

MARTIN COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AND
INDEPENDENT AUDITOR'S REPORTS

For the year ended June 30, 2012



WELLS & COMPANY, P.S.C.

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MARTIN COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Martin County School District
Inez, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Martin 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 Martin 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; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Audit Extension Request, and Appendix IV of the Independent Auditor's Contract - Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2012, on our consideration of the Martin County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 36 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 9, 2012

**MARTIN COUNTY SCHOOL DISTRICT – INEZ, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012**

As management of the Martin County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the tenth year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$1,654,289 in 2011 and \$1,293,535 in 2012. This is a decrease of \$360,754. Much of this difference can be explained by the decrease in utility tax and unmined minerals.
- From 2011 to 2012, total general fund revenue increased by 5.1%. Revenues from the state increased by 5.2% and property taxes increased by 8.9%. Revenues from unmined minerals decreased by 25.5%. Revenues from local sources increased by 4.6%. Revenues from federal sources increased by 11.6%.
- Among major funds, the General Fund had \$16,351,458 in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There was \$16,566,165 in expenditures.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulted in several economies due to changed management strategies.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- 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. The District’s total debt decreased by \$1,046,933 during the current fiscal year.
- 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 has updated its local facilities plan.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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 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 are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 7 through 8 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 proprietary fund includes the food service and vending operation. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9 through 17 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 18 through 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 general fixed assets), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

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

Net Assets for the period ending June 30, 2012

This is the tenth year that the District is following GASB 34 and comparing assets, liabilities and net assets. 2012 Government Wide Net Assets compared to 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 1,851,211	\$ 3,099,645
Noncurrent Assets	<u>22,327,969</u>	<u>22,162,069</u>
Total Assets	<u>\$24,179,180</u>	<u>\$25,261,714</u>
Current Liabilities	\$ 1,814,952	\$ 1,891,479
Noncurrent Liabilities	<u>10,382,782</u>	<u>11,352,357</u>
Total Liabilities	<u>\$12,197,734</u>	<u>\$13,243,836</u>
Net Assets		
Investment in capital assets (net of debt)	\$10,574,264	\$ 9,530,432
Restricted	811,447	1,942,647
Unrestricted Fund Balance	<u>595,735</u>	<u>544,799</u>
Total Net Assets	<u>\$11,981,446</u>	<u>\$12,017,878</u>

There has been no significant change in the financial position of the District since the last audit.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Revenues:		
Local revenue sources	\$ 4,184,292	\$ 4,512,084
State revenue sources	14,243,427	13,532,871
Federal sources	4,797,367	4,296,935
Earnings on investments	11,540	66,525
Other sources	<u>142,634</u>	<u>136,352</u>
Total Revenues	<u>23,379,260</u>	<u>22,544,767</u>
Expenses:		
Instruction	12,889,483	12,408,685
Student support services	1,473,345	1,541,234
Instructional support	1,237,318	1,347,608
District administration	942,446	943,634
School administration	824,685	758,797
Business support	407,247	345,364
Plant operations	2,166,025	2,311,912
Student transportation	1,595,786	1,823,044
Central office support	-	-
Facilities acquisition and construction	1,238,997	3,546,966
Community support	377,030	376,338
Other	1,451,217	5,301,514
Land improvements	<u>40,000</u>	<u>-</u>
Total expenses	<u>24,643,579</u>	<u>30,705,096</u>
Excess (Deficit) Of Revenues Over Expenses	(1,264,319)	(8,160,329)
Other Financing Sources (Uses):		
Sale of equipment	2,000	5,506
Bond proceeds	-	3,240,550
Operating transfers in	898,232	1,050,194
Operating transfers out	(898,232)	(1,050,194)
Non operating transfers in	-	7,231,566
Non operating transfers out	-	<u>(7,231,566)</u>
Total Other Financing Source (Uses)	<u>2,000</u>	<u>3,246,056</u>
Excess (Deficit) Of Revenues And Other Financing Sources Over Expenditures And Other Financing Uses	<u>\$ (1,262,319)</u>	<u>\$ (4,914,273)</u>

- On-behalf amounts are included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits and administration fees. Further discussion of these can be found in Note B. Expenses that increased from 2011 to 2012 include instruction, school administration, business support, community support, and land improvements.

The changes in the balances and transactions of individual funds have not been material. Changes in final budget when compared to original are not material.

- The majority of revenue in 2012 was derived from state funding (61%) as compared with fiscal year 2011 (60%) with local revenue making up 18% of total revenue in 2012 compared to 20% in 2011.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2012, net of Interfund transfers, were \$23.4 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$3.5 million more than budget.
- The total cost of all programs and services was \$24.6 million net of debt service.
- General fund budget expenditures to actual varied significantly in instruction (\$2.2 million). This resulted from the board recording the on-behalf payments made for the District.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$357 thousand in contingency (2.5%). The General Fund beginning cash balance for beginning the fiscal year was \$131,842.

Questions regarding this report should be directed to the Superintendent Mark Blackburn or by mail at P. O. Box 366, Inez, Ky 41224.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 920,865	\$ 372,670	\$ 1,293,535
Investments	10,542	-	10,542
Inventory	-	20,287	20,287
Accounts receivable:			
Taxes - current	232,719	-	232,719
Taxes - delinquent	24,200	-	24,200
Accounts receivable	2,545	-	2,545
Intergovernmental - State	942	-	942
Intergovernmental - Indirect Federal	241,388	25,053	266,441
Total current assets	1,433,201	418,010	1,851,211
Noncurrent Assets:			
Bond issue costs	199,380	-	199,380
Capital assets, net	21,969,209	159,380	22,128,589
Total noncurrent assets	22,168,589	159,380	22,327,969
Total assets	\$ 23,601,790	\$ 577,390	\$ 24,179,180
Liabilities			
Current Liabilities:			
Accounts payable	\$ 33,087	\$ 8,445	\$ 41,532
Deferred revenue	484,707	-	484,707
Current portion of capital lease payable	76,426	-	76,426
Current portion of bond obligations	1,015,000	-	1,015,000
Current portion of long-term debt	18,750	-	18,750
Current portion of accrued sick leave	69,686	-	69,686
Interest payable	108,851	-	108,851
Total current liabilities	1,806,507	8,445	1,814,952
Noncurrent Liabilities:			
Noncurrent portion of capital lease payable	450,298	-	450,298
Noncurrent portion of bond obligations	9,810,000	-	9,810,000
Noncurrent portion of long-term debt	75,000	-	75,000
Noncurrent portion of accrued sick leave	47,484	-	47,484
Total noncurrent liabilities	10,382,782	-	10,382,782
Total liabilities	\$ 12,189,289	\$ 8,445	\$ 12,197,734
Net Assets:			
Invested in capital assets, net of related debt	\$ 10,414,884	\$ 159,380	\$ 10,574,264
Restricted for:			
Sick leave	47,484	-	47,484
KSFCC Escrow	213,953	-	213,953
SFCC Escrow	13,679	-	13,679
Inventory	-	20,287	20,287
New assets	-	389,278	389,278
Future construction	126,766	-	126,766
Unrestricted	595,735	-	595,735
Total net assets	\$ 11,412,501	\$ 568,945	\$ 11,981,446

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

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the year ended June 30, 2012

	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	\$ 13,673,454	\$ -	\$ 3,496,238	\$ -	\$ (10,177,216)	\$ -	\$ (10,177,216)
Support services:							
Student	1,511,972	-	685,236	-	(826,736)	-	(826,736)
Instruction staff	1,238,400	-	200,484	-	(1,037,916)	-	(1,037,916)
District administrative	958,562	-	-	-	(958,562)	-	(958,562)
School administrative	825,242	-	509,896	-	(315,346)	-	(315,346)
Business	407,247	-	47,919	-	(359,328)	-	(359,328)
Plant operation and maintenance	2,167,867	-	-	-	(2,167,867)	-	(2,167,867)
Student transportation	1,691,483	14,654	144,566	-	(1,532,263)	-	(1,532,263)
Central office	-	-	-	-	-	-	-
Facilities acquisition and construction	271,045	-	-	1,242,849	971,804	-	971,804
Community service activities	379,313	-	365,089	-	(14,224)	-	(14,224)
Interest on long-term debt	421,251	-	-	-	(421,251)	-	(421,251)
Other	-	-	-	-	-	-	-
Total governmental activities	23,545,836	14,654	5,449,428	1,242,849	(16,838,905)	-	(16,838,905)
Business-Type Activities:							
Food service	1,416,120	151,648	1,389,781	-	-	125,309	125,309
Total primary government	\$ 24,961,956	\$ 166,302	\$ 6,839,209	\$ 1,242,849	(16,838,905)	125,309	(16,713,596)
General Revenues:							
Taxes:							
Property taxes					2,573,926	-	2,573,926
Motor vehicle taxes					146,436	-	146,436
Utility taxes					834,195	-	834,195
Unmined minerals					629,735	-	629,735
Investment earnings					11,540	2,835	14,375
Gain on sale of equipment					2,000	-	2,000
State and formula grants					12,452,459	-	12,452,459
Miscellaneous					24,038	-	24,038
Changes in net assets					(164,576)	128,144	(36,432)
Net assets - beginning					11,577,077	440,801	12,017,878
Net assets - ending					\$ 11,412,501	\$ 568,945	\$ 11,981,446

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

FUND FINANCIAL STATEMENTS

MARTIN COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>FSKP Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets and Resources:						
Assets						
Cash and cash equivalents	\$ 320,634	\$ 242,377	\$ 126,766	\$ 227,632	\$ 3,456	\$ 920,865
Investments	107	-	-	-	10,435	10,542
Accounts Receivable						
Taxes - current	232,719	-	-	-	-	232,719
Taxes - delinquent	24,200	-	-	-	-	24,200
Accounts receivable	2,545	-	-	-	-	2,545
Intergovernmental - State	-	942	-	-	-	942
Intergovernmental - Indirect Federal	-	241,388	-	-	-	241,388
Total assets and resources	<u>\$ 580,205</u>	<u>\$ 484,707</u>	<u>\$ 126,766</u>	<u>\$ 227,632</u>	<u>\$ 13,891</u>	<u>\$ 1,433,201</u>
Liabilities and Fund Balances:						
Liabilities						
Accounts payable	\$ 33,087	\$ -	\$ -	\$ -	\$ -	\$ 33,087
Sick Leave payable in process	69,686	-	-	-	-	69,686
Deferred revenue	-	484,707	-	-	-	484,707
Total liabilities	102,773	484,707	-	-	-	587,480
Fund Balances:						
Restricted For:						
Sick leave payable	47,484	-	-	-	-	47,484
KSFCC Escrow	-	-	-	213,953	-	213,953
SFCC Escrow	-	-	-	13,679	-	13,679
Future Construction	-	-	126,766	-	-	126,766
Committed To:						
Sick leave payable	69,686	-	-	-	-	69,686
Assigned To:						
Permanent Fund	-	-	-	-	13,891	13,891
Unassigned:						
Under designated, reported in:						
General	360,262	-	-	-	-	360,262
Special Revenue	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Total fund balances	<u>477,432</u>	<u>-</u>	<u>126,766</u>	<u>227,632</u>	<u>13,891</u>	<u>845,721</u>
Total liabilities and fund balances	<u>\$ 580,205</u>	<u>\$ 484,707</u>	<u>\$ 126,766</u>	<u>\$ 227,632</u>	<u>\$ 13,891</u>	<u>\$ 1,433,201</u>

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

MARTIN COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

June 30, 2012

Total fund balance per fund financial statements	\$ 845,721
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets	21,969,209
Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets	199,380
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets	<u>(11,601,809)</u>
Net assets for governmental activities	<u><u>\$11,412,501</u></u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended June 30, 2012

	General Fund	Special Revenue	Construction Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources						
Taxes						
Property	\$2,246,068	\$ -	\$ -	\$ 327,858	\$ -	\$ 2,573,926
Motor vehicle	146,436	-	-	-	-	146,436
Utilities	834,195	-	-	-	-	834,195
Unmined minerals	629,735	-	-	-	-	629,735
Earnings on investments	5,818	2,189	3,352	-	181	11,540
Other local revenues	36,747	103,942	-	-	1,945	142,634
Intergovernmental – State	12,452,459	548,119	-	366,451	876,398	14,243,427
Intergovernmental – Indirect Federal	-	4,797,367	-	-	-	4,797,367
Total revenues	16,351,458	5,451,617	3,352	694,309	878,524	23,379,260
Expenditures:						
Instruction	9,431,056	3,458,427	-	-	-	12,889,483
Support services:						
Student	788,109	685,236	-	-	-	1,473,345
Instruction staff	1,036,834	200,484	-	-	-	1,237,318
District administrative	942,446	-	-	-	-	942,446
School administrative	314,789	509,896	-	-	-	824,685
Business	359,328	47,919	-	-	-	407,247
Plant operation and maintenance	2,166,025	-	-	-	-	2,166,025
Student transportation	1,451,220	144,566	-	-	-	1,595,786
Central office	-	-	-	-	-	-
Facilities acquisition and construction	-	-	1,238,997	-	-	1,238,997
Community service activities	9,941	365,089	-	-	2,000	377,030
Other	66,417	-	-	-	1,384,800	1,451,217
Land improvements	-	40,000	-	-	-	40,000
Total expenditures	16,566,165	5,451,617	1,238,997	-	1,386,800	24,643,579
Excess (deficit) of revenues over expenditures	(214,707)	-	(1,235,645)	694,309	(508,276)	(1,264,319)
Other Financing Sources (Uses):						
Sale of equipment	2,000	-	-	-	-	2,000
Bond proceeds	-	-	-	-	-	-
Operating transfers in	194,915	-	-	-	703,317	898,232
Operating transfers out	(22,688)	-	-	(680,629)	(194,915)	(898,232)
Non operating transfers in	-	-	-	-	-	-
Non operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	174,227	-	-	(680,629)	508,402	2,000
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	(40,480)	-	(1,235,645)	13,680	126	(1,262,319)
Fund balance, July 1, 2011	517,912	-	1,362,411	213,952	13,765	2,108,040
Fund balance, June 30, 2012	\$ 477,432	\$ -	\$ 126,766	\$227,632	\$ 13,891	\$ 845,721

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

MARTIN COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2012

Net change in total fund balances per fund financial statements	\$(1,262,319)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays expense exceeds depreciation for the year	208,378
The issuance of long-term debt (bonds and financial obligations) provides current financial resources to government funds, while bond, capital lease, and note payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets	849,283
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	<u>40,082</u>
Change in net assets of governmental activities	<u><u>\$ (164,576)</u></u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2012

	<u>Food Service Fund</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 372,670
Inventory	20,287
Accounts receivable	
Intergovernmental – Indirect Federal	<u>25,053</u>
Total current assets	418,010
Noncurrent Assets:	
Capital assets	478,331
Less: accumulated depreciation	<u>318,951</u>
Total noncurrent assets	<u>159,380</u>
Total assets	<u><u>\$ 577,390</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	<u>\$ 8,445</u>
Total current liabilities	8,445
Net Assets:	
Invested in capital assets, net of related debt	159,380
Restricted For:	
Inventory	20,287
New Assets	<u>389,278</u>
Total net assets	<u><u>\$ 568,945</u></u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUND

For the year ended June 30, 2012

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom sales	<u>\$ 151,648</u>
Total operating revenues	151,648
Operating Expenses:	
Employee wages and benefits	655,949
Materials and supplies	701,859
Depreciation	19,670
Other operating expenses	<u>38,642</u>
Total operating expenses	<u>1,416,120</u>
Operating loss	(1,264,472)
Non-Operating Revenues (Expenses):	
Federal grants	1,141,095
Donated commodities	68,625
State grants	180,061
Interest income	<u>2,835</u>
Total non-operating revenues	<u>1,392,616</u>
Net income (loss)	128,144
Retained earnings, July 1, 2011	<u>440,801</u>
Retained earnings, June 30, 2012	<u><u>\$ 568,945</u></u>

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

MARTIN 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 \$ 151,648
Government grants 1,395,591

Cash paid to/for:

Employees (655,949)
Material and supplies (693,931)
Other activities (38,642)

Net cash provided by operating activities 158,717

Cash Flows from Investing Activities:

Proceeds from the sale of equipment -
Purchases of capital assets -

Net cash provided by investing activities -

Cash Flows from Financing Activities:

Receipt of interest income 2,835

Net cash provided by financing activities 2,835

Net (decrease) in cash and cash equivalents 161,552

Balances, beginning of year 211,118

Balances, end of year \$ 372,670

Reconciliation of operating income (loss) to net cash provided
(used) by operating activities

Net income \$ 128,144

Adjustments to reconcile operating income to net cash provided
(used) by operating activities

Depreciation -
Interest (2,835)
Change in assets and liabilities
Receivables 5,810
Inventory 7,643
Accounts payable 285

Net cash provided by operating activities \$ 158,717

Schedule of non-cash transactions:

Donated commodities received from federal government \$ 68,625

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

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND

June 30, 2012

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 97,764
Accounts receivable	<u>70</u>
Total assets	<u>\$ 97,834</u>
Liabilities	
Accounts payable	\$ 759
Due to student groups	<u>97,075</u>
Total liabilities	<u>\$ 97,834</u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUND

For the year ended June 30, 2012

	<u>Agency Fund</u>
Additions	
School activities and project receipts	\$ 681,336
Deductions	
Cost to activities and project events	<u>694,735</u>
Change in net assets	(13,399)
Net assets, beginning of year	<u>110,474</u>
Net assets, end of year	<u><u>\$ 97,075</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Martin County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Martin 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.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The district may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

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.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

(D) Debt Service Funds
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

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.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

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

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

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.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Property Taxes

Property Tax Revenues – Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15. 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 \$.553 per \$100 valuation for real property, \$.553 per \$100 valuation for business personal property and \$.223 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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:

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Budgetary Process

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).

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. 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.

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

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 is stated at cost and uses the specific identification method and the general fund is stated at cost and uses the first-in, first-out method for inventory.

Prepaid Assets

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

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.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. All realized gains and losses and changes in fair value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 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 Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Fund equity reserves have been established for inventories and fixed assets.

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the district using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the District or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the district issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the district has designated the board to carry out the intent of the school district.

It is the policy of the district to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on that activity.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the district incurs no liability until performance has occurred on the part of the party with whom the district has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Significant encumbrances at year end are reported by major funds and no-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

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.

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 – ON-BEHALF PAYMENTS

For the year ended June 30, 2012 total payments of \$3,511,931 were made for life insurance, health insurance, and KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities. However, the on-behalf payments are not budgeted on the Budget to Actual statements.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE C – 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 D – CASH AND CASH EQUIVALENTS

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

At June 30, 2012 the carrying amount of the District's deposits was \$1,391,299 and the bank balance was \$2,381,367. The bank balance throughout the year was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

The deposits were deemed collateralized under Kentucky Law during the year and the Kentucky Department of Education maintains copies of all safekeeping receipts in the name of the District. The following is disclosed:

- a. Name of bank: Inez Deposit
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$5,500,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 Deposits which are insured to collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Deposits which are not collateralized or insured.

As of June 30, 2012 based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Breakdown per financial statements:

Governmental funds	\$ 920,865
Proprietary funds	372,670
Agency funds	<u>97,764</u>
	<u>\$1,391,299</u>

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE E – INVESTMENTS

At year end the District's investment was as follows:

Certificate of deposit	<u>Fair Value</u> <u>\$10,542</u>
------------------------	--------------------------------------

Martin County School District has a certificate of deposit at Inez Deposit Bank that matures every 24 months. This CD has a fixed interest rate of 2.0%. Interest from this CD is reinvested quarterly back into the CD.

NOTE F – CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Construction work in progress	\$ 4,021,126	\$ -	\$4,021,126	\$ -
Land	480,112	-	-	480,112
Land improvements	381,908	-	-	381,908
Infrastructure	718,961	-	-	718,961
Buildings and improvements	22,302,346	5,029,078	-	27,331,424
Technology equipment	3,607,753	5,480	-	3,613,233
Vehicles	3,038,509	190,577	-	3,229,086
General equipment	1,373,993	-	-	1,373,993
Totals at historical cost	<u>35,924,708</u>	<u>5,225,135</u>	<u>4,021,126</u>	<u>37,128,717</u>
Less: accumulated depreciation				
Land improvements	266,790	6,067	-	272,857
Infrastructure	22,876	35,956	-	58,832
Buildings and improvements	7,928,927	515,857	-	8,444,784
Technology equipment	2,929,272	292,117	-	3,221,389
Vehicles	2,638,830	78,358	-	2,717,188
General equipment	377,182	67,276	-	444,458
Total accumulated depreciation	<u>14,163,877</u>	<u>995,631</u>	<u>-</u>	<u>15,159,508</u>
Governmental Activities Capital Assets – Net	<u>\$21,760,831</u>	<u>\$4,229,504</u>	<u>\$4,021,126</u>	<u>\$21,969,209</u>
<u>Business-Type Activities</u>				
General equipment	\$ 464,740	\$ -	\$ -	\$ 464,740
Technology equipment	13,591	-	-	13,591
Totals at historical cost	<u>478,331</u>	<u>-</u>	<u>-</u>	<u>478,331</u>
Less: accumulated depreciation				
General equipment	285,690	19,670	-	305,360
Technology equipment	13,591	-	-	13,591
Total accumulated depreciation	<u>299,281</u>	<u>19,670</u>	<u>-</u>	<u>318,951</u>
Business-Type Activities Capital Assets – Net	<u>\$ 179,050</u>	<u>\$ 19,670</u>	<u>\$ -</u>	<u>\$ 159,380</u>

Depreciation expense has been charged to the following functions in the statement of activities.

Instruction	\$ 846,500
Student support	38,627
Instruction – staff	1,082
District administrative	16,116
School administrative	557
Plant operation and maintenance	1,842
Student transportation	88,624
Community service	2,283
Food service	19,670
	<u>\$1,015,301</u>

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS

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

<u>Issue Date</u>	<u>Amounts</u>	<u>Interest Rates</u>
2001	\$ 685,000	3.50% - 4.35%
2004 Refinancing	5,010,000	1.30% - 3.83%
2009 Refinancing	4,365,000	1.00% - 3.50%
2010	2,400,000	.90% - 4.30%
2010	3,300,000	.70% - 5.00%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Martin County School District Finance Corp. to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

On October 14, 2010, the District issued \$3,300,000 in School Building Revenue Bonds (second series 2010) with an interest rate ranging from .70% to 5.00% to finance a new addition to Warfield Elementary. The plan for financing the project will require the Commission to pay 100% of the debt service of the bonds.

On January 5, 2010, the District issued \$2,400,000 in School Building Revenue Bonds (series 2010) with an interest rate ranging from .90% to 4.30% to finance a new addition to Inez Elementary. The plan for financing the project will require the Commission to pay 100% of the debt service of the bonds.

On April 29, 2009, the District refinanced the School Building Revenue Bonds (Series 2000) with a cumulative savings of \$266,286. The new 2009 bond series was issued for \$4,365,000 with an interest rate ranging from 1.00% to 3.50%. The proceeds were put in an escrow to call the series 2000 bond over a two year period.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school Districts in meeting school construction needs. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

<u>YEAR</u>	<u>MARTIN COUNTY SCHOOL DISTRICT</u>		<u>KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION</u>		<u>TOTAL REQUIREMENTS FOR YEAR</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012-2013	\$ 568,234	\$ 122,873	\$ 446,766	\$ 238,418	\$ 1,376,291
2013-2014	580,847	104,296	454,153	229,609	1,368,905
2014-2015	602,241	84,013	462,759	219,750	1,368,763
2015-2016	300,073	59,204	409,927	208,081	977,285
2016-2017	310,259	50,424	419,741	197,077	977,501
2017-2018	320,090	40,969	429,910	184,769	975,738
2018-2019	334,670	30,980	440,330	171,418	977,398
2019-2020	358,802	19,872	456,198	156,572	991,444

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS – CONTINUED

2020-2021	398,634	6,976	416,366	141,036	963,012
2021-2022	-	-	285,000	127,920	412,920
2022-2023	-	-	295,000	116,871	411,871
2023-2024	-	-	305,000	105,157	410,157
2024-2025	-	-	315,000	92,873	407,873
2025-2026	-	-	325,000	79,715	404,715
2026-2027	-	-	335,000	65,975	400,975
2027-2028	-	-	345,000	51,442	396,442
2028-2029	-	-	360,000	36,273	396,273
2029-2030	-	-	370,000	20,301	390,301
2030-2031	-	-	180,000	4,365	184,365
	<u>\$3,773,850</u>	<u>\$519,607</u>	<u>\$7,051,150</u>	<u>\$2,447,622</u>	<u>\$13,792,229</u>

During the year ended June 30, 2012 the District's debt obligation was as follows:

<u>AMOUNT OUTSTANDING 6/30/11</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>AMOUNT OUTSTANDING 6/30/12</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
\$11,800,000	\$ -	\$975,000	\$10,825,000	\$1,015,000

NOTE H – LONG-TERM DEBT

During the fiscal year ended June 30, 2012 Martin County School District's debt obligation was as follows:

<u>AMOUNT OUTSTANDING 6/30/11</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>AMOUNT OUTSTANDING 6/30/12</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
\$112,500	\$ -	\$18,750	\$93,750	\$18,750

The Department for Regional Development's semi-annual payment shall be made over a period of twelve (12) years, 24 payments in total, and the unpaid balance would bear interest at the fixed rate of two (2) percent. The debt is collateralized by the C & S Vault building and final payment due January 1, 2017. The minimum obligations of the funds at June 30, 2012 for long-term debt (principal and interest) are as follows:

<u>YEAR ENDING 6/30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL REQUIREMENTS FOR YEAR</u>
2013	\$18,750	\$3,188	\$ 21,938
2014	18,750	2,438	21,188
2015	18,750	1,687	20,437
2016	18,750	937	19,687
2017	<u>18,750</u>	<u>187</u>	<u>18,937</u>
	<u>\$93,750</u>	<u>\$8,437</u>	<u>\$102,187</u>

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE I – CAPITAL LEASE PAYABLE

On October 14, 2008, the Kentucky Interlocal School Transportation Association entered into a lease with the Martin County School District. The District received \$246,263 in school buses and has elected to make payments over a 10 year period with an interest rate ranging from 2.00% - 3.90%

On September 1, 2006, the Kentucky Interlocal School Transportation Association entered into a lease with the Martin County School District. The District received \$305,320 in school buses and has elected to make payments over a 10 year period with an interest rate ranging from 3.50% - 3.875%.

On February 1, 2012, the Kentucky Interlocal School Transportation Association entered into a lease with the Martin County School District. The District received \$197,650 in school buses and has elected to make payments over a 10 year period with an interest rate ranging from 2.0% - 2.625%.

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

<u>Classes of Property</u>	<u>Book value as of June 30, 2012</u>
School buses	\$528,838

The following is a schedule of Equipment Lease Certificates of Participation, second series of 2006, series of 2009, and series of 2012 by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Martin County School District</u>		<u>Total Requirement For Year</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 76,426	\$15,970	\$ 92,396
2014	79,113	13,555	92,668
2015	77,654	11,199	88,853
2016	74,236	8,776	83,012
2017	76,541	6,441	82,982
2018-2022	<u>142,754</u>	<u>9,582</u>	<u>152,336</u>
	<u>\$526,724</u>	<u>\$65,523</u>	<u>\$592,247</u>

Present value of net minimum lease payments \$528,838

NOTE J – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District had no commitments under noncapitalized leases at June 30, 2012.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE K – PENSION PLANS

KENTUCKY TEACHER' RETIREMENT

The Martin County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

Funding Policy – Contribution rates are established by KRS. Members who established an account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 2008 contribute an additional 0.5%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011-2012 fiscal year.

The Martin County School District total payroll for the year was \$14,195,475. The payroll for employees covered under KTRS was \$9,895,000. For the year ended June 30, 2012, the Commonwealth contributed \$1,367,342 to KTRS for the benefit of participating employees. The School Districts contributions to KTRS for the year ending June 30, 2012 were \$337,978, which represents those employees covered by federal programs.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE K – PENSION PLANS – CONTINUED

COUNTY EMPLOYEES' RETIREMENT SYSTEM

Classified employees (substantially all full-time Board employees other than certified employees) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature.

Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5.00% of their annual salary if hired before September 1, 2008 and 6% if hired on or after September 1, 2008 through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 18.96% of the employee's total covered compensation. The District's contributions to CERS for the year ended June 30, 2012 was \$903,013, which consisted of \$710,252 from the District and \$192,761 from the employees.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE L - 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 M - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE N - 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 rated which includes Workers' Compensation insurance.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE O - RISK MANAGEMENT

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

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

General Fund	\$ 40,480
Construction Fund	1,235,645
Fiduciary Fund	13,399

NOTE Q - 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).

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2012

NOTE R - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	FSPK	Debt Service	Debt Service	\$680,629
Operating	Capital Outlay	General Fund	General Fund	194,915
Operating	General	Debt Service	Debt Service	22,688

NOTE S – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2012.

NOTE T – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 9, 2012, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

MARTIN COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

GENERAL FUND

For the year ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources				
Taxes				
Property	\$ 2,569,790	\$ 2,511,075	\$ 2,246,068	\$ (265,007)
Motor vehicle	142,600	142,600	146,436	3,836
Utilities	900,000	900,000	834,195	(65,805)
Unmined minerals	457,113	457,113	629,735	172,622
Earnings on investments	9,500	9,500	5,818	(3,682)
Other local revenues	42,800	42,800	36,747	(6,053)
Intergovernmental - State	8,788,461	8,788,461	12,452,459	3,663,998
Intergovernmental - Indirect Federal	-	-	-	-
Total revenues	12,910,264	12,851,549	16,351,458	3,499,909
Expenditures:				
Instruction	7,201,900	7,201,900	9,431,056	(2,229,156)
Support services:				
Student	784,135	784,135	788,109	(3,974)
Instruction staff	447,023	447,023	1,036,834	(589,811)
District administrative	1,167,761	1,167,761	942,446	225,315
School administrative	275,928	275,928	314,789	(38,861)
Business	290,271	290,272	359,328	(69,056)
Plant operation and maintenance	1,830,216	1,830,216	2,166,025	(335,809)
Student transportation	1,285,923	1,285,923	1,451,220	(165,297)
Central office	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Community service activities	9,250	9,250	9,941	(691)
Other	66,418	66,417	66,417	-
Total expenditures	13,358,825	13,358,825	16,566,165	(3,207,340)
Excess (deficit) of revenues over expenditures	(448,561)	(507,276)	(214,707)	292,569
Other Financing Sources (Uses):				
Sale of equipment	-	-	2,000	2,000
Operating transfers in	186,410	186,410	194,915	8,505
Operating transfers out	(22,688)	(22,688)	(22,688)	-
Total other financing sources (uses)	163,722	163,722	174,227	10,505
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(284,839)	(343,554)	(40,480)	303,074
Fund balance, July 1, 2011	284,839	343,554	517,912	174,358
Fund balance, June 30, 2012	\$ -	\$ -	\$ 477,432	\$ 477,432

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

MARTIN 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

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Earnings on investments	\$ -	\$ -	\$ 2,189	\$ 2,189
Other local revenue	-	24,806	103,942	79,136
State aid	738,378	634,247	548,119	(86,128)
Federal aid	3,209,381	3,245,824	4,797,367	1,551,543
Total revenues	3,947,759	3,904,877	5,451,617	1,546,740
Expenditures:				
Current:				
Instruction	2,513,358	2,455,324	3,458,427	(1,003,103)
Support Services:				
Student	571,982	570,481	685,236	(114,755)
Instructional staff	322,295	322,550	200,484	122,066
District administration	-	-	-	-
School administration	-	-	509,896	(509,896)
Business	51,724	51,724	47,919	3,805
Plant operations and maintenance	-	-	-	-
Student transportation	148,895	148,895	144,566	4,329
Central office	-	-	-	-
Community services activities	299,505	315,903	365,089	(49,186)
Land improvements	40,000	40,000	40,000	-
Total expenditures	3,947,759	3,904,877	5,451,617	(1,546,740)
Excess of (deficit) revenues over expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balance July 1, 2011	-	-	-	-
Fund Balance June 30, 2012	\$ -	\$ -	\$ -	\$ -

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

COMBINING STATEMENTS – NONMAJOR FUNDS

MARTIN COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	<u>Debt Service Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Permanent Trust Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets and Resources:				
Cash and cash equivalents	\$ -	\$ -	\$ 3,456	\$ 3,456
Investments	-	-	10,435	10,435
Total assets and resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,891</u>	<u>\$ 13,891</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	-	-	-	-
Fund Balances:				
Assigned To:				
Permanent fund	<u>-</u>	<u>-</u>	<u>13,891</u>	<u>13,891</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>13,891</u>	<u>13,891</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,891</u>	<u>\$ 13,891</u>

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

MARTIN COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**
For the year ended June 30, 2012

	Debt Service Fund	SEEK Capital Outlay Fund	Permanent Trust Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	-	181	181
Other local revenues	-	-	1,945	1,945
Intergovernmental - State	681,483	194,915	-	876,398
Intergovernmental - Indirect Federal	-	-	-	-
	<u>681,483</u>	<u>194,915</u>	<u>2,126</u>	<u>878,524</u>
Total revenues	681,483	194,915	2,126	878,524
Expenditures:				
Instruction	-	-	-	-
Support services:				
Student	-	-	-	-
Instruction staff	-	-	-	-
Direct administrative	-	-	-	-
School administrative	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Facilities and construction	-	-	-	-
Community service activities	-	-	2,000	2,000
Other	1,384,800	-	-	1,384,800
	<u>1,384,800</u>	<u>-</u>	<u>2,000</u>	<u>1,386,800</u>
Total expenditures	1,384,800	-	2,000	1,386,800
Excess (deficit) of revenues over expenditures	(703,317)	194,915	126	(508,276)
Other Financing Sources (Uses)				
Bond refinancing proceeds	-	-	-	-
Operating transfers in	703,317	-	-	703,317
Operating transfers out	-	(194,915)	-	(194,915)
Non operating transfers in	-	-	-	-
Non operating transfers out	-	-	-	-
	<u>703,317</u>	<u>(194,915)</u>	<u>-</u>	<u>508,402</u>
Total other financing sources (uses)	703,317	(194,915)	-	508,402
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	126	126
Fund balance, July 1, 2011	-	-	13,765	13,765
Fund balance, June 30, 2012	\$ -	\$ -	\$ 13,891	\$ 13,891

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

OTHER COMBINING STATEMENTS AND SCHOOL ACTIVITY FUNDS

MARTIN COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2012

	Sheldon Clark High School	Warfield Elementary	Inez Elementary	Warfield Middle School	Eden Elementary	Inez Middle School	Totals
Assets							
Cash	\$ 20,692	\$ 12,780	\$ 4,236	\$ 11,694	\$ 39,794	\$ 8,568	\$ 97,764
Accounts receivable	70	-	-	-	-	-	70
Total assets	<u>\$ 20,762</u>	<u>\$ 12,780</u>	<u>\$ 4,236</u>	<u>\$ 11,694</u>	<u>\$ 39,794</u>	<u>\$ 8,568</u>	<u>\$ 97,834</u>
Liabilities and Fund Balances							
Accounts payable	\$ 675	\$ 84	-	\$ -	\$ -	\$ -	\$ 759
Due to student groups	20,087	12,696	4,236	11,694	39,794	8,568	97,075
Total liabilities	<u>\$ 20,762</u>	<u>\$ 12,780</u>	<u>\$ 4,236</u>	<u>\$ 11,694</u>	<u>\$ 39,794</u>	<u>\$ 8,568</u>	<u>\$ 97,834</u>

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

MARTIN COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES DUE TO STUDENT GROUPS

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2012

	Sheldon Clark High School	Warfield Elementary	Inez Elementary	Warfield Middle School	Eden Elementary	Inez Middle School	Totals
Revenues:							
School activities and projects funds	\$ 141,723	\$ 70,753	\$ 92,970	\$ 43,778	\$ 70,146	\$ 57,437	\$ 476,807
Athletic fund	<u>136,800</u>	<u>9,662</u>	<u>6,723</u>	<u>20,962</u>	<u>8,057</u>	<u>22,325</u>	<u>204,529</u>
Total revenues	<u>278,523</u>	<u>80,415</u>	<u>99,693</u>	<u>64,740</u>	<u>78,203</u>	<u>79,762</u>	<u>681,336</u>
Expenditures:							
School activities and projects funds	147,781	75,004	97,447	42,284	65,487	55,878	483,881
Athletic fund	<u>140,633</u>	<u>8,441</u>	<u>7,345</u>	<u>20,962</u>	<u>10,378</u>	<u>23,095</u>	<u>210,854</u>
Total expenditures	<u>288,414</u>	<u>83,445</u>	<u>104,792</u>	<u>63,246</u>	<u>75,865</u>	<u>78,973</u>	<u>694,735</u>
Excess (deficit) of revenues over expenditures before other financing sources (uses)	(9,891)	(3,030)	(5,099)	1,494	2,338	789	(13,399)
Fund balances, July 1, 2011	<u>29,978</u>	<u>15,726</u>	<u>9,335</u>	<u>10,200</u>	<u>37,456</u>	<u>7,779</u>	<u>110,474</u>
Fund balances, June 30, 2012	<u>\$ 20,087</u>	<u>\$ 12,696</u>	<u>\$ 4,236</u>	<u>\$ 11,694</u>	<u>\$ 39,794</u>	<u>\$ 8,568</u>	<u>\$ 97,075</u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS DUE STUDENT GROUPS

SCHOOL ACTIVITY FUNDS - SHELDON CLARK HIGH SCHOOL (AGENCY FUND)

For the year ended June 30, 2012

<u>Name of Activity:</u>	Cash			Cash	Accounts	Accounts	Fund
	<u>Balances</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances</u>	<u>Receivable</u>	<u>Payable</u>	<u>Balances</u>
	<u>July 1, 2011</u>			<u>June 30, 2012</u>	<u>June 30, 2012</u>	<u>June 30, 2012</u>	<u>June 30, 2012</u>
Academic	\$ 1,065	\$ 1,906	\$ 2,033	\$ 938	\$ -	\$ -	\$ 938
Art Club	887	-	250	637	-	-	637
Athletics	7,654	136,800	140,633	3,821	-	-	3,821
Band	2,110	8,122	9,541	691	-	-	691
Book Club	-	1,029	905	124	-	-	124
Cheerleaders' Fund	247	10,329	10,576	-	-	-	-
Dance Team	-	6,164	6,164	-	-	-	-
Drama	-	233	233	-	-	-	-
E Discovery	-	990	345	645	-	-	645
Environmental Club	219	-	-	219	-	-	219
FCA	4,628	848	2,249	3,227	-	-	3,227
FCCLA Fund	-	10,730	9,936	794	-	675	119
General Fund	740	25,769	25,885	624	70	-	694
Interact	181	-	181	-	-	-	-
JKG	1,145	150	814	481	-	-	481
JROTC	114	12,136	10,432	1,818	-	-	1,818
Library Club	55	2,072	2,127	-	-	-	-
Key Club	33	-	33	-	-	-	-
Prom	1,023	12,325	11,506	1,842	-	-	1,842
Scholarship Fund	5,150	2,300	3,300	4,150	-	-	4,150
School Store	-	36,135	36,135	-	-	-	-
Spanish Trip	50	-	50	-	-	-	-
Staff Vending	2,680	2,346	4,881	145	-	-	145
Student Council	105	-	105	-	-	-	-
Yearbook	1,006	9,091	9,561	536	-	-	536
Totals	\$ 29,092	\$ 279,475	\$ 287,875	\$ 20,692	\$ 70	\$ 675	\$ 20,087

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

MARTIN COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

For the year ended June 30, 2012

	<u>Issue of 2010 WES</u>	<u>Issue of 2001</u>	<u>Issue of 2004 Refunding</u>	<u>Issue of 2009 Refunding</u>	<u>Issue of 2010 IES</u>	<u>Note Payable - Building</u>	<u>Total Debt Service Funds</u>
Revenues:							
Intergovernmental - State	\$ 254,650	\$ -	\$ 62,660	\$ 194,043	\$ 170,130	\$ -	\$ 681,483
Earnings on Investments	-	-	-	-	-	-	-
Total revenues	<u>254,650</u>	<u>-</u>	<u>62,660</u>	<u>194,043</u>	<u>170,130</u>	<u>-</u>	<u>681,483</u>
Expenditures:							
Current:							
Note payments	-	-	-	-	-	18,750	18,750
Note interest	-	-	-	-	-	3,938	3,938
Bond payments	140,000	75,000	495,000	175,000	90,000	-	975,000
Bond interest	114,650	1,631	77,799	112,902	80,130	-	387,112
Total expenditures	<u>254,650</u>	<u>76,631</u>	<u>572,799</u>	<u>287,902</u>	<u>170,130</u>	<u>22,688</u>	<u>1,384,800</u>
Excess (deficit) of revenues over expenditures	-	(76,631)	(510,139)	(93,859)	-	(22,688)	(703,317)
Other Financing Sources (Uses):							
Bond proceeds	-	-	-	-	-	-	-
Operating transfers in	-	76,631	510,139	93,859	-	22,688	703,317
Non operating transfers in	-	-	-	-	-	-	-
Non operating transfers out	-	-	-	-	-	-	-
Total other financing sources (use)	<u>-</u>	<u>76,631</u>	<u>510,139</u>	<u>93,859</u>	<u>-</u>	<u>22,688</u>	<u>703,317</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-	-	-	-
Fund balance, July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

MARTIN COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2012

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. DEPT. OF AGRICULTURE</u>			
Passed Through State Dept. of Education:			
<u>CHILD NUTRITION CLUSTER</u>			
National School Lunch Program	10.555	7750002 11 7750002 12	\$ 170,361 588,272 <u>758,633</u>
Passed Through State Dept. of Agriculture:			
Food Donation (In-Kind Commodities)	10.555	1006	68,625 <u>827,258</u>
School Breakfast Program	10.553	7760005 11 7760005 12	70,247 266,757 <u>337,004</u>
Summer Food Service Program for Children	10.559	7690024 11 7690024 12 7740023 11 7740023 12	3,410 451 32,690 6,245 <u>42,796</u> 1,207,058
Fresh Fruit and Vegetable Program	10.582	7720012 11	6,761 <u>1,213,819</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>1,213,819</u>
<u>U.S. DEPT. OF EDUCATION</u>			
Passed Through State Dept. of Education:			
<u>Title I, PART A CLUSTER</u>			
ARRA - Title I - Grants to Local Educational Agencies, Recovery Act	84.389	4100002 09	428,134 <u>963,598</u>
Title I - Grants to Local Educational Agencies	84.010	3100002 10 3100002 11 3100202 10	1,240,601 56,244 <u>2,260,443</u> 2,688,577
<u>EDUCATION TECHNOLOGY STATE GRANTS CLUSTER</u>			
Education Technology State Grants	84.318	3210002 09 3210002 10	11,225 5,730 <u>16,955</u>
ARRA Education Technology State Grants, Recovery Act	84.386	4210002 09	72,191 <u>89,146</u>
Education Jobs Fund	84.410	EJOB00 10	390,659 <u>359,779</u>
School Improvement Grants	84.377	3100302 10	359,779 <u>6,471</u>
Career and Technical Education - Basic Grants to States	84.048	4621010 10 4621132 11	13,100 <u>19,571</u>
Improving Teacher Quality - State Grants	84.367	3230002 09 3230002 10 3230003 10	19,409 254,586 375 <u>274,370</u>
Rural Education	84.358	3140002 09	36,807 <u>3,858,909</u>

The accompanying notes are an integral part of this schedule.

(Continued next page)

**MARTIN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2012**

(Concluded)

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>SPECIAL EDUCATION CLUSTER (IDEA)</u>			
Special Education - Grants to States	84.027	3810002 10 3810002 11	38,148 537,123 <hr/> 575,271
Special Education - Preschool Grants	84.173	3800002 10 3800002 11	9,388 24,254 <hr/> 33,642 <hr/> 608,913
Passed through Morehead State University: Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3796	<hr/> 132,065
TOTAL U.S. DEPT. OF EDUCATION			<hr/> 4,599,887
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through Big Sandy Area Community Action Program, Inc.: Head Start	93.600	04CH071245 04CH071246	335,917 524,771 <hr/> 860,688
Passed through Morehead State University: Specially Selected Health Projects	93.888	0125T	<hr/> 40,000
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<hr/> 900,688
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed through State Department of Education: WIA - Audit	17.258	273SR10 10	12,365 <hr/> 12,365
TOTAL U.S. DEPARTMENT OF LABOR			<hr/> 12,365
Passed through Unite, Inc: Edward Byrne Memorial State and Local Law Enforcement Assistance Grant	16.580	3001	11,434 <hr/> 11,434
TOTAL U.S. DEPARTMENT OF JUSTICE			<hr/> 11,434
TOTAL FEDERAL FINANCIAL ASSISTANCE			<hr/> \$ 6,738,193

The accompanying notes are an integral part of this schedule.

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2012, the District had no food commodities in inventory.

NOTE C – TYPE A PROGRAMS

Type A programs for the Martin County School District is any program for which total expenditures of federal awards exceeded \$300,000 for fiscal year 2012. The District had the following programs and clusters that met the Type A program definition for fiscal year 2012:

<u>CFDA#</u>	<u>PROGRAM TITLE</u>	<u>EXPENDITURES</u>
Child Nutrition Cluster:		
10.555	Food Donation (In-Kind Commodities)	\$ 68,625
10.555	National School Lunch Program	758,633
10.553	School Breakfast Program	337,004
10.559	Summer Food Service Program for Children	42,796
		<u>1,207,058</u>
Title I, Part A Cluster:		
84.389	ARRA – Title I – Grants to Local Educational Agencies, Recovery Act	428,134
84.010	Title I – Grants to Local Educational Agencies	2,260,443
		<u>2,688,557</u>
Special Education Cluster (IDEA):		
84.027	Special Education – Grants to States	575,271
84.173	Special Education – Preschool Grants	33,642
		<u>608,913</u>
93.600	Head Start	860,688
84.377	School Improvement Grants	359,779
84.410	Education Jobs Fund	390,659
		<u>390,659</u>
	Total Type A Programs	<u>\$6,115,674</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARTIN 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 auditor's report issued *unqualified*.

Internal control over financial reporting:

Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs *unqualified*.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title 1 – Grants to Local Educational Agencies
84.389	ARRA – Title 1 Grants to Local Educational Agencies, Recovery Act
84.377	School Improvement Grants
84.318	Education Technology
84.386	ARRA – Education Technology State Grants, Recovery Act
84.410	Education Jobs Fund
93.888	Specially Selected Health Projects

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

Auditee qualified as low-risk auditee? yes no

SECTION II - FINDINGS-FINANCIAL STATEMENTS AUDIT

Head Start 2012-1 Books Not Balanced

Condition: Management over the Head Start Program did not reconcile cash to monthly general ledger balances.

Criteria: Bank reconciliations are to be done monthly and agreed back to the general ledger for accuracy.

Cause of Condition: Management will not compare general ledger to bank reconciliation.

Effect: The books were out of balance.

Recommendation: Management is to be made aware of their job duties and properly trained.

Management Response: We were unaware this was happening. We will see that everyone is properly trained and made aware of their job duties.

SECTION III – FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

The audit did not disclose any audit findings.

MARTIN COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2012

All prior year comments were addressed by the District. Corrections were initiated and improvements made in the documentation that was recommended.

**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***



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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

Members of the Board of Education
Martin County School District
Inez, 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 Martin County School District, as of and for the year ended June 30, 2012, which collectively comprise the Martin County School District's basic financial statements and have issued our report thereon dated October 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report and appropriately referenced in the various reports within the audit.

Internal Control Over Financial Reporting

Management of Martin County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Martin 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 Martin County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Martin 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 a 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 the 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 Martin 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix ii of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Martin County School District, in a separate letter dated October 9, 2012.

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

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Martin 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. However, this report is a matter of public record and its distribution is not limited.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 9, 2012

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



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

Members of the Board of Education
Martin County School District
Inez, Kentucky

Compliance

We have audited Martin County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Martin County School District's major federal programs for the year ended June 30, 2012. Martin 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 Martin County School District's management. Our responsibility is to express an opinion on Martin 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*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, and Appendix II to the Independent Auditor's Contract – State Audit Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Martin 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 Martin County School District's compliance with those requirements.

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

Internal Control Over Compliance

Management of Martin 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 Martin County School District's internal control

over compliance with the requirements that could have a direct and material effect on a major federal program to determine 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 Martin 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Martin 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. However, this report is a matter of public record and its distribution is not limited.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 9, 2012

MANAGEMENT LETTER COMMENTS



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Martin County School District
Inez, Kentucky

In planning and performing our audit of the financial statements of Martin County School District for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 9, 2012 contains our report on the District's internal control structure. This letter does not affect our report dated October 9, 2012 on the financial statements of the Martin County School District.

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 their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Wells & Company, P.S.C.

Certified Public Accountants
Paintsville, Kentucky
October 9, 2012

MARTIN COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2012

PRIOR YEAR COMMENTS

All prior year comments were addressed by the District. Corrections were initiated and improvements made in the documentation that was recommended.

MARTIN COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2012

CURRENT YEAR COMMENTS

HighSchool/Middle School/Elementary Schools 12-1 Multiple Receipt Forms Not Completed

Condition: Teachers were not having the students sign the multiple receipt form nor turning supporting documents in to the bookkeeper for verification of monies collected.

Criteria: Multiple receipt forms are to be accurately completed and turned into the bookkeeper for back up when collecting money.

Cause of Condition: Principals are failing to enforce this requirement.

Effect: Bookkeeper has no idea if all money collected is being turned in for deposit.

Recommendation: We recommend that multiple receipts forms are completed by teachers and signed by students when money is collected from or issued to students. The multiple receipt forms should be turned into bookkeeping daily.

Management Response: Principals will be made aware of this requirement and asked to have their teachers comply.

Activity Fund 12-2 Fundraiser Worksheets Not Completed

Condition: We discovered that fundraiser worksheets are not being completed with each fundraiser at Sheldon Clark High School and Inez Middle School.

Criteria: Fundraiser worksheets help determine profit/loss and ending inventory.

Cause of Condition: Principals failed to enforce teachers to use the fundraiser worksheets with each fundraiser.

Effect: Profits and ending inventory are not being monitored.

Recommendation: We recommend that all schools use this worksheet with each fundraiser.

Management Response: Principals will be made aware of this form and will be required to use them on all fundraisers.