

MARTIN COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AND
INDEPENDENT AUDITOR'S REPORTS
For the year ended June 30, 2013



WELLS & COMPANY, P.S.C.

Certified Public Accountants
865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588

MARTIN COUNTY SCHOOL DISTRICT
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MARTIN COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Martin County School District
Inez, 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 Martin 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 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; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund

information of the Martin 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 accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note V to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Martin County School District's basic financial statements. The budget comparison and the combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic 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 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The budget comparison has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013, on our consideration of the Martin County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Martin County School District's internal control over financial reporting and compliance.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 15, 2013

**MARTIN COUNTY SCHOOL DISTRICT – INEZ, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2013**

As management of the Martin County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the eleventh year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$1,293,535 in 2012 and \$529,513 in 2013. This is a decrease of \$764,022. Much of this difference can be explained by the decrease in federal and state revenues.
- From 2012 to 2013, total General Fund revenue decreased by 2.8%. Revenues from the state decreased by 4.1% and utility taxes increased by 15.7%. Revenues from unmined minerals decreased by 12.5%. Revenues from local sources increased by 51.9%.
- Among major funds, the General Fund had \$15,905,270 in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There was \$16,525,003 in expenditures.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulted in several economies due to changed management strategies.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$1,110,176 during the current fiscal year.
- State law requires Districts to update a priority list of construction and renovation needs, called a local facilities plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. The District has updated its local facilities plan.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The Statement of Net 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.

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 result in cash flows in future fiscal periods.

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

The government-wide financial statements can be found on pages 7 through 8 of this report.

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

The basic governmental fund financial statements can be found on pages 9 through 16 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 17 through 35 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

Net Position for the period ending June 30, 2013 and 2012

This is the eleventh year that the District is following GASB 34 and comparing assets, liabilities and net position. 2013 Government Wide Net Position compared to 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current Assets	\$ 1,635,564	\$ 1,851,211
Noncurrent Assets	<u>21,332,744</u>	<u>22,128,589</u>
Total assets	<u>22,968,308</u>	<u>23,979,800</u>
Deferred Outflows of Resources	<u>91,704</u>	<u>104,147</u>
Current Liabilities	1,826,938	1,814,952
Noncurrent Liabilities	<u>10,084,394</u>	<u>10,382,782</u>
Total liabilities	<u>11,911,332</u>	<u>12,197,734</u>
Net Position		
Net investment in capital assets	10,755,389	10,574,264
Restricted	907,756	811,447
Unrestricted Fund Balance	<u>(514,465)</u>	<u>500,502</u>
Total net position - restated	<u>\$11,148,680</u>	<u>\$11,886,213</u>

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

The following table presents a fund accounting comparison and summary of revenue and expense for government funds only for the fiscal years 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Revenues:		
Local revenue sources	\$ 4,258,014	\$ 4,184,292
State revenue sources	13,665,209	14,243,427
Federal sources	3,861,116	4,797,367
Earnings on investments	8,889	11,540
Other sources	<u>170,897</u>	<u>142,634</u>
Total revenues	<u>21,964,125</u>	<u>23,379,260</u>
Expenses:		
Instruction	11,793,413	12,889,483
Student support services	1,477,014	1,473,345
Instructional support	1,200,263	1,237,318
District administration	1,080,471	942,446
School administration	682,876	824,685
Business support	314,484	407,247
Plant operations	2,145,149	2,166,025
Student transportation	1,891,927	1,595,786
Central office support	-	-
Facilities acquisition and construction	1,350	1,238,997
Community support	374,638	377,030
Other	1,491,033	1,451,217
Land improvements	-	40,000
Total expenses	<u>22,452,618</u>	<u>24,643,579</u>
Excess (deficit) of revenues over expenses	(488,493)	(1,264,319)
Other Financing Sources (Uses):		
Sale of equipment	14,075	2,000
Capital lease proceeds	223,858	-
Operating transfers in	937,672	898,232
Operating transfers out	<u>(937,672)</u>	<u>(898,232)</u>
Total other financing source (uses)	<u>237,933</u>	<u>2,000</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (250,560)</u>	<u>\$ (1,262,319)</u>

- On-behalf amounts are included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits and administration fees. Further discussion of these can be found in Note B. Expenses that increased from 2012 to 2013 include student support services, district administration, student transportation, and other.

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

- The majority of revenue in 2013 was derived from state funding (62%) as compared with fiscal year 2012 (61%) with local revenue making up 19% of total revenue in 2013 compared to 18% in 2012.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2013, net of interfund transfers, were \$21.9 million.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$2.8 million more than budget.
- The total cost of all programs and services was \$22.4 million net of debt service.
- General Fund budget expenditures to actual varied significantly in instruction (\$1.6 million). This resulted from the board recording the on-behalf payments made for the District.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District's overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$386 thousand in contingency (2.0%). The General Fund beginning cash balance for beginning the fiscal year was \$320,634.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business Type Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 109,546	\$ 326,831	\$ 436,377
Investments	11,047	-	11,047
Inventory	-	21,726	21,726
Accounts receivable:			
Taxes - current	529,159	-	529,159
Taxes - delinquent	13,318	-	13,318
Accounts receivable	6,972	-	6,972
Intergovernmental - state	72,143	-	72,143
Intergovernmental - indirect federal	405,930	138,892	544,822
Total current assets	1,148,115	487,449	1,635,564
Noncurrent Assets:			
Capital assets, net	21,191,673	141,071	21,332,744
Total noncurrent assets	21,191,673	141,071	21,332,744
Total assets	22,339,788	628,520	22,968,308
Deferred Outflows of Resources			
Debt discount	91,704	-	91,704
Total deferred outflow of resources	91,704	-	91,704
Liabilities			
Current Liabilities:			
Accounts payable	76,754	11,302	88,056
Unearned revenue	450,879	-	450,879
Current portion of capital lease payable	104,220	-	104,220
Current portion of bond obligations	1,035,000	-	1,035,000
Current portion of long-term debt	18,750	-	18,750
Current portion of accrued sick leave	25,321	-	25,321
Interest payable	104,712	-	104,712
Total current liabilities	1,815,636	11,302	1,826,938
Noncurrent Liabilities:			
Noncurrent portion of KSBIT assessment	600,787	-	600,787
Noncurrent portion of capital lease payable	575,127	-	575,127
Noncurrent portion of bond obligations	8,775,000	-	8,775,000
Noncurrent portion of long-term debt	56,250	-	56,250
Noncurrent portion of accrued sick leave	77,230	-	77,230
Total noncurrent liabilities	10,084,394	-	10,084,394
Total liabilities	11,900,030	11,302	11,911,332
Net Position:			
Net investment in capital assets	10,614,318	141,071	10,755,389
Restricted for:			
Sick leave	77,230	-	77,230
KSFCC escrow	227,632	-	227,632
Inventory	-	21,726	21,726
New assets	-	454,421	454,421
Future construction	126,747	-	126,747
Unrestricted	(514,465)	-	(514,465)
Total net position	\$ 10,531,462	\$ 617,218	\$ 11,148,680

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

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 12,635,256	\$ -	\$ 3,063,809	\$ -	\$ (9,571,447)	\$ -	\$ (9,571,447)
Support services:							
Student	1,515,322	-	649,626	-	(865,696)	-	(865,696)
Instruction staff	1,200,700	-	209,447	-	(991,253)	-	(991,253)
District administrative	1,127,252	-	-	-	(1,127,252)	-	(1,127,252)
School administrative	683,433	-	3,615	-	(679,818)	-	(679,818)
Business	314,484	-	48,791	-	(265,693)	-	(265,693)
Plant operation and maintenance	2,147,200	-	-	-	(2,147,200)	-	(2,147,200)
Student transportation	1,774,034	28,735	151,568	-	(1,593,731)	-	(1,593,731)
Central office	-	-	-	-	-	-	-
Facilities acquisition and construction	1,350	-	-	1,209,215	1,207,865	-	1,207,865
Community service activities	375,027	-	361,326	-	(13,701)	-	(13,701)
Interest on long-term debt	388,753	-	-	-	(388,753)	-	(388,753)
Other	408	-	-	-	(408)	-	(408)
Total governmental activities	22,163,219	28,735	4,488,182	1,209,215	(16,437,087)	-	(16,437,087)
Business-Type Activities:							
Food service	1,575,331	196,789	1,423,013	-	-	44,471	44,471
Total primary government	\$ 23,738,550	\$ 225,524	\$ 5,911,195	\$ 1,209,215	(16,437,087)	44,471	(16,392,616)
General Revenues:							
Taxes:							
Property taxes					2,565,012	-	2,565,012
Motor vehicle taxes					152,116	-	152,116
Utility taxes					989,432	-	989,432
Unmined minerals					551,454	-	551,454
Investment earnings					8,889	3,802	12,691
Gain on sale of equipment					14,075	-	14,075
State and formula grants					11,942,789	-	11,942,789
Miscellaneous					28,301	-	28,301
Total general revenues and transfers					(185,019)	48,273	(136,746)
Extraordinary item - KSBIT assessment					(600,787)	-	(600,787)
Changes in net position					(785,806)	48,273	(737,533)
Net position - beginning - restated					11,317,268	568,945	11,886,213
Net position - ending					\$ 10,531,462	\$ 617,218	\$ 11,148,680

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

FUND FINANCIAL STATEMENTS

MARTIN COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Special Revenue	Construction Fund	FSKP Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:						
Assets						
Cash and cash equivalents	\$ (219,559)	\$ (27,194)	\$ 126,747	\$ 227,632	\$ 1,920	\$ 109,546
Investments	508	-	-	-	10,539	11,047
Accounts Receivable						
Taxes - current	529,159	-	-	-	-	529,159
Taxes - delinquent	13,318	-	-	-	-	13,318
Accounts receivable	6,972	-	-	-	-	6,972
Intergovernmental - state	-	72,143	-	-	-	72,143
Intergovernmental - indirect federal	-	405,930	-	-	-	405,930
Total assets and resources	\$ 330,398	\$ 450,879	\$ 126,747	\$ 227,632	\$ 12,459	\$ 1,148,115
Liabilities and Fund Balances:						
Liabilities						
Accounts payable	\$ 76,754	\$ -	\$ -	\$ -	\$ -	\$ 76,754
Sick leave payable in process	25,321	-	-	-	-	25,321
Unearned revenue	-	450,879	-	-	-	450,879
Total liabilities	102,075	450,879	-	-	-	552,954
Fund Balances:						
Restricted For:						
Sick leave payable	77,230	-	-	-	-	77,230
KSFCC escrow	-	-	-	227,632	-	227,632
Future construction	-	-	126,747	-	-	126,747
Committed To:						
Sick leave payable	25,321	-	-	-	-	25,321
Assigned To:						
Permanent fund	-	-	-	-	12,459	12,459
Unassigned:						
Undesignated, reported in:						
General	125,772	-	-	-	-	125,772
Total fund balances	228,323	-	126,747	227,632	12,459	595,161
Total liabilities and fund balances	\$ 330,398	\$ 450,879	\$ 126,747	\$ 227,632	\$ 12,459	\$ 1,148,115

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

MARTIN COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION**

June 30, 2013

Total fund balance per fund financial statements	\$ 595,161
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the Statement of Net Position	21,191,673
Deferred outflows of resources are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the Statement of Net Position	91,704
Certain liabilities (such as KSBIT assessment, bonds payable, capital lease payable, long-term debt, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the Statement of Net Position	<u>(11,347,076)</u>
Net position for governmental activities	<u><u>\$10,531,462</u></u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended June 30, 2013

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>FSPK Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
From local sources						
Taxes						
Property	\$2,208,308	\$ -	\$ -	\$ 356,704	\$ -	\$ 2,565,012
Motor vehicle	152,116	-	-	-	-	152,116
Utilities	989,432	-	-	-	-	989,432
Unmined minerals	551,454	-	-	-	-	551,454
Earnings on investments	5,348	2,105	1,331	-	105	8,889
Other local revenues	55,823	113,861	-	-	1,213	170,897
Intergovernmental – state	11,942,789	513,205	-	333,602	875,613	13,665,209
Intergovernmental – indirect federal	-	3,861,116	-	-	-	3,861,116
Total revenues	<u>15,905,270</u>	<u>4,490,287</u>	<u>1,331</u>	<u>690,306</u>	<u>876,931</u>	<u>21,964,125</u>
Expenditures:						
Instruction	8,692,500	3,100,913	-	-	-	11,793,413
Support services:						
Student	827,388	649,626	-	-	-	1,477,014
Instruction staff	990,816	209,447	-	-	-	1,200,263
District administrative	1,080,471	-	-	-	-	1,080,471
School administrative	679,261	3,615	-	-	-	682,876
Business	265,693	48,791	-	-	-	314,484
Plant operation and maintenance	2,145,149	-	-	-	-	2,145,149
Student transportation	1,740,359	151,568	-	-	-	1,891,927
Central office	-	-	-	-	-	-
Facilities acquisition and construction	-	-	1,350	-	-	1,350
Community service activities	10,562	361,326	-	-	2,750	374,638
Other	92,804	-	-	-	1,398,229	1,491,033
Total expenditures	<u>16,525,003</u>	<u>4,525,286</u>	<u>1,350</u>	<u>-</u>	<u>1,400,979</u>	<u>22,452,618</u>
Excess (deficit) of revenues over expenditures	(619,733)	(34,999)	(19)	690,306	(524,048)	(488,493)
Other Financing Sources (Uses):						
Sale of equipment	14,075	-	-	-	-	14,075
Capital lease proceeds	223,858	-	-	-	-	223,858
Operating transfers in	189,628	34,999	-	-	713,045	937,672
Operating transfers out	(56,937)	-	-	(690,306)	(190,429)	(937,672)
Total other financing sources (uses)	<u>370,624</u>	<u>34,999</u>	<u>-</u>	<u>(690,306)</u>	<u>522,616</u>	<u>237,933</u>
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	(249,109)	-	(19)	-	(1,432)	(250,560)
Fund balance, July 1, 2012	<u>477,432</u>	<u>-</u>	<u>126,766</u>	<u>227,632</u>	<u>13,891</u>	<u>845,721</u>
Fund balance, June 30, 2013	<u>\$ 228,323</u>	<u>\$ -</u>	<u>\$ 126,747</u>	<u>\$227,632</u>	<u>\$ 12,459</u>	<u>\$ 595,161</u>

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

MARTIN COUNTY SCHOOL DISTRICT

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

For the year ended June 30, 2013

Net change in total fund balances per fund financial statements	\$ (250,560)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the Statement of Activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays expense exceeds depreciation for the year	(777,536)
The issuance of long-term debt (bonds and financial obligations) provides current financial resources to government funds, while bond, capital lease, and note payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the Statement of Net Position	886,318
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the Statement of Activities when they are incurred	<u>(644,028)</u>
Change in net position of governmental activities	<u><u>\$ (785,806)</u></u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2013

	<u>Food Service Fund</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 326,831
Inventory	21,726
Accounts receivable	
Intergovernmental – indirect federal	<u>138,892</u>
Total current assets	487,449
Noncurrent Assets:	
Capital assets	478,331
Less: accumulated depreciation	<u>337,260</u>
Total noncurrent assets	<u>141,071</u>
Total assets	<u><u>\$ 628,520</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	<u>\$ 11,302</u>
Total current liabilities	11,302
Net Position:	
Net investment in capital assets	141,071
Restricted For:	
Inventory	21,726
New assets	<u>454,421</u>
Total net position	<u><u>\$ 617,218</u></u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUND

For the year ended June 30, 2013

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom sales	\$ 196,789
Total operating revenues	196,789
Operating Expenses:	
Employee wages and benefits	713,817
Materials and supplies	783,705
Depreciation	18,309
Other operating expenses	<u>59,500</u>
Total operating expenses	<u>1,575,331</u>
Operating loss	(1,378,542)
Non-Operating Revenues (Expenses):	
Federal grants	1,175,655
Donated commodities	65,970
State grants	181,388
Interest income	<u>3,802</u>
Total non-operating revenues	<u>1,426,815</u>
Increase in net position	48,273
Net Position, July 1, 2012	<u>568,945</u>
Net Position, June 30, 2013	<u><u>\$ 617,218</u></u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the year ended June 30, 2013

Cash Flows from Operating Activities:

Cash received from:

Lunchroom sales \$ 196,789

Cash paid to/for:

Employees (544,978)

Material and supplies (716,317)

Other activities (59,500)

Net cash provided by (used for) operating activities (1,124,006)

Cash Flows from Noncapital Financing Activities:

Government grants 1,074,365

Net cash provided by noncapital and related financing activities 1,074,365

Cash Flows from Capital and Related Financing Activities:

Proceeds from the sale of equipment -

Purchases of capital assets -

Net cash used for capital and related financing activities -

Cash Flows from Investing Activities:

Receipt of interest income 3,802

Net cash provided by investing activities 3,802

Net (decrease) in cash and cash equivalents (45,839)

Balances, beginning of year 372,670

Balances, end of year \$ 326,831

Reconciliation of operating income (loss) to net cash provided

(used) by operating activities

Operating (loss) \$ (1,378,542)

Adjustments to reconcile operating income to net cash provided

(used) by operating activities

Depreciation 18,309

Donated commodities 65,970

On-behalf payments 168,839

Change in assets and liabilities

Inventory (1,439)

Accounts payable 2,857

Net cash provided by (used for) operating activities \$ (1,124,006)

Schedule of non-cash transactions:

Donated commodities received from federal government \$ 65,970

On-behalf payments 168,839

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

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND

June 30, 2013

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 93,136
Accounts receivable	<u>791</u>
Total assets	<u>\$ 93,927</u>
Liabilities	
Accounts payable	\$ 133
Due to student groups	<u>93,794</u>
Total liabilities	<u>\$ 93,927</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Martin County School District have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Superintendent of Schools is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The following is a summary of the more significant of these policies.

Reporting Entity

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

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

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

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

Martin County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Martin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The Statement of Net 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.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a Balance Sheet, which generally includes only current assets and current liabilities, and a Statement of Revenues, Expenditures and Changes in Fund Balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the proprietary fund reports increases and decreases in total economic net worth. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

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

The District has the following funds:

I. Governmental Fund Types

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This a major fund of the District.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Type (Enterprise Fund)

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Basis of Accounting

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

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

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

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Due to GASB 65, this now has been re-characterized as unearned revenue.

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Property Taxes

Property Tax Revenues – Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.546 per \$100 valuation for real property, \$.546 per \$100 valuation for business personal property and \$.223 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the Statements of Net 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 receive from the District an amount equal to 30% of the value of accumulated sick leave.

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

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

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

Budgetary Process

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The Food Service Fund is stated at cost and uses the specific identification method and the General Fund is stated at cost and uses the first-in, first-out method for inventory.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

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

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

Accrued Liabilities and Long-Term Obligations

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position includes a separate section for *deferred outflows of resources*. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on debt discount reported in the government-wide Statement of Net Position. This amount is deferred and amortized over the life of the debt.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of this type of item.

Fund Balance Reserves

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

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

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

Spendable include the following:

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Unassigned-for the General Fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

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

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

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

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

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

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.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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.

Recently Issued and Adopted Accounting Pronouncements

The Governmental Accounting Standards Board has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has implemented this reporting for the year ended June 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

In March 2012, the GASB issued Statement 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASB 66 does not have any impact on the District's financial statements.

In March 2012 the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASB 65 resulted in a restatement of net position-beginning on the Statement of Activities.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plan – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, GASB issued Statement 68, *Accounting and Financial Reporting for Pension - an amendment of GASB Statement 27*. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE B – ON-BEHALF PAYMENTS

For the year ended June 30, 2013 total payments of \$4,057,111 were made for debt service, life insurance, health insurance, and KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the Statement of Activities. However, the on-behalf payments are not budgeted on the budget to actual statements.

NOTE C – ESTIMATES

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

NOTE D – CASH AND CASH EQUIVALENTS

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

At June 30, 2013 the carrying amount of the District's deposits was \$529,513 and the bank balance was \$1,455,626. The bank balance throughout the year was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

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

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

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE D – CASH AND CASH EQUIVALENTS - CONTINUED

As of June 30, 2013 based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Breakdown per financial statements:

Governmental funds	\$ 109,546
Proprietary funds	326,831
Agency funds	<u>93,136</u>
	<u>\$ 529,513</u>

NOTE E – INVESTMENTS

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

Certificate of deposit	<u>Fair Value</u> <u>\$11,047</u>
------------------------	--------------------------------------

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

NOTE F – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Land	\$ 480,112	\$ -	\$ -	\$ 480,112
Land improvements	381,908	-	-	381,908
Infrastructure	718,961	-	-	718,961
Buildings and improvements	27,331,424	-	-	27,331,424
Technology equipment	3,613,233	-	-	3,613,233
Vehicles	3,229,086	223,858	401,617	3,051,327
General equipment	<u>1,373,993</u>	<u>-</u>	<u>-</u>	<u>1,373,993</u>
Totals at historical cost	<u>37,128,717</u>	<u>223,858</u>	<u>401,617</u>	<u>36,950,958</u>
Less: accumulated depreciation				
Land improvements	272,857	6,067	-	278,924
Infrastructure	58,832	35,957	-	94,789
Buildings and improvements	8,444,784	624,311	-	9,069,095
Technology equipment	3,221,389	177,117	-	3,398,506
Vehicles	2,717,188	91,965	401,617	2,407,536
General equipment	<u>444,458</u>	<u>65,977</u>	<u>-</u>	<u>510,435</u>
Total accumulated depreciation	<u>15,159,508</u>	<u>1,001,394</u>	<u>401,617</u>	<u>15,759,285</u>
Governmental Activities				
Capital Assets – Net	<u>\$21,969,209</u>	<u>(\$777,536)</u>	<u>\$ -</u>	<u>\$21,191,673</u>

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE F – CAPITAL ASSETS – CONTINUED

<u>Business-Type Activities</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
General equipment	\$ 464,740	\$ -	\$ -	\$ 464,740
Technology equipment	<u>13,591</u>	<u>-</u>	<u>-</u>	<u>13,591</u>
Totals at historical cost	<u>478,331</u>	<u>-</u>	<u>-</u>	<u>478,331</u>
Less: accumulated depreciation				
General equipment	305,360	18,309	-	323,669
Technology equipment	<u>13,591</u>	<u>-</u>	<u>-</u>	<u>13,591</u>
Total accumulated depreciation	<u>318,951</u>	<u>18,309</u>	<u>-</u>	<u>337,260</u>
Business-Type Activities				
Capital Assets – Net	<u>\$ 159,380</u>	<u>\$ (18,309)</u>	<u>\$ -</u>	<u>\$ 141,071</u>

Depreciation expense has been charged to the following functions in the Statement of Activities.

Instruction	\$ 841,843
Student support	38,308
Instruction – staff	437
District administrative	17,035
School administrative	557
Plant operation and maintenance	2,051
Student transportation	100,774
Community service	389
Food service	<u>18,309</u>
	<u>\$1,019,703</u>

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS

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

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

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

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

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

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

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

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

YEAR	MARTIN COUNTY SCHOOL DISTRICT		KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION		TOTAL REQUIREMENTS FOR YEAR
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	TOTAL
2013-2014	\$ 580,847	\$ 104,296	\$ 454,153	\$ 229,609	\$ 1,368,905
2014-2015	602,241	84,013	462,759	219,750	1,368,763
2015-2016	300,073	59,204	409,927	208,081	977,285
2016-2017	310,259	50,424	419,741	197,077	977,501
2017-2018	320,090	40,969	429,910	184,769	975,738
2018-2019	334,670	30,980	440,330	171,418	977,398
2019-2020	358,802	19,872	456,198	156,572	991,444
2020-2021	398,634	6,976	416,366	141,036	963,012
2021-2022	-	-	285,000	127,920	412,920
2022-2023	-	-	295,000	116,871	411,871
2023-2024	-	-	305,000	105,157	410,157
2024-2025	-	-	315,000	92,873	407,873
2025-2026	-	-	325,000	79,715	404,715
2026-2027	-	-	335,000	65,975	400,975
2027-2028	-	-	345,000	51,442	396,442
2028-2029	-	-	360,000	36,273	396,273
2029-2030	-	-	370,000	20,301	390,301
2030-2031	-	-	180,000	4,365	184,365
	<u>\$3,205,616</u>	<u>\$ 396,734</u>	<u>\$6,604,384</u>	<u>\$2,209,204</u>	<u>\$12,415,938</u>

During the year ended June 30, 2013 the District's debt obligation was as follows:

AMOUNT OUTSTANDING 6/30/12	ADDITIONS	DEDUCTIONS	AMOUNT OUTSTANDING 6/30/13	AMOUNTS DUE WITHIN ONE YEAR
\$10,825,000	\$ -	\$1,015,000	\$9,810,000	\$1,035,000

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE H – LONG-TERM DEBT

During the fiscal year ended June 30, 2013 Martin County School District's debt obligation was as follows:

<u>AMOUNT OUTSTANDING 6/30/12</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>AMOUNT OUTSTANDING 6/30/13</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
\$93,750	\$ -	\$18,750	\$75,000	\$18,750

The Department for Regional Development's, semi-annual payment shall be made over a period of twelve (12) years, 24 payments in total, and the unpaid balance would bear interest at the fixed rate of two (2) percent. The debt is collateralized by the C & S Vault building and final payment due January 1, 2017. The minimum obligations of the funds at June 30, 2013 for long-term debt (principal and interest) are as follows:

<u>YEAR ENDING 6/30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL REQUIREMENTS FOR YEAR</u>
2014	\$18,750	\$2,438	\$ 21,188
2015	18,750	1,687	20,437
2016	18,750	987	19,687
2017	<u>18,750</u>	<u>187</u>	<u>18,937</u>
	<u>\$75,000</u>	<u>\$5,249</u>	<u>\$80,249</u>

NOTE I – CAPITAL LEASE PAYABLE

On May 30, 2013, the Kentucky Interlocal School Transportation Association entered into a lease with the Martin County School District. The District received \$229,049 in school buses and has elected to make payments over a 10 year period with an interest rate of 2.00%.

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

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

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

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

<u>Classes of Property</u>	<u>Book value as of June 30, 2013</u>
School buses	\$681,461

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE I – CAPITAL LEASE PAYABLE - CONTINUED

The following is a schedule of Equipment Lease Certificates of Participation, second series of 2006, series of 2009, series of 2012, and series of 2013 by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Martin County School District</u>		<u>Total Requirement For Year</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 104,220	\$18,136	\$ 122,356
2015	103,167	15,278	118,445
2016	96,011	12,345	108,356
2017	98,723	9,574	108,297
2018	65,033	6,628	71,661
2019-2023	<u>212,193</u>	<u>12,042</u>	<u>224,235</u>
	<u>\$679,347</u>	<u>\$74,003</u>	<u>\$753,350</u>
Present value of net minimum lease payments			<u>\$681,461</u>

NOTE J – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District had no commitments under noncapitalized leases at June 30, 2013.

NOTE K – KSBIT PAYABLE

The Kentucky School Board Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under novation method, the District’s liability would be \$600,787. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. The District has recorded this estimated amount in their long-term obligations since ultimate payment is probable and is included as an extraordinary item on the Statement of Activities.

NOTE L – PENSION PLANS

KENTUCKY TEACHERS’ RETIREMENT

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE L – PENSION PLANS - CONTINUED

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

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of members' salary for the 2012-2013 fiscal year.

The Martin County School District total payroll for the year was \$13,802,534. The payroll for employees covered under KTRS was \$9,298,820. For the year ended June 30, 2013, the Commonwealth contributed \$1,329,353 to KTRS for the benefit of participating employees. The School Districts contributions to KTRS for the year ending June 30, 2013 were \$320,015, which represents those employees covered by federal programs.

COUNTY EMPLOYEES' RETIREMENT SYSTEM

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE L – PENSION PLANS - CONTINUED

Plan members are required to contribute 5.00% of their annual salary if hired before September 1, 2008 and 6% if hired on or after September 1, 2008 through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 19.55% of the employee's total covered compensation. The District's contributions to CERS for the year ended June 30, 2013 was \$915,669, which consisted of \$722,780 from the District and \$192,889 from the employees.

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

NOTE M - 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 N - LITIGATION

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

NOTE O - INSURANCE AND RELATED ACTIVITIES

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

NOTE P - RISK MANAGEMENT

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2013

NOTE P - RISK MANAGEMENT - CONTINUED

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

NOTE Q - DEFICIT OPERATING BALANCES

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

General Fund	\$ 249,109
Construction Fund	19
Fiduciary Fund	3,281
Permanent Trust Fund	1,432

NOTE R - 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 S - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	FSPK	Debt Service	Debt Service	\$690,306
Operating	Capital Outlay	General Fund	General Fund	189,628
Operating	General	Debt Service	Debt Service	21,938
Operating	General	Special Revenue	Special Revenue	34,999
Operating	Capital Outlay	Debt Service	Debt Service	801

NOTE T – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2013.

NOTE U – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 15, 2013, the date on which the financial statements were available to be issued.

NOTE V – CHANGE IN ACCOUNTING PRINCIPLE - PRIOR PERIOD ADJUSTMENT

The District implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 65, *Reporting Items Previously Reported As Assets And Liabilities* which reclassifies certain items reported as assets and liabilities to deferred outflows of resources or outflows of resources, or deferred inflows of resources or inflows of resources, or in other cases to expense/expenditure. The implementation resulted in a restatement (prior period adjustment) to beginning net position on the Statement of Activities as follows:

Changes were made to reflect the effect of implementing GASB Statement No. 65 – <i>Items Previously Reported as Assets and Liabilities</i> . This statement requires that bond issue costs be shown as current-period outflows of resources (expenses).	\$ 95,233
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The net prior period adjustment is shown as a decrease in the beginning net position in the Statement of Activities.

SUPPLEMENTARY INFORMATION

MARTIN COUNTY SCHOOL DISTRICT

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

GENERAL FUND

For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources				
Taxes				
Property	\$ 2,493,945	\$ 2,493,945	\$ 2,208,308	\$ (285,637)
Motor vehicle	140,000	140,000	152,116	12,116
Utilities	665,000	665,000	989,432	324,432
Unmined minerals	760,735	760,735	551,454	(209,281)
Earnings on investments	5,500	5,500	5,348	(152)
Other local revenues	35,650	70,650	55,823	(14,827)
Intergovernmental - state	8,982,818	8,982,818	11,942,789	2,959,971
Intergovernmental - indirect federal	-	-	-	-
Total revenues	13,083,648	13,118,648	15,905,270	2,786,622
Expenditures:				
Instruction	7,081,430	7,081,430	8,692,500	(1,611,070)
Support services:				
Student	742,942	742,942	827,388	(84,446)
Instruction staff	371,846	371,846	990,816	(618,970)
District administrative	1,193,037	1,193,037	1,080,471	112,566
School administrative	587,529	587,529	679,261	(91,732)
Business	263,010	263,010	265,693	(2,683)
Plant operation and maintenance	1,969,649	1,969,649	2,145,149	(175,500)
Student transportation	1,336,162	1,336,162	1,740,359	(404,197)
Central office	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Community service activities	9,400	9,400	10,562	(1,162)
Other	114,333	114,333	92,804	21,529
Total expenditures	13,669,338	13,669,338	16,525,003	(2,855,665)
Excess (deficit) of revenues over expenditures	(585,690)	(550,690)	(619,733)	(69,043)
Other Financing Sources (Uses):				
Capital lease proceeds	-	-	223,858	223,858
Sale of equipment	35,000	-	14,075	14,075
Operating transfers in	190,429	190,429	189,628	(801)
Operating transfers out	-	-	(56,937)	(56,937)
Total other financing sources (uses)	225,429	190,429	370,624	180,195
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(360,261)	(360,261)	(249,109)	111,152
Fund balance, July 1, 2012	360,261	360,261	477,432	117,171
Fund balance, June 30, 2013	\$ -	\$ -	\$ 228,323	\$ 228,323

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

MARTIN COUNTY SCHOOL DISTRICT

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

SPECIAL REVENUE FUND

For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Earnings on investments	\$ -	\$ -	\$ 2,105	\$ 2,105
Other local revenue	60,000	80,851	113,861	33,010
State aid	490,920	559,646	513,205	(46,441)
Federal aid	3,550,754	3,712,736	3,861,116	148,380
Total revenues	4,101,674	4,353,233	4,490,287	137,054
Expenditures:				
Current:				
Instruction	2,809,117	3,061,803	3,100,913	(39,110)
Support services:				
Student	634,422	614,414	649,626	(35,212)
Instructional staff	177,664	177,664	209,447	(31,783)
District administration	-	-	-	-
School administration	-	-	3,615	(3,615)
Business	56,251	56,251	48,791	7,460
Plant operations and maintenance	-	-	-	-
Student transportation	98,076	107,492	151,568	(44,076)
Central office	-	-	-	-
Community services activities	326,144	335,609	361,326	(25,717)
Total expenditures	4,101,674	4,353,233	4,525,286	(172,053)
Excess of (deficit) revenues over expenditures	-	-	(34,999)	(34,999)
Other Financing Sources (Uses):				
Transfers in	-	-	34,999	34,999
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	34,999	34,999
Net change in fund balances	-	-	-	-
Fund balance July 1, 2012	-	-	-	-
Fund Balance June 30, 2013	\$ -	\$ -	\$ -	\$ -

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

COMBINING STATEMENTS – NONMAJOR FUNDS

MARTIN COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2013

	<u>Debt Service Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Permanent Trust Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets and Resources:				
Cash and cash equivalents	\$ -	\$ -	\$ 1,920	\$ 1,920
Investments	-	-	10,539	10,539
Total assets and resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,459</u>	<u>\$ 12,459</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balances:				
Assigned To:				
Permanent fund	-	-	12,459	12,459
Total fund balances	<u>-</u>	<u>-</u>	<u>12,459</u>	<u>12,459</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,459</u>	<u>\$ 12,459</u>

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

MARTIN COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**
For the year ended June 30, 2013

	Debt Service Fund	SEEK Capital Outlay Fund	Permanent Trust Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	-	105	105
Other local revenues	-	-	1,213	1,213
Intergovernmental - state	685,184	190,429	-	875,613
Intergovernmental - indirect federal	-	-	-	-
	<u>685,184</u>	<u>190,429</u>	<u>1,318</u>	<u>876,931</u>
Total revenues	685,184	190,429	1,318	876,931
Expenditures:				
Instruction	-	-	-	-
Support services:				
Student	-	-	-	-
Instruction staff	-	-	-	-
Direct administrative	-	-	-	-
School administrative	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Facilities and construction	-	-	-	-
Community service activities	-	-	2,750	2,750
Other	1,398,229	-	-	1,398,229
	<u>1,398,229</u>	<u>-</u>	<u>2,750</u>	<u>1,400,979</u>
Total expenditures	1,398,229	-	2,750	1,400,979
Excess (deficit) of revenues over expenditures	(713,045)	190,429	(1,432)	(524,048)
Other Financing Sources (Uses)				
Bond refinancing proceeds	-	-	-	-
Operating transfers in	713,045	-	-	713,045
Operating transfers out	-	(190,429)	-	(190,429)
	<u>713,045</u>	<u>(190,429)</u>	<u>-</u>	<u>522,616</u>
Total other financing sources (uses)	713,045	(190,429)	-	522,616
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	(1,432)	(1,432)
Fund balance, July 1, 2012	-	-	13,891	13,891
Fund balance, June 30, 2013	\$ -	\$ -	\$ 12,459	\$ 12,459

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

OTHER COMBINING STATEMENTS AND SCHOOL ACTIVITY FUNDS

MARTIN COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2013

	<u>Sheldon Clark High School</u>	<u>Warfield Elementary</u>	<u>Inez Elementary</u>	<u>Warfield Middle School</u>	<u>Eden Elementary</u>	<u>Inez Middle School</u>	<u>Totals</u>
Assets							
Cash	\$ 20,808	\$ 7,751	\$ 8,546	\$ 8,283	\$ 39,404	\$ 8,344	\$ 93,136
Accounts receivable	-	-	273	373	-	145	791
Total assets	<u>\$ 20,808</u>	<u>\$ 7,751</u>	<u>\$ 8,819</u>	<u>\$ 8,656</u>	<u>\$ 39,404</u>	<u>\$ 8,489</u>	<u>\$ 93,927</u>
Liabilities and Fund Balances							
Accounts payable	\$ -	\$ 133	\$ -	\$ -	\$ -	\$ -	\$ 133
Due to student groups	20,808	7,618	8,819	8,656	39,404	8,489	93,794
Total liabilities	<u>\$ 20,808</u>	<u>\$ 7,751</u>	<u>\$ 8,819</u>	<u>\$ 8,656</u>	<u>\$ 39,404</u>	<u>\$ 8,489</u>	<u>\$ 93,927</u>

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

MARTIN COUNTY SCHOOL DISTRICT

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

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2013

	Sheldon Clark High School	Warfield Elementary	Inez Elementary	Warfield Middle School	Eden Elementary	Inez Middle School	Totals
Revenues:							
School activities and projects funds	\$ 184,605	\$ 59,560	\$ 73,921	\$ 32,630	\$ 81,950	\$ 48,135	\$ 480,801
Athletic fund	<u>153,010</u>	<u>11,460</u>	<u>8,701</u>	<u>22,963</u>	<u>12,694</u>	<u>27,686</u>	<u>236,514</u>
Total revenues	337,615	71,020	82,622	55,593	94,644	75,821	717,315
Expenditures:							
School activities and projects funds	183,598	62,621	69,226	36,920	81,983	47,903	482,251
Athletic fund	<u>153,296</u>	<u>13,477</u>	<u>8,813</u>	<u>21,711</u>	<u>13,051</u>	<u>27,997</u>	<u>238,345</u>
Total expenditures	<u>336,894</u>	<u>76,098</u>	<u>78,039</u>	<u>58,631</u>	<u>95,034</u>	<u>75,900</u>	<u>720,596</u>
Excess (deficit) of revenues over expenditures before other financing sources (uses)	721	(5,078)	4,583	(3,038)	(390)	(79)	(3,281)
Fund balances, July 1, 2012	<u>20,087</u>	<u>12,696</u>	<u>4,236</u>	<u>11,694</u>	<u>39,794</u>	<u>8,568</u>	<u>97,075</u>
Fund balances, June 30, 2013	<u><u>\$ 20,808</u></u>	<u><u>\$ 7,618</u></u>	<u><u>\$ 8,819</u></u>	<u><u>\$ 8,656</u></u>	<u><u>\$ 39,404</u></u>	<u><u>\$ 8,489</u></u>	<u><u>\$ 93,794</u></u>

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

MARTIN COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS DUE STUDENT GROUPS

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

For the year ended June 30, 2013

Name of Activity:	Cash Balances July 1, 2012	Receipts	Disbursements	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Academic	\$ 938	\$ 530	\$ 1,468	\$ -	\$ -	\$ -	\$ -
Archery	-	865	200	665	-	-	665
Art Club	637	-	-	637	-	-	637
Athletics	3,821	153,010	153,296	3,535	-	-	3,535
Band	691	4,357	4,375	673	-	-	673
Book Club	124	369	63	430	-	-	430
Cheerleaders' Fund	-	13,994	12,485	1,509	-	-	1,509
Dance Team	-	500	500	-	-	-	-
E Discovery	645	-	-	645	-	-	645
Environmental Club	219	-	-	219	-	-	219
FCA	3,227	109	660	2,676	-	-	2,676
FCCLA Fund	794	3,005	3,255	544	-	-	544
Fundraiser - GBB	-	56,566	56,566	-	-	-	-
General Fund	624	26,572	26,013	1,183	-	-	1,183
Interest	-	79	79	-	-	-	-
JKG	481	400	450	431	-	-	431
JROTC	1,818	10,726	12,303	241	-	-	241
Library Club	-	1,484	605	879	-	-	879
Mulch	-	3,768	3,768	-	-	-	-
Prom	1,842	11,384	12,725	501	-	-	501
Scholarship Fund	4,150	3,000	2,750	4,400	-	-	4,400
School Store	-	41,004	40,529	475	-	-	475
Staff Vending	145	5,334	5,479	-	-	-	-
Yearbook	536	629	-	1,165	-	-	1,165
Totals	\$ 20,692	\$ 337,685	\$ 337,569	\$ 20,808	\$ -	\$ -	\$ 20,808

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

MARTIN COUNTY SCHOOL DISTRICT

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

DEBT SERVICE FUND

For the year ended June 30, 2013

	Issue of 2004 <u>Refunding</u>	Issue of 2009 <u>Refunding</u>	Issue of 2010 IES <u> </u>	Issue of 2010 WES <u> </u>	Note Payable - Building <u> </u>	Total Debt Service Funds <u> </u>
Revenues:						
Intergovernmental - state	\$ 64,421	\$ 194,043	\$ 173,330	\$ 253,390	\$ -	\$ 685,184
Earnings on investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	64,421	194,043	173,330	253,390	-	685,184
Expenditures:						
Current:						
Note payments	-	-	-	-	18,750	18,750
Note interest	-	-	-	-	3,188	3,188
Bond payments	525,000	255,000	95,000	140,000	-	1,015,000
Bond interest	<u>60,969</u>	<u>108,602</u>	<u>78,330</u>	<u>113,390</u>	<u>-</u>	<u>361,291</u>
Total expenditures	<u>585,969</u>	<u>363,602</u>	<u>173,330</u>	<u>253,390</u>	<u>21,938</u>	<u>1,398,229</u>
Excess (deficit) of revenues over expenditures	<u>(521,548)</u>	<u>(169,559)</u>	<u>-</u>	<u>-</u>	<u>(21,938)</u>	<u>(713,045)</u>
Other Financing Sources (Uses):						
Bond proceeds	-	-	-	-	-	-
Operating transfers in	521,548	169,559	-	-	21,938	713,045
Non operating transfers in	-	-	-	-	-	-
Non operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (use)	521,548	169,559	-	-	21,938	713,045
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-	-	-
Fund balance, July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

MARTIN COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2013

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. DEPT. OF AGRICULTURE</u>			
Passed Through State Dept. of Education:			
<u>CHILD NUTRITION CLUSTER</u>			
National School Lunch Program	10.555	7750002 12 7750002 13	\$ 171,340 628,685 <hr/> 800,025
Passed Through State Dept. of Agriculture:			
Food Donation (In-Kind Commodities)	10.555	1006	<hr/> 65,970 <hr/> 65,970
School Breakfast Program	10.553	7760005 12 7760005 13	76,265 271,118 <hr/> 347,383
Summer Food Service Program for Children	10.559	7740023 12 7690024 12	27,786 2,893 <hr/> 30,679 <hr/> 1,244,057
Fresh Fruit and Vegetable Program	10.582	7720012 12 7720012 13	9,689 49,269 <hr/> 58,958
TOTAL U.S. DEPT. OF AGRICULTURE			<hr/> 1,303,015 <hr/>
<u>U.S. DEPT. OF EDUCATION</u>			
Passed Through State Dept. of Education:			
Title I - Grants to Local Educational Agencies	84.010	3100002 10 3100002 11 3100002 12 3100202 10 3100202 11	144 392,072 1,172,761 51,719 51,433 <hr/> 1,668,129
<u>SCHOOL IMPROVEMENT GRANTS CLUSTER</u>			
School Improvement Grants	84.377	3100302 10 3100302 11	309,565 268,491 <hr/> 578,056
ARRA - School Improvement Grants, Recovery Act	84.388	4100302 09	<hr/> 53,210 <hr/> 631,266
Education Jobs Fund	84.410	EJOB00 10	<hr/> 122,852
Race to the Top - District Grants	84.413	3960002 11	<hr/> 6,113
Career and Technical Education - Basic Grants to States	84.048	4621132 10 4621232 11 4621332 12 4621332 13	670 1,128 9,320 2,645 <hr/> 13,763
Improving Teacher Quality - State Grants	84.367	3230002 11	<hr/> 191,589
Rural Education	84.358	3140002 10 3140002 11	57,910 36,938 <hr/> 94,848 <hr/> 2,728,560

The accompanying notes are an integral part of this schedule.

(Continued next page)

MARTIN COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2013

(Continued)

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>SPECIAL EDUCATION CLUSTER (IDEA)</u>			
Special Education - Grants to States	84.027	3810002 12	535,879 <u>535,879</u>
Special Education - Preschool Grants	84.173	3800002 11 3800002 12	9,655 11,110 <u>20,765</u> <u>556,644</u>
Passed through Morehead State University: Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3796	<u>32,474</u>
TOTAL U.S. DEPT. OF EDUCATION			<u><u>3,317,678</u></u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through Big Sandy Area Community Action Program, Inc.: Head Start	93.600	04CH071246 04CH071247	305,878 539,596 <u>845,474</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>845,474</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed through State Department of Education: WIA - Audit Program	17.258	273SR10 10	38,435 <u>38,435</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>38,435</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$ 5,504,602</u></u>

The accompanying notes are an integral part of this schedule.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2013

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had no food commodities in inventory.

NOTE C – TYPE A PROGRAMS

Type A programs for the Martin County School District is any program for which total expenditures of federal awards exceeded \$300,000 for fiscal year 2013. The District had the following programs and clusters that met the Type A program definition for fiscal year 2013:

<u>CFDA#</u>	<u>PROGRAM TITLE</u>	<u>EXPENDITURES</u>
Child Nutrition Cluster:		
10.555	Food Donation (In-Kind Commodities)	\$ 65,970
10.555	National School Lunch Program	800,025
10.553	School Breakfast Program	347,383
10.559	Summer Food Service Program for Children	<u>30,679</u>
		<u>1,244,057</u>
84.010	Title I – Grants to Local Educational Agencies	<u>1,668,129</u>
		<u>1,668,129</u>
Special Education Cluster (IDEA):		
84.027	Special Education – Grants to States	535,879
84.173	Special Education – Preschool Grants	<u>20,765</u>
		<u>556,644</u>
School Improvement Grants Cluster		
84.377	School Improvement Grants	578,056
84.388	ARRA – School Improvement Grants, Recovery Act	<u>53,210</u>
		<u>631,266</u>
93.600	Head Start	<u>845,474</u>
	Total Type A Programs	<u>\$4,945,570</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARTIN 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 auditor's report issued *unmodified*.

Internal control over financial reporting:

Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> 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 OMB Circular A-133?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
--	------------------------------	--

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality – State Grants
84.377	School Improvement Grants
84.388	School Improvement Grants, Recovery Act
84.413	Race to the Top – District Grants

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
--	-------------------

Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
--	---

SECTION II - FINDINGS-FINANCIAL STATEMENTS AUDIT

2013-1 Tut Hill Scholarship Payments Did Not Meet Criteria

Condition: Found where scholarships were awarded to individuals without following the original criteria as outlined in the Tut Hill Scholarship requirements.

Criteria: The Tut Hill Scholarship has a set of guidelines that must be followed in selecting needy individuals for assistance.

Cause of Condition: The Superintendent ignored the criteria and guidelines.

Effect: Three individuals were each awarded a \$750 scholarship including two sons of the Superintendent.

Recommendation: The new Superintendent needs to read the requirements that were set forth in the scholarship criteria and follow them closely when awarding out scholarships.

Management Response: We will select a committee based on instruction from the original scholarship criteria and follow it completely when selecting needy applicants for the scholarship.

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

The audit did not disclose any audit findings.

MARTIN COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2013

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

**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***



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

**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
Martin County School District
Inez, 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; the provisions of Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by The Kentucky State committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report; the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Martin County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Martin County School District's basic financial statements, and have issued our report thereon dated October 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Martin 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 Martin County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Martin 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 Martin 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-1.

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

We noted certain matters that we reported to management of Martin County School District, in a separate letter dated October 15, 2013.

Martin County School District's Response to Findings

Martin County School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Martin County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 15, 2013

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



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

**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
Martin County School District
Inez, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Martin 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by The Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, and Appendix II to the Independent Auditor's Contract – State Audit Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Martin County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

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

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

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 15, 2013

MANAGEMENT LETTER COMMENTS



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

Kentucky State Committee for School District Audits
Members of the Board of Education
Martin County School District
Inez, Kentucky

In planning and performing our audit of the financial statements of Martin County School District (the "District") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 15, 2013, on the financial statements of the District.

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

Wells & Company, P.S.C.

Certified Public Accountants
Paintsville, Kentucky
October 15, 2013

MARTIN COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2013

PRIOR YEAR COMMENTS

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

MARTIN COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2013

CURRENT YEAR COMMENTS

Board Fund 13-1 Overspent Several Line Items of the Budget

Condition: Martin County Board of Education overspent several line items of their budget.

Criteria: The approved budget at the beginning of the school year has to be followed and should not be overspent.

Cause of Condition: Lack of revenues and funds caused the district to spend more than the budget allowed.

Effect: The School District is running low of cash funds and the budget was overspent in most areas.

Recommendation: We recommend that the district watch their cash flow and expenses very carefully and try to stay within their budget.

Management Response: This has been a very tough year for Martin County Board of Education. Our cash funds are at very low levels and we are trying very hard to stay within our budget. It has been a struggling year with all the cuts in the federal and state funds. As new Superintendent, I will monitor our budget closely and work with what funds we have.

Activity Fund 13-2 Multiple Receipt Forms Not Completed

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

Criteria: Multiple receipt forms are to be accurately completed and turned into the bookkeeper for back up when collecting money. Students from 3rd grade and up are required to sign their own name on the form.

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

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

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

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