,047</u></u>

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

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	5,753,230	5,753,230	6,561,135	807,905
Other Local Sources	33,044	43,044	156,527	113,483
State Sources	12,595,704	12,678,751	17,379,968	4,701,217
Federal Sources	30,000	30,000	143,006	113,006
Other Sources	75,000	75,000	246,353	171,353
TOTAL REVENUES	18,486,978	18,580,025	24,486,989	5,906,964
EXPENDITURES:				
Instructional	13,496,853	13,498,716	15,125,868	(1,627,152)
Student Support Services	689,078	689,078	674,342	14,736
Staff Support Services	741,306	824,353	981,377	(157,024)
District Administration	699,551	699,551	593,294	106,257
School Administration	989,788	989,788	1,210,076	(220,288)
Business Support Services	369,313	369,313	474,910	(105,597)
Plant Operation & Maintenance	2,389,218	2,342,918	2,032,449	310,469
Student Transportation	1,861,369	1,861,369	1,804,461	56,908
Central Office	0	0	0	0
Community Service Operations	19,700	29,700	22,217	7,483
Facility Acquisition & Construction	65,000	65,000	0	65,000
Other	1,984,641	2,029,078	239,169	1,789,909
TOTAL EXPENDITURES	23,305,817	23,398,864	23,158,163	240,701
NET CHANGE IN FUND BALANCE	(4,818,839)	(4,818,839)	1,328,826	6,147,665
FUND BALANCES - BEGINNING	4,818,839	4,818,839	4,954,964	0
FUND BALANCES - ENDING	0	0	6,283,790	6,147,665

On-behalf payments totaling \$ 4,246,585 are not budgeted by the Marion County School District.

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

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes				
Other Local Sources	16,215	16,215	108,047	91,832
State Sources	1,094,411	1,086,917	1,137,961	51,044
Federal Sources	2,156,328	2,124,300	2,939,482	815,182
Other Sources	81,500	81,500	65,485	(16,015)
TOTAL REVENUES	<u>3,348,454</u>	<u>3,308,932</u>	<u>4,250,975</u>	<u>942,043</u>
EXPENDITURES:				
Instructional	2,835,803	2,802,436	3,685,477	(883,041)
Student Support Services	84,600	87,824	91,686	(3,862)
Staff Support Services	163,578	162,719	214,442	(51,723)
District Administration	0	0	0	0
School Administration	0	0	0	0
Business Support Services	0	0	0	0
Plant Operation & Maintenance	0	0	0	0
Student Transportation	0	0	0	0
Food Service Operations	0	0	1,717	(1,717)
Central Office	0	0	0	0
Community Service Operations	264,473	255,953	256,414	(461)
Facility Acquisition & Construction	0	0	0	0
Other	0	0	1,239	(1,239)
TOTAL EXPENDITURES	<u>3,348,454</u>	<u>3,308,932</u>	<u>4,250,975</u>	<u>(942,043)</u>
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

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

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	543,559		543,559
Investments			0
Accounts Receivable	16,333		16,333
Inventories for Consumption	12,161		12,161
Total Current Assets	572,053	0	572,053
Noncurrent Assets:			
Furniture & Equipment	753,391		753,391
Less: Accumulated Depreciation	(526,809)		(526,809)
Total Noncurrent Assets	226,582	0	226,582
TOTAL ASSETS	798,635	0	798,635
LIABILITIES:			
Current Liabilities:			
Account Payable	2,736		2,736
Accrued Sick Leave			0
Total Current Liabilities	2,736	0	2,736
Net Assets:			
Invested in Assets, Net of Debt	226,582		226,582
Restricted	569,317		569,317
Total Net Assets	795,899	0	795,899
TOTAL LIABILITIES AND NET ASSETS	798,635	0	798,635

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

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	656,879		656,879
Other Operating Revenues			0
TOTAL OPERATING REVENUES	656,879	0	656,879
OPERATING EXPENSES:			
Salaries & Benefits	1,054,333		1,054,333
Contract Services	40,122		40,122
Materials & Supplies	949,776		949,776
Depreciation - Note F	37,273		37,273
Other Operating Expenses	9,636		9,636
TOTAL OPERATING EXPENSES	2,091,140	0	2,091,140
OPERATING INCOME(LOSS)	(1,434,261)	0	(1,434,261)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	1,219,668		1,219,668
State Grants	220,860		220,860
Donated Commodities	113,862		113,862
Interest Income	5,688		5,688
Gain (Loss) on Sale of Assets	0		0
Miscellaneous Income	0		0
TOTAL NONOPERATING REVENUE	1,560,078	0	1,560,078
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	125,817	0	125,817
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET ASSETS	125,817	0	125,817
TOTAL NET ASSETS - BEGINNING	670,082	0	670,082
TOTAL NET ASSETS - ENDING	795,899	0	795,899

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

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

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from:	
Lunchroom Sales	656,879
Cash Paid to/for:	
Employees	(853,012)
Supplies	(832,349)
Other Activities	(47,022)
	<u> </u>

Net Cash Used by Operating Activities (1,075,504)

CASH FLOWS FROM NON-CAPITAL AND RELATED
FINANCING ACTIVITIES:

Federal Grants	1,241,772
State Grants	19,539
	<u> </u>

Net Cash Provided by Non-Capital and Related Financing Activities 1,261,311

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Proceeds from Sale of Capital Assets	
Purchases of Capital Assets	(37,671)
Loss on Sale of Capital Assets	

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest Income	5,688
	<u> </u>

Net Increase in Cash and Cash Equivalents 153,824

Balances, Beginning of Year 389,735

Balances, End of Year 543,559

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating Loss (1,434,261)

Adjustments to Reconcile Operating Loss to Net Cash (Used)
by Operating Activities

Depreciation	37,273
State On-Behalf Payments	201,321
Donated Commodities	113,862
Change in Assets and Liabilities:	
Inventory	3,565
Accounts Payable	2,736
	<u> </u>

Net Cash Used by Operating Activities (1,075,504)

Schedule of Non-Cash Transactions:

Donated Commodities	113,862
State On-Behalf Payments	201,321

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

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

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUND</u>
ASSETS:		
Cash and Cash Equivalents	5,933	230,482
Accounts Receivable		
Investment Income Receivable		
Loans Receivable		
Investments - Note D	<u>139,577</u>	
TOTAL ASSETS	<u>145,510</u>	<u>230,482</u>
LIABILITIES:		
Accounts Payable		5,836
Due to Student Groups		<u>224,646</u>
TOTAL LIABILITIES	<u>0</u>	<u>230,482</u>
NET ASSETS HELD IN TRUST	<u><u>145,510</u></u>	<u><u>0</u></u>

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

MARION COUNTY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Net Interest and Investment Gains(Losses)	5,363
Scholarship Funds Contributed	
DEDUCTIONS:	
Broker Fees	1,467
Benefits Paid	<u>6,000</u>
Changes in Net Assets	(2,104)
NET ASSETS - BEGINNING OF YEAR	<u>147,614</u>
NET ASSETS - END OF YEAR	<u><u>145,510</u></u>

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Marion County Board of Education Finance Corporation – On May 14, 1991, the Board of Education resolved to authorize the establishment of the Marion County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified on Pages 44 and 45 in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

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

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

Basis of Accounting

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$0.521 per \$100 valuation for real property, \$0.521 per \$100 valuation for business personal property, and \$0.526 per \$100 valuation for motor vehicles.

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

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Interfund Balances

On fund financial statements, receivables and 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, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

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

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	\$236,403	Long-Term Sick Leave Commitment

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

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

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

Net Assets

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

Operating Revenues and Expenses

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

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

NOTE C – CASH AND CASH EQUIVALENTS

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

At year-end, the carrying amount of the District's total cash and cash equivalents were \$8,631,609. Of the total cash balance, \$339,089 was covered by Federal Depository Insurance and \$8,292,520 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

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

	Bank Balance	Book Balance
Citizens National Bank	10,533,726	8,395,194
Farmers Bank (Agency Funds)	57,356	57,176
Citizens National Bank (Agency)	154,886	147,506
U.S. Bank (Agency)	25,800	25,800
Paine Webber	<u>5,933</u>	<u>5,933</u>
	<u>10,777,701</u>	<u>8,631,609</u>

Breakdown per financial statements:

Governmental Funds	7,851,635
Proprietary Funds	543,559
Private Purpose Trust Funds	5,933
Agency Funds	<u>230,482</u>
	<u>8,631,609</u>

NOTE D – INVESTMENTS

Private purpose trust funds reflected in the statement of fiduciary net assets consist of trust fund monies restricted by the donors for awarding college scholarships. These restricted funds are managed by USB Financial Services, Inc. These funds are held in the District's name and invested in money market and mutual fund investments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The following is a comparison of the cost and fair value of investments held in trust at June 30, 2012:

	Cost	Fair Value
Private Purpose Trust Funds		
Money Market	5,933	5,933
Mutual Funds	<u>108,650</u>	<u>139,577</u>
	<u>114,583</u>	<u>145,510</u>

Credit Risk – Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are held in the possession of an outside party.

Interest Rate Risk – Interest rate risk is the risk that the changes in market interest rates will adversely affect the fair market value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

Concentration of Credit Risk – The District’s investment policy places no limit on the amount the District may invest in any one issuer.

Risks and Uncertainties – The District invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the account balances and the amounts reports in the statement of fiduciary net assets.

NOTE E – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District’s future obligations to make bond payments relating to the bonds issued by the Marion County School District Finance Corporation aggregating \$21,335,000.

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

2002	3,490,000	1.50% - 3.850%
2003 Unrefunded	210,000	3.05% - 3.150%
2005 Series A	5,920,000	4.17% - 4.180%
2005 Series B	2,455,000	3.96% - 3.970%
2006	675,000	3.85% - 3.860%
2009	3,045,000	3.00% - 3.375%
2009 Series B	5,995,000	1.50% - 6.00%
2012	3,210,000	1.25% - 2.125%
2012 Series B	4,750,000	1.00% - 2.375%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Marion 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

In 1995 the Board entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission’s participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

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

Year	Principal	Interest	Participation	District's Portion
2012-13	1,350,000	719,338	800,537	1,268,801
2013-14	1,405,000	675,625	810,285	1,270,340
2014-15	1,120,000	630,161	483,942	1,266,219
2015-16	1,160,000	596,550	483,173	1,273,377
2016-17	1,095,000	560,035	482,408	1,172,629
2017-18	1,135,000	525,586	481,641	1,178,945
2018-19	1,140,000	479,071	443,574	1,175,497
2019-20	1,155,000	437,326	414,137	1,178,189
2020-21	1,110,000	409,183	345,085	1,174,098
2021-22	1,145,000	380,887	344,233	1,181,654
2022-23	1,170,000	351,313	343,383	1,177,930
2023-24	1,190,000	302,813	287,927	1,204,887
2024-25	1,245,000	252,737	291,427	1,206,310
2025-26	1,265,000	200,499	264,983	1,200,516
2026-27	1,075,000	145,205	186,941	1,033,265
2027-28	1,110,000	104,503	185,291	1,029,212
2028-29	1,160,000	61,303	188,504	1,032,800
2029-30	1,175,000	16,210	154,130	1,037,080
2030-31	65,000	4,225	69,225	0
2031-32	65,000	2,113	67,113	0
	<u>21,335,000</u>	<u>6,854,685</u>	<u>7,127,936</u>	<u>21,061,749</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bond Payable	21,305,000	4,240,000	4,210,000	21,335,000	1,350,000
Accrued Sick Leave	<u>265,819</u>	<u>111,089</u>	<u>50,439</u>	<u>326,469</u>	<u>90,066</u>
Governmental Activities					
Long-Term Liabilities	<u>21,570,819</u>	<u>4,351,089</u>	<u>4,260,439</u>	<u>21,661,469</u>	<u>1,440,066</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

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

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	814,396			814,396
Construction In Progress		248,957		248,957
Depreciable Assets:				
Buildings & Building Improvements	43,879,336	116,267		43,995,603
Technology Equipment	3,494,864	750,912	476,882	3,768,894
Vehicles	3,076,200	278,468	6,200	3,348,468
General Equipment	825,937	126,886	47,150	905,673
TOTAL AT HISTORICAL COST	52,090,733	1,521,490	530,232	53,081,991
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	14,885,566	1,219,223		16,104,789
Technology Equipment	2,270,557	397,188	475,944	2,191,801
Vehicles	2,124,359	166,705	6,200	2,284,864
General Equipment	523,383	45,387	47,150	521,620
Construction In Progress				
TOTAL ACCUMULATED DEPRECIATION	19,803,865	1,828,503	529,294	21,103,074
GOVERNMENTAL ACTIVITIES CAPITAL NET	32,286,868	(307,013)	938	31,978,917
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	7,960		2,292	5,668
General Equipment	712,852	37,671	2,800	747,723
TOTALS AT HISTORICAL COST	720,812	37,671	5,092	753,391
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	4,037	981	2,292	2,726
General Equipment	490,591	36,292	2,800	524,083
TOTAL ACCUMULATED DEPRECIATION	494,628	37,273	5,092	526,809
PROPRIETARY ACTIVITIES CAPITAL NET	226,184	398	0	226,582
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,355,592
Staff Support Services				4,529
District Administration				154,060
School Administration				20,269
Business Support Services				4,714
Plant Operation & Maintenance				154,451
Student Transportation				134,888
TOTAL				1,828,503

NOTE G – RETIREMENT PLANS

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

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

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

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

The Board's total payroll for the year was \$17,363,507. The payroll for employees covered under KTRS was \$13,736,014 and for CERS was \$3,627,493.

For the year ended June 30, 2012, the Commonwealth contributed \$1,646,786 KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2012, were \$234,200, which represents those employees covered by federal programs.

The contribution requirements for CERS for the year ended June 30, 2012, were \$867,164, which consisted of \$682,179 from the Board and \$184,985 from the employees.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

NOTE H – CONTINGENCIES

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

NOTE I – INSURANCE AND RELATED ACTIVITIES

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J – RISK MANAGEMENT

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

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

NOTE K – DEFICIT OPERATING BALANCES

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

Construction Fund	438,248
Debt Service	4,472,122

NOTE L – 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 M – COMMITMENTS UNDER NONCAPITALIZED LEASES

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

Year Ending June 30,	
2013	44,508
2014	44,508
2015	<u>44,508</u>
Total Minimum Payments	<u>133,524</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	57,622
Matching	General	Special Revenue	Grant Match	6,500
Operating	General	Special Revenue	Operations	250
Operating	Special Revenue	General	Operations	1,239
Operating	Debt Service	General	Operations	2,835
Operating	Capital Outlay	Debt Service	Debt Service	147,533
Operating	Building Fund	Debt Service	Debt Service	1,030,046
Operating	General	Debt Service	Debt Service	90,388
Operating	Building Fund	Construction Fund	Construction	82,673
Operating	Capital Outlay	Construction Fund	Construction	176,225
Operating	General	Construction Fund	Construction	84,409
Operating	Capital Outlay	General	Operations	<u>140,582</u>
				<u>1,820,302</u>

NOTE O – ON-BEHALF PAYMENT

For the year ended June 30, 2012, \$5,179,092 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology, and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 4,246,585
Food Service Fund	201,321
Debt Service	<u>731,186</u>
Total	<u>\$ 5,179,092</u>

NOTE P – COMMITMENTS

Renovation at Marion County High School is ongoing as of the audit date. It is anticipated that the completion of the project will cost approximately \$856,091. In addition, the partial roof replacement at Calvary Elementary School is also ongoing as of the audit date. It is anticipated that the completion of this roofing project will cost \$158,342.

NOTE Q – SUBSEQUENT EVENTS

Management has reviewed subsequent events through September 24, 2012. The only material subsequent event is the Marion County School District Finance Corporation issued revenue bonds in the amount of \$4,750,000 to refund the 2005 Series Bonds. The District will realize gross savings in excess of \$356,000 as a result of the refunding.

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

	<u>CAPITAL OUTLAY FUND</u>	<u>BUILDING FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENT FUNDS</u>
ASSETS:			
Cash & Cash Equivalents			
Accounts Receivable:			
Taxes			
Accounts			
TOTAL ASSETS	0	0	0
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable			
Accrued Sick Leave			
Deferred Revenues			
Total Liabilities	0	0	0
Fund Balance:			
Restricted for:			
Capital Projects			
Debt Service			
Restricted - SFCC Escrow			
Committed for:			
Accrued Sick Leave			
Technology Grant Match			
Unassigned Fund Balance			
Total Fund Balance	0	0	0
TOTAL LIABILITIES AND NET ASSETS	0	0	0

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

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

	<u>CAPITAL OUTLAY FUND</u>	<u>BUILDING FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENT FUNDS</u>
REVENUES:			
Taxes		548,212	548,212
Earnings from Investments			
Intergovernmental - State	288,115	481,834	769,949
Intergovernmental - Federal			
Other Sources			
TOTAL REVENUES	<u>288,115</u>	<u>1,030,046</u>	<u>1,318,161</u>
EXPENDITURES:			
Instructional			
Support Services:			
Student Support Services			
Staff Support Services			
District Administration			
School Administration			
Business Support Services			
Plant Operations & Maintenance			
Student Transportation			
Central Office			
Community Service Operations			
Facilities Acquisition & Construction			
Debt Service:			
Principal			
Interest			
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	288,115	1,030,046	1,318,161
OTHER FINANCING SOURCES(USES):			
Proceeds from Sale of Bonds			
Proceeds from Sale of Assets			
Operating Transfers In			
Operating Transfers Out	(464,340)	(1,112,719)	(1,577,059)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(464,340)</u>	<u>(1,112,719)</u>	<u>(1,577,059)</u>
NET CHANGE IN FUND BALANCES	<u>(176,225)</u>	<u>(82,673)</u>	<u>(258,898)</u>
FUND BALANCES - BEGINNING	<u>176,225</u>	<u>82,673</u>	<u>258,898</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

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

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

	FUND BALANCE <u>JULY 1, 2011</u>	REVENUES	EXPENDITURES	FUND BALANCE <u>JUNE 30, 2012</u>
Marion County High School	140,014	579,561	607,397	112,178
St. Charles Middle School	27,578	64,019	70,267	21,330
Lebanon Middle School	22,160	122,820	119,729	25,251
Lebanon Elementary School	7,679	46,315	46,879	7,115
Calvary Elementary School	16,123	31,861	37,387	10,597
Glasscock Elementary School	23,875	46,288	47,788	22,375
West Marion Elementary School	<u>36,192</u>	<u>52,925</u>	<u>63,317</u>	<u>25,800</u>
Total Activity Funds (Due to Student Groups)	<u><u>273,621</u></u>	<u><u>943,789</u></u>	<u><u>992,764</u></u>	<u><u>224,646</u></u>

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	CASH BALANCE <u>JULY 1, 2011</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	CASH BALANCE <u>JUNE 30, 2012</u>	ACCOUNTS RECEIVABLE <u>JUNE 30, 2012</u>	ACCOUNTS PAYABLE <u>JUNE 30, 2012</u>	FUND BALANCE <u>JUNE 30, 2012</u>
Academic Team	854	0	543	311			311
Advanced Placement (AP)	0	27,182	23,936	3,246			3,246
AP English	431	1,564	1,995	0			0
Art Department	1,341	2,904	2,744	1,501			1,501
Athletics	6,518	124,725	123,758	7,485		165	7,320
Autism Classic	0	14,392	14,334	58			58
Band	0	75	0	75			75
Baseball	1,356	11,469	12,595	230		230	0
Beading to Beat Autism	618	111	0	729			729
Beta Club	1,280	17,694	17,623	1,351			1,351
Bobby Jag. Scholarship	132	7	0	139			139
Boys Basketball	9,064	12,306	15,478	5,892			5,892
Boys Soccer	0	570	570	0			0
Boys Tennis	1,518	0	1,103	415			415
Business Ed Dept.	2,002	40,123	40,327	1,798			1,798
Cheerleaders	0	18,658	16,188	2,470		2,400	70
Class Dues	0	40,186	27,753	12,433			12,433
Class of 2011	11,210	0	11,210	0			0
Class of 2012	1,381	1,070	2,451	0			0
Class of 2013	876	1,110	1,986	0			0
Class of 2014	738	1,115	1,853	0			0
Class of 2015	0	1,160	1,160	0			0
Coaches' Fund	2,485	3,156	1,892	3,749		146	3,603
Cross Country	1,044	3,815	4,384	475			475
English SSS	0	889	889	0			0
FBLA	0	18,977	18,977	0			0
FCA	1	144	144	1			1
FCCLA	3,459	22,989	24,604	1,844			1,844
FCCLA Culinary Lab	739	7,084	6,920	903		5	898
FFA	1,521	25,668	23,057	4,132			4,132
FMD	373	3,500	2,646	1,227			1,227
Football	120	17,809	15,821	2,108		1,600	508
Football Camp	1,132	5,566	6,494	204			204
Football Helmets	250	15,610	15,860	0			0
Friends of Rachel	61	0	0	61			61
General	38,242	48,111	62,177	24,176			24,176

Girls Basketball	15	7,711	7,726	0			0
GB Travel	0	22,520	22,520	0			0
Girls Soccer	1,972	753	447	2,278			2,278
Girls Tennis	1,128	1,613	1,720	1,021	210		811
G/B Track	0	5,660	4,755	905			905
Golf	1,734	7,751	8,959	526			526
Graphic Designs	2,277	2,916	2,674	2,519			2,519
Heather Garrett Scholarship	2,812	115	501	2,426			2,426
International Club	479	0	0	479			479
Key Club	1,048	0	0	1,048			1,048
Library	3,954	523	405	4,072			4,072
Mock Trail	54	0	0	54			54
Nancy Colvin Scholarship	1,131	1,036	500	1,667			1,667
National Honor Society	597	475	608	464			464
P.E. Department	54	0	54	0			0
Pep Club	2,297	2,750	4,090	957			957
Project Lead the Way	617	1,804	1,940	481			481
Pigskin Classic	10,892	18,539	28,464	967			967
ROTC	1,718	9,556	9,326	1,948			1,948
Snappy Tomato - Athl	0	690	0	690			690
Spanish	31	520	551	0			0
Special Ed Room	0	3,860	3,184	676			676
Speech/Drama	326	0	244	82			82
Softball	519	4,027	4,546	0			0
Start Up Money	0	2,400	2,400	0			0
Student Council	210	1,608	1,645	173			173
Student of the Week	813	640	1,167	286			286
Swim Team	0	3,984	3,906	78			78
Teachers' Activity Fund	281	1,180	1,401	60			60
Threads of Victory	2,295	12,678	14,973	0			0
Volleyball	2,000	29,818	29,676	2,142	500		1,642
Yearbook Journalism	11,522	12,169	9,761	13,930			13,930
Youth Advisory Council	492	0	0	492			492
Total All Funds	140,014	647,035	669,615	117,434	0	5,256	112,178
Interfund Transfers	0	(67,474)	(67,474)	0	0	0	0
Total	140,014	579,561	602,141	117,434	0	5,256	112,178

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

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	CFDA NUMBER	MUNIS PROJECT NUMBER	EXPENDITURES
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3101	323,224
Title I - Professional Development of District Improvement	84.010	3101G	48,887
Title I - Parent Involvement	84.010	3101M	8,080
Title I - School Improvement Grant	84.010	3102	427,979
Title I - Professional Development of District Improvement	84.010	3102D	12,903
Title I - Parent Involvement	84.010	3102M	571
Title I - School Improvement Grant	84.010	3201	2,261
Title I - School Improvement Grant	84.010	3202	24,535
Title I - ARRA	84.389	3919	19,108
Title I - ARRA Parent Involvement	84.389	3919M	6,361
Title I Cluster			873,909
Migrant Education - State Grant Program	84.011	3111	11,763
Migrant Education - State Grant Program	84.011	3112	77,775
Migrant Education Cluster			89,538
IDEA - Special Education - Grants to State	84.027	3372	655,404
IDEA - Special Education - Grants to State - Private	84.027	3372P	7,081
IDEA - Special Education - Grants to State - ARRA	84.391	4249P	7,968
IDEA - Special Education - Preschool Grants	84.173	3431	5,278
IDEA - Special Education - Preschool Grants	84.173	3432	45,799
IDEA - Special Education - Preschool Grants - ARRA	84.392	4239	3,429
Special Education Cluster			724,959
Vocational Education - Perkins	84.048	3480A	749
Vocational Education - Basic Grants to State	84.048	3481	326
Vocational Education - Perkins	84.048	3481A	1,039
Vocational Education - Basic Grants to State	84.048	3482	20,397
Vocational Education Cluster			22,511
Community Based Work Transition	84.341	3711	5,991
Community Based Work Transition	84.341	3712	27,133
Community Based Work Transition Total			33,124
Adult Ed. - Retention/Recruiting	84.002	3652	9,509
Adult Ed. Basic	84.002A	3732	46,552
Adult Ed. Basic - Professional/ Staff Dev	84.002A	3732S	732
Adult Education Cluster			56,793
Title II - Part A - Teacher Quality Enhancement Grants	84.367	4011	116,443
Title II - Part A - Teacher Quality Enhancement Grants	84.367	4012	94,691
Title II - Part A Total			211,134 *
Enhancing Education Tech - ARRA	84.386	4850	2,172
Ed Tech Competitive - ARRA	84.386	4860	9,537
Federal Ed Tech - Basic	84.318	4250	4,652
Federal Ed Tech - Basic	84.318	4251	2,747
Ed Tech Total			19,108
21st Century Learning Center	84.287	5500	9,641
21st Century Learning Center	84.287	5500Q	669
21st Century Learning Center	84.287	5500Z	14,000
21st Century Learning Center	84.287	5501	63,675
21st Century Learning Center	84.287	5501S	2,120
21st Century Learning Center	84.287	5502S	5,000
21st Century Learning Center Total			95,105
Rural and Low Income Schools	84.358	3500	48,254
Rural and Low Income Schools	84.358	3502	35,742
Rural and Low Income Schools Total			83,996
Safe and Drug Free Schools	84.186	4060	697
Corp. for National Service Learning	94.004	6750	3,223
Education Jobs Fund (EduJobs) - ARRA	84.410	4411	748,129 *
Total U.S. Department of Education			2,962,226
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-11	215,124
National School Lunchroom	10.555	7750002-12	688,452
School Breakfast Program	10.553	7760005-11	70,574
School Breakfast Program	10.553	7760005-12	226,023
Summer Meal Program	10.559	7740023-11	30,104
Summer Meal Program	10.559	7740023-12	7,386
Summer Meal Program	10.559	7690024-11	3,169
Summer Meal Program	10.559	7690024-12	784
Child Nutrition Cluster			1,241,616
Passed-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	113,862
Total U.S. Department of Agriculture			1,355,478 *
Total Federal Financial Assistance			4,317,704

* Tested as major program

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

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Marion 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.

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

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559/10.565 84.367	School Food Service Title II, Part A – Teacher Quality Enhancement Grants
84.410	Education Jobs Fund - ARRA

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

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

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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

There were no prior year audit findings.

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Charles M. White, CPA

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September 24, 2012

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

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion County School District, as of and for the year ended June 30, 2012, which collectively comprise the Marion County School District's basic financial statements and have issued our report thereon dated September 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.*

Internal Control over Financial Reporting

Management of Marion County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Marion 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 Marion County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marion County School District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Marion County School District in a separate letter dated September 24, 2012.

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.

**Certified Public Accountants
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Fax (270) 692-2101**

Charles M. White, CPA

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September 24, 2012

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

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

Compliance

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

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

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

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

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

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Charles M. White, CPA

Email cmwcpa@windstream.net

September 24, 2012

MANAGEMENT LETTER

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

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

Prior Year Recommendation:

The District must maintain documentation to clearly indicate the source of an employee's pay and ensure that the documentation has been adequately approved.

Current Year Finding:

The District maintained adequate documentation to indicate the source of an employee's pay.

Prior Year Recommendation:

As of June 30, 2011, Marion County School District was fully collateralized. However, not all of the collateral pledged by Citizens National Bank was in agreement with the District's contract, and Citizens National Bank's pledged collateral market value was less than the contract stated amount. The District must monitor its collateral coverage and the type of collateral being used to guard its assets.

Current Year Find

The District is adequately monitoring its collateral coverage and the type of collateral being used to guard its assets.

Prior Year Recommendation:

The District continued to have problems concerning the legibility of their cancelled checks. The District should work with their financial institution to ensure that cancelled checks are legible.

Current Year Finding:

During the year, the District began printing checks on a new laser printing. Cancelled checks are now legible.

Prior Year Recommendation

Auditors reviewed travel expenditures and reimbursements of the previous Superintendent, Mr. Donald Smith. We noted no definitive violations of the District's policies. However, to help prevent potential future abuse, recommendations to strengthen the District's policies were made.

Current Year Finding:

The District revised its Expense Reimbursement policy for certified personnel, including the Superintendent. The revised policy includes expense reimbursements for the Superintendent being approved by the Board.

Prior Year Recommendation:

While reviewing the activity fund receipts for Saint Charles Middle School and Glasscock Elementary School, we noted multiple instances where receipt documentation only contained one signature. Further, at Glasscock Elementary School, we noted that multiple receipt forms were not being properly used to clearly document receipts. We recommend that all receipts contain two signatures and that multiple receipt forms be properly used to comply with Redbook standards.

Current Year Finding and Recommendation:

A receipt was examined that did not contain two signatures again this year. All receipts must contain two signatures. The receipt should be signed by the person who received the money and by a second party. This includes receipts for concessions. The concession funds received should be documented and signed by at least one of the teachers who worked concessions. Again, the school bookkeeper or school principal would also sign that receipt after verifying the funds submitted agreed to the money collected and to the documentation.

We also noted multiple instances where multiple receipt forms were not being properly used. We recommend that all money collected be turned in daily, no matter who is collecting the money or for what purpose. For example, money turned in by students for a fundraiser for a single day's receipts should have a multiple receipt form for each teacher that lists each child's name and the dollar amount he/she turned in. The teacher should sign for the money he/she turns in, and then, typically, the school bookkeeper or school principal would sign that receipt as well.

Management Response:

Receipts will be signed by the person receiving the money and by a second party. We acknowledge that the second party should typically be the school bookkeeper or school principal. Further, we will use multiple receipt forms and ensure they are properly documented. We will have staff turn money in daily.

Current Year Recommendation:

During the audit, multiple receipts for ballgame gate collections were examined. Requisition and Receipt of Ticket Sales forms were reviewed and unusual variances in the cash short and over column were noted. We investigated this further and concluded that the Requisition and Receipt of Ticket Sales were not being properly completed. These forms should be completed by the individual(s) actually collecting money at the gate. Reasons for variances between money that should have been collected and actual money collected, if any, should be fully documented. Then, these forms should be signed by a second party after being reviewed and verified.

Management Response:

Staff collecting money at gates will complete and sign the Requisition and Receipt of Ticket Sales form. Staff will document any variances between money that should have been collected and actual collections. These forms will then be reviewed and verified by a second party and that second party will also sign the receipt.

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

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Charles M. White, CPA

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September 24, 2012

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

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

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants