

MAGOFFIN COUNTY BOARD OF EDUCATION

FINANCIAL STATEMENTS  
SUPPLEMENTARY INFORMATION  
And  
INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2013

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**Unmodified Opinions on Basic Financial Statements Accompanied by  
Required Supplementary Information and Other  
Information – State or Local Governmental Entity**

INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits  
Members of the Board of Education  
Magoffin County Board of Education  
Salyersville, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Magoffin County Board of Education as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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 and Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 and budgetary comparison information on pages 42 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The combining statements for nonmajor governmental funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Magoffin County High School, and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements for nonmajor funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Magoffin County High School, and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other

additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements for nonmajor funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Magoffin County High School, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

*Denise M. Keene*

Denise M. Keene, CPA  
Georgetown, Kentucky  
November 12, 2013

**MAGOFFIN COUNTY BOARD OF EDUCATION  
SALYERSVILLE, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

As management of the Magoffin 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, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

The beginning cash balance, including activity funds, for the District was \$3,770,270. The ending cash balance, including activity funds, for the District was \$10,955,221.

The General Fund had \$16,652,570 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfer, there were \$15,980,126 in General Fund expenditures. This includes on-behalf payments.

During the fiscal year the District was notified the Kentucky School Board Insurance Trust (KSBIT) would be dissolving as the self insurance provider for school districts in Kentucky. KSBIT has informed Districts there is an unfunded liability that will be assessed. However, the exact amount of the assessment has not been determined.

The board hired Stanley Holbrook as the new superintendent July 1, 2012.

The board hired Sanford Holbrook as the new finance director July 5, 2012. In addition, a consultant was hired to assist in training the new finance officer.

The board appointed Michelle Howard as Treasurer, effective July 1, 2012.

The Board declared the "Old Head Start Building" located at Salyersville Grade School as surplus and approved the bid to demo the building for \$17,000.

The Board approved the compensating tax rate for Real Estate and Personal Property at \$40.5 per \$100. plus 0.4 cents to recover prior year losses.

The District purchased one acre tract of property adjacent to the Magoffin County High School.

The District sold land adjacent to South Magoffin Elementary to the Civil War Reenactment Group.

The District purchased property for a new High School. The Board declared the barn and silo located on new property as surplus. The Board approved the BG-1 for the new high school and athletic complex.

Handling a declining student enrollment has been costly. Our district has been able to curb expenses and make cuts everywhere possible while holding education of our students as harmless as possible. We are now taking in more than we are spending, putting a hold on the decline. We were able to reinstate most extended days for staff members, which is a highlight for our administration.

## 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) district-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.

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

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

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

The district-wide financial statements can be found on pages 13 and 14 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 is food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 15-22 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 district-wide and fund financial statements. The notes to the financial statements can be found on pages 23-40 of this report.

## DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$24.6 million as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital 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. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

### Net position for the period ending June 30, 2013 and 2012

2012 District-wide net position compared to 2013 are as follows:

	Net Position (in thousands)					
	Governmental		Business-type		Total	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Assets	\$46,648	\$58,877	\$328	\$659	\$46,976	\$59,536
Deferred Outflows of Resources	\$521	\$482	\$0	\$0	\$521	\$482
Liabilities	\$28,286	\$29,002	\$1	\$2	\$28,287	\$29,004
Deferred Inflows of Resources	\$82	\$5,712	\$0	\$0	\$82	\$5,712
Investment in capital assets (net of debt)	\$14,778	\$21,241	\$41	\$14	\$14,819	\$21,255
Restricted	2,017	1,848	286	643	2,303	2,491
Unrestricted	<u>2,006</u>	<u>1,556</u>	<u>0</u>	<u>0</u>	<u>2,006</u>	<u>1,556</u>
<b>Total Net Position</b>	\$18,801	\$24,645	\$327	\$657	\$19,128	\$25,302

### 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 year, but are reflected in the district overall budget. By law the budget must have a minimum 2 percent contingency. The district adopted a budget with \$631,695 in contingency, which is 3.9 percent.

## Comments on Budget Comparisons

The original budget was amended to reflect changes in the site based allocations and anticipated revenues. The changes made were based on more accurate data being available after the first couple of months of the fiscal year.

The District recorded "On-Behalf" payments as revenues and expenditures during the fiscal year. "On-Behalf" payments were not included in the budget. Therefore budget comparisons have some large negative variances. Caution should be used when reading the budget comparison reports.

	Changes in Net Position (in thousands)					
	Governmental		Business-type		Total	
Revenues	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Local Revenue Sources	\$2,780	\$2,707	\$192	\$116	\$2,972	\$2,823
State Revenue Sources	17,583	17,450	102	85	17,685	17,535
Federal Revenue Sources	4,306	3,419	1,205	1,457	5,511	4,876
Investments	<u>4</u>	<u>27</u>	<u>0</u>	<u>1</u>	<u>4</u>	<u>28</u>
<b>Total Revenues</b>	<b>24,673</b>	<b>23,603</b>	<b>1,499</b>	<b>1,659</b>	<b>26,172</b>	<b>25,262</b>
<b>Expenses</b>						
Instruction	12,331	12,283			12,331	12,283
Student Support Services	1,270	1,257			1,270	1,257
Instructional Support	1,390	1,183			1,390	1,183
District Administration	713	624			713	624
School Administration	1,596	1,203			1,596	1,203
Business Support	337	383			337	383
Plant Operations	2,278	1,518			2,278	1,518
Student Transportation	1,689	1,553			1,689	1,553
Facilities Acquisition & Construction	483	5,854			483	5,854
Community Support	449	426			449	426
Food Service			1,460	1,329	1,460	1,329
Debt Service	<u>2,571</u>	<u>2,514</u>	<u>0</u>	<u>0</u>	<u>2,571</u>	<u>2,514</u>
<b>Total Expenses</b>	<b>25,107</b>	<b>28,798</b>	<b>1,460</b>	<b>1,329</b>	<b>26,567</b>	<b>30,127</b>
Loss Compensation	867	5,697			867	5,697
Gain (Loss) on Sale of Assets	309	51	(6)		303	51
<b>Change in Net Position</b>	<b>742</b>	<b>553</b>	<b>33</b>	<b>330</b>	<b>775</b>	<b>883</b>
<b>Beginning Net Position</b>	<b><u>3,520</u></b>	<b><u>4,262</u></b>	<b><u>294</u></b>	<b><u>327</u></b>	<b><u>3,814</u></b>	<b><u>4,589</u></b>
<b>Ending Net Position</b>	<b>\$4,262</b>	<b>\$4,815</b>	<b>\$327</b>	<b>\$657</b>	<b>\$4,589</b>	<b>\$5,472</b>

The government's overall financial position and results of operations improved as a result of the year's operations as reflected in the increase in net position for the year.

## INFRASTRUCTURE

The District has not reported any infrastructure in the current financial statements.

**Analysis of balances and transactions of individual funds (in thousands)**

Fund	Beginning	Revenues	Expenses	Transfer	Ending
General Fund	\$2,284	\$16,748	\$15,980	(\$47)	\$3,005
Special Revenue	\$0	\$4,485	\$4,532	\$47	\$0
Capital Outlay	\$0	\$195	\$0	(\$176)	\$19
Building	\$32	\$707	\$0	(\$707)	\$32
Construction	\$1,942	\$14	\$5,854	\$5,653	\$1,755
Debt Service	\$3	\$1,550	\$2,433	\$883	\$3

**Capital Assets and Long-Term Debt Activity (in thousands)**

	Beginning	Additions	Deductions	Ending
<b>Governmental</b>				
Capital Assets	\$53,243	\$6,781	\$596	\$59,428
Accumulated Depreciation	\$11,123	\$1,677	\$545	\$12,255
<b>Business-Type</b>				
Capital Assets	\$435	\$0	\$0	\$435
Accumulated Depreciation	\$395	\$26	\$4	\$417
Bonds Payable	\$27,355	\$0	\$1,360	\$25,995
Capital Lease Payable	\$154	\$0	\$76	\$78
Sick Leave Payable	\$240	\$0	\$17	\$223

**CURRENT ISSUES**

The District anticipates a reduction in federal funds again this year.

Due to the dissolution of KSBIT, Districts have been informed there is an unfunded liability that will be assessed. However, the exact amount of the assessment has not been determined.

The District approved the insurance settlement from the tornado damage.

The District's finance officer resigned July 31, 2013.

The District hired Kevin Owens as the new finance officer effective September 9, 2013.

The District continued the contract for the consultant to assist in training the new finance officer.

Improvement on attendance has become our focal point this year. Since we are a declining district, we must strive to improve our student attendance rates to increase the district's SEEK allocation, otherwise these funds will consistently drop. With improved attendance we can minimize the harm.

We are working to secure funding for the new high school to remove two schools placed in one structure. I will need to produce unprecedented fundraising to reach this bar and overcome this issue.

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives.

Questions about this report or additional financial information needs should be directed to the Superintendent, Stanley Holbrook, or to the Finance Director, Kevin Owens, at 606-349-6117 or by mail at P.O. Box 109 Salyersville, KY 41465.

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
DISTRICT WIDE  
As of June 30, 2013

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and equivalents - Note C	\$10,826,457	\$522,901	\$11,349,358
Accounts receivable	877,225	107,777	985,002
Inventory		13,729	13,729
Capital assets			
Land and construction in progress	12,148,049		12,148,049
Other capital assets, net of depreciation	<u>35,025,191</u>	<u>14,133</u>	<u>35,039,324</u>
Total capital assets	<u>47,173,240</u>	14,133	<u>47,187,373</u>
<b>TOTAL ASSETS</b>	<b>\$58,876,922</b>	<b>\$658,540</b>	<b>\$59,535,462</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Bond issue costs	\$481,692		\$481,692
<b>LIABILITIES</b>			
Accounts payable	\$1,127,780	\$1,479	\$1,129,259
Accrued salaries and benefits payable	49,479		49,479
Interest payable	340,359		340,359
KSBIT liability	1,187,612		1,187,612
Long-term Liabilities			
Due within 1 year	1,483,252		1,483,252
Due in more than 1 year	<u>24,813,213</u>		<u>24,813,213</u>
<b>TOTAL LIABILITIES</b>	<b>\$29,001,695</b>	<b>\$1,479</b>	<b>\$29,003,174</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenues	5,711,578		5,711,578
<b>NET POSITION</b>			
Net investment in capital assets	\$21,241,321	\$14,133	\$21,255,454
Restricted			
Inventories		13,729	13,729
Accrued sick leave	38,640		38,640
Food Service		624,514	624,514
Wellness Center		4,685	4,685
SFCC	51,329		51,329
Future Construction BG-1	1,755,057		1,755,057
Debt Service	3,490		3,490
Unrestricted	<u>1,555,504</u>		<u>1,555,504</u>
<b>TOTAL NET POSITION</b>	<b>\$24,645,341</b>	<b>\$657,061</b>	<b>\$25,302,402</b>

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
DISTRICT WIDE

For the year ended June 30, 2013

FUNCTIONS/PROGRAMS

**Governmental Activities**

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Position Business-type Activities	Total
Instruction	\$14,002,739	\$0	\$3,457,388		(\$10,545,351)	\$	(\$10,545,351)
Support services:							
Student	1,306,880		94,503		(1,212,377)		(1,212,377)
Instruction staff	1,285,804		403,894		(881,910)		(881,910)
District administrative	766,931				(766,931)		(766,931)
School administrative	1,215,285		44,127		(1,171,158)		(1,171,158)
Business	418,311		77,360		(340,951)		(340,951)
Plant operation and maintenance	1,253,612		4,241		(1,249,371)		(1,249,371)
Student transportation	1,675,965		11,947		(1,664,018)		(1,664,018)
Food service	426,707		391,601		0	0	0
Community service activities					(35,106)		(35,106)
Interest on long-term debt	<u>1,103,792</u>		<u>0</u>		<u>(462,955)</u>		<u>(462,955)</u>
Total governmental activities	23,456,026	0	4,485,061	640,837	(18,330,128)		(18,330,128)

**Business-type Activities**

Food service	1,328,355	116,048	1,541,168			328,861	328,861
Other Enterprise Fund	<u>0</u>	<u>100</u>	<u>0</u>			<u>100</u>	<u>100</u>
Total business-type activities	1,328,355	116,148	1,541,168			328,961	328,961
Total school district	\$24,784,381	\$116,148	\$6,026,229	\$640,837	(\$18,330,128)	\$328,961	(\$18,001,167)

**General Revenues**

Property taxes	\$1,495,557						\$1,495,557
Motor Vehicle taxes	401,344						401,344
Utility taxes	648,860						648,860
State aid-formula grants	15,843,932						15,843,932
Investment earnings	26,888					1,052	27,940
Gain on sale of assets	521						521
Loss compensation	5,696,935						5,696,935
Miscellaneous	<u>60,693</u>					<u>1,052</u>	<u>60,693</u>
Total general & special	24,174,730					1,052	24,175,782
Change in net positions	5,844,602					330,013	6,174,615
Net position - beginning	<u>18,800,739</u>					<u>327,048</u>	<u>19,127,787</u>
Net position - ending	\$24,645,341					\$657,061	\$25,302,402

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2013

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$2,937,850	\$6,042,838	\$1,790,950	\$54,819	\$10,826,457
Other receivables	<u>173,042</u>	<u>704,183</u>			<u>877,225</u>
<b>TOTAL ASSETS</b>	<b>\$3,110,892</b>	<b>\$6,747,021</b>	<b>\$1,790,950</b>	<b>\$54,819</b>	<b>\$11,703,682</b>
<b>LIABILITIES</b>					
Accounts payable	\$56,444	\$1,035,443	\$35,893	\$0	\$1,127,780
Accrued salaries and benefits payable	<u>49,479</u>				<u>49,479</u>
<b>TOTAL LIABILITIES</b>	<b>105,923</b>	<b>1,035,443</b>	<b>35,893</b>		<b>1,177,259</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Revenues		5,711,578			5,711,578
<b>Fund Balances</b>					
<b>Restricted</b>					
Sick Leave Payable	38,640				38,640
SFCC				51,329	51,329
Future Construction BG-1			1,755,057		1,755,057
Debt Service				3,490	3,490
Unassigned	<u>2,966,329</u>				<u>2,966,329</u>
<b>Total fund balances</b>	<b>3,004,969</b>		<b>1,755,057</b>	<b>54,819</b>	<b>4,814,845</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</b>	<b>\$3,110,892</b>	<b>\$6,747,021</b>	<b>\$1,790,950</b>	<b>\$54,819</b>	<b>\$11,703,682</b>

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF NET POSITION  
 As of June 30, 2013

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

<b>Total Fund Balance - Governmental Funds</b>		<b>\$4,814,845</b>
Certain assets are not reported in this fund financial statement because they are recorded as current expenditures		
	Bond Issue Costs	481,692
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 position		
		47,173,240
Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position		
	Bonds Payable	(25,995,000)
	Capital Lease Payable	(78,252)
	KSBIT Liability	(1,187,612)
	Accrued Interest on Bonds	(340,359)
	Accumulated Sick Leave	<u>(223,213)</u>
<b>Total Net Position - Governmental Activities</b>		<b>\$24,645,341</b>

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the year ended June 30, 2013

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
From local sources					
Property taxes	\$1,283,687	\$	\$	\$211,870	\$1,495,557
Motor vehicle taxes	401,344				401,344
Utility taxes	648,860				648,860
Earnings on investments	13,311		13,568	9	26,888
Other local revenues	60,693	100,733			161,426
Intergovernmental - State	14,175,443	1,034,431		2,240,094	17,449,968
Intergovernmental - Federal	<u>69,232</u>	<u>3,349,897</u>			<u>3,419,129</u>
Total revenues	16,652,570	4,485,061	13,568	2,451,973	23,603,172
<b>Expenditures</b>					
Instruction	8,779,521	3,504,013			12,283,534
Support services					
Student	1,162,791	94,503			1,257,294
Instruction staff	778,960	403,894			1,182,854
District administration	623,789				623,789
School administration	1,158,772	44,127			1,202,899
Business	305,706	77,360			383,066
Plant operation and maintenance	1,513,592	4,241			1,517,833
Student transportation	1,540,889	11,947			1,552,836
Community service activities	35,017	391,601			426,618
Facilities			5,854,050		5,854,050
Debt service	<u>81,089</u>			<u>2,432,630</u>	<u>2,513,719</u>
Total expenditures	15,980,126	4,531,686	5,854,050	2,432,630	28,798,492
Excess(deficit)of revenues over expenditures	672,444	(46,625)	(5,840,482)	19,343	(5,195,320)
<b>Other Financing Sources (Uses)</b>					
Sale of assets	50,890				50,890
Loss Compensation	43,778		5,653,157		5,696,935
Operating transfers in		46,625			46,625
Operating transfers out	<u>(46,625)</u>				<u>(46,625)</u>
Total other financing sources (uses)	48,043	46,625	5,653,157		5,747,825
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	720,487	0	(187,325)	19,343	552,505
Fund balance, July 1, 2012	<u>2,284,482</u>	<u>0</u>	<u>1,942,382</u>	<u>35,476</u>	<u>4,262,340</u>
Fund balance, June 30, 2013	\$3,004,969	\$0	\$1,755,057	\$54,819	\$4,814,845

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE DISTRICT-WIDE STATEMENT OF ACTIVITIES  
 For The Year Ended June 30, 2013

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

**Total net change in fund balances - governmental funds** \$552,505

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.

Depreciation Expense	(1,677,473)	
Capital Outlays	<u>6,781,010</u>	5,103,537

Bond issue costs are expensed as incurred in the fund balance statement, but are amortized over the life of the bond in the statement of activities:

Amortization Expense	(39,311)	
Loss on sale of assets		(50,369)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Repayment of Bond Principal	1,360,000	
Repayment of Capital Leases		75,774

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.

Change in Accrued Interest	13,464	
KSBIT liability		(1,187,612)
Change in Sick Leave		<u>16,614</u>

**Total Change in Net Position - Governmental Activities** \$5,844,602

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
As of June 30, 2013

	Food Service Fund	Other Enterprise Fund	<u>Totals</u>
<b>ASSETS</b>			
Cash and Equivalents	\$518,216	\$4,685	\$522,901
Accounts Receivable	107,777		107,777
Inventory	13,729		13,729
Capital Assets, net of depreciation	<u>14,133</u>	<u>          </u>	<u>14,133</u>
<b>TOTAL ASSETS</b>	<b>\$653,855</b>	<b>\$4,685</b>	<b>\$658,540</b>
<b>LIABILITIES</b>			
Accounts Payable	\$1,479	\$0	\$1,479
<b>TOTAL LIABILITIES</b>	<u>\$1,479</u>	<u>\$0</u>	<u>\$1,479</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$14,133	\$0	\$14,133
Nonspendable-Inventories	13,729		13,729
Restricted Net Position	<u>624,514</u>	<u>4,685</u>	<u>629,199</u>
<b>TOTAL NET POSITION</b>	<b>\$652,376</b>	<b>\$4,685</b>	<b>\$657,061</b>

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2013

	Food Service Fund	Other Enterprise Fund	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Lunchroom sales	\$116,048	\$0	\$116,048
Other revenues	<u>                    </u>	<u>100</u>	<u>100</u>
Total Operating Revenues	116,048	100	116,148
<b>OPERATING EXPENSES</b>			
Salaries and wages	529,111		529,111
Contract services	17,738		17,738
Materials and supplies	754,099		754,099
Other expenses	1,004		1,004
Depreciation	<u>26,403</u>		<u>26,403</u>
Total Operating Expenses	1,328,355		1,328,355
Operating income (loss)	(1,212,307)	100	(1,212,207)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Federal grants	1,385,750		1,385,750
Commodities received	70,803		70,803
State grants	12,545		12,545
State on-behalf payments	72,070		72,070
Interest income	<u>1,052</u>		<u>1,052</u>
Non-operating revenues (expenses)	1,542,220		1,542,220
Net income (loss) before Capital Contributions	329,913	100	330,013
Increase (decrease) in Net Position	329,913	100	330,013
Net Position, July 1, 2012	<u>322,463</u>	<u>4,585</u>	<u>327,048</u>
Net Position, June 30, 2013	\$652,376	\$4,685	\$657,061

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2013

	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Totals</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$116,048	\$100	\$116,148
Cash paid to employees, including benefits	(457,041)		(457,041)
Cash paid to suppliers	<u>(703,135)</u>	<u>      </u>	<u>(703,135)</u>
Net cash provided by operating activities	(1,044,128)	100	(1,044,028)
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Cash received from government funding	<u>1,290,601</u>		<u>1,290,601</u>
Net cash provided from capital and related financing activities	1,290,601		1,290,601
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Interest Income	<u>1,052</u>		<u>1,052</u>
Net cash provided from capital and related financing activities	1,052		1,052
Net increase (decrease) in cash	247,525	100	247,625
Cash and equivalents, July 1, 2012	<u>270,691</u>	<u>4585</u>	<u>275,276</u>
Cash and equivalents, June 30, 2013	\$518,216	\$4,685	\$522,901
Reconciliation of Operating income (loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	(\$1,212,307)	100	(\$1,212,207)
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	26,403		26,403
On-behalf payments	72,070		72,070
Commodities used	70,803		70,803
increase in inventory	(1,658)		(1,658)
Increase in accounts payable	<u>561</u>		<u>561</u>
Net cash provided by operating activities and increase in cash and equivalents	(\$1,044,128)	\$100	(\$1,044,028)
<b>Schedule of Non-Cash Financing Activities</b>			
Donated commodities	\$70,803		
On Behalf payments	\$72,070		

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
SCHOOL ACTIVITY FUNDS  
As of June 30, 2013

	Agency Fund
ASSETS	
Cash and equivalents	\$128,764
Accounts receivable	<u>7,159</u>
TOTAL ASSETS	\$135,923
LIABILITIES	
Accounts payable	\$2,438
Due to student groups	<u>133,485</u>
TOTAL LIABILITIES	\$135,923

See accompanying notes

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

REPORTING ENTITY

The MAGOFFIN County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Magoffin County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Magoffin 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 Board 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:

Magoffin County School District Finance Corporation (the Corporation) – the Magoffin County Board of Education has established the Magoffin 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) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Magoffin County Board of Education also comprise the Corporation’s Board of Directors.

Basis of Presentation

District-Wide Financial Statements – The statement of net position 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 Board that are governmental and those that are considered business-type activities.

The district-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 reconciliations with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

The district-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 proprietary 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 total net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for and reports all financial resources not accounted for and reported in another fund. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

- (C) Capital Project Funds are used to account for and report financial resource that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
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) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
  3. The Construction Fund includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or renovations. This is a major fund of the District.

II. Debt Service Fund

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years are reported in debt service funds.

III. Proprietary Funds (Enterprise Fund)

1. The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). This is a major fund for the District.
2. The Wellness Center Fund is used to account for membership fees to the Wellness Center. It is a nonmajor fund.

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

1. 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 Uniform Program of Accounting for School Activity Funds.
2. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments. The District does not currently have any Private Purpose Trust Funds.

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

V. Permanent Funds

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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 – Exchanges and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are 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 resources are required to be used or the fiscal year when used 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 they 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 position as an expense with a like amount reported as donated commodities revenue.

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

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance operations were \$.401 per \$100 valuation for real property, \$.401 per \$100 valuation for business personal property and \$.576 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 District, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Fund Balance Classification Policies and Procedures

The Board intends that accounting practices follow state and federal laws and regulations and generally accepted accounting policies.

Nonspendable Fund Balance

Amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact will be classified as Nonspendable Fund Balance.

Restricted Fund Balance

Fund Balance will be reported as restricted when constraints placed on the use of resources are either; (a) externally imposed by creditors, grantors, contributors, or laws or regulations or other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

The Board will use restricted amounts before unrestricted amounts when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

Committed Fund Balance

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education will be reported as committed fund balance.

Assigned Fund Balance

Amounts that have been assigned for a specific purpose by formal resolution of the Board of Education will be reported as assigned fund balance for a specific purpose.

Unassigned Fund Balance

Unassigned Fund Balance is the residual classification for the general fund.

When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, the funds will first be spent from committed, then assigned, and then finally unassigned.

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 position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

MAGOFFIN COUNTY SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2013

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 position 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 position 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 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 asset's life are not.

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

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

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.

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

Budgetary Process

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

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

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

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. Prepaid assets are only recorded if material to the financial statements.

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

Accrued Liabilities and Long-Term Obligations

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

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

Net Position

Net position represent the difference between assets and liabilities. Net position 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 position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors 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 District, those revenues are primarily charges for meals provided by the various schools and collections for services such as child care.

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.

Subsequent Events

Subsequent events were considered through November 12, 2013, which represents the date of my report.

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

Interfund Activity

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.

Uses of Estimates

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

Encumbrances

Encumbrances are not liabilities and therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

**NOTE B – PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2013 were levied on the assessed valuation of property located in the School District as of January 1, 2012 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	per KRS 134.020
Due date for payment of taxes	Upon receipt
Face value amount payment date	December 31
Delinquent date, 10% penalty	January 1

Vehicle taxes are collected by the County Clerk and are due and collected in the birth month of the vehicle's licensee.

MAGOFFIN COUNTY SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2013

**NOTE C – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District's total cash and cash equivalents was \$11,478,122. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2013 consisted of the following:

	Bank Balance	Book Balance
General Checking Account		
General Fund	\$	\$ 2,937,850
Fund 2		6,042,838
Fund 310		19,334
Fund 320		31,995
Fund 360		1,790,950
Fund 51		518,216
Fund 55		<u>4,685</u>
Total General Checking Account	11,743,511	11,345,868
Activity and Trust Funds	140,688	128,764
Debt Service Funds	<u>3,490</u>	<u>3,490</u>
TOTALS	\$ 11,887,689	\$11,478,122

Breakdown per financial statements:

Governmental Funds	\$10,826,457
Proprietary Funds	522,901
Agency Funds	<u>128,764</u>
TOTALS	\$11,478,122

**NOTE D – CAPITAL ASSETS**

Depreciation expense was charged to functions of the governmental activities as follows:

Instruction	\$ 1,162,936
Support Services	
Student	49,586
Instructional Staff	102,950
District Administration	143,142
School Administration	12,386
Business	35,245
Plant operations & maintenance	48,010
Student transportation	123,129
Community Services	<u>89</u>
Total Depreciation expense, governmental activities	\$ 1,677,473

MAGOFFIN COUNTY SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2013

**NOTE D – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

<b>Governmental Activities</b>	July 1, 2012	Additions	Retirements	June 30,2013
Land	5,334,000	1,175,000	50,000	6,459,000
Land Improvements	127,265			127,265
Building & Building Improve	38,332,090			38,332,090
Technology Equipment	5,055,290	53,835	522,663	4,586,462
Vehicles	2,686,033			2,686,033
General Equipment	1,571,514		23,088	1,548,426
Construction in Process	<u>136,875</u>	<u>5,552,175</u>		<u>5,689,050</u>
Totals at historical cost	53,243,067	6,781,010	595,751	59,428,326
Accumulated Depreciation				
Land Improvements	118,830	1,571		120,401
Building & Building Improve	5,816,300	963,741		6,780,041
Technology Equipment	3,133,735	500,432	522,663	3,111,504
Vehicles	1,370,571	121,039		1,491,610
General Equipment	<u>683,559</u>	<u>90,690</u>	<u>22,719</u>	<u>751,530</u>
Total accumulated depreciation	11,122,995	1,677,473	545,382	12,255,086
Capital Assets - Net	42,120,072	5,103,537	50,369	47,173,240
<b>Business-Type Activities</b>				
Building & Building Improve				
Technology Equipment	45,319		4,319	41,000
General Equipment	<u>390,017</u>			<u>390,017</u>
Totals at historical cost	435,336		4,319	431,017
Accumulated Depreciation				
Building & Building Improve				
Technology Equipment	45,319		4,319	41,000
General Equipment	<u>349,481</u>	<u>26,403</u>		<u>375,884</u>
Total accumulated depreciation	394,800	26,403	4,319	416,884
Capital Assets - Net	40,536	(26,403)	0	14,133

MAGOFFIN COUNTY SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2013

**NOTE E – BONDED DEBT AND LEASE OBLIGATIONS**

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued aggregating the original amount of each issue, the issue date, and interest rates are summarized below:

Issue Date	Proceeds	Rates
2003R	\$ 1,620,000	1.00% - 3.25%
2006	18,800,000	3.75% - 4.25%
2007R	5,565,000	3.75% - 3.875%
2009	7,540,000	2.00% - 4.25%

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 to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

There are a number of limitations and restrictions contained in the various bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of June 30, 2013.

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

The following is a summary of the District's long-term debt transactions for the year ended.

	Beginning Balance	Additions	Payments	Ending Balance
Bonds	\$27,355,000		\$1,360,000	\$25,995,000
Capital Lease	\$154,026		\$75,774	\$78,252
Sick Leave	<u>\$239,827</u>		<u>\$16,614</u>	<u>\$223,213</u>
Total	\$27,748,853		\$1,452,388	\$26,296,465

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service (principal and interest) are as follows:

MAGOFFIN COUNTY SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2013

Year	Magoffin County School District		SFCC Participation		Total
	Principal	Interest	Principal	Interest	
2013-14	467,832	416,030	937,168	608,645	2,429,675
2014-15	488,603	398,835	971,397	574,802	2,433,637
2015-16	503,592	380,836	1,006,408	539,136	2,429,972
2016-17	526,397	361,993	1,038,603	501,503	2,428,496
2017-18	546,782	341,835	1,068,218	461,931	2,418,766
2018-19	566,979	320,780	1,108,021	420,655	2,416,435
2019-20	586,778	299,058	1,153,222	377,814	2,416,872
2020-21	621,373	265,863	1,003,627	331,874	2,222,737
2021-22	644,876	239,861	1,040,124	290,943	2,215,804
2022-23	676,539	212,421	1,083,461	247,987	2,220,408
2023-24	701,265	183,316	1,128,735	202,721	2,216,037
2024-25	734,460	153,085	1,175,540	155,557	2,218,642
2025-26	766,033	121,285	1,228,967	105,531	2,221,816
2026-27	799,829	88,201	1,060,171	57,890	2,006,091
2027-28	816,061	70,429	338,939	29,294	1,254,723
2028-29	850,686	36,154	354,314	15,058	1,256,212
2029-30	0	0	0	0	0
	10,298,085	3,889,982	15,696,915	4,921,341	34,806,323

**NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES**

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2013 as follows:

Year ending June 30,

2014	\$ 40,124
2015	29,711
2016	20,120
2017	0
2018	0
Later years	<u>0</u>
Total	\$ 89,955

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

**NOTE G – RETIREMENT PLANS**

Plan Description – The MAGOFFIN 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

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members 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, KRS 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 KY 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 KY Employees Health Plan administered by the KY 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. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan and description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of member's salary for the 2012-2013 fiscal year.

MAGOFFIN COUNTY SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2013

**NOTE G – RETIREMENT PLANS (continued)**

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 19.55% of the employee's total compensation subject to contribution.

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

The following are payroll and retirement amounts for the years ended June 30, 2013, 2012, and 2011.

	2013	2012	2011
Total payroll	13,137,567	14,210,200	15,477,792
KTRS total payroll	10,193,051	10,752,724	11,016,362
CERS total payroll	2,897,015	3,467,006	3,639,956
Contribution requirement for CERS	713,246	836,726	825,832
District portion - CERS contribution	565,207	650,341	616,244
Employee portion - CERS contribution	148,039	186,385	209,588
KTRS contribution - Commonwealth of KY	1,094,821	1,070,570	1,230,114
KTRS contribution - District Federal Employees	347,381	395,612	306,706

**NOTE H - CONTINGENCIES**

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

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

**NOTE I - INSURANCE AND RELATED ACTIVITIES**

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

**NOTE J – 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. At June 30, 2013, this amount totaled \$223,213 of which \$38,640 is restricted in the current year fund balance of the General Fund.

**NOTE K – INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at June 30, 2013, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
None		

**NOTE L – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District purchases various insurance policies. The District purchased 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 M – DEFICIT OPERATING/FUND BALANCES**

Funds with a current year deficit of revenues over expenditures

Fund 360	( 187,325)
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MAGOFFIN COUNTY SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2013

**NOTE N – 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. The District notifies the Department of Employee Insurance (DEI) when an employee is no longer employed. DEI sends the employee the COBRA requirements.

**NOTE O – TRANSFER OF FUNDS**

The following transfers were made during the year.

Type	From Fund	To Fund	Purpose	Amount
Operating	1	2	KETS Matching	\$ 46,625
Debt Service	310	400	Bond Payment	175,696
Debt Service	320	400	Bond Payment	706,985

**NOTE P – ON-BEHALF PAYMENTS**

The financial statements include payments made by the Commonwealth of Kentucky for insurance, flexible spending, vocational and retirement benefits. The following amounts are included in each of the functions.

Health Insurance	\$ 2,214,192
Life Insurance	5,429
Administrative Fees	26,485
Health Reimbursement Account	147,842
Federal Reimbursement	(309,387)
KTRS	1,094,821
Technology On Behalf Payments	63,015
Debt Service On Behalf Payments	<u>1,549,946</u>
Total On-Behalf Payments	\$ 4,792,343

**NOTE Q – DEPOSITS AND INVESTMENTS**

Interest rate risk. In accordance with the District's investment policy, interest rate risk is limited by investing in public funds with the highest rate of return with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of the capital in its portfolio.

Credit risk. The District's investment policy limits the types of authorized investment instruments to obligations of the United States, its agencies, and instrumentalities. In addition, certificates of deposit or bonds of a bank or the Commonwealth of Kentucky, securities issued by a state or local government or shares of mutual funds are acceptable investments.

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2013

**NOTE Q – DEPOSITS AND INVESTMENTS (continued)**

Concentration of credit risk. The district may invest, at any one time, funds in any one of the above listed categories with no limitation of the total amount of funds invested on behalf of the District.

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2013, the District's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance.

**NOTE R – KSBIT ASSESSMENT**

During the fiscal year the District was notified the Kentucky School Board Insurance Trust (KSBIT) would be dissolving as the self-insurance provider for school districts in Kentucky. KSBIT has informed Districts there is an unfunded liability that will be assessed. The exact amount of the assessment has not been determined. The District has shown a liability of \$1,187,612 based on the "Novation" calculation provided by KSBIT.

**NOTE S – GASB 68**

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 68, Accounting and Financial Reporting for Pensions. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of the statement must be implemented by the District no later than the fiscal year beginning July 1, 2014.

SUPPLEMENTARY INFORMATION

MAGOFFIN COUNTY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND  
 For The Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>				
Taxes	1,995,439	1,945,439	2,333,891	388,452
Other Local Sources	12,500	9,500	74,004	64,504
State Sources	10,775,284	11,004,711	14,175,443	3,170,732
Federal Sources	<u>40,000</u>	<u>40,000</u>	<u>69,232</u>	<u>29,232</u>
<b>TOTAL REVENUES</b>	<b>12,823,223</b>	<b>12,999,650</b>	<b>16,652,570</b>	<b>3,652,920</b>
<b>EXPENDITURES</b>				
Instruction	6,509,169	7,082,955	8,779,521	(1,696,566)
Support Services				
Student	925,284	1,002,063	1,162,791	(160,728)
Instructional Staff	620,231	650,701	778,960	(128,259)
District Administration	531,643	1,121,643	623,789	497,854
School Administration	944,194	948,944	1,158,772	(209,828)
Business	269,184	262,128	305,706	(43,578)
Plant Operation and Maintenance	1,704,755	1,799,085	1,513,592	285,493
Student Transportation	1,547,562	1,601,753	1,540,889	60,864
Community Services	24,428	24,428	35,017	(10,589)
Debt Service	81,089	81,089	81,089	0
Contingency	<u>586,660</u>	<u>631,695</u>	0	631,695
<b>TOTAL EXPENDITURES</b>	<b>13,744,199</b>	<b>15,206,484</b>	<b>15,980,126</b>	<b>(773,642)</b>
Excess (Deficit) of Revenues Over Expenditures	(920,976)	(2,206,834)	672,444	2,879,278
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Assets	0	0	50,890	50,890
Loss Compensation	0	0	43,778	43,778
Operating Transfers Out	<u>(47,895)</u>	<u>(39,006)</u>	<u>(46,625)</u>	<u>(7,619)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(47,895)</b>	<b>(39,006)</b>	<b>48,043</b>	<b>87,049</b>
Excesss (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(968,871)	(2,245,840)	720,487	2,966,327
Fund Balance, July 1, 2012	<u>968,871</u>	<u>2,245,840</u>	<u>2,284,482</u>	<u>38,642</u>
Fund Balance, June 30, 2013	\$0	\$0	\$3,004,969	\$3,004,969

On-Behalf payments are not budgeted. Both revenues and expenditures are equally increased by the amount of on-behalf payments totaling \$3,170,327

MAGOFFIN COUNTY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE FOR SPECIAL REVENUE  
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
State Sources	\$975,425	\$1,043,000	\$1,034,431	(8,569)
Federal Sources	2,656,794	2,773,672	3,349,897	576,225
Local Sources	<u>609,787</u>	<u>7,017,052</u>	<u>100,733</u>	<u>(6,916,319)</u>
<b>TOTAL REVENUES</b>	<b>4,242,006</b>	<b>10,833,724</b>	<b>4,485,061</b>	<b>(6,348,663)</b>
<b>EXPENDITURES</b>				
Instruction	3,263,625	3,583,735	3,504,013	79,722
Support Services				
Student	74,984	80,124	94,503	(14,379)
Instructional Staff	352,403	404,543	403,894	649
School Administration	153,976	38,746	44,127	(5,381)
Business Support	60,966	60,966	77,360	(16,394)
Plant Operations & Maintenance	20,161	6,277,502	4,241	6,273,261
Student Transportation	13,682	11,444	11,947	(503)
Community Service Operations	<u>350,104</u>	<u>407,687</u>	<u>391,601</u>	<u>16,086</u>
<b>TOTAL EXPENDITURES</b>	<b>4,289,901</b>	<b>10,864,747</b>	<b>4,531,686</b>	<b>6,333,061</b>
Excess (Deficit) of Revenues Over Expenditures	(47,895)	(31,023)	(46,625)	(15,602)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	<u>47,895</u>	<u>31,023</u>	<u>46,625</u>	<u>15,602</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>47,895</b>	<b>31,023</b>	<b>46,625</b>	<b>15,602</b>
Excesss (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	0	0	0	0
Restricted Fund Balance, July 1, 2012	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Restricted Fund Balance, June 30, 2013	\$0	\$0	\$0	\$0

MAGOFFIN COUNTY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 As of June 30, 2013

	SEEK Capital Outlay Fund	Building Fund	Debt Service Fund	Total
<b>ASSETS AND RESOURCES</b>				
Cash and equivalents	\$19,334	\$31,995	\$3,490	\$54,819
<b>TOTAL ASSETS AND RESOURCES</b>	\$19,334	\$31,995	\$3,490	\$54,819
<b>FUND BALANCES</b>				
Restricted - SFCC	\$19,334	\$31,995	\$	\$51,329
Restricted - Debt Service			<u>3,490</u>	<u>3,490</u>
<b>TOTAL FUND BALANCES</b>	<u>19,334</u>	<u>31,995</u>	<u>3,490</u>	<u>54,819</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$19,334	\$31,995	\$3,490	\$54,819

MAGOFFIN COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For The Year Ended June 30, 2013

	SEEK Capital Outlay Fund	Building Fund	Debt Service Fund	Total
<b>REVENUES</b>				
From local sources				
Taxes	\$	\$211,870	\$	\$211,870
Earnings on investments			9	\$9
Intergovernmental-State	<u>195,030</u>	<u>495,115</u>	1,549,949	<u>2,240,094</u>
<b>TOTAL REVENUES</b>	195,030	706,985	1,549,958	2,451,973
<b>EXPENDITURES</b>				
Debt Service			<u>2,432,630</u>	<u>2,432,630</u>
<b>TOTAL EXPENDITURES</b>			2,432,630	2,432,630
Excess (deficit) revenues over expenditures	195,030	706,985	(882,672)	19,343
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	<u>(175,696)</u>	<u>(706,985)</u>	<u>882,681</u>	<u>0</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	(175,696)	(706,985)	882,681	0
Excess (deficit) revenues and other financing sources over expenditures and other financing uses	19,334	0	9	19,343
Restricted Fund Balance, July 1, 2012	<u>0</u>	<u>31,995</u>	<u>3,481</u>	<u>35,476</u>
Restricted Fund Balance, June 30, 2013	\$19,334	\$31,995	\$3,490	\$54,819

MAGOFFIN COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF NET POSITION  
 SCHOOL ACTIVITY FUNDS  
 As of June 30, 2013

	Magoffin County High School	Magoffin County Career & Technical Center	Herald Whitaker Middle School	North Magoffin Elementary School	South Magoffin Elementary School	Salyersville Grade School	Total
<b>ASSETS</b>							
Cash and equivalents	\$29,519	\$22,622	\$8,957	\$19,679	\$27,527	\$20,460	\$128,764
Accounts receivable	<u>0</u>	<u>264</u>	<u>4,786</u>	<u>270</u>	<u>1,459</u>	<u>380</u>	<u>7,159</u>
<b>TOTAL ASSETS</b>	\$29,519	\$22,886	\$13,743	\$19,949	\$28,986	\$20,840	\$135,923
<b>LIABILITIES</b>							
Accounts payable	\$2,083	\$0	\$0	\$114	\$86	\$155	\$2,438
Due to student groups	<u>27,436</u>	<u>22,886</u>	<u>13,743</u>	<u>19,835</u>	<u>28,900</u>	<u>20,685</u>	<u>133,485</u>
<b>TOTAL LIABILITIES</b>	\$29,519	\$22,886	\$13,743	\$19,949	\$28,986	\$20,840	\$135,923

MAGOFFIN COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS  
 SCHOOL ACTIVITY FUNDS  
 For The Year Ended June 30, 2013

	Cash Balances		Receipts	Disbursement	Cash Balances	Accounts	Accounts	Due To
	July 1, 2012	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	Receivable	Payable	Student Groups
						June 30, 2013	June 30, 2013	June 30, 2013
Magoffin County High School	\$22,029	\$308,541	\$301,051	\$29,519	\$0	\$2,083	\$27,436	
Mafoffin County Career & Technical Center	\$15,031	\$48,925	\$41,334	\$22,622	264	0	\$22,886	
Herald Whitaker Middle School	\$11,359	\$39,273	\$41,675	\$8,957	4,786	0	\$13,743	
North Magoffin Elementary School	\$20,982	\$65,683	\$66,986	\$19,679	270	114	\$19,835	
South Magoffin Elementary School	\$30,088	\$46,036	\$48,597	\$27,527	1,459	86	\$28,900	
Salversville Grade School	<u>\$36,646</u>	<u>\$55,754</u>	<u>\$71,940</u>	<u>\$20,460</u>	<u>380</u>	<u>155</u>	<u>\$20,685</u>	
<b>TOTAL ACTIVITY FUNDS</b>	\$136,135	\$564,212	\$571,583	\$128,764	\$7,159	\$2,438	\$133,485	

MAGOFFIN COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, DUE TO STUDENT GROUPS  
MAGOFFIN COUNTY HIGH SCHOOL  
For The Year Ended June 30, 2013

	Cash Balances July 1, 2012	Receipts	Disbursements	Transfers	Cash Balances June 30, 2013	Accounts Receivable Year End	Accounts Payable Year End	Fund Balances June 30, 2013
General Fund	\$1,544	\$612	\$2,010		\$146			\$146
Student Vending	1,878	8,679	8,733		1,824			1,824
Faculty Beverage	1,115	7,997	7,998		1,114			1,114
JKG Club	0	4,302	4,302		0			0
Key Club	0	6,873	6,619		254			254
Band	0	2,094	2,092		2			2
Peer Tutoring	0	3,341	3,341		0			0
Athletic Fund	2,626	59,067	67,032	7,046	1,707	375		1,332
Baseball	0	241			241			241
Girls Basketball	0	7			7			7
Cheerleading	0	19,695	13,219		6,476	652		5,824
Dance	79	10,620	9,953		746	700		46
Tennis	30				30			30
Track/Cross Country	0	4,158	4,153		5			5
Softball	0	6,132	5,562		570			570
57th District Tournament	0	25,471	18,425	(7,046)	0			0
Senior Fund	1,952	112,321	110,796	(2,200)	1,277			1,277
Project Graduation	229	13,119	15,538	2,200	10			10
Junior Fund	3,729	7,425	10,427		727	356		371
Yearbook	7,622	10,387	9,853		8,156			8,156
Library	0	6,000	998		5,002			5,002
Athletic Scholarship	225				225			225
FUTP Grant	<u>1,000</u>				<u>1,000</u>			<u>1,000</u>
Totals	\$22,029	\$308,541	\$301,051	\$0	\$29,519	\$0	\$2,083	\$27,436

MAGOFFIN COUNTY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Year Ended June 30, 2013

Federal Grantor/Passed-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>			
Passed through Kentucky Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 12	\$200,623
National School Lunch Program	10.555	7750002 13	678,521
School Breakfast Program	10.553	7760005 12	116,497
School Breakfast Program	10.553	7760005 13	390,109
Commodities	10.555	510 4950	<u>70,803</u>
SubTotal Child Nutrition Cluster			1,456,553
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,456,553
<b><u>U.S. Department of Education</u></b>			
Passed through Kentucky Department of Education			
Improving America's School Act of 1994			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	3100002 11	361,371
Title I Grants to Local Educational Agencies	84.010	3100002 12	<u>1,169,457</u>
		subtotal	1,530,828
Special Education Cluster (IDEA)			
Special Education-Grants to States (IDEA, Part B)	84.027	3810002 12	471,426
Special Education-Preschool Grants (IDEA, Preschool)	84.173	3800002 11	19,399
Special Education-Preschool Grants (IDEA, Preschool)	84.173	3800002 12	<u>14,858</u>
		subtotal	505,683
Education Jobs Fund (Ed Jobs)	84.410	EJOB00	4,366
Race to the Top	84.413A	3960002 11	19,421
Title VI Rural Education	84.358	3140002 12	41,534
Tech Prep Education	84.243	4631180 11	88,750
Educational Technology State Grants			
Enhancing Education through Technology Program	84.318	3210002	223

The accompanying notes are an integral part of this schedule

MAGOFFIN COUNTY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Year Ended June 30, 2013

Federal Grantor/Passed-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed through Kentucky Department of Education			
Career and Technical Education - Basic Grants to States Perkins IV	84.048	4621332 13 subtotal	<u>34,029</u> 34,029
Improving Teacher Quality State Grants	84.367	3230002 12 subtotal	<u>224,473</u> 224,473
Passed through Morehead State University Gear Up	84.334	3793G	21,339
Gear Up	84.334	3792G subtotal	<u>53,088</u> 74,427
Pass Through Council on Postsecondary Education Adult Education - Basic Grants to States	84.002	3733	59,442
Adult Education - Professional Development	84.002	3733S	1,227
Adult Education - Recruitment, Retention and Results	84.002	3653 subtotal	<u>2,092</u> 62,761
TOTAL U.S. DEPARTMENT OF EDUCATION			2,586,495
<b>U.S. Health and Human Services</b>			
Passed through Big Sandy Area Community Action Program, Inc.			
Head Start	93.600	6552	262,151
Head Start	93.600	6553	<u>501,251</u>
TOTAL U.S. HEALTH AND HUMAN SERVICES			763,402
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$4,806,450

The accompanying notes are an integral part of this schedule

MAGOFFIN COUNTY SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2013

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Magoffin County School District (the "District") under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3 – Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities disbursed, totaling \$70,803.

**DENISE M. KEENE  
CERTIFIED PUBLIC ACCOUNTANT  
P.O. BOX 1444  
GEORGETOWN, KENTUCKY 40324  
502-857-2579**

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

(for a Governmental Entity)

(No Material Weaknesses Identified, No Significant Deficiencies Identified, and  
No Reportable Instances of Noncompliance, or Other Matters Identified)

Independent Auditor's Report

State Committee For School District Audits  
Members of the Board of Education  
Magoffin County School District  
Salyersville, Kentucky

We have audited, 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 and Local Governments, and Non-profit Organizations, and the audit requirement prescribed by the Kentucky Committee for School District Audits, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Magoffin County Board of Education as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I noted certain matters that I reported to management of the District in a separate letter dated November 12, 2013.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, pass-through entities and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

*Denise M. Keene*

Denise M. Keene, CPA  
Georgetown, Kentucky  
November 12, 2013

**DENISE M. KEENE  
CERTIFIED PUBLIC ACCOUNTANT  
P.O. BOX 1444  
GEORGETOWN, KENTUCKY 40324  
502-857-2579**

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133  
(Unmodified Opinion on Compliance for each Major Program; No Material Weaknesses or  
Significant Deficiencies in Internal Control Over Compliance Identified)

INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits  
Members of the Board of Education  
Magoffin County School District  
Salyersville, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Magoffin County School District's (the "District") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Committee for School District Audits. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of 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, 2013.

## **Report on Internal Control Over Compliance**

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of Magoffin County School District as of and for the year ended June 30, 2013, and have issued our report thereon dated November 12, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of

the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, pass-through entities and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

*Denise M. Keene*

Denise M. Keene, CPA  
Georgetown, Kentucky  
November 12, 2013

MAGOFFIN COUNTY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

**Financial Statements**

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting

Material weakness(es) identified?  yes  no

Significant deficiency(s) identified that are not  
 considered to be material weakness(es)?  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(s) identified that are not  
 Considered to be material weakness(es)?  yes  none reported

An unmodified opinion was issued on compliance for all major programs.

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

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.367	Improving Teacher Quality State Grants
84.027, 84.173	Special Education Cluster (IDEA)

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

Auditee qualified as low-risk auditee?  yes  no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

MAGOFFIN COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For The Year Ended June 30, 2013

**PRIOR YEAR – FINANCIAL STATEMENT FINDINGS**

None were reported last year

**PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None were reported last year

MANAGEMENT LETTER

**DENISE M. KEENE  
CERTIFIED PUBLIC ACCOUNTANT  
P.O. BOX 1444  
GEORGETOWN, KENTUCKY 40324  
502-857-2579**

Magoffin County Board of Education  
Salyersville, Kentucky

We have audited the financial statements of the Magoffin County School District for the year ended June 30, 2013 and have issued our report thereon dated November 12, 2013. As part of our audit, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary for expressing an opinion on the system of internal accounting control taken as a whole.

The management of the Magoffin County School District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors, or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system of internal accounting control. Accordingly, we do not express an opinion on the system of internal accounting control of the Magoffin County School District taken as a whole. Our study and evaluation disclosed no condition that we believe to be a material weakness.

The following items from last year's management letter points were corrected during the current fiscal year as outlined in the District's response: 2012-01, 2012-03, 2012-04, 2012-09, 2012-11, 2012-13, 2012-14, 2012-15, 2012-20, 2012-22, 2012-24, 2012-26, 2012-28, 2012-29, 2012-30, 2012-32, 2012-34

The following items from last year's management letter points were not corrected: 2012-02, 2012-05, 2012-07, 2012-08, 2012-10, 2012-12, 2012-16, 2012-17, 2012-18, 2012-19, 2012-21, 2012-23, 2012-25, 2012-27, 2012-31, 2012-33

## CURRENT YEAR MANAGEMENT POINTS

### CENTRAL OFFICE

2013-01

Did not comply with KRS 45A.370, Model Procurement Act.. There were two vendors who were paid over \$20,000 which had not been bid.

Management's response:

The majority of the \$20,000 spent Sam's Club was spent from school activity money that was not properly monitored. Management will closely monitor future purchases made from school activity funds to ensure proper protocols are followed for all purchasing.

2013-02

Kentucky Administrative Regulations 702 KAR 3:080 requires the District to submit the fidelity bonds for the finance officer to the Commissioner of Education for approval. The District hired a new finance officer in July 2012, a bond was not obtained. I recommend the District obtain and submit the finance officer's bond and others holding similar positions who are responsible for district funds to the Commissioner of Education for approval. **This is a repeat from last year.**

Management's response:

The finance officer hired in July 2012 resigned in August 2013. A new finance officer has been hired and will be bonded according to 702 KAR 3:080 requirements.

2013-03

KRS 134.140(2) requires, "as part of the monthly distribution of taxes to a district board of education,... the sheriff shall pay to the board of education that part of the investment earning for the month which are attributable to the investment of school taxes." The sheriff does not include interest earned in his payments to the board. I recommend the Superintendent discuss the requirement with the Sheriff. **This is a repeat from last year.**

Management's response:

The Magoffin County Sheriff's office has been contacted and reminded of the requirements of KRS 134.140(2). Each future payment will be reviewed to determine interest payment prior to deposit to the board of education's bank account.

2013-04

Purchasing policies and procedures require purchase orders to be completed and approved prior to the order being placed. Testing disclosed 20 out of 153 disbursement had Purchase Order dates after the invoice date. Staff should be reminded to get purchase orders approved prior to placing the order. **This is a repeat from last year.**

Management's response:

Additional training will be held with school staff to ensure their understanding of the requirements of the Purchase Order System and its goals. Staff will be further reminded to have PO approval from the appropriate supervisor prior to placing an order for supplies or any other purchase.

2013-05

I recommend the finance officer assume the following responsibilities: reconcile the bank statement monthly, file payroll tax reports, including CERS, KTRS, local returns, quarterly Form 941, quarterly unemployment returns. All reports should be signed and dated. The bank reconciliation should be signed and dated by the finance officer as preparer, and I recommend the Superintendent review the reconciliation, sign and date as the reviewer. This would enhance the District's segregation of duties. **This is a repeat from last year.**

Management's response:

A new finance officer has been hired and, after appropriate training, will assume the responsibilities suggested. The Superintendent will review all appropriate reports and reconciliations and sign and date as the reviewer.

2013-06

Classified salary schedule only applies to new hires. Staff who have been with the district for several years and have received raises in the past are not paid according to the salary schedule. Board policy 03-22 states, "the Board shall annually establish schedules for salaries and benefits for classified personnel." The District needs to develop a salary schedule for classified personnel that includes all classified personnel so that salaries are uniformly applied. **This is a repeat from last year.**

Management's response:

The Superintendent has given priority to this task and has assigned it to the new finance officer.

2013-07

Fixed Assets continues to be an area that needs improvement. Additional work needs to be done to retire assets and asset tags need to be put on all assets when possible. I recommend someone be assigned the duty of maintaining fixed assets. An actual inventory needs to be taken and reconciled to MUNIS annually. **This is a repeat from last year.**

Management's response:

A new finance officer has been hired and assigned the duty of correcting the list of assets for the school district. A current inventory is being completed at each location and will then be reconciled with MUNIS records. Assets purchased in the future will be assigned an asset number, tagged and logged within MUNIS.

2013-08

The treasurer filed 12 months of travel expense reimbursements at the end of the fiscal year. There were 2 days billed that were actually noncontract days not worked. The amount overcharged was \$2.40. I believe this error would not have occurred if the travel requests were made monthly. Therefore, I recommend the treasurer file monthly travel reimbursement requests.

Management's response:

Procedures have been reviewed with the treasurer regarding travel expense reimbursements. The treasurer will file monthly travel reimbursement requests in the future to avoid errors.

2013-09

The Food Service Director needs to check inventory from the schools on a monthly basis for accuracy. Testing disclosed some inventory sheets were not totaled correctly. Some sheets had -0- number of items, but then had a total cost amount, others had a number of items but no amount in the total cost column. It was also noted that not all of the schools are using the same cost for the same item. The Food Service Director should verify cost per item based on bid price. He should also mathematically verify the amounts on the inventory reports.

Management's response:

The findings have been reviewed with Food Service staff to ensure understanding of the proper procedures of the Food Service Director. The school inventory will be checked monthly to determine accuracy. Also, the Director will verify cost per item based on bid price and mathematically verify the amounts on the inventory reports.

2013-10

The food service assistant did not sign or date one of her travel expense voucher. That same form was not signed or dated by her supervisor. Another employee travel expense voucher was not signed or dated by her supervisor. All travel expense vouchers should be signed and dated by the employee making the request and signed and dated by that employee's immediate supervisor.

Management's response:

Additional training will be held to remind staff of the proper procedures regarding reimbursement of travel expenses.

2013-11

Leasing is not a school function. It is a board function. A principal should not sign a copier lease, the Superintendent or board chair should sign the lease after it has been approved by the board of education. The board approved the copier for the Salyersville Grade School, but the lease was signed by the principal. I recommend the Superintendent or board chair sign all leases after the approval by the board of education.

Management's response:

Additional training will be provided to school and district staff detailing their roles and responsibilities. All future leases will be approved by the board of education and signed by the board chair and/or superintendent.

2013-12

One board member did not return his signed statement that he had no knowledge of any conflict of interest or nepotism, as defined by KRS 160.180. Numerous attempts to contact the board member were made unsuccessfully. I recommend a training be held for board members to discuss their responsibilities to cooperate with the auditor.

Management's response:

Management will schedule additional training with school board members regarding the cooperation of district employees and school board members with the auditor. Also, signed statements of no conflicts of interest or nepotism, as defined by KRS 160.180, will be secured from the one board member.

## **MAGOFFIN COUNTY HIGH SCHOOL**

2013-13

According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 21 out of 26 expenditures tested that were not signed by the principal. 20 of 26 did not have the sponsor signature. 22 of 26 did not have a purchase order. 4 out of 26 did not have check number on invoice. 3 out of 26 did not have date paid marked on invoice. Purchase order forms with the requirement minimum information should be used, signed by the sponsor and principal.

Management's response:

One problem is that we were promised a new and better PO format, and that didn't happen. Apparently vendors are receiving orders from someone other than our secretary or administration. All orders will go through the office where the secretary will double check the PO for the proper information before ordering.

2013-14

There was a blank purchase order form in the box of data that had the Principal's signature on the form. No form should ever be signed until it is properly completed.

Management's response:

Entirely my fault. It was probably an oversight on my part. This is not normal, and will have all POs double checked before signing.

2013-15

All money collected by a teacher/sponsor shall be given to the school treasurer on the day collected. All money collected should be deposited on a daily basis. During the month of November there were only six deposits made all month. Teachers did not turn money into the treasurer timely and the treasurer did not make daily deposits. Staff should be reminded to turn their money in daily and the treasurer should be reminded to make deposits daily.

Management's response:

A daily timetable for money to be turned into the office will be established. This will ensure that money will be deposited before the bank closes.

2013-16

Teachers/sponsors are not signing and/or dating their multiple receipt form. The timeliness of turning money in cannot be determined when the forms are not dated. Teachers/sponsors should be reminded to sign and date all multiple receipt forms prior to turning them in.

Management's response:

Will conduct professional development on Red Book practices. All receipts will be double checked.

2013-17

Ticket Sale Forms are not being signed properly. Of the 35 forms, 1 were not signed by the person in charge at the time of receiving the tickets and start up money, 4 were not signed by the ticket taker. The Treasurer should remind everyone involved to sign in the proper place and at the proper time.

Management's response:

We always have two people in charge of ticket sales. All forms will be double checked to make sure all signatures are on the forms.

## **MAGOFFIN COUNTY HIGH SCHOOL (continued)**

2013-18

Testing disclosed eleven (11) checks with only one signature. All checks require two signatures according to board policy. I recommend that the treasurer review checks before they are distributed to assure that two signatures are on the check. **This is a repeat finding from the past two years.**

Management's response:

I don't understand this. I would like to see the checks that are not signed. The purpose is to see who's not signing them.

2013-19

Three (3) checks did not have the date on the check. All checks should be properly completed prior to being signed.

Management's response:

Checks are confusing. There is no place for the date. It's easy to forget to put the date on the checks. We are going to order checks with a place established for the date.

## **MAGOFFIN COUNTY CAREER & TECHNICAL CENTER**

2013-20

The school used a purchase order form that does not meet minimum standards set by the Accounting Procedures for Kentucky School Activity Funds, (Redbook). The Redbook states, "all transactions shall, at a minimum, be in accordance with the guidelines of this document...using the forms contained herein or equivalent. The equivalent must contain, at a minimum, the information listed on the forms, however, additional information may be added, if desired." The purchase order form used by the Career and Technical Center did not have: signatures lines for delivered by, requested by, approved by and did not have a place to put the activity fund charged. I recommend the school use the purchase order form in the Redbook or one that has all of the required items. **This is a repeat finding from last year.**

Management's response:

The Magoffin County Career & Technical Center is now using F-SA-7 as required by the Red Book.

2013-21

The school does not use the EPES system. I recommend the school convert the accounting system to the EPES system.

Management's response:

The EPES program has not been installed on our system yet. It will be installed and ready to use by July 1, 2014. Professional Development will be available for Principal and Secretary.

## **MAGOFFIN COUNTY CAREER & TECHNICAL CENTER(continued)**

2013-22

According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." 4 of 17 tested had a purchase order date after the invoice date. Staff should be reminded that all purchase orders are to be approved prior to ordering. There was 1 of 17 that did not have any supporting documentation. A vendor invoice should be obtained prior to payment of any check. **This is a repeat finding for not approving purchase orders prior to invoice dates.**

Management's response:

Staff will be reminded to get an approved PO number before making any purchases and, that all documentation is in order for the purchase.

2013-23

The Career and Technical Center did not have a Principal for the fiscal year. Therefore, the bank statement was not initialed by anyone. The Center did have a contact teacher. I would recommend the contact teacher review and initial the bank statement prior to the bookkeeper receiving it.

Management's response:

Magoffin County Career & Technical Center will have a Principal for 2014 and he/she will ensure that all bank statements are signed or initialed before the bookkeeper receives it.

## **HERALD WHITAKER MIDDLE SCHOOL**

2013-24

The school used a purchase order form that does not meet minimum standards set by the Accounting Procedures for Kentucky School Activity Funds, (Redbook). The Redbook states, "all transactions shall, at a minimum, be in accordance with the guidelines of this document...using the forms contained herein or equivalent. The equivalent must contain, at a minimum, the information listed on the forms, however, additional information may be added, if desired." The purchase order form used by the Middle School did not have: signatures lines for delivered by, requested by, approved by and did not have a place to put the activity fund charged. I recommend the school use the purchase order form in the Redbook or one that has all of the required items. **This is a repeat finding from last year.**

Management's response:

The school has traditionally used Purchase Orders from books pre-numbered. Plans are now to use pre-numbered Purchase Orders with the "Red Book" format.

2013-25

Transfer forms should be completed and signed before they are executed. There was one transfer form that could not be found.

Management's response:

This was an oversight. Efforts will be made to ensure this doesn't occur in the future.

## HERALD WHITAKER MIDDLE SCHOOL(continued)

2013-26

Ticket Sale Forms are not being signed properly. Of the 18 forms, 3 were not signed by the person in charge at the time of receiving the tickets and start up money. 1 was not signed by the person in charge at the time of turning in the tickets and money. 13 were not signed by the ticket taker. The Treasurer should remind everyone involved to sign in the proper place and at the proper time. Money from the girls basketball game on 10-10-12 was not turned in until 10-15-12. Money from athletic events should be turned in on the next school day. **Forms not being signed properly is a repeat finding from last year.**

Management's response:

All ticket sale forms will be properly signed in the future.

2013-27

According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 11 of 22 expenditures tested that were not signed by the sponsor.

Management's response:

All Purchase Orders will be signed by the sponsor in the future.

2013-28

Schools are exempt from the payment of sales tax. One employee was reimbursed for sales tax on a local expenditure, and one vendor was paid sales tax. All requests for payment of sales tax except for out of district meals and lodging should not be paid. A copy of the Tax Exemption Certificate should be sent to the vendor.

Management's response:

Invoices will be closely scrutinized to make certain that is not improperly paid.

2013-29

Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice. There was one item tested that did not have the vendor invoice attached. No check should be written without all documentation being attached.

Management's response:

All payments will be properly documented with original vendor invoices.

2013-30

The girls softball team had a fundraiser selling Kettle Korn. Orders were taken, money was to be collected and turned in and then the order was place. There were only three (3) sheets turned in with orders taken. Not all of the money for the orders were deposited. It appears that proper controls for the fundraiser did not occur. Either, money was not collected at the time the orders were taken, or the money was not deposited. Better controls need to be in place for fundraisers. This fundraiser did not have a reasonable profit.

Management's response:

Extra care will be taken to ensure that all fundraisers receive proper supervision.

## **NORTH MAGOFFIN ELEMENTARY SCHOOL**

2013-31

According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 12 out of 20 expenditures tested that did not have the sponsor approval. Staff should be reminded that the sponsor of the activity account being charged should approve the purchase order. **This is a repeat finding from last year.**

Management's response:

The process for initiating a Purchase Order was also corrected in April of 2013 with the implementation of the new purchase order form. The school is now following the appropriate procedure as outlined in the Red Book and by the previous audit by having the sponsor and the principal to approve the purchase order.

## **SALYERSVILLE GRADE SCHOOL**

2013-32

The school used a purchase order form that does not meet minimum standards set by the Accounting Procedures for Kentucky School Activity Funds, (Redbook). The Redbook states, "all transactions shall, at a minimum, be in accordance with the guidelines of this document...using the forms contained herein or equivalent. The equivalent must contain, at a minimum, the information listed on the forms, however, additional information may be added, if desired." The purchase order form used by the Salyersville Grade School did not have: signatures lines for delivered by, requested by, approved by and did not have a place to put the activity fund charged. I recommend the school use the purchase order form in the Redbook or one that has all of the required items. **This is a repeat finding from last year.**

Management's response:

We have since obtained and are using Form F-SA-7 from Redbook.

2013-33

According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 4 out of 19 expenditures that had purchase order dates after the invoice date. There were 4 out of 19 expenditures tested that did not have the sponsor approval. Staff should be reminded that the sponsor of the activity account being charged should approve the purchase order. In addition, all purchase orders should be approved before the order is placed. **This is a repeat finding from last year.**

Management's response:

Staff have been reminded that the sponsor of the activity account being charged should approve the purchase order and all purchase orders must be approved before the order is placed. As this is a repeat finding, the issue has been emphatically stated and a heightened awareness of the issue will be addressed.

## **SOUTH MAGOFFIN ELEMENTARY**

2013-34

According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were 8 out of 20 expenditures tested that did not have the sponsor approval. Staff should be reminded that the sponsor of the activity account being charged should approve the purchase order. In addition, all purchase orders should be approved before the order is placed.

Management's response:

We will have a meeting with staff and sponsors to discuss the proper way to purchase items, and the sponsors that need to sign the purchase order from (F-SA-7).