

**MARION COUNTY SCHOOL DISTRICT  
AUDIT REPORT  
YEAR ENDED JUNE 30, 2013**

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September 27, 2013

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Marion County School District  
Lebanon, 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 Marion County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Marion County School District'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, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion County School District as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 4 through 11 and 18 and 19 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 Marion County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2013, on our consideration of Marion County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marion County School District's internal control over financial reporting and compliance.

Sincerely,

***White and Company, P.S.C.***

Certified Public Accountants

**MARION COUNTY PUBLIC SCHOOL DISTRICT – LEBANON, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

Management’s discussion and analysis of the Marion County School District (District) offers readers of the District’s financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2013. We encourage readers to review the information presented here in conjunction with additional information found within the body of these financial statements.

**FINANCIAL HIGHLIGHTS**

- The beginning general fund balance for the District was \$6,283,790. The ending general fund balance was \$7,123,464.
- Total local taxes collected were \$7,366,894 including property, vehicles, and utility taxes. Penalties and interest, omitted property taxes, and revenue in lieu taxes are also included in this amount. \$560,372 of the total local taxes collected was the building fund (5 Cent Levy) required for participation in the School Facilities Construction Commission (SFCC). SFCC funds must be used for projects identified in the District’s Facility Plan.
- The District’s total revenues for the fiscal year ended June 30, 2013 were \$32,078,157. The total cost of all programs and services was \$32,422,481, excluding facilities acquisition and construction costs which were funded with bond proceeds.
- During the fiscal year ended June 30, 2013, Bond Series 2012C was issued with a par value of \$4,750,000 to refund Bond Series 2005, which was issued for the purpose of renovating St. Charles Middle. This defeasance creates a savings to the District of over \$356,000 over the next 14 years, and was possible due to the decline in interest rates.
- In January 2013, the District received notification from the Kentucky School Boards Insurance Trust (KSBIT) Board of Trustees of the disbandment of the Trust for the self insured Workers’ Compensation Pool and the Property and Liability Pool. In addition, the notification also explained that every past or present participating member of KSBIT would be required to pay an assessment to eliminate the \$50 to \$60 million deficit in the Trust. The District’s potential assessment ranges from \$448,456 to \$569,323, depending on the option chosen by KSBIT to fund the deficit. The Marion County Board of Education has committed \$565,782 as of June 30, 2013 and set these funds aside for this future liability.

**FACILITIES AND CONSTRUCTION HIGHLIGHTS**

- State law requires districts to update a priority list of construction and renovation needs, called a Local Facilities Plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. The district updated its facilities plan during fiscal year 2011. The plan indicated over \$28 million dollars in needs.
- The board initiated a renovation project at Marion County High School during 2012. This renovation included the replacement of lighting fixtures in the classrooms, halls and cafeteria for energy efficiency, the replacement of windows, and the renovation of the restroom facilities. Total costs were estimated at approximately \$993,388 (BG-1). This project was completed by December 2012, and under budget. The remaining funds, after construction, were used to replace the majority of interior classroom doors and two hot water heaters, all of which were original to the building.

- A partial roof replacement for Calvary Elementary was also initiated during the fiscal year ended June 30, 2012. Total costs were estimated at approximately \$295,510 (BG-1). The project was completed by October 2012, and under budget. The remaining funds, after construction, have been used to install a security system in the building, with the intention of additional security enhancements to also be installed in the near future.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 14 - 24 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 - 40 of this report.

## GOVERNMENT-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 \$18.5 million as of June 30, 2013.

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

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

### Statement of Net Position

|                                  | <u>Governmental</u><br><u>Activities</u> |               | <u>Business Activities</u> |             | <u>Total</u>  |               |
|----------------------------------|--|---------------|----------------------------|-------------|---------------|---------------|
|                                  | <u>FY12</u>                              | <u>FY13</u>   | <u>FY12</u>                | <u>FY13</u> | <u>FY12</u>   | <u>FY13</u>   |
| Current Assets                   | \$ 8,660,162                             | \$ 9,515,577  | \$ 572,053                 | \$ 545,348  | \$ 9,232,215  | \$ 10,060,925 |
| Non-Current Assets               | 31,978,917                               | 31,623,397    | 226,582                    | 235,650     | 32,205,499    | 31,859,047    |
| Total Assets                     | 40,639,079                               | 41,138,974    | 798,635                    | 780,998     | 41,437,714    | 41,919,972    |
| Current Liabilities              | 2,362,558                                | 3,592,347     | 2,736                      | 50,663      | 2,365,294     | 3,643,010     |
| Non-Current Liabilities          | 20,221,403                               | 19,770,269    | -                          | -           | 20,221,403    | 19,770,269    |
| Total Liabilities                | 22,583,961                               | 23,362,616    | 2,736                      | 50,663      | 22,586,697    | 23,413,279    |
| Net Position:                    |  |               |                            |             |               |               |
| Net Investment in Capital Assets | 10,643,917                               | 11,138,397    | 226,582                    | 235,650     | 10,870,499    | 11,374,047    |
| Restricted                       | 1,148,540                                | 123,543       | 569,317                    | 494,685     | 1,717,857     | 618,228       |
| Unrestricted                     | 6,262,661                                | 6,514,418     |                            |             | 6,262,661     | 6,514,418     |
| Total Net Position               | \$ 18,055,118                            | \$ 17,776,358 | \$ 795,899                 | \$ 730,335  | \$ 18,851,017 | \$ 18,506,693 |

### Statement of Net Position

Total net position decreased from \$18,851,017 at June 30, 2012 to \$18,506,693 at June 30, 2013. This is a decrease of \$344,324. Of that decrease \$65,564 is from business type activities and \$278,760 is from government type activities. Total assets increased from \$41,437,714 at June 30, 2012 to \$41,919,972 at June 30, 2013. The main reasons for the increase in total assets are due to the increase in federal intergovernmental accounts receivable and a change in the manner of reporting payroll for the periods July 1<sup>st</sup> – August 15<sup>th</sup> (summer payroll). More specifically, for the year ended June 30, 2013, summer payrolls were included in accrued salaries and cash at June 30, 2013. In prior years, summer payrolls were not accrued and were treated as outstanding checks for bank reconciliation purposes. Total liabilities also increased from \$22,586,697 at June 30, 2012 to \$23,413,279 at June 30, 2013. The increase in total liabilities is due to the change in reporting summer payroll and also because the District recorded a liability for the KSBIT assessment previously mentioned.

## Statement of Activities

| Revenues                              | <u>Governmental Activities</u> |                   | <u>Business Activities</u> |                  | <u>Total</u>      |                   |
|---------------------------------------|--------------------------------|-------------------|----------------------------|------------------|-------------------|-------------------|
|                                       | <u>FY12</u>                    | <u>FY13</u>       | <u>FY12</u>                | <u>FY13</u>      | <u>FY12</u>       | <u>FY13</u>       |
| <u>Program Revenues:</u>              |                                |                   |                            |                  |                   |                   |
| Charges for Services                  | \$ 99,597                      | \$ 77,630         | \$ 656,879                 | \$ 666,783       | \$ 756,476        | \$ 744,413        |
| Operating Grants and Contributions    | 4,185,364                      | 3,272,413         | 1,554,390                  | 1,622,272        | 5,739,754         | 4,894,685         |
| Capital Grants and Contributions      | 769,949                        | 769,144           |                            |                  | 769,949           | 769,144           |
| <u>General Revenue:</u>               |                                |                   |                            |                  |                   |                   |
| Property Taxes                        | 5,166,451                      | 5,306,259         |                            |                  | 5,166,451         | 5,306,259         |
| Motor Vehicle Taxes                   | 510,354                        | 550,667           |                            |                  | 510,354           | 550,667           |
| Utility Taxes                         | 1,327,447                      | 1,391,268         |                            |                  | 1,327,447         | 1,391,268         |
| Other Taxes                           | 105,095                        | 118,700           |                            |                  | 105,095           | 118,700           |
| State Aid - Formula Grants            | 18,365,975                     | 18,024,055        |                            |                  | 18,365,975        | 18,024,055        |
| Investment Earnings                   | 105,065                        | 113,793           | 5,688                      | 5,975            | 110,753           | 119,768           |
| Miscellaneous Revenues                | 9,140                          | 150,789           |                            |                  | 9,140             | 150,789           |
| Indirect Cost Transfer (Expense)      |                                | 94,359            |                            | (94,359)         | -                 | -                 |
| Gain (Loss) on Sale of Capital Assets | 8,327                          | 5,195             |                            | (1,338)          | 8,327             | 3,857             |
| Loss Compensation                     | 38,513                         | 4,552             |                            |                  | 38,513            | 4,552             |
| <b>Total Revenues</b>                 | <b>30,691,277</b>              | <b>29,878,824</b> | <b>2,216,957</b>           | <b>2,199,333</b> | <b>32,908,234</b> | <b>32,078,157</b> |
| <b>Expenses</b>                       |                                |                   |                            |                  |                   |                   |
| Instructional                         | 19,991,728                     | 19,557,487        |                            |                  | 19,991,728        | 19,557,487        |
| Student Support Services              | 766,028                        | 944,054           |                            |                  | 766,028           | 944,054           |
| Staff Support Services                | 1,200,348                      | 963,380           |                            |                  | 1,200,348         | 963,380           |
| District Administration               | 287,088                        | 1,335,811         |                            |                  | 287,088           | 1,335,811         |
| School Administration                 | 1,201,361                      | 1,320,674         |                            |                  | 1,201,361         | 1,320,674         |
| Business Support Services             | 479,624                        | 496,094           |                            |                  | 479,624           | 496,094           |
| Plant Operation & Maintenance         | 2,096,637                      | 2,215,196         |                            |                  | 2,096,637         | 2,215,196         |
| Student Transportation                | 1,678,543                      | 1,642,435         |                            |                  | 1,678,543         | 1,642,435         |
| Food Service                          | 1,717                          | -                 | 2,091,140                  | 2,264,897        | 2,092,857         | 2,264,897         |
| Community Service Operations          | 278,631                        | 285,695           |                            |                  | 278,631           | 285,695           |
| Facilities Acquisition & Construction | -                              | -                 |                            |                  | -                 | -                 |
| Interest on Long-Term Debt            | 1,161,525                      | 1,396,758         |                            |                  | 1,161,525         | 1,396,758         |
| <b>Total Expenses</b>                 | <b>29,143,230</b>              | <b>30,157,584</b> | <b>2,091,140</b>           | <b>2,264,897</b> | <b>31,234,370</b> | <b>32,422,481</b> |
| Change in Net Position                | 1,548,047                      | (278,760)         | 125,817                    | (65,564)         | 1,673,864         | (344,324)         |
| Net Position July 1,                  | 16,507,071                     | 18,055,118        | 670,082                    | 795,899          | 17,177,153        | 18,851,017        |
| Net Position June 30,                 | \$ 18,055,118                  | \$ 17,776,358     | \$ 795,899                 | \$ 730,335       | \$ 18,851,017     | \$ 18,506,693     |

## Governmental Activities

Total expenses increased from \$29,143,230 for the year ended June 30, 2012 to \$30,157,584 for fiscal year ended June 30, 2013. This is an increase of \$1,014,354 primarily due to an increase in district administration expenses. Total revenue decreased from \$30,691,277 at June 30, 2012 to \$29,878,824 at June 30, 2013. This is a total decrease of \$812,453 primarily due to decreased revenue from the

state and decreased operating grants and contributions. The change in net position for June 30, 2012 was an increase of \$1,548,047 compared to a decrease of \$278,760 at June 30, 2013. This is a decrease of \$1,826,807.

For the governmental program expenses, instructional expenses comprise 65% of total expenses, support services equate to 30%, and interest and other expenses make up the remaining 5% of the total.

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

|                  | Governmental Activities Total<br>Cost of Services |                      | Governmental Activities Net<br>Cost of Services |                      |
|------------------|---|----------------------|---|----------------------|
|                  | <u>2013</u>                                       | <u>2012</u>          | <u>2013</u>                                     | <u>2012</u>          |
| Instructional    | \$ 19,557,487                                     | \$ 19,991,728        | \$ 16,851,899                                   | \$ 16,297,097        |
| Support Services | 8,917,644   | 7,711,346            | 8,596,818                                       | 7,379,147            |
| Other            | 285,695   | 278,631              | 72,945  | 20,500               |
| Interest Costs   | 1,396,758   | 1,161,525            | 1,285,879                                       | 1,161,525            |
| Total Expenses   | <u>\$ 30,157,584</u>                              | <u>\$ 29,143,230</u> | <u>\$ 26,807,541</u>                            | <u>\$ 24,858,269</u> |

## **BUSINESS-TYPE ACTIVITIES**

The only business type activity at the District is food service. This program had total revenues of \$2,293,692 and expenses of \$2,359,256 for fiscal year 2013. These revenues were made up of \$666,783 charges for services, \$1,622,272 federal and state operating grants, \$5,975 earnings on investments, and a \$1,338 loss on disposition of assets. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

## **THE SCHOOL DISTRICT'S FUNDS**

The information relative to the School District's Funds starts on page 14. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenues for all governmental funds for 2013 were \$ 29,774,718 and expenditures were \$34,824,896. The most significant changes in fund balance were the General Fund with an increase in fund balance of \$839,674, primarily due to an increase in tax revenues combined with an increase in operating transfers in, and the Construction Fund with a decrease of \$1,012,023, primarily due to the completion of most projects during the year ended June 30, 2013 and no new projects being started.

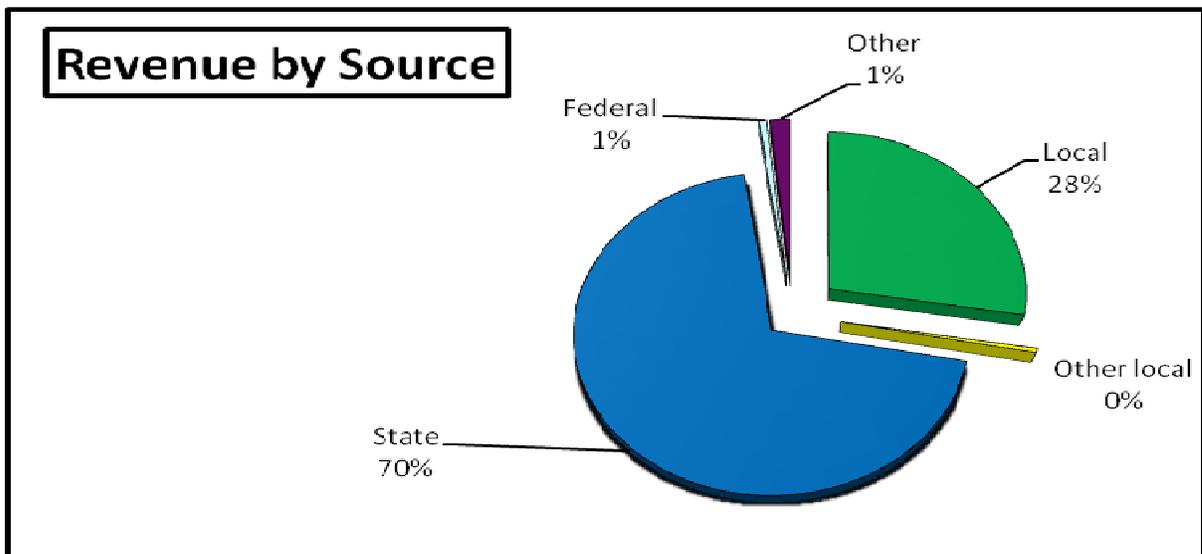
## On-Behalf Payments

The State of Kentucky makes on-behalf payments for school districts in areas of health and life insurance, retirement benefits, vocational education, and technology. The following table presents a summary of the on-behalf payments.

| <b>On-Behalf Distribution 2012-2013</b>          |              |
|--|--------------|
| <b>Health Insurance and/or Flexible Benefits</b> | \$ 2,739,154 |
| <b>Life Insurance</b>                            | \$ 41,860    |
| <b>Kentucky Teachers Retirement</b>              | \$ 1,847,264 |
| <b>Technology</b>                                | \$ 66,726    |
| <b>Debt Service</b>                              | \$ 814,386   |
| <b>Total On-Behalf Payments</b>                  | \$ 5,509,391 |

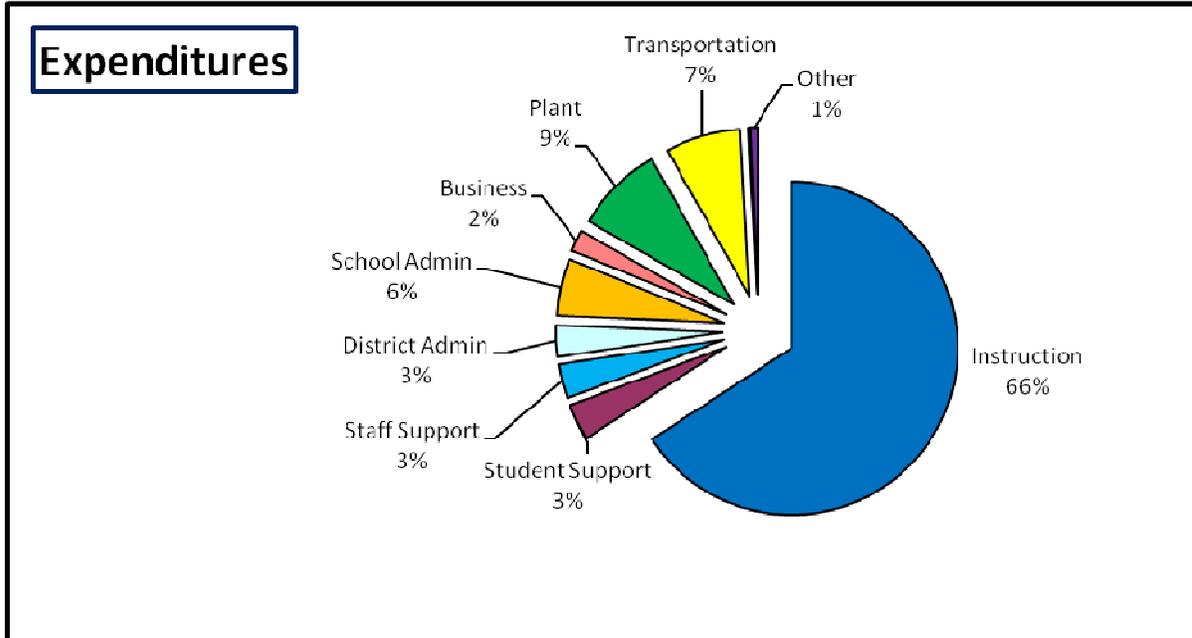
**General Fund Revenue Chart 1.**

The majority of general revenue was derived from state funding (70%), with local taxes making up 28% of total general revenue.



## General Fund Expenditures Chart 2.

Approximately 66% of the general fund expenses were spent for instruction. A breakdown of all general fund expenditures is found in the chart below.



### GENERAL FUND BUDGETARY HIGHLIGHTS

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

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$18,050,617 with actual results being \$24,648,961. Budgeted expenditures were \$24,084,736 compared to actual expenditures of \$23,809,287. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$4,481,594 which are not budgeted.

### FUTURE BUDGETARY IMPLICATIONS

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

Significant Board action that impacts the finances includes the Board's salary schedules which were increased 1% for the 2013-2014 school year. The State did not mandate any raises for certified or classified employees for the FY 2014. The State decreased the SEEK base from \$3,833 to \$3,827 for the FY 2014. The decrease in SEEK base and a decrease in pupil count results in reduced SEEK funding of \$186,965 for FY 2014.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of the 2013 fiscal year, the District had invested \$31,859,047 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$346,452. Depreciation expense for the year was \$1,986,082 and capital additions were \$1,647,756.

The table below shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2013 and 2012.

|                               | Governmental<br>Activities (Net of Depreciation) |                      | Business – Type<br>Activities (Net of Depreciation) |                   | Total Primary Government<br>(Net of Depreciation) |                      |
|-------------------------------|--|----------------------|---|-------------------|---|----------------------|
|                               | <u>2013</u>                                      | <u>2012</u>          | <u>2013</u>   | <u>2012</u>       | <u>2013</u>                                       | <u>2012</u>          |
| Land                          | \$ 814,396                                       | \$ 814,396           | \$ -  | \$ -              | \$ 814,396  | \$ 814,396           |
| Construction in Progress      | -  | 248,957              | -   | -                 | -   | 248,957              |
| Buildings and<br>Improvements | 27,933,884                                       | 27,890,814           | -   | -                 | 27,933,884  | 27,890,814           |
| Technology                    | 1,405,621  | 1,577,093            | 1,961   | 2,942             | 1,407,582   | 1,580,035            |
| Vehicles                      | 1,121,448  | 1,063,604            | -   | -                 | 1,121,448   | 1,063,604            |
| General Equipment             | 348,048  | 384,053              | 233,689   | 223,640           | 581,737   | 607,693              |
| <b>Total</b>                  | <b>\$ 31,623,397</b>                             | <b>\$ 31,978,917</b> | <b>\$ 235,650</b>                                   | <b>\$ 226,582</b> | <b>\$ 31,859,047</b>                              | <b>\$ 32,205,499</b> |

The table below shows the changes in capital assets for fiscal years ended June 30, 2013 and 2012.

|                       | Governmental<br>Activities |                      | Business – Type<br>Activities |                   | Total<br>Primary Government |                      |
|-----------------------|----------------------------|----------------------|-------------------------------|-------------------|-----------------------------|----------------------|
|                       | <u>2013</u>                | <u>2012</u>          | <u>2013</u>                   | <u>2012</u>       | <u>2013</u>                 | <u>2012</u>          |
| Beginning Balance     | \$ 31,978,917              | \$ 32,286,868        | \$ 226,582                    | \$ 226,184        | \$ 32,205,499               | \$ 32,513,052        |
| Additions             | 1,596,796                  | 1,521,490            | 50,960                        | 37,671            | 1,647,756                   | 1,559,161            |
| Retirements           | (6,788)                    | (938)                | (1,338)                       | -                 | (8,126)                     | (938)                |
| Depreciation          | (1,945,528)                | (1,828,503)          | (40,554)                      | (37,273)          | (1,986,082)                 | (1,865,776)          |
| <b>Ending Balance</b> | <b>\$ 31,623,397</b>       | <b>\$ 31,978,917</b> | <b>\$ 235,650</b>             | <b>\$ 226,582</b> | <b>\$ 31,859,047</b>        | <b>\$ 32,205,499</b> |

### Long-Term Debt

At year-end the District had \$20,485,000 in bonds outstanding. Bond issues during the fiscal year ended June 30, 2013 totaled \$4,750,000. Bonded debt principal paid for the year ended June 30, 2013 was \$5,600,000. A total of \$1,455,000 is due within one year.

### Contacting the District's Financial Management

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013

|   | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL             |
|---|----------------------------|-----------------------------|-------------------|
| <b>ASSETS:</b>                            |                            |                             |                   |
| Cash & Cash Equivalents - Note C          | 8,512,548                  | 395,967                     | 8,908,515         |
| Accounts Receivable:                      |                            |                             |                   |
| Taxes - Current                           | 158,621                    |                             | 158,621           |
| Taxes - Delinquent                        | 3,529                      |                             | 3,529             |
| Accounts                                  | 9,536                      |                             | 9,536             |
| Intergovernmental - State                 | 35,898                     |                             | 35,898            |
| Intergovernmental - Federal               | 503,864                    | 135,220                     | 639,084           |
| Bond Issue Costs                          | 291,581                    |                             | 291,581           |
| Inventories for Consumption               |                            | 14,161                      | 14,161            |
| <b>Total Current Assets</b>               | <b>9,515,577</b>           | <b>545,348</b>              | <b>10,060,925</b> |
| <b>Noncurrent Assets - Note F</b>         |                            |                             |                   |
| Land                                      | 814,396                    |                             | 814,396           |
| Buildings & Improvements                  | 45,292,099                 |                             | 45,292,099        |
| Furniture & Equipment                     | 8,387,663                  | 795,934                     | 9,183,597         |
| Construction in Progress                  | 0                          |                             | 0                 |
| Less: Accumulated Depreciation            | (22,870,761)               | (560,284)                   | (23,431,045)      |
| <b>Total Noncurrent Assets</b>            | <b>31,623,397</b>          | <b>235,650</b>              | <b>31,859,047</b> |
| <b>TOTAL ASSETS</b>                       | <b>41,138,974</b>          | <b>780,998</b>              | <b>41,919,972</b> |
| <b>LIABILITIES:</b>                       |                            |                             |                   |
| <b>Current Liabilities:</b>               |                            |                             |                   |
| Accounts Payable                          | 319,763                    | 985                         | 320,748           |
| Accrued Sick Leave - Note A               | 96,053                     |                             | 96,053            |
| Accrued Salaries & Benefits               | 1,339,378                  | 49,678                      | 1,389,056         |
| Advances from Grantors                    | 253,502                    |                             | 253,502           |
| Bond Obligations - Note E                 | 1,455,000                  |                             | 1,455,000         |
| Accrued Interest Payable                  | 128,651                    |                             | 128,651           |
| <b>Total Current Liabilities</b>          | <b>3,592,347</b>           | <b>50,663</b>               | <b>3,643,010</b>  |
| <b>Noncurrent Liabilities:</b>            |                            |                             |                   |
| Bond Obligations - Note E                 | 19,030,000                 |                             | 19,030,000        |
| KSBIT Assessment - Note Q                 | 565,782                    |                             | 565,782           |
| Accrued Sick Leave - Note A               | 174,487                    |                             | 174,487           |
| <b>Total Noncurrent Liabilities</b>       | <b>19,770,269</b>          |                             | <b>19,770,269</b> |
| <b>TOTAL LIABILITIES</b>                  | <b>23,362,616</b>          | <b>50,663</b>               | <b>23,413,279</b> |
| <b>NET POSITION:</b>                      |                            |                             |                   |
| Net Investment in Capital Assets          | 11,138,397                 | 235,650                     | 11,374,047        |
| Restricted for:                           |                            |                             |                   |
| Capital Projects                          | 32,156                     |                             | 32,156            |
| School Based Decision Making              | 31,707                     |                             | 31,707            |
| School Food Service                       |                            | 494,685                     | 494,685           |
| Debt Service                              | 59,680                     |                             | 59,680            |
| Unrestricted                              | 6,514,418                  |                             | 6,514,418         |
| <b>TOTAL NET POSITION</b>                 | <b>17,776,358</b>          | <b>730,335</b>              | <b>18,506,693</b> |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>41,138,974</b>          | <b>780,998</b>              | <b>41,919,972</b> |

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

| FUNCTION/PROGRAMS                     | EXPENSES          | PROGRAM REVENUES        |  |  | NET(EXPENSE) REVENUE AND CHANGES<br>IN NET POSITION |                             |                     |
|---------------------------------------|-------------------|-------------------------|--|--|---|-----------------------------|---------------------|
|                                       |                   | CHARGES FOR<br>SERVICES | OPERATING<br>GRANTS AND<br>CONTRIBUTIONS | CAPITAL<br>GRANTS AND<br>CONTRIBUTIONS | GOVERNMENTAL<br>ACTIVITIES                          | BUSINESS-TYPE<br>ACTIVITIES | TOTAL               |
| <b>GOVERNMENTAL ACTIVITIES:</b>       |                   |                         |  |  |   |                             |                     |
| Instructional                         | 19,557,487        | 49,899                  | 2,655,689                                |  | (16,851,899)  |                             | (16,851,899)        |
| Support Services:                     |                   |                         |  |  |   |                             |                     |
| Student Support Services              | 944,054           |                         | 103,403                                  |  | (840,651)   |                             | (840,651)           |
| Staff Support Services                | 963,380           |                         | 189,692                                  |  | (773,688)   |                             | (773,688)           |
| District Administration               | 1,335,811         |                         |  |  | (1,335,811)   |                             | (1,335,811)         |
| School Administration                 | 1,320,674         |                         |  |  | (1,320,674)   |                             | (1,320,674)         |
| Business Support Services             | 496,094           |                         |  |  | (496,094)   |                             | (496,094)           |
| Plant Operation & Maintenance         | 2,215,196         |                         |  |  | (2,215,196)   |                             | (2,215,196)         |
| Student Transportation                | 1,642,435         | 27,731                  |  |  | (1,614,704)   |                             | (1,614,704)         |
| Food Service Operations               |                   |                         |  |  | 0   |                             | 0                   |
| Community Service Operations          | 285,695           |                         | 212,750                                  |  | (72,945)  |                             | (72,945)            |
| Facilities Acquisition & Construction |                   |                         |  | 769,144                                | 769,144   |                             | 769,144             |
| Interest on Long-Term Debt            | 1,396,758         |                         | 110,879                                  |  | (1,285,879)   |                             | (1,285,879)         |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>  | <b>30,157,584</b> | <b>77,630</b>           | <b>3,272,413</b>                         | <b>769,144</b>                         | <b>(26,038,397)</b>                                 |                             | <b>(26,038,397)</b> |
| <b>BUSINESS-TYPE ACTIVITIES:</b>      |                   |                         |  |  |   |                             |                     |
| Food Service                          | 2,264,897         | 666,783                 | 1,622,272                                |  |   | 24,158                      | 24,158              |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES</b> | <b>2,264,897</b>  | <b>666,783</b>          | <b>1,622,272</b>                         | <b>0</b>                               | <b>0</b>  | <b>24,158</b>               | <b>24,158</b>       |
| <b>TOTAL SCHOOL DISTRICT</b>          | <b>32,422,481</b> | <b>744,413</b>          | <b>4,894,685</b>                         | <b>769,144</b>                         | <b>(26,038,397)</b>                                 | <b>24,158</b>               | <b>(26,014,239)</b> |
| <b>GENERAL REVENUES:</b>              |                   |                         |  |  |   |                             |                     |
| Taxes                                 |                   |                         |  |  | 7,366,894   |                             | 7,366,894           |
| State Aid - Formula Grants            |                   |                         |  |  | 18,024,055  |                             | 18,024,055          |
| Investment Earnings                   |                   |                         |  |  | 113,793   | 5,975                       | 119,768             |
| Miscellaneous                         |                   |                         |  |  | 150,789   |                             | 150,789             |
| <b>SPECIAL ITEMS:</b>                 |                   |                         |  |  |   |                             |                     |
| Indirect Cost Transfer (Expense)      |                   |                         |  |  | 94,359  | (94,359)                    | 0                   |
| Gain(Loss) Sale of Assets             |                   |                         |  |  | 5,195   | (1,338)                     | 3,857               |
| Loss Compensation                     |                   |                         |  |  | 4,552   |                             | 4,552               |
| <b>TOTAL GENERAL &amp; SPECIAL</b>    |                   |                         |  |  | <b>25,759,637</b>                                   | <b>(89,722)</b>             | <b>25,669,915</b>   |
| <b>CHANGE IN NET POSITION</b>         |                   |                         |  |  | <b>(278,760)</b>                                    | <b>(65,564)</b>             | <b>(344,324)</b>    |
| <b>NET POSITION - BEGINNING</b>       |                   |                         |  |  | <b>18,055,118</b>                                   | <b>795,899</b>              | <b>18,851,017</b>   |
| <b>NET POSITION - ENDING</b>          |                   |                         |  |  | <b>17,776,358</b>                                   | <b>730,335</b>              | <b>18,506,693</b>   |

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

MARION COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

|  | GENERAL<br>FUND  | SPECIAL<br>REVENUE | CONSTRUCTION<br>FUND | DEBT<br>SERVICE<br>FUND | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|--|------------------|--------------------|----------------------|-------------------------|--------------------------------|--------------------------------|
| <b>ASSETS:</b>                             |                  |                    |                      |                         |                                |                                |
| Cash & Cash Equivalents                    | 8,480,745        | (123,591)          | 95,714               | 59,680                  |                                | 8,512,548                      |
| Accounts Receivable:                       |                  |                    |                      |                         |                                |                                |
| Taxes - Current                            | 158,621          |                    |                      |                         |                                | 158,621                        |
| Taxes - Delinquent                         | 3,529            |                    |                      |                         |                                | 3,529                          |
| Accounts                                   | 9,536            |                    |                      |                         |                                | 9,536                          |
| Intergovernmental - State                  |                  | 35,898             |                      |                         |                                | 35,898                         |
| Intergovernmental - Federal                |                  | 503,864            |                      |                         |                                | 503,864                        |
| <b>TOTAL ASSETS</b>                        | <u>8,652,431</u> | <u>416,171</u>     | <u>95,714</u>        | <u>59,680</u>           | <u>0</u>                       | <u>9,223,996</u>               |
| <b>LIABILITIES AND FUND BALANCE:</b>       |                  |                    |                      |                         |                                |                                |
| Liabilities:                               |                  |                    |                      |                         |                                |                                |
| Accounts Payable                           | 236,303          | 15,013             | 63,558               |                         |                                | 314,874                        |
| Accrued Salaries & Sick Leave              | 1,287,775        | 147,656            |                      |                         |                                | 1,435,431                      |
| Due to Student Groups                      | 4,889            |                    |                      |                         |                                | 4,889                          |
| Deferred Revenues                          |                  | 253,502            |                      |                         |                                | 253,502                        |
| <b>Total Liabilities</b>                   | <u>1,528,967</u> | <u>416,171</u>     | <u>63,558</u>        | <u>0</u>                | <u>0</u>                       | <u>2,008,696</u>               |
| Fund Balance:                              |                  |                    |                      |                         |                                |                                |
| Restricted for:                            |                  |                    |                      |                         |                                |                                |
| Capital Projects                           |                  |                    | 32,156               |                         |                                | 32,156                         |
| Debt Service                               |                  |                    |                      | 59,680                  |                                | 59,680                         |
| Sick Leave                                 | 174,487          |                    |                      |                         |                                | 174,487                        |
| Committed for:                             |                  |                    |                      |                         |                                |                                |
| KSBIT Assessment - Note Q                  | 565,782          |                    |                      |                         |                                | 565,782                        |
| Assigned for:                              |                  |                    |                      |                         |                                |                                |
| Site Based Carryforward                    | 31,707           |                    |                      |                         |                                | 31,707                         |
| Unassigned Fund Balance                    | 6,351,488        |                    |                      |                         |                                | 6,351,488                      |
| <b>Total Fund Balance</b>                  | <u>7,123,464</u> | <u>0</u>           | <u>32,156</u>        | <u>59,680</u>           | <u>0</u>                       | <u>7,215,300</u>               |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <u>8,652,431</u> | <u>416,171</u>     | <u>95,714</u>        | <u>59,680</u>           | <u>0</u>                       | <u>9,223,996</u>               |

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

MARION COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013

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

|  |                     |                          |
|--|---------------------|--------------------------|
| TOTAL GOVERNMENTAL FUND BALANCE  |                     | 7,215,300                |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>                |                     |                          |
| Cost of Capital Assets   | 54,494,158          |                          |
| Accumulated Depreciation   | <u>(22,870,761)</u> | 31,623,397               |
| Bond Issuance Costs  |                     | 291,581                  |
| <p>Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p> |                     |                          |
| <p>Long-term liabilities at year end consist of:</p>   |                     |                          |
| KSBIT Assessment   | (565,782)           |                          |
| Bonds Payable  | (20,485,000)        |                          |
| Accrued Interest on Bonds  | (128,651)           |                          |
| Accrued Sick Leave   | <u>(174,487)</u>    | <u>(21,353,920)</u>      |
| TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES   |                     | <u><u>17,776,358</u></u> |

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013

|   | GENERAL           | SPECIAL<br>REVENUE | CONSTRUCTION<br>FUND | DEBT<br>SERVICE<br>FUND | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|---|-------------------|--------------------|----------------------|-------------------------|--------------------------------|--------------------------------|
| <b>REVENUES:</b>                                      |                   |                    |                      |                         |                                |                                |
| Taxes   | 6,806,522         |                    |                      |                         | 560,372                        | 7,366,894                      |
| Earnings on Investments                               | 110,751           | 1,217              | 1,825                |                         |                                | 113,793                        |
| Intergovernmental - State                             | 17,169,477        | 1,119,314          |                      | 814,386                 | 769,144                        | 19,872,321                     |
| Intergovernmental - Federal                           | 175,621           | 1,984,421          |                      | 110,879                 |                                | 2,270,921                      |
| Other Sources   | 92,990            | 57,799             |                      |                         |                                | 150,789                        |
| <b>TOTAL REVENUES</b>                                 | <b>24,355,361</b> | <b>3,162,751</b>   | <b>1,825</b>         | <b>925,265</b>          | <b>1,329,516</b>               | <b>29,774,718</b>              |
| <b>EXPENDITURES:</b>                                  |                   |                    |                      |                         |                                |                                |
| Instructional   | 15,662,085        | 2,687,796          |                      |                         |                                | 18,349,881                     |
| Support Services:                                     |                   |                    |                      |                         |                                |                                |
| Student Support Services                              | 838,837           | 105,206            |                      |                         |                                | 944,043                        |
| Staff Support Services                                | 794,844           | 169,511            |                      |                         |                                | 964,355                        |
| District Administration                               | 723,764           |                    |                      |                         |                                | 723,764                        |
| School Administration                                 | 1,318,120         |                    |                      |                         |                                | 1,318,120                      |
| Business Support Services                             | 495,121           |                    |                      | 11,760                  |                                | 506,881                        |
| Plant Operation & Maintenance                         | 2,030,282         |                    |                      |                         |                                | 2,030,282                      |
| Student Transportation                                | 1,739,630         |                    |                      |                         |                                | 1,739,630                      |
| Central Office  |                   |                    |                      |                         |                                |                                |
| Food Service Operation                                |                   |                    |                      |                         |                                | 0                              |
| Community Service Operations                          | 31,545            | 254,150            |                      |                         |                                | 285,695                        |
| Adult Education Operations                            |                   |                    |                      |                         |                                |                                |
| Facilities Acquisition & Construction                 |                   |                    | 1,057,339            |                         |                                | 1,057,339                      |
| Debt Service:   |                   |                    |                      |                         |                                |                                |
| Principal   |                   |                    |                      | 5,600,000               |                                | 5,600,000                      |
| Interest  |                   |                    |                      | 1,304,906               |                                | 1,304,906                      |
| <b>TOTAL EXPENDITURES</b>                             | <b>23,634,228</b> | <b>3,216,663</b>   | <b>1,057,339</b>     | <b>6,916,666</b>        | <b>0</b>                       | <b>34,824,896</b>              |
| <b>EXCESS(DEFICIT) REVENUES OVER<br/>EXPENDITURES</b> | <b>721,133</b>    | <b>(53,912)</b>    | <b>(1,055,514)</b>   | <b>(5,991,401)</b>      | <b>1,329,516</b>               | <b>(5,050,178)</b>             |
| <b>OTHER FINANCING SOURCES(USES):</b>                 |                   |                    |                      |                         |                                |                                |
| Proceeds from Sale of Bonds                           |                   |                    |                      | 4,750,000               |                                | 4,750,000                      |
| Proceeds from Sale of Assets                          | 16,535            |                    |                      |                         |                                | 16,535                         |
| Operating Transfers In - Note N                       | 277,065           | 55,385             | 43,491               | 1,224,466               |                                | 1,600,407                      |
| Operating Transfers Out - Note N                      | (175,059)         | (1,473)            |                      |                         | (1,329,516)                    | (1,506,048)                    |
| <b>TOTAL OTHER FINANCING SOURCES</b>                  | <b>118,541</b>    | <b>53,912</b>      | <b>43,491</b>        | <b>5,974,466</b>        | <b>(1,329,516)</b>             | <b>4,860,894</b>               |
| <b>NET CHANGE IN FUND BALANCES</b>                    | <b>839,674</b>    | <b>0</b>           | <b>(1,012,023)</b>   | <b>(16,935)</b>         | <b>0</b>                       | <b>(189,284)</b>               |
| <b>FUND BALANCES - BEGINNING</b>                      | <b>6,283,790</b>  | <b>0</b>           | <b>1,044,179</b>     | <b>76,615</b>           | <b>0</b>                       | <b>7,404,584</b>               |
| <b>FUND BALANCES - ENDING</b>                         | <b>7,123,464</b>  | <b>0</b>           | <b>32,156</b>        | <b>59,680</b>           | <b>0</b>                       | <b>7,215,300</b>               |

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

MARION COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

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

NET CHANGES - GOVERNMENTAL FUNDS (189,284)

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.

|                      |                  |           |
|----------------------|------------------|-----------|
| Depreciation Expense | (1,945,528)      |           |
| Capital Outlays      | <u>1,596,796</u> | (348,732) |

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

|                     |                    |         |
|---------------------|--------------------|---------|
| Principal Paid      | 5,600,000          |         |
| Bond Proceeds       | <u>(4,750,000)</u> | 850,000 |
| Bond Issuance Costs |                    | 11,760  |

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.

|                                  |               |           |
|----------------------------------|---------------|-----------|
| KSBIT Assessment                 | (565,782)     |           |
| Amortization-Bond Issuance Costs | (148,183)     |           |
| Accrued Interest Payable         | 56,333        |           |
| Accrued Sick Leave               | <u>61,916</u> | (595,716) |

In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.

|                       |  |                |
|-----------------------|--|----------------|
| Loss - Sale of Assets |  | <u>(6,788)</u> |
|-----------------------|--|----------------|

CHANGES - NET POSITION GOVERNMENTAL FUNDS (278,760)

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013

|                                     | ORIGINAL<br>BUDGET | FINAL<br>BUDGET    | ACTUAL            | VARIANCE WITH<br>FINAL BUDGET<br>POSITIVE<br>(NEGATIVE) |
|-------------------------------------|--------------------|--------------------|-------------------|---|
| <b>REVENUES:</b>                    |                    |                    |                   |   |
| Taxes                               | 5,655,000          | 5,655,000          | 6,806,522         | 1,151,522   |
| Other Local Sources                 | 129,200            | 129,200            | 109,525           | (19,675)  |
| State Sources                       | 12,178,417         | 12,178,417         | 17,169,477        | 4,991,060   |
| Federal Sources                     | 86,631             | 86,631             | 175,621           | 88,990  |
| Other Sources                       | 1,369              | 1,369              | 387,816           | 386,447   |
| <b>TOTAL REVENUES</b>               | <b>18,050,617</b>  | <b>18,050,617</b>  | <b>24,648,961</b> | <b>6,598,344</b>  |
| <b>EXPENDITURES:</b>                |                    |                    |                   |   |
| Instructional                       | 14,026,478         | 14,028,527         | 15,662,085        | (1,633,558)   |
| Student Support Services            | 714,574            | 714,574            | 838,837           | (124,263)   |
| Staff Support Services              | 699,752            | 699,752            | 794,844           | (95,092)  |
| District Administration             | 850,759            | 850,759            | 723,764           | 126,995   |
| School Administration               | 1,039,314          | 1,039,314          | 1,318,120         | (278,806)   |
| Business Support Services           | 378,520            | 378,520            | 495,121           | (116,601)   |
| Plant Operation & Maintenance       | 2,311,957          | 2,311,957          | 2,030,282         | 281,675   |
| Student Transportation              | 1,949,631          | 1,949,631          | 1,739,630         | 210,001   |
| Central Office                      | 0                  | 0                  | 0                 | 0   |
| Community Service Operations        | 29,700             | 29,700             | 31,545            | (1,845)   |
| Facility Acquisition & Construction | 80,000             | 80,000             | 0                 | 80,000  |
| Other                               | 2,004,051          | 2,002,002          | 175,059           | 1,826,943   |
| <b>TOTAL EXPENDITURES</b>           | <b>24,084,736</b>  | <b>24,084,736</b>  | <b>23,809,287</b> | <b>275,449</b>  |
| <b>NET CHANGE IN FUND BALANCE</b>   | <b>(6,034,119)</b> | <b>(6,034,119)</b> | <b>839,674</b>    | <b>6,873,793</b>  |
| <b>FUND BALANCES - BEGINNING</b>    | <b>6,034,119</b>   | <b>6,034,119</b>   | <b>6,283,790</b>  | <b>0</b>  |
| <b>FUND BALANCES - ENDING</b>       | <b>0</b>           | <b>0</b>           | <b>7,123,464</b>  | <b>6,873,793</b>  |

On-behalf payments totaling \$ 4,481,594 are not budgeted by the Marion County School District.

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2013

|                                     | ORIGINAL<br>BUDGET | FINAL<br>BUDGET  | ACTUAL           | VARIANCE WITH<br>FINAL BUDGET<br>POSITIVE<br>(NEGATIVE) |
|-------------------------------------|--------------------|------------------|------------------|---|
| <b>REVENUES:</b>                    |                    |                  |                  |   |
| Taxes                               |                    |                  |                  |   |
| Other Local Sources                 | 16,600             | 16,600           | 57,799           | 41,199  |
| State Sources                       | 1,005,185          | 1,006,388        | 1,119,314        | 112,926   |
| Federal Sources                     | 2,090,861          | 2,130,354        | 1,984,421        | (145,933)   |
| Other Sources                       | 57,400             | 57,400           | 56,602           | (798)   |
| <b>TOTAL REVENUES</b>               | <u>3,170,046</u>   | <u>3,210,742</u> | <u>3,218,136</u> | <u>7,394</u>  |
| <b>EXPENDITURES:</b>                |                    |                  |                  |   |
| Instructional                       | 2,699,650          | 2,714,242        | 2,687,796        | 26,446  |
| Student Support Services            | 102,497            | 128,497          | 105,206          | 23,291  |
| Staff Support Services              | 111,919            | 111,919          | 169,511          | (57,592)  |
| District Administration             |                    |                  | 0                | 0   |
| School Administration               |                    |                  | 0                | 0   |
| Business Support Services           |                    |                  | 0                | 0   |
| Plant Operation & Maintenance       |                    |                  | 0                | 0   |
| Student Transportation              |                    |                  | 0                | 0   |
| Central Office                      |                    |                  | 0                | 0   |
| Community Service Operations        | 254,611            | 254,611          | 254,150          | 461   |
| Facility Acquisition & Construction |                    |                  | 0                | 0   |
| Other                               | 1,369              | 1,473            | 1,473            | 0   |
| <b>TOTAL EXPENDITURES</b>           | <u>3,170,046</u>   | <u>3,210,742</u> | <u>3,218,136</u> | <u>(7,394)</u>  |
| <b>NET CHANGE IN FUND BALANCE</b>   | 0                  | 0                | 0                | 0   |
| <b>FUND BALANCES - BEGINNING</b>    | <u>0</u>           | <u>0</u>         | <u>0</u>         | <u>0</u>  |
| <b>FUND BALANCES - ENDING</b>       | <u><u>0</u></u>    | <u><u>0</u></u>  | <u><u>0</u></u>  | <u><u>0</u></u>   |

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2013

|   | ENTERPRISE FUNDS |                              |                |
|---|------------------|------------------------------|----------------|
|   | FOOD<br>SERVICE  | OTHER<br>ENTERPRISE<br>FUNDS | TOTAL          |
| <b>ASSETS:</b>                            |                  |                              |                |
| Current Assets:                           |                  |                              |                |
| Cash & Cash Equivalents                   | 395,967          |                              | 395,967        |
| Investments                               |                  |                              | 0              |
| Accounts Receivable                       | 135,220          |                              | 135,220        |
| Inventories for Consumption               | 14,161           |                              | 14,161         |
| Total Current Assets                      | 545,348          | 0                            | 545,348        |
| Noncurrent Assets:                        |                  |                              |                |
| Furniture & Equipment                     | 795,934          |                              | 795,934        |
| Less: Accumulated Depreciation            | (560,284)        |                              | (560,284)      |
| Total Noncurrent Assets                   | 235,650          | 0                            | 235,650        |
| <b>TOTAL ASSETS</b>                       | <b>780,998</b>   | <b>0</b>                     | <b>780,998</b> |
| <b>LIABILITIES:</b>                       |                  |                              |                |
| Current Liabilities:                      |                  |                              |                |
| Account Payable                           | 985              |                              | 985            |
| Accrued Salaries & Benefits               | 49,678           |                              | 49,678         |
| Accrued Sick Leave                        | 0                |                              | 0              |
| Total Current Liabilities                 | 50,663           | 0                            | 50,663         |
| Net Position:                             |                  |                              |                |
| Net Investment in Capital Assets          | 235,650          |                              | 235,650        |
| Restricted                                | 494,685          |                              | 494,685        |
| Total Net Position                        | 730,335          | 0                            | 730,335        |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>780,998</b>   | <b>0</b>                     | <b>780,998</b> |

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013

|   | ENTERPRISE FUNDS |                              |             |
|---|------------------|------------------------------|-------------|
|   | FOOD<br>SERVICE  | OTHER<br>ENTERPRISE<br>FUNDS | TOTAL       |
| OPERATING REVENUES:                       |                  |                              |             |
| Lunchroom Sales                           | 666,783          |                              | 666,783     |
| Other Operating Revenues                  | 0                |                              | 0           |
| TOTAL OPERATING REVENUES                  | 666,783          | 0                            | 666,783     |
| OPERATING EXPENSES:                       |                  |                              |             |
| Salaries & Benefits                       | 1,101,073        |                              | 1,101,073   |
| Contract Services                         | 37,384           |                              | 37,384      |
| Materials & Supplies                      | 1,082,519        |                              | 1,082,519   |
| Depreciation - Note F                     | 40,554           |                              | 40,554      |
| Other Operating Expenses                  | 3,367            |                              | 3,367       |
| TOTAL OPERATING EXPENSES                  | 2,264,897        | 0                            | 2,264,897   |
| OPERATING INCOME(LOSS)                    | (1,598,114)      | 0                            | (1,598,114) |
| NONOPERATING REVENUES(EXPENSES):          |                  |                              |             |
| Federal Grants                            | 1,276,037        |                              | 1,276,037   |
| State Grants                              | 233,857          |                              | 233,857     |
| Donated Commodities                       | 112,378          |                              | 112,378     |
| Interest Income                           | 5,975            |                              | 5,975       |
| Gain (Loss) on Sale of Assets             | (1,338)          |                              | (1,338)     |
| Transfers Out                             | (94,359)         |                              | (94,359)    |
| TOTAL NONOPERATING REVENUE                | 1,532,550        | 0                            | 1,532,550   |
| INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS | (65,564)         | 0                            | (65,564)    |
| CAPITAL CONTRIBUTIONS                     | 0                | 0                            | 0           |
| CHANGE IN NET POSITION                    | (65,564)         | 0                            | (65,564)    |
| TOTAL NET POSITION - BEGINNING            | 795,899          | 0                            | 795,899     |
| TOTAL NET POSITION - ENDING               | 730,335          | 0                            | 730,335     |

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013

|  |                           |
|--|---------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                       |                           |
| Cash Received from:  |                           |
| Lunchroom Sales  | 666,783                   |
| Cash Paid to/for:  |                           |
| Employees  | (837,985)                 |
| Supplies   | (973,892)                 |
| Other Activities   | <u>(40,751)</u>           |
| Net Cash Used by Operating Activities  | (1,185,845)               |
| <b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:</b>               |                           |
| Transfer to General Fund   | (94,359)                  |
| Federal Grants   | 1,157,150                 |
| State Grants   | <u>20,447</u>             |
| Net Cash Provided by Non-Capital and Related Financing Activities                  | 1,083,238                 |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                   |                           |
| Proceeds from Sale of Capital Assets   | -                         |
| Purchases of Capital Assets  | (50,960)                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                           |
| Receipt of Interest Income   | <u>5,975</u>              |
| Net Increase in Cash and Cash Equivalents  | (147,592)                 |
| Balances, Beginning of Year  | <u>543,559</u>            |
| Balances, End of Year  | <u><u>395,967</u></u>     |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>  |                           |
| Operating Loss   | (1,598,114)               |
| Adjustments to Reconcile Operating Loss to Net Cash (Used) by Operating Activities |                           |
| Depreciation   | 40,554                    |
| State On-Behalf Payments   | 213,411                   |
| Donated Commodities  | 112,378                   |
| Change in Assets and Liabilities:  |                           |
| Inventory  | (2,000)                   |
| Accrued Salaries & Benefits  | 49,678                    |
| Accounts Payable   | <u>(1,752)</u>            |
| Net Cash Used by Operating Activities  | <u><u>(1,185,845)</u></u> |
| Schedule of Non-Cash Transactions:   |                           |
| Donated Commodities  | 112,378                   |
| State On-Behalf Payments   | 213,411                   |

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2013

|                                   | <u>PRIVATE<br/>PURPOSE<br/>TRUST FUNDS</u> | <u>AGENCY FUND</u> |
|-----------------------------------|--|--------------------|
| <b>ASSETS:</b>                    |  |                    |
| Cash and Cash Equivalents         | 4,059                                      | 233,674            |
| Accounts Receivable               |  | 4,889              |
| Investment Income Receivable      |  |                    |
| Loans Receivable                  |  |                    |
| Investments - Note D              | 142,032                                    |                    |
| <b>TOTAL ASSETS</b>               | <u>146,091</u>                             | <u>238,563</u>     |
| <b>LIABILITIES:</b>               |  |                    |
| Accounts Payable                  |  | 883                |
| Due to Student Groups             |  | 237,680            |
| <b>TOTAL LIABILITIES</b>          | <u>0</u>                                   | <u>238,563</u>     |
| <b>NET POSITION HELD IN TRUST</b> | <u><u>146,091</u></u>                      | <u><u>0</u></u>    |

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013

|   | <u>PRIVATE<br/>PURPOSE<br/>TRUST FUNDS</u> |
|---|--|
| ADDITIONS:                                |  |
| Net Interest and Investment Gains(Losses) | 7,455                                      |
| Scholarship Funds Contributed             |  |
| DEDUCTIONS:                               |  |
| Broker Fees                               | 1,874                                      |
| Benefits Paid                             | <u>5,000</u>                               |
| Changes in Net Position                   | 581  |
| NET POSITION - BEGINNING OF YEAR          | <u>145,510</u>                             |
| NET POSITION - END OF YEAR                | <u><u>146,091</u></u>                      |

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

MARION COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

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

Reporting Entity

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

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

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

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

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

Basis of Presentation

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified on Pages 45 and 46 in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

### II. Proprietary Fund Types (Enterprise Fund)

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

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

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

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

### Basis of Accounting

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

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

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

### Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$0.528 per \$100 valuation for real property, \$0.528 per \$100 valuation for business personal property, and \$0.526 per \$100 valuation for motor vehicles.

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

### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

### Interfund Balances

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

### Accumulated Unpaid Sick Leave Benefits

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

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

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

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

### Budgetary Process

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

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

### Cash and Cash Equivalents

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

### Inventories

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

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

The food service fund uses the specific identification method.

### Investments

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balance

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the School Board, and this does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

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

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

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

| <u>Fund Balance Type</u> | <u>Amount</u> | <u>Action</u>  |
|--------------------------|---------------|--|
| General Fund             | \$174,487     | Long-Term Sick Leave Commitment                              |
| General Fund             | \$565,782     | Kentucky School Boards Insurance Trust<br>(KSBIT) Assessment |

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

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

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

Net Position

Net position represents the difference between assets and liabilities. Net investments 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

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

Contributions of Capital

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

Effective for the fiscal year ending June 30, 2013, the Board adopted GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989, FASB and AICPA Pronouncements*, which codifies all applicable GASB, Financial Accounting Standards Board (“FASB”), and Accounting Principles Board opinions dated according to the title of the statement. Additionally, for fiscal year ending June 30, 2013, the Board has implemented GASB Statement 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

**NOTE B – ESTIMATES**

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

**NOTE C – CASH AND CASH EQUIVALENTS**

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

At year-end, the carrying amount of the District’s total cash and cash equivalents were \$9,146,248. Of the total cash balance, \$351,099 was covered by Federal Depository Insurance and \$8,795,149 was covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name.

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

|                                 | <b>Bank Balance</b> | <b>Book Balance</b> |
|---------------------------------|---------------------|---------------------|
| Citizens National Bank          | 9,955,486           | 8,908,515           |
| Farmers Bank (Agency Funds)     | 63,110              | 62,653              |
| Citizens National Bank (Agency) | 136,678             | 136,633             |
| U.S. Bank (Agency)              | 34,944              | 34,388              |
| Paine Webber                    | 4,059               | 4,059               |
|                                 | <u>10,194,277</u>   | <u>9,146,248</u>    |

Breakdown per financial statements:

|                             |                  |
|-----------------------------|------------------|
| Governmental Funds          | 8,512,548        |
| Proprietary Funds           | 395,967          |
| Private Purpose Trust Funds | 4,059            |
| Agency Funds                | <u>233,674</u>   |
|                             | <u>9,146,248</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE D – INVESTMENTS**

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

The following is a comparison of the cost and fair value of investments held in trust at June 30, 2013:

|                             | <b>Cost</b>    | <b>Fair Value</b> |
|-----------------------------|----------------|-------------------|
| Private Purpose Trust Funds |                |                   |
| Money Market                | 4,058          | 4,059             |
| Mutual Funds                | <u>108,650</u> | <u>142,032</u>    |
|                             | <u>112,708</u> | <u>146,091</u>    |

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

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

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

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

**NOTE E – BONDED DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bond obligations represents the District’s future obligations to make bond payments relating to the bonds issued by the Marion County School District Finance Corporation aggregating \$25,435,000.

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

|                 |           |                |
|-----------------|-----------|----------------|
| 2002            | 3,490,000 | 1.50% - 3.850% |
| 2005 Unrefunded | 785,000   | 3.60% - 3.80%  |
| 2005 Series B   | 2,455,000 | 3.96% - 3.970% |
| 2006            | 675,000   | 3.85% - 3.860% |
| 2009            | 3,045,000 | 3.00% - 3.375% |
| 2009 Series B   | 5,995,000 | 1.50% - 6.00%  |
| 2012            | 3,210,000 | 1.25% - 2.125% |
| 2012 Series B   | 1,030,000 | 1.70% - 3.25%  |
| 2012 Series C   | 4,750,000 | 1.00% - 2.375% |

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

| Year    | Principal         | Interest         | Participation    | District's<br>Portion |
|---------|-------------------|------------------|------------------|-----------------------|
| 2013-14 | 1,455,000         | 601,369          | 810,284          | 1,246,085             |
| 2014-15 | 1,170,000         | 555,405          | 483,942          | 1,241,463             |
| 2015-16 | 1,210,000         | 521,044          | 483,173          | 1,247,871             |
| 2016-17 | 1,150,000         | 483,479          | 482,405          | 1,151,074             |
| 2017-18 | 1,190,000         | 447,930          | 481,641          | 1,156,289             |
| 2018-19 | 1,190,000         | 402,075          | 443,574          | 1,148,501             |
| 2019-20 | 1,205,000         | 362,936          | 414,137          | 1,153,799             |
| 2020-21 | 1,155,000         | 337,687          | 345,084          | 1,147,603             |
| 2021-22 | 1,185,000         | 312,691          | 344,233          | 1,153,458             |
| 2022-23 | 1,210,000         | 286,797          | 343,383          | 1,153,414             |
| 2023-24 | 1,215,000         | 249,984          | 287,926          | 1,177,058             |
| 2024-25 | 1,250,000         | 220,462          | 291,426          | 1,179,036             |
| 2025-26 | 1,250,000         | 189,734          | 264,983          | 1,174,751             |
| 2026-27 | 1,075,000         | 145,205          | 186,941          | 1,033,264             |
| 2027-28 | 1,110,000         | 104,503          | 185,291          | 1,029,212             |
| 2028-29 | 1,160,000         | 61,303           | 188,504          | 1,032,799             |
| 2029-30 | 1,175,000         | 16,210           | 154,130          | 1,037,080             |
| 2030-31 | 65,000            | 4,225            | 69,225           | 0                     |
| 2031-32 | 65,000            | 2,113            | 67,113           | 0                     |
|         | <u>20,485,000</u> | <u>5,305,152</u> | <u>6,327,395</u> | <u>19,462,757</u>     |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2013, was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| <b>Primary Government</b>                        |                              |                  |                   |                           |                                |
| Governmental Activities:                         |                              |                  |                   |                           |                                |
| Revenue Bond Payable                             | 21,335,000                   | 4,750,000        | 5,600,000         | 20,485,000                | 1,455,000                      |
| Accrued Sick Leave                               | <u>326,469</u>               | <u>85,739</u>    | <u>141,668</u>    | <u>270,540</u>            | <u>96,053</u>                  |
| Governmental Activities<br>Long-Term Liabilities | <u>21,661,469</u>            | <u>4,835,739</u> | <u>5,741,668</u>  | <u>20,755,540</u>         | <u>1,551,053</u>               |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE F - CAPITAL ASSETS**

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

|   | BEGINNING<br>BALANCE | ADDITIONS        | RETIREMENTS    | ENDING<br>BALANCE |
|---|----------------------|------------------|----------------|-------------------|
| <b>GOVERNMENTAL ACTIVITIES:</b>   |                      |                  |                |                   |
| Non-Depreciable Assets:   |                      |                  |                |                   |
| Land  | 814,396              |                  |                | 814,396           |
| Construction In Progress  | 248,957              | (248,957)        |                |                   |
| Depreciable Assets:   |                      |                  |                |                   |
| Buildings & Building Improvements   | 43,995,603           | 1,296,496        |                | 45,292,099        |
| Technology Equipment  | 3,768,894            | 276,077          | 157,948        | 3,887,023         |
| Vehicles  | 3,348,468            | 247,158          | 1,450          | 3,594,176         |
| General Equipment   | 905,673              | 26,022           | 25,231         | 906,464           |
| <b>TOTAL AT HISTORICAL COST</b>   | <b>53,081,991</b>    | <b>1,596,796</b> | <b>184,629</b> | <b>54,494,158</b> |
| <b>LESS ACCUMULATED DEPRECIATION FOR:</b>                                 |                      |                  |                |                   |
| Buildings & Building Improvements   | 16,104,789           | 1,253,426        |                | 17,358,215        |
| Technology Equipment  | 2,191,801            | 441,751          | 152,150        | 2,481,402         |
| Vehicles  | 2,284,864            | 189,314          | 1,450          | 2,472,728         |
| General Equipment   | 521,620              | 61,037           | 24,241         | 558,416           |
| <b>TOTAL ACCUMULATED DEPRECIATION</b>                                     | <b>21,103,074</b>    | <b>1,945,528</b> | <b>177,841</b> | <b>22,870,761</b> |
| <b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>                                | <b>31,978,917</b>    | <b>(348,732)</b> | <b>(6,788)</b> | <b>31,623,397</b> |
| <b>PROPRIETARY ACTIVITIES:</b>  |                      |                  |                |                   |
| Depreciable Assets:   |                      |                  |                |                   |
| Technology Equipment  | 5,668                |                  | 764            | 4,904             |
| General Equipment   | 747,723              | 50,960           | 7,653          | 791,030           |
| <b>TOTALS AT HISTORICAL COST</b>  | <b>753,391</b>       | <b>50,960</b>    | <b>8,417</b>   | <b>795,934</b>    |
| <b>LESS ACCUMULATED DEPRECIATION FOR:</b>                                 |                      |                  |                |                   |
| Technology Equipment  | 2,726                | 981              | 764            | 2,943             |
| General Equipment   | 524,083              | 39,573           | 6,315          | 557,341           |
| <b>TOTAL ACCUMULATED DEPRECIATION</b>                                     | <b>526,809</b>       | <b>40,554</b>    | <b>7,079</b>   | <b>560,284</b>    |
| <b>PROPRIETARY ACTIVITIES CAPITAL NET</b>                                 | <b>226,582</b>       | <b>10,406</b>    | <b>(1,338)</b> | <b>235,650</b>    |
| <b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b> |                      |                  |                |                   |
| Instructional   |                      |                  |                | 1,392,864         |
| Student Support Services  |                      |                  |                | 410               |
| Staff Support Services  |                      |                  |                | 4,488             |
| District Administration   |                      |                  |                | 179,089           |
| School Administration   |                      |                  |                | 24,321            |
| Business Support Services   |                      |                  |                | 973               |
| Plant Operation & Maintenance   |                      |                  |                | 193,420           |
| Student Transportation  |                      |                  |                | 149,963           |
| <b>TOTAL</b>  |                      |                  |                | <b>1,945,528</b>  |

**NOTE G – RETIREMENT PLANS**

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

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

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

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 19.55% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$17,207,966. The payroll for employees covered under KTRS was \$13,698,772 and for CERS was \$3,509,194.

For the years ended June 30, 2013, 2012 and 2011, the Commonwealth contributed \$1,847,264, \$1,646,786 and \$1,709,423 respectively to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2013, 2012 and 2011 were \$215,913, \$234,200 and \$154,070 respectively which represent those employees covered by federal programs.

The contribution requirements for CERS for the years ended June 30, 2013, 2012 and 2011, were \$865,242, \$867,164 and \$795,150 respectively, which consisted of \$684,998, \$682,179 and \$608,886 from the Board and \$180,244, 184,985 and 186,264 respectively from the employees.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

|   | <b>KTRS</b><br><b>June 30, 2012</b> | <b>CERS</b><br><b>June 30, 2012</b> |
|---|-------------------------------------|-------------------------------------|
| Assets available for benefits, at fair value        | 14,691,371,000                      | 5,547,235,599                       |
| Pension benefit obligation                          | <u>(26,973,854,000)</u>             | <u>(9,139,567,695)</u>              |
| (Underfunded)/overfunded pension benefit obligation | <u>(12,282,483,000)</u>             | <u>(3,592,332,096)</u>              |

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2012, comprehensive annual financial reports.

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

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

**NOTE H – CONTINGENCIES**

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

**NOTE I – INSURANCE AND RELATED ACTIVITIES**

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE J – RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participated in the Kentucky School Boards Insurance Trust Liability Insurance fund for the year ended June 30, 2013. The public entity risk pools operated as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District paid an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. The District also purchased unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund.

During 2013, the Kentucky School Boards Insurance Trust ceased to operate. The District's insurance coverage continued through June 30, 2013. (See also Note Q.) However, as of July 1, 2013, the District was required to obtain insurance coverage from a commercial insurance company; the District's Board selected Curneal and Hignite Insurance, Inc. to be their insurance broker. Coverage was obtained from Ohio Casualty.

**NOTE K – DEFICIT OPERATING BALANCES**

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

|                   |           |
|-------------------|-----------|
| Construction Fund | 1,055,514 |
| Debt Service      | 5,991,401 |

**NOTE L – COBRA**

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

**NOTE M – COMMITMENTS UNDER NONCAPITALIZED LEASES**

During the year ended June 30, 2013, the District paid \$44,508 for rent of office equipment. Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2013, as follows:

|                        |               |
|------------------------|---------------|
| Year Ending June 30,   |               |
| 2014                   | 44,508        |
| 2015                   | <u>44,508</u> |
| Total Minimum Payments | <u>89,016</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE N – TRANSFER OF FUNDS**

The following transfers were made during the year:

| Type      | From Fund      | To Fund                              | Purpose          | Amount           |
|-----------|----------------|--------------------------------------|------------------|------------------|
| Matching  | General        | Special Revenue                      | Technology Match | 45,994           |
| Matching  | General        | Special Revenue                      | Grant Match      | 7,800            |
| Operating | General        | Special Revenue                      | Operations       | 1,591            |
| Operating | Capital Outlay | General Fund                         | Operations       | 181,233          |
| Operating | Capital Outlay | Debt Service                         | Debt Service     | 106,230          |
| Operating | Building Fund  | Debt Service                         | Debt Service     | 1,042,053        |
| Operating | General        | Debt Service                         | Debt Service     | 76,183           |
| Operating | General        | Construction Fund                    | Construction     | 43,491           |
| Operating | General        | Special Revenue                      | Indirect Costs   | <u>1,473</u>     |
|           |                | Subtotal Governmental Fund Transfers |                  | 1,506,048        |
| Operating | General        | Food Service                         | Indirect Costs   | <u>94,359</u>    |
|           |                | Total Transferred Funds              |                  | <u>1,600,407</u> |

**NOTE O – ON-BEHALF PAYMENT**

For the year ended June 30, 2013, \$5,442,664 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology, and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

|                   |                     |
|-------------------|---------------------|
| General Fund      | \$ 4,481,594        |
| Food Service Fund | 213,410             |
| Debt Service      | <u>814,386</u>      |
| Total             | <u>\$ 5,509,390</u> |

**NOTE P – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through September 27, 2013. There are no material subsequent events to disclose.

**NOTE Q – KSBIT ASSESSMENT**

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2013, Marion County School District's assessment is expected to range between \$448,456 and \$569,323. \$565,782 has been recorded as a long-term liability on the government-wide financial statements, which is the best estimate available. In addition, the District's Board elected to commit the funds for the assessment on Balance Sheet for the Governmental Funds (page 13). It is anticipated that no payments will be required to be made until after the year end June 30, 2014.

MARION COUNTY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2013

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

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

MARION COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013

|   | <u>CAPITAL<br/>OUTLAY<br/>FUND</u> | <u>BUILDING<br/>FUND</u> | <u>TOTAL<br/>NON-MAJOR<br/>GOVERNMENT<br/>FUNDS</u> |
|---|------------------------------------|--------------------------|---|
| REVENUES:                                     |                                    |                          |   |
| Taxes   |                                    | 560,372                  | 560,372   |
| Earnings from Investments                     |                                    |                          |   |
| Intergovernmental - State                     | 287,463                            | 481,681                  | 769,144   |
| Intergovernmental - Federal                   |                                    |                          |   |
| Other Sources                                 |                                    |                          |   |
| TOTAL REVENUES                                | <u>287,463</u>                     | <u>1,042,053</u>         | <u>1,329,516</u>                                    |
| EXPENDITURES:                                 |                                    |                          |   |
| Instructional                                 |                                    |                          |   |
| Support Services:                             |                                    |                          |   |
| Student Support Services                      |                                    |                          |   |
| Staff Support Services                        |                                    |                          |   |
| District Administration                       |                                    |                          |   |
| School Administration                         |                                    |                          |   |
| Business Support Services                     |                                    |                          |   |
| Plant Operations & Maintenance                |                                    |                          |   |
| Student Transportation                        |                                    |                          |   |
| Central Office                                |                                    |                          |   |
| Community Service Operations                  |                                    |                          |   |
| Facilities Acquisition & Construction         |                                    |                          |   |
| Debt Service:                                 |                                    |                          |   |
| Principal                                     |                                    |                          |   |
| Interest                                      |                                    |                          |   |
| TOTAL EXPENDITURES                            | <u>0</u>                           | <u>0</u>                 | <u>0</u>  |
| EXCESS(DEFICIT) REVENUES OVER<br>EXPENDITURES | 287,463                            | 1,042,053                | 1,329,516   |
| OTHER FINANCING SOURCES(USES):                |                                    |                          |   |
| Proceeds from Sale of Bonds                   |                                    |                          |   |
| Proceeds from Sale of Assets                  |                                    |                          |   |
| Operating Transfers In                        |                                    |                          |   |
| Operating Transfers Out                       | (287,463)                          | (1,042,053)              | (1,329,516)   |
| TOTAL OTHER FINANCING SOURCES(USES)           | <u>(287,463)</u>                   | <u>(1,042,053)</u>       | <u>(1,329,516)</u>                                  |
| NET CHANGE IN FUND BALANCES                   | <u>0</u>                           | <u>0</u>                 | <u>0</u>  |
| FUND BALANCES - BEGINNING                     | <u>0</u>                           | <u>0</u>                 | <u>0</u>  |
| FUND BALANCES - ENDING                        | <u><u>0</u></u>                    | <u><u>0</u></u>          | <u><u>0</u></u>                                     |

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

MARION COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013

|  | FUND<br>BALANCE<br>JULY 1, 2012 | REVENUES              | EXPENDITURES          | FUND<br>BALANCE<br>JUNE 30, 2013 |
|--|---------------------------------|-----------------------|-----------------------|----------------------------------|
| Marion County High School                    | 112,178                         | 534,031               | 550,553               | 95,656                           |
| Marion County High School Charitable Gaming  | 0                               | 7,635                 | 4,241                 | 3,394                            |
| St. Charles Middle School                    | 21,330                          | 67,525                | 67,615                | 21,240                           |
| Lebanon Middle School                        | 25,251                          | 109,628               | 108,556               | 26,323                           |
| Lebanon Elementary School                    | 7,115                           | 49,158                | 45,215                | 11,058                           |
| Calvary Elementary School                    | 10,597                          | 38,672                | 34,177                | 15,092                           |
| Glasscock Elementary School                  | 22,375                          | 57,420                | 49,266                | 30,529                           |
| West Marion Elementary School                | <u>25,800</u>                   | <u>51,898</u>         | <u>43,310</u>         | <u>34,388</u>                    |
| Total Activity Funds (Due to Student Groups) | <u><u>224,646</u></u>           | <u><u>915,967</u></u> | <u><u>902,933</u></u> | <u><u>237,680</u></u>            |

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2013

|                         | CASH<br>BALANCE<br><u>JULY 1, 2012</u> | <u>RECEIPTS</u> | <u>DISBURSEMENTS</u> | CASH<br>BALANCE<br><u>JUNE 30, 2013</u> | ACCOUNTS<br>RECEIVABLE<br><u>JUNE 30, 2013</u> | ACCOUNTS<br>PAYABLE<br><u>JUNE 30, 2013</u> | FUND<br>BALANCE<br><u>JUNE 30, 2013</u> |
|-------------------------|--|-----------------|----------------------|---|--|---|---|
| Academic Team           | 311                                    | 530             | 419                  | 422                                     |  |   | 422                                     |
| Advanced Placement (AP) | 3,246                                  | 20,986          | 23,525               | 707                                     |  |   | 707                                     |
| AP Govt                 | 0                                      | 699             | 699                  | 0                                       |  |   | 0                                       |
| Art Department          | 1,501                                  | 2,025           | 2,174                | 1,352                                   |  |   | 1,352                                   |
| Athletics               | 7,320                                  | 112,882         | 114,386              | 5,816                                   |  |   | 5,816                                   |
| Autism Classic          | 58                                     | 12,594          | 12,544               | 108                                     |  |   | 108                                     |
| Band                    | 75                                     | 157             | 232                  | 0                                       |  |   | 0                                       |
| Baseball                | 0                                      | 11,921          | 7,734                | 4,187                                   |  |   | 4,187                                   |
| Beading to Beat Autism  | 729                                    | 0               | 729                  | 0                                       |  |   | 0                                       |
| Beta Club               | 1,351                                  | 32,178          | 28,846               | 4,683                                   |  |   | 4,683                                   |
| Bobby Jag. Scholarship  | 139                                    | 5               | 144                  | 0                                       |  |   | 0                                       |
| Boys Basketball         | 5,892                                  | 12,960          | 17,586               | 1,266                                   |  |   | 1,266                                   |
| Boys Soccer             | 0                                      | 1,089           | 982                  | 107                                     |  |   | 107                                     |
| Boys Tennis             | 415                                    | 1,017           | 866                  | 566                                     |  |   | 566                                     |
| Business Ed Dept.       | 1,798                                  | 47,733          | 38,601               | 10,930                                  |  |   | 10,930                                  |
| Cheerleaders            | 70                                     | 17,415          | 13,858               | 3,627                                   |  |   | 3,627                                   |
| Class Dues              | 12,433                                 | 5,513           | 14,312               | 3,634                                   |  |   | 3,634                                   |
| Class of 2013           | 0                                      | 47              | 47                   | 0                                       |  |   | 0                                       |
| Coaches' Fund           | 3,603                                  | 588             | 2,330                | 1,861                                   |  |   | 1,861                                   |
| Cross Country           | 475                                    | 1,910           | 2,147                | 238                                     |  |   | 238                                     |
| English SSS             | 0                                      | 93              | 93                   | 0                                       |  |   | 0                                       |
| FCA                     | 1                                      | 190             | 160                  | 31                                      |  |   | 31                                      |
| FCCLA                   | 1,844                                  | 12,988          | 12,991               | 1,841                                   |  |   | 1,841                                   |
| FCCLA Culinary Lab      | 898                                    | 7,666           | 8,179                | 385                                     |  |   | 385                                     |
| FFA                     | 4,132                                  | 23,735          | 25,947               | 1,920                                   |  |   | 1,920                                   |
| FFA Ag Tour             | 0                                      | 10,862          | 8,039                | 2,823                                   |  |   | 2,823                                   |
| FMD                     | 1,227                                  | 1               | 1,227                | 1                                       |  | 1   | 0                                       |
| Football                | 508                                    | 14,172          | 9,676                | 5,004                                   |  |   | 5,004                                   |
| Football Camp           | 204                                    | 4,788           | 4,992                | 0                                       |  |   | 0                                       |
| Football Helmets        | 0                                      | 3,076           | 3,076                | 0                                       |  |   | 0                                       |
| Friends of Rachel       | 61                                     | 0               | 61                   | 0                                       |  |   | 0                                       |
| General                 | 24,176                                 | 68,259          | 86,364               | 6,071                                   |  | 1   | 6,070                                   |
| Girls Basketball        | 0                                      | 11,887          | 11,881               | 6                                       |  |   | 6                                       |
| Girls Soccer            | 2,278                                  | 572             | 2,429                | 421                                     |  |   | 421                                     |
| Girls State Champ Ring  | 0                                      | 6,449           | 6,449                | 0                                       |  |   | 0                                       |
| Girls Tennis            | 811                                    | 2,443           | 3,254                | 0                                       |  |   | 0                                       |
| G/B Track               | 905                                    | 4,734           | 5,639                | 0                                       |  |   | 0                                       |

|                             |         |          |          |        |     |     |        |
|-----------------------------|---------|----------|----------|--------|-----|-----|--------|
| Golf                        | 526     | 7,683    | 4,704    | 3,505  |     |     | 3,505  |
| Graphic Designs             | 2,519   | 2,072    | 1,604    | 2,987  |     |     | 2,987  |
| Heather Garrett Scholarship | 2,426   | 87       | 467      | 2,046  |     |     | 2,046  |
| HCS Academy                 | 0       | 279      | 0        | 279    |     |     | 279    |
| International Club          | 479     | 0        | 479      | 0      |     |     | 0      |
| Key Club                    | 1,048   | 0        | 1,048    | 0      |     |     | 0      |
| Lab Notebooks               | 0       | 180      | 180      | 0      |     |     | 0      |
| Library                     | 4,072   | 0        | 850      | 3,222  |     |     | 3,222  |
| Life Skills                 | 0       | 130      | 130      | 0      |     |     | 0      |
| MCHS Jackets                | 0       | 4,355    | 4,355    | 0      |     |     | 0      |
| Mock Trail                  | 54      | 0        | 54       | 0      |     |     | 0      |
| Nancy Colvin Scholarship    | 1,667   | 1,622    | 1,031    | 2,258  |     |     | 2,258  |
| National Honor Society      | 464     | 1,266    | 801      | 929    |     |     | 929    |
| P.E. Department             | 0       | 665      | 665      | 0      |     |     | 0      |
| Pep Club                    | 957     | 620      | 1,485    | 92     |     |     | 92     |
| Project Lead the Way        | 481     | 1,385    | 1,592    | 274    |     |     | 274    |
| Pigskin Classic             | 967     | 18,622   | 19,589   | 0      |     |     | 0      |
| Pole Vault                  | 0       | 1,070    | 970      | 100    |     |     | 100    |
| Prom                        | 0       | 10,905   | 10,731   | 174    |     |     | 174    |
| ROTC                        | 1,948   | 7,054    | 8,459    | 543    |     |     | 543    |
| Senior Trip                 | 0       | 1,753    | 1,753    | 0      |     |     | 0      |
| Snappy Tomato - Athl        | 690     | 0        | 690      | 0      |     |     | 0      |
| Special Ed Room             | 676     | 4,415    | 2,225    | 2,866  |     |     | 2,866  |
| Speech/Drama                | 82      | 0        | 82       | 0      |     |     | 0      |
| Softball                    | 0       | 2,394    | 1,724    | 670    |     |     | 670    |
| Start Up Money              | 0       | 5,200    | 5,200    | 0      |     |     | 0      |
| Student Council             | 173     | 0        | 0        | 173    |     |     | 173    |
| Student of the Week         | 286     | 1,399    | 1,389    | 296    |     |     | 296    |
| Swim Team                   | 78      | 8,039    | 6,820    | 1,297  |     |     | 1,297  |
| Teachers' Activity Fund     | 60      | 1,182    | 465      | 777    |     |     | 777    |
| Teach Ed. Department        | 0       | 279      | 279      | 0      |     |     | 0      |
| Volleyball                  | 1,642   | 29,506   | 29,989   | 1,159  | 788 |     | 371    |
| Yearbook Journalism         | 13,930  | 8,605    | 11,791   | 10,744 |     |     | 10,744 |
| Youth Advisory Council      | 492     | 0        | 492      | 0      |     |     | 0      |
| Youth Service Center        | 0       | 7,368    | 3,320    | 4,048  |     |     | 4,048  |
| Total All Funds             | 112,178 | 582,299  | 598,031  | 96,446 | 0   | 790 | 95,656 |
| Interfund Transfers         | 0       | (48,268) | (48,268) | 0      | 0   | 0   | 0      |
| Total                       | 112,178 | 534,031  | 549,763  | 96,446 | 0   | 790 | 95,656 |

MARION COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

| <u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>  | <u>CFDA<br/>NUMBER</u> | <u>MUNIS<br/>PROJECT<br/>NUMBER</u> | <u>EXPENDITURES</u> |
|--|------------------------|-------------------------------------|---------------------|
| <u>U.S. Department of Education</u>                        |                        |                                     |                     |
| Passed-Through Department of Education                     |                        |                                     |                     |
| Title I - Grants to Local Educational Agencies             | 84.010                 | 3102                                | 342,870             |
| Title I - Professional Development of District Improvement | 84.010                 | 3102D                               | 66,566              |
| Title I - Parent Involvement                               | 84.010                 | 3102M                               | 8,018               |
| Title I - School Improvement Grant                         | 84.010                 | 3103                                | 440,485             |
| Title I - Parent Involvement                               | 84.010                 | 3103M                               | 702                 |
| Title I, Part A Cluster                                    |                        |                                     | 858,641 *           |
| Migrant Education - State Grant Program                    | 84.011                 | 3112                                | 6,825               |
| Migrant summer Program                                     | 84.011                 | 3112S                               | 13,221              |
| Migrant Education - State Grant Program                    | 84.011                 | 3113                                | 83,199              |
| Migrant Education Cluster                                  |                        |                                     | 103,245 *           |
| IDEA - Special Education - Grants to State - Private       | 84.027                 | 3372P                               | 6,369               |
| IDEA - Special Education - Grants to State                 | 84.027                 | 3373                                | 580,634             |
| IDEA - Special Education - Grants to State - Private       | 84.027                 | 3373P                               | 13,867              |
| IDEA - Special Education - Preschool Grants                | 84.173                 | 3432                                | 5,300               |
| IDEA - Special Education - Preschool Grants                | 84.173                 | 3433                                | 35,924              |
| Special Education Cluster                                  |                        |                                     | 642,094             |
| Vocational Education - Perkins                             | 84.048                 | 3482A                               | 850                 |
| Vocational Education - Basic Grants to State               | 84.048                 | 3483                                | 22,715              |
| Vocational Education Cluster                               |                        |                                     | 23,565              |
| Community Based Work Transition                            | 84.341                 | 3710                                | 3,900               |
| Community Based Work Transition                            | 84.341                 | 3711                                | 3,541               |
| Community Based Work Transition                            | 84.341                 | 3712                                | 2,917               |
| Community Based Work Transition                            | 84.341                 | 3713                                | 30,357              |
| Community Based Work Transition Total                      |                        |                                     | 40,715              |
| Adult Ed. - Retention/Recruiting                           | 84.002                 | 3653                                | 5,588               |
| Adult Ed. Basic  | 84.002A                | 3733                                | 41,359              |
| Adult Ed. Basic - Professional/ Staff Dev                  | 84.002A                | 3733S                               | 747                 |
| Adult Education Cluster                                    |                        |                                     | 47,694              |
| Title II - Part A - Teacher Quality Enhancement Grants     | 84.367                 | 4012                                | 81,013              |
| Title II - Part A - Teacher Quality Enhancement Grants     | 84.367                 | 4013                                | 85,362              |
| Title II - Part A Total                                    |                        |                                     | 166,375             |
| 21st Century Learning Center                               | 84.287                 | 5501                                | 11,325              |
| 21st Century Learning Center - Supplemental                | 84.287                 | 5501J                               | 5,000               |
| 21st Century Learning Center                               | 84.287                 | 5502                                | 56,350              |
| 21st Century Learning Center Total                         |                        |                                     | 72,675              |
| Rural and Low Income Schools                               | 84.358                 | 3502                                | 30,200              |
| Race to the Top  | 84.413A                | 4521                                | 8,796               |
| Education Jobs Fund (EduJobs) - ARRA                       | 84.410                 | 4411                                | 5,303               |
| Total U.S. Department of Education                         |                        |                                     | 1,999,303           |
| <u>U.S. Department of Agriculture</u>                      |                        |                                     |                     |
| Passed-Through State Department of Education               |                        |                                     |                     |
| National School Lunchroom                                  | 10.555                 | 7750002-12                          | 195,240             |
| National School Lunchroom                                  | 10.555                 | 7750002-13                          | 752,763             |
| School Breakfast Program                                   | 10.553                 | 7760005-12                          | 62,641              |
| School Breakfast Program                                   | 10.553                 | 7760005-13                          | 234,890             |
| Summer Meal Program  | 10.559                 | 7740023-12                          | 25,960              |
| Summer Meal Program  | 10.559                 | 7690024-12                          | 2,724               |
| Child Nutrition Cluster                                    |                        |                                     | 1,274,218           |
| Passed-Through State Department of Agriculture             |                        |                                     |                     |
| Commodity Supplemental Food Program                        | 10.565                 | 057502-10                           | 112,378             |
| Total U.S. Department of Agriculture                       |                        |                                     | 1,386,596           |
| Total Federal Financial Assistance                         |                        |                                     | 3,385,899           |

\* Tested as major program

MARION COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

MARION COUNTY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2013

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

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs?

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

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

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

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 84.010             | Title I Cluster                           |
| 84.011             | Migrant Programs                          |

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

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement of Findings**

No matters were reported.

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

No matters were reported.

MARION COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2013

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
**219 South Proctor Knott Avenue**  
**Lebanon, Kentucky 40033**  
**(270) 692-2102**  
**(270) 692-3615**  
**Fax (270) 692-2101**

Charles M. White, CPA

Email [cmwcpa@windstream.net](mailto:cmwcpa@windstream.net)

September 27, 2013

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Marion County School District's basic financial statements, and have issued our report thereon dated September 27, 2013.

**Internal Control over Financial Reporting**

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

We noted certain matters that we reported to Marion County School District in a separate letter dated September 27, 2013.

### **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.

Sincerely,

***White and Company, P.S.C.***

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
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Charles M. White, CPA

Email [cmwcpa@windstream.net](mailto:cmwcpa@windstream.net)

September 27, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

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

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

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

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Marion County School 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, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, Marion County School 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 Marion 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 Marion County School 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 federal 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 Marion County School District's internal control over compliance.

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

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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September 27, 2013

**MANAGEMENT LETTER**

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

In planning and performing our audit of the financial statements of Marion County School District for the year ended June 30, 2013, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year Finding:

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

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

Current Year Finding:

All receipts examined contained two signatures. Further, multiple receipt forms were being properly used and prepared.

Prior Year Recommendation:

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

Current Year Finding:

Requisition and Receipt of Ticket Sales forms were properly completed. Any cash variances in the cash short and over column were deemed to be reasonable.

Current Year Recommendation:

While reviewing the activity fund bank reconciliation for Marion County High School, it was noted that the bank reconciliation showed two deposits in transit totaling over \$10,000. Per the Kentucky Department of Education's *Redbook*, all monies received totaling \$100 or more should be deposited with the activity fund's financial institution the same day the funds are received. We recommend that *Redbook* policies and procedures for making deposits be followed.

Management Response:

We will make deposits for school activity funds according to *Redbook* policies and procedures.

Current Year Recommendation:

While reviewing the activity fund disbursements for Glasscock Elementary School, it was noted that \$4,889 was spent improperly on computers for teachers. We recommend that the expenditure policies and procedures outlined in the *Redbook* be followed.

Management Response:

We will follow the policies and procedures of the *Redbook*.

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

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

Sincerely,

***White and Company, P.S.C.***

Certified Public Accountants

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Charles M. White, CPA

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September 27, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion County School District for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 5, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Marion County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

*Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

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

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 27, 2013.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

### *Other Matters*

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

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

Sincerely,

***White and Company, P.S.C.***

Certified Public Accountants