

MEADE COUNTY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2013

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

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Statement of Fiduciary Net Position	18
Statement of Changes in Fiduciary Net Position	19
Notes to the Basic Financial Statements	20-31
Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	32
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34

TABLE OF CONTENTS (CONTINUED)

Combining Balance Sheet – Non-Major Governmental Funds	35
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds.....	36
Schedule of Receipts, Disbursements and Cash Balance – All Activity Funds.....	37
Schedule of Receipts, Disbursements and Cash Balance – High School Activity Fund.....	38-39
Schedule of Findings and Questioned Costs	40
Schedule of Prior Year Audit Findings	41
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 <i>Government Auditing Standards</i>.....	42-43
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	44-45
Management Letter	46-47
Letter to Those Charged with Governance	48-49

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Meade County School District
Brandenburg, KY

Kentucky State Committee for School District Audits
Frankfort, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Meade County School District (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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District audits in *Appendices I through IV of the Independent Auditor's Contract*. 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 Meade County School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 32 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 inquires 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 District's basic financial statements. The combining and individual 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have issued our report dated September 24, 2013, on our consideration of the 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 *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brown & Company CPA's

Bardstown, Kentucky
September 24, 2013

**MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

The discussion and analysis of Meade County School District’s (School District) financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to review the School District’s financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District’s financial performance.

The Management’s Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$14.8 million. This reflects a decrease in cash from 2012 of \$11.6 million. \$1.5 million of this decrease is General Fund dollars. The remaining \$10.1 million decrease is attributable to the money spent on the high school construction project.
- The Commonwealth of Kentucky made on-behalf payments for District employees’ health insurance and matching retirement plans totaling \$7.16 million. These payments are reflected in the District’s financial statements as prescribed by the Kentucky Department of Education.
- The District’s General Fund incurred a decrease in fund balance for the year of \$1.6 million. This loss is attributable to decreased state revenue and increased expenditures. The District closed their 2 smallest elementary schools as of the 2012-13 school-year to reduce future spending.
- For the past several years, the District has participated in the Kentucky School Boards Insurance Trust (KSBIT) self insurance pools to provide workers’ compensation, property and liability insurance coverage. In January 2013, the District was notified that the KSBIT insurance pools would be dissolving as of July 1, 2013 and the District will be assessed an additional premium contribution to cover losses from prior years. The estimated total amount of this assessment is \$598,598.

USING THIS ANNUAL REPORT

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 or deteriorating.

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

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

The government-wide financial statements can be found on pages 9 - 10 of this report.

**MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

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. There is a state mandated uniform accounting 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 and fiduciary funds. The proprietary funds are our food service operation. The only fiduciary funds are agency funds. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 – 14 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 basic financial statements can be found on pages 20 - 31 of the report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$46.2 million as of June 30, 2013.

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

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

**MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Net Position for the periods ending June 30, 2013 and 2012
(Table 1)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 16,039,984	\$ 27,466,353	\$ 524,308	\$ 421,605	\$ 16,564,292	\$ 27,887,958
Capital Assets	84,504,356	76,791,831	559,283	633,844	85,063,639	77,425,675
Total Assets	\$ 100,544,340	\$ 104,258,184	\$ 1,083,591	\$ 1,055,449	\$ 101,627,931	\$ 105,313,633
Long-Term Debt	\$ 49,902,387	\$ 52,409,529	\$ -	\$ -	\$ 49,902,387	\$ 52,409,529
Other Liabilities	5,524,468	4,171,781	3,669	2,885	5,528,137	4,174,666
Total Liabilities	\$ 55,426,855	\$ 56,581,310	\$ 3,669	\$ 2,885	\$ 55,430,524	\$ 56,584,195
Net Position						
Investment in capital assets	\$ 32,366,356	\$ 22,348,856	\$ 559,283	\$ 633,844	\$ 32,925,639	\$ 22,982,700
Restricted	7,451,210	6,536,583	-	21,296	7,451,210	6,557,879
Committed	425,000	425,000	-	-	425,000	425,000
Assigned	2,905	4,728	-	-	2,905	4,728
Unassigned	4,872,014	18,361,707	520,639	397,424	5,392,653	18,759,131
Total Net Position	\$ 45,117,485	\$ 47,676,874	\$ 1,079,922	\$ 1,052,564	\$ 46,197,407	\$ 48,729,438

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2013, net of inter-fund transfers and bond proceeds, were \$46.4 million.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$7.8 million more than budget or approximately 29%. The variance is primarily explained by unbudgeted on-behalf payments made by the State of Kentucky in the amount of \$7.16 million for employee retirement and insurance.
- General fund budget expenditures to actual varied significantly in Instruction and Facilities Construction, and Other. The variance for instructional expenses is caused by the state on-behalf payments detailed above. General Fund monies were not required for facilities construction in the current year.

**MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Summary of Changes in Net Position for the periods ending June 30, 2013 and 2012
(Table 2)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for services	\$ 39,479	\$ 49,734	\$ 888,049	\$ 974,803	\$ 927,528	\$ 1,024,537
Operating grants and contributions	35,237,348	35,496,486	1,824,785	1,766,675	37,062,133	37,263,161
General Revenues:						
Property taxes	5,765,669	5,442,936	-	-	5,765,669	5,442,936
Motor vehicle taxes	1,224,643	1,161,519	-	-	1,224,643	1,161,519
Utility taxes	1,147,876	1,098,562	-	-	1,147,876	1,098,562
Investment earnings	197,595	269,667	3,201	3,706	200,796	273,373
State and formula grants	-	-	-	-	-	-
Miscellaneous	84,924	331,440	-	-	84,924	331,440
Total Revenues	\$43,697,534	\$43,850,344	\$ 2,716,035	\$ 2,745,184	\$46,413,569	\$46,595,528
Expenses						
Program Activities:						
Instruction	\$27,826,062	\$28,075,485	\$ -	\$ -	\$27,826,062	\$28,075,485
Student support	2,316,366	2,478,959	-	-	2,316,366	2,478,959
Instructional staff support	1,408,431	1,474,991	-	-	1,408,431	1,474,991
District administrative support	1,114,825	1,029,132	-	-	1,114,825	1,029,132
School administrative support	1,578,801	1,713,866	-	-	1,578,801	1,713,866
Business support	1,166,802	557,466	-	-	1,166,802	557,466
Plant operation and maintenance	4,051,354	3,798,640	-	-	4,051,354	3,798,640
Student transportation	2,929,847	2,885,014	-	-	2,929,847	2,885,014
Facilities acquisition	-	1,931	-	-	-	1,931
Community service activities	362,223	355,692	-	-	362,223	355,692
Other	53,527	53,527	-	-	53,527	53,527
Interest cost	2,098,324	2,183,677	-	-	2,098,324	2,183,677
Loss on sale of assets	874,580	-	-	-	874,580	-
Business-Type Activities:						
Food service	-	-	2,688,677	2,715,414	2,688,677	2,715,414
Total Expenses	\$45,781,142	\$44,608,381	\$ 2,688,677	\$ 2,715,414	\$48,469,819	\$47,323,795
Increase (decrease) in net position	\$ (2,083,608)	\$ (758,037)	\$ 27,358	\$ 29,770	\$ (2,056,250)	\$ (728,267)

**MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Governmental Activities

Instruction comprises 61% of governmental program expenses. Support services expense make up 17% of government expenses. Student transportation and plant operations total 15% of governmental expenses. The remaining expenses for facility acquisition, community service activities, and interest account for the final 7% of total governmental expense.

Business-Type Activities

The business-type activities include the food service operation. This program had total revenue of \$2,716,035 and expenses of \$2,688,656 for fiscal year 2013. Of the revenues, \$888,049 was charges for services, and \$1,824,785 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

The School District's Funds

Information about the School District's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$43.9 million and expenditures and other financing uses of \$56.0 million. \$11.2 million of the total expenditures was for construction projects.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

Capital Assets

At the end of fiscal year 2013, the School District had \$85.1 million invested in land, buildings, equipment, and vehicles. Of this total, \$84.5 million were in governmental activities. Tables 3 and 4 show fiscal year 2013 and 2012 balances.

**Capital Assets at June 30, 2013 and 2012
Net of Depreciation
(Table 3)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,011,222	\$2,029,122	\$0	\$0	\$2,011,222	\$2,029,122
Land Improvements	1,186,799	1,304,304	-	-	1,186,799	1,304,304
Buildings and Improvements	66,610,644	69,792,165	-	-	66,610,644	69,792,165
Technology	739,857	692,973	2,723	3,172	742,580	696,145
Vehicles	1,520,305	1,656,226	-	-	1,520,305	1,656,226
General Equipment	404,843	470,649	556,560	630,672	961,403	1,101,321
Construction In Process	12,030,684	846,392	-	-	12,030,684	846,392
Total	\$ 84,504,355	\$ 76,791,831	\$ 559,283	\$ 633,844	\$ 85,063,638	\$ 77,425,675

**MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Changes in Capital Assets for the periods ended June 30, 2013 and 2012
(Table 4)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Beginning Balance	\$ 76,791,831	\$ 78,355,146	\$633,844	\$707,125	\$ 77,425,675	\$79,062,271
Additions	11,734,808	1,450,187	3,971	7,829	11,738,779	1,458,016
Retirements	(1,135,103)	(205,797)	-	(4,728)	(1,135,103)	(210,525)
Depreciation	(2,887,181)	(2,807,705)	(78,532)	(76,382)	(2,965,713)	(2,884,087)
Total	\$ 84,504,355	\$ 76,791,831	\$559,283	\$633,844	\$ 85,063,638	\$77,425,675

Debt

At June 30, 2013, the School District had \$52,138,000 in bonds outstanding; of this amount \$1,999,819 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$2,835,000 is due within one year.

District Challenges for the Future

Meade County School District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent. The District has been required to provide financial support for unfunded mandates imposed by the state and federal government.

Meade County School District will continue to use careful planning and monitoring of finances to provide a quality education for students and a secure financial future for the school district.

Future Budgetary Implications

In Kentucky, the public schools' fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2013–2014 with a contingency greater than the required minimum of 2%. Projected budgetary shortfalls at the state level and the effects of federal sequestration are a concern for the 2013-2014 school year.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Susan B. Fackler, Finance Officer, Meade County Board Of Education, Brandenburg, KY 40108 or by phone at 270-422-7500.

**MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013**

Assets	Governmental Activities	Business-Type Activities	Total
<u>Current Assets</u>			
Cash & Cash Equivalents	\$ 14,509,541.72	\$ 317,484.14	\$ 14,827,025.86
Inventory	-	48,190.11	48,190.11
Accounts Receivable	620,477.77	158,634.10	779,111.87
Total Current Assets	\$ 15,130,019.49	\$ 524,308.35	\$ 15,654,327.84
<u>Noncurrent Assets</u>			
Capital Assets	\$ 102,130,984.13	\$ 1,756,714.53	\$ 103,887,698.66
Accumulated Depreciation	(29,657,313.29)	(1,197,431.89)	(30,854,745.18)
Construction In Progress	12,030,684.99	-	12,030,684.99
Total Noncurrent Assets	\$ 84,504,355.83	\$ 559,282.64	\$ 85,063,638.47
<u>Other Assets</u>			
Bond Refinance Fees	\$ 909,964.10	-	\$ 909,964.10
Total Other Assets	909,964.10	-	909,964.10
Total Assets	<u>\$ 100,544,339.42</u>	<u>\$ 1,083,590.99</u>	<u>\$ 101,627,930.41</u>
Liabilities & Net Position			
<u>Current Liabilities</u>			
Accounts Payable	\$ 1,585,921.89	\$ 3,669.10	\$ 1,589,590.99
Accrued Salaries & Benefits	328,207.56	-	328,207.56
Accrued Interest Payable	603,724.26	-	603,724.26
Deferred Revenue	171,613.82	-	171,613.82
Current Portion Of Bond Obligations	2,835,000.00	-	2,835,000.00
Total Current Liabilities	\$ 5,524,467.53	\$ 3,669.10	\$ 5,528,136.63
<u>Noncurrent Liabilities</u>			
Noncurrent Portion Of Bond Obligations	\$ 49,303,000.00	-	\$ 49,303,000.00
Noncurrent Portion Of Accrued Sick Leave	599,386.51	-	599,386.51
Total Noncurrent Liabilities	\$ 49,902,386.51	-	\$ 49,902,386.51
Total Liabilities	<u>\$ 55,426,854.04</u>	<u>\$ 3,669.10</u>	<u>\$ 55,430,523.14</u>
<u>Net Position</u>			
Invested In Capital Assets, Net Of Related Debt	\$ 32,366,355.83	\$ 559,282.64	\$ 32,925,638.47
Restricted For KSFCC Escrow	878,565.00	-	878,565.00
Restricted - SFCC Escrow - Current	1,827,780.96	-	1,827,780.96
Restricted For Future Projects	4,145,477.55	-	4,145,477.55
Committed - Other	425,000.00	-	425,000.00
Committed - Sick Leave	599,386.51	-	599,386.51
Assigned - Purchase Obligations	2,905.18	-	2,905.18
Unassigned	4,872,014.35	520,639.25	5,392,653.60
Total Net Position	<u>\$ 45,117,485.38</u>	<u>\$ 1,079,921.89</u>	<u>\$ 46,197,407.27</u>

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

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

	Program Revenues			Net (Expense) Revenue And Changes in Net Position		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS / PROGRAMS						
Governmental Activities:						
Instruction	\$ 25,329,996.10	\$ 22,069,795.11	\$ -	\$ (3,220,721.99)	\$ -	\$ (3,220,721.99)
Support Services:						
Student	2,316,365.71	1,996,278.51	-	(320,087.20)	-	(320,087.20)
Instruction Staff	1,407,144.96	1,212,698.51	-	(194,446.45)	-	(194,446.45)
District Administrative	1,099,308.91	947,400.81	-	(151,908.10)	-	(151,908.10)
School Administrative	1,572,875.12	1,355,527.23	-	(217,347.89)	-	(217,347.89)
Business	1,164,838.25	1,003,874.97	-	(160,963.28)	-	(160,963.28)
Plant Operation & Maintenance	4,018,284.20	3,680,864.99	-	(337,419.21)	-	(337,419.21)
Student Transportation	2,597,543.60	2,238,601.81	-	(358,941.79)	-	(358,941.79)
Food Service Operation	-	-	-	-	-	-
Community Service Activities	361,173.54	311,264.74	-	(49,908.80)	-	(49,908.80)
Other	-	-	-	-	-	-
Interest On Long-Term Debt	2,098,323.88	-	-	-	-	-
Depreciation & Amortization	2,940,707.86	421,041.78	-	(1,677,282.10)	-	(1,677,282.10)
Total Governmental Activities	\$ 44,906,562.13	\$ 35,237,348.46	\$ -	\$ (9,629,734.67)	\$ -	\$ (9,629,734.67)
Business-Type Activities:						
Food Service	\$ 2,688,677.19	\$ 1,824,785.11	\$ -	\$ -	\$ 24,157.15	\$ 24,157.15
Total Business-Type Activities	\$ 2,688,677.19	\$ 1,824,785.11	\$ -	\$ -	\$ 24,157.15	\$ 24,157.15
Total Primary Government	\$ 47,595,239.32	\$ 37,062,133.57	\$ -	\$ (9,629,734.67)	\$ 24,157.15	\$ (9,605,577.52)
General Revenues:						
Taxes:						
Property Taxes	\$ -	\$ 5,765,668.51	\$ -	\$ 5,765,668.51	\$ -	\$ 5,765,668.51
Motor Vehicles Taxes	\$ -	\$ 1,224,642.76	\$ -	\$ 1,224,642.76	\$ -	\$ 1,224,642.76
Utility Taxes	\$ -	\$ 1,147,876.45	\$ -	\$ 1,147,876.45	\$ -	\$ 1,147,876.45
Investment Earnings	\$ -	\$ 197,595.06	\$ -	\$ -	\$ 3,201.14	\$ 200,796.20
State & Formula Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss On Sale Of Assets	\$ -	\$ (874,579.84)	\$ -	\$ (874,579.84)	\$ -	\$ (874,579.84)
Miscellaneous	\$ -	\$ 84,924.46	\$ -	\$ 84,924.46	\$ -	\$ 84,924.46
Change in Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Position - Beginning	\$ -	\$ -	\$ -	\$ (2,083,607.27)	\$ 27,358.29	\$ (2,056,248.98)
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ 47,676,873.39	\$ 1,052,563.60	\$ 48,729,436.99
Total	\$ -	\$ -	\$ -	\$ (475,780.74)	\$ -	\$ (475,780.74)
Net Position - Ending	\$ -	\$ -	\$ -	\$ 45,117,485.38	\$ 1,079,921.89	\$ 46,197,407.27

See independent auditor's report and accompanying notes to financial statements.
10

**MEADE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets & Resources:					
Cash & Cash Equivalents	\$ 7,152,031.12	\$ (212,188.31)	\$ 4,385,956.44	\$ 3,183,743.47	\$ 14,509,542.72
Accounts Receivable	223,269.48	397,208.29	-	-	620,477.77
Total Assets & Resources	<u>\$ 7,375,300.60</u>	<u>\$ 185,019.98</u>	<u>\$ 4,385,956.44</u>	<u>\$ 3,183,743.47</u>	<u>\$ 15,130,020.49</u>
Liabilities & Fund Balances:					
Liabilities:					
Accounts Payable	\$ 256,041.33	\$ 13,406.16	\$ 717,077.92	\$ 798.48	\$ 987,323.89
Accrued Salaries & Benefits	328,207.56	-	-	-	328,207.56
Deferred Revenue	-	171,613.82	-	-	171,613.82
Notes Payable	-	-	-	-	-
Total Liabilities	<u>\$ 584,248.89</u>	<u>\$ 185,019.98</u>	<u>\$ 717,077.92</u>	<u>\$ 798.48</u>	<u>\$ 1,487,145.27</u>
Fund Balances:					
Reserved:					
Committed - Sick Leave	\$ 599,386.51	\$ -	\$ -	\$ -	\$ 599,386.51
Restricted For KSFCC Escrow	-	-	-	878,565.00	878,565.00
Restricted - SFCC Escrow - Current	-	-	-	1,827,780.96	1,827,780.96
Restricted For Future Projects	-	-	3,668,878.52	476,599.03	4,145,477.55
Committed - Other	425,000.00	-	-	-	425,000.00
Assigned - Purchase Obligations	1,593.18	1,312.00	-	-	2,905.18
Unassigned	5,765,072.02	(1,312.00)	-	-	5,763,760.02
Total Fund Balances	<u>\$ 6,791,051.71</u>	<u>\$ -</u>	<u>\$ 3,668,878.52</u>	<u>\$ 3,182,944.99</u>	<u>\$ 13,642,875.22</u>
Total Liabilities & Fund Balances	<u>\$ 7,375,300.60</u>	<u>\$ 185,019.98</u>	<u>\$ 4,385,956.44</u>	<u>\$ 3,183,743.47</u>	<u>\$ 15,130,020.49</u>

See independent auditor's report and accompanying notes to financial statements.
11

**MEADE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total fund balance per fund financial statements	\$ 13,642,875.22
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.	85,414,319.93
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	<u>(53,939,709.77)</u>
Net position for governmental activities	<u>\$ 45,117,485.38</u>

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

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

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From Local Sources:					
Taxes:					
Property	\$ 3,635,668.51	-	-	-	\$ 3,635,668.51
Motor Vehicle	1,224,642.76	-	-	-	1,224,642.76
Utilities	1,147,876.45	-	-	-	1,147,876.45
Tuition And Fees	39,479.00	-	-	-	39,479.00
Transportation	-	-	-	-	-
Earnings On Investments	154,099.45	-	-	29,858.99	183,958.44
Other Local Revenues	80,175.04	79,185.69	13,936.62	-	173,301.35
Intergovernmental - State	27,873,114.99	1,075,016.26	3,356.75	-	29,951,547.00
Intergovernmental - Federal	226,807.09	2,009,492.90	-	3,575,459.66	5,811,765.65
Total Revenues	\$ 34,381,863.29	\$ 3,163,694.85	\$ 17,293.37	\$ 5,915,742.77	\$ 43,478,594.28
Expenditures:					
Instruction	\$ 23,254,536.99	\$ 2,537,825.64	-	-	\$ 25,792,362.63
Support Services:					
Student	2,310,609.20	5,756.51	-	-	2,316,365.71
Instruction Staff	1,081,952.81	337,187.15	-	-	1,419,139.96
District Administrative	1,099,308.91	-	-	-	1,099,308.91
School Administrative	1,572,875.12	-	-	-	1,572,875.12
Business	566,240.25	-	-	-	566,240.25
Plant Operation & Maintenance	3,663,397.64	17,040.10	-	337,846.46	4,018,284.20
Student Transportation	2,793,228.60	-	-	-	2,793,228.60
Food Service	(1,092.67)	-	-	-	(1,092.67)
Facilities Acquisition & Maintenance	7,869.09	353,304.45	11,184,293.48	-	11,184,293.48
Community Service Activities	-	-	-	-	-
Other Uses Of Funds	-	-	-	-	-
Debt Service	-	-	-	-	361,173.54
Total Expenditures	\$ 36,348,925.94	\$ 3,251,113.85	\$ 11,184,293.48	\$ 4,893,736.38	\$ 48,678,069.65
Excess (Deficit) Of Revenues Over Expenditures	\$ (1,967,062.65)	\$ (87,419.00)	\$ (11,167,000.11)	\$ 684,159.93	\$ (12,537,321.83)
Other Financing Sources (Uses):					
Loss Comp	-	-	-	-	-
Proceeds From Sale Of Fixed Assets	217,847.75	-	-	-	217,847.75
Proceeds From Sale Of Bonds	248,768.75	-	-	-	248,768.75
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	(87,419.00)	87,419.00	3,654,927.00	-	3,654,927.00
Total Other Financing Sources (Uses)	\$ 379,197.50	\$ 87,419.00	\$ 3,654,927.00	\$ 4,565,547.10	\$ 8,307,893.10
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	\$ (1,587,865.15)	-	\$ (7,512,073.11)	\$ (2,970,767.07)	\$ (12,070,705.33)
Fund Balance, July 1, 2012	8,378,916.86	-	11,180,951.63	6,153,712.06	25,713,580.55
Fund Balance, June 30, 2013	\$ 6,791,051.71	-	\$ 3,668,878.52	\$ 3,182,944.99	\$ 13,642,875.22

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

**MEADE 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	\$ (12,070,705.33)
Amounts reported for governmental activities in the statement of activities are different because of the following:	
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 and the gain from the sale of assets exceeds depreciation expense for the year.	7,670,752.21
Expenses are recognized in governmental funds only when current financial resources are used, but expenses are recognized in the statement of activities when they are incurred. This is the amount resulting from this timing difference.	(479,066.65)
Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long-term debt on the statement of net assets and interest expense on the statement of activities. The difference is the amount by which principal payments made for the year exceeds the amount of bonds issued.	2,614,988.38
Participation from government agencies that aid the District debt are not reported in this fund financial statement because there is no receipt of actual financial resources concerning this aid. The amount received is shown on the statement of activities.	<u>180,424.12</u>
Change in net position of governmental activities	<u><u>\$ (2,083,607.27)</u></u>

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

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

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash & Cash Equivalents	\$ 317,484.14
Inventory	48,190.11
Accounts Receivable	158,634.10
Due From Other Funds	-
Investments	-
Total Current Assets	<u>\$ 524,308.35</u>
<u>Noncurrent Assets</u>	
Capital Assets	\$ 1,756,714.53
Accumulated Depreciation	<u>(1,197,431.89)</u>
Total Noncurrent Assets	<u>\$ 559,282.64</u>
Total Assets	<u><u>\$ 1,083,590.99</u></u>
Liabilities & Net Position	
<u>Current Liabilities</u>	
Accounts Payable	<u>\$ 3,669.10</u>
Total Current Liabilities	<u><u>\$ 3,669.10</u></u>
<u>Net Position</u>	
Invested In Capital Assets, Net Of Related Debt	\$ 559,282.64
Unrestricted	<u>520,639.25</u>
Total Net Position	<u><u>\$ 1,079,921.89</u></u>

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

**MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom Sales	\$ 888,049.23
Total Operating Revenues	\$ 888,049.23
Operating Expenses:	
Salaries & Benefits	\$ 1,091,604.25
Materials & Supplies	1,445,197.01
Depreciation	78,531.96
Other Operating Expenses	73,343.97
Total Operating Expenses	<u>\$ 2,688,677.19</u>
Income (Loss) From Operations	\$ (1,800,627.96)
Non-Operating Revenues (Expenses):	
Federal Grants	\$ 1,656,833.57
State Grants	167,951.54
Gain / (Loss) Sale of Equipment	-
Interest Income	3,201.14
Total Non-Operating Revenues (Expenses)	<u>\$ 1,827,986.25</u>
Net Income (Loss) Before Capital Contributions	\$ 27,358.29
 Retained Earnings, July 1, 2012	 <u>1,052,563.60</u>
Retained Earnings, June 30, 2013	<u><u>\$ 1,079,921.89</u></u>

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

**MEADE 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	\$ 888,049.23
Cash Paid To / For:	
Employees	\$ (1,091,604.25)
Supplies	(1,441,572.84)
Other Activities	<u>(73,343.97)</u>
Net Cash Provided By Operating Activities	\$ (1,718,471.83)

Cash Flows From Investing Activities & Other Non-Operating Revenues

Receipt Of Interest Income	\$ 3,201.14
Federal & State Grants	1,666,151.01
Purchase Of New Equipment	<u>(3,970.80)</u>
Net Cash Provided By Investing Activities	\$ <u>1,665,381.35</u>

Net Increase In Cash & Cash Equivalents \$ (53,090.48)

Balances, Beginning Of Year 370,574.62

Balances, End Of Year \$ 317,484.14

**Reconciliation Of Operating Income (Loss) To Net Cash
Provided (Used) By Operating Activities**

Operating Income	\$ (1,800,627.96)
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation	78,531.96
Change In Assets & Liabilities	
Receivables	-
Inventory	2,840.27
Accounts Payable	<u>783.90</u>
Net Cash Provided By Operating Activities	<u><u>\$ (1,718,471.83)</u></u>

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

**MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	<u>Agency Funds</u>
Assets	
Cash & Cash Equivalents	\$ 263,121.54
Due From Other Funds	<u>-</u>
Total Assets	\$ 263,121.54
 Liabilities	
Accounts Payable	\$ -
Due To Student Groups	<u>263,121.54</u>
Total Liabilities	\$ 263,121.54
 Net Position	 <u><u>\$ -</u></u>

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

**MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2013**

	Agency Funds
Additions	
Net Interest	\$ -
 Deductions	
Benefits paid	\$ -
 Change In Net Position	\$ -
 Net Position, Beginning Of Year	\$ -
 Net Position, End Of Year	\$ -

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

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Meade 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 with the jurisdiction of Meade County School District ("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 Meade 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 statement of the following organization is included in the accompanying financial statements:

Meade County Board of Education Finance Corporation – On August 9, 1989, the Board of Education resolved to authorize the establishment of the Meade 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.

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 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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

The District has the following funds:

Governmental Fund Types

- General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expandable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in the report on pages 33 - 34. This is a major fund of the District.
- 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.
 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.
- Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law.

Proprietary Fund Types (Enterprise Fund)

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

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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. The 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, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when 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 non-exchange transactions must also be available before it can be recognized.

Revenues – Deferred Revenue

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

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

Expenses/Expenditures

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

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

On Behalf payments are payments made by the state, on the behalf of the District. The most significant “on behalf” payments were for employee health insurance and for Teachers’ Retirement match. The “on behalf” payments are required to be presented as part of both revenues and expenditures within these financial statements.

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance the General fund operations were \$0.465 per \$100 valuation for real property, \$0.487 per \$100 valuation for business personal property, and \$0.546 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Accumulated Unpaid Sick Leave Benefits – (concluded)

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

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

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

Budgetary Process

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

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

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Accrued Liabilities and Long-Term Obligations

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

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONCLUDED)

Accrued Liabilities and Long-Term Obligations – (Concluded)

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

Fund Balance Reserves

Following GASB 54, the District may divide its fund balance into one of the following categories: Non-Spendable Fund Balances are amounts that are not in a spendable form nor are they required to be maintained intact. Restricted Fund Balances are amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation. Committed Fund Balances are amounts constrained to specific purposes by the board itself, using its highest level of decision-making authority. Assigned Fund Balances are amounts the board intends to use for a specific purpose, but are neither restricted nor committed. Unassigned Fund Balances are amounts that are available for any purpose.

Net Position

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

Operating Revenues and Expenses

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

Contributions of Capital

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

Interfund Activity

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

NOTE B – 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.

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits

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

At year-end, the carrying amount of the District's total cash and cash equivalents was \$15,090,148. Of the total cash balance, \$750,315 was covered by Federal Depository Insurance, \$14,339,833 covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

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

	Bank Balance	Book Balance
First Federal Savings Bank	\$12,448,444	\$10,227,593
Meade County Bank	4,428,247	4,385,641
The Bank of New York	476,599	476,599
BB&T	315	315
	\$ 17,353,605	\$ 15,090,148
Governmental Funds		\$ 14,509,542
Proprietary Funds		317,484
Subtotal		14,827,026
Agency Funds		263,122
Total Cash and Cash Equivalents All Funds		\$ 15,090,148

NOTE D – INVESTMENTS

The District held no investments on June 30, 2013.

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Meade County School District Finance Corporation aggregating \$52,138,000.

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

2001 Refunding	\$ 775,000		3.500%	-	4.000%
2002 Refunding	1,645,000		1.350%	-	3.750%
2005 Refunding	4,340,000		3.000%	-	3.800%
2006	18,060,000		3.500%	-	4.250%
2006 Second Series	9,525,000		3.500%	-	4.125%
2008	5,795,000		2.200%	-	3.900%
2009	10,905,000		2.000%	-	6.400%
2011	590,000		1.900%	-	1.900%
2012	11,420,000		2.000%	-	3.375%

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS (CONCLUDED)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Meade County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table below sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2013, for debt service (principal and interest) are as follows:

Year		District Payments		SFCC Participation	
		Principal	Interest	Principal	Interest
2013	2014	\$ 2,682,545	\$ 1,973,109	\$ 152,455	\$ 71,748
2014	2015	2,774,224	1,870,171	156,776	67,160
2015	2016	2,865,360	1,767,411	161,640	62,297
2016	2017	2,965,210	1,657,025	152,790	57,392
2017	2018	2,916,250	1,544,180	127,750	53,050
2018	2019	3,003,269	1,428,369	131,731	49,074
2019	2020	3,095,103	1,307,478	135,897	44,909
2020	2021	3,197,722	1,180,707	140,278	40,536
2021	2022	3,313,951	1,043,414	145,049	35,772
2022	2023	3,399,327	900,909	95,673	30,656
2023	2024	3,521,506	752,254	93,494	26,433
2024	2025	3,642,133	596,029	97,867	22,061
2025	2026	2,632,477	456,581	102,523	17,404
2026	2027	2,651,455	347,829	93,545	12,756
2027	2028	1,937,880	271,731	57,120	9,032
2028	2029	1,549,803	195,535	60,197	5,954
2029	2030	1,591,218	133,066	48,782	3,143
2030	2031	1,198,154	80,958	21,846	1,561
2031	2032	1,200,594	40,520	24,406	824
2032	2033	-	-	-	-
Totals		<u>\$50,138,181</u>	<u>\$ 17,547,276</u>	<u>\$ 1,999,819</u>	<u>\$ 611,762</u>

NOTE F - COMMITMENTS UNDER NONCAPITALIZED LEASES

The District paid \$4,570 in rent during the year ended June 30, 2013. There are no commitments or operating lease agreements for office equipment that would require minimum future rental payments as of June 30, 2013.

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE G – CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Governmental Activities:				
Land	\$ 2,029,122	\$ -	\$ 17,900	\$ 2,011,222
Land Improvements	3,540,402	-	128,600	3,411,802
Buildings & Building Improvements	90,391,305	-	2,502,933	87,888,372
Technology Equipment	2,600,158	342,835	49,134	2,893,859
Vehicles	4,561,761	195,685	124,390	4,633,056
General Equipment	1,324,202	11,995	43,525	1,292,672
Construction In Progress	846,391	11,184,294	-	12,030,685
Total At Historical Cost	\$104,048,953	\$11,734,809	\$2,866,482	\$114,161,668
Less Accumulated Depreciation For:				
Land Improvements	\$ 2,236,098	\$ 118,008	\$ 129,103	\$ 2,225,003
Buildings & Building Improvements	20,599,139	2,070,624	1,392,035	21,277,728
Technology Equipment	1,907,186	294,937	48,120	2,154,003
Vehicles	2,905,535	331,606	124,390	3,112,751
General Equipment	853,552	72,005	37,729	887,828
Total Accumulated Depreciation	\$ 25,693,807	\$ 2,887,180	\$1,731,377	\$ 29,657,313
Governmental Activities Capital Net	\$ 78,355,146	\$ 8,847,629	\$1,135,105	\$ 84,504,355
Proprietary Activities:				
Technology Equipment	\$ 5,043	\$ -	\$ -	\$ 5,043
General Equipment	1,839,942	3,971	92,241	1,751,672
Total At Historical Cost	\$ 1,841,884	\$ 3,971	\$ 92,241	\$ 1,756,715
Less Accumulated Depreciation For:				
Technology Equipment	\$ 1,870	\$ 449	\$ -	\$ 2,319
General Equipment	1,209,271	78,083	92,241	1,195,113
Total Accumulated Depreciation	\$ 1,134,759	\$ 78,532	\$ 92,241	\$ 1,197,432
Proprietary Activities Capital Net	\$ 707,125	\$ (74,561)	\$ -	\$ 559,283

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE H – RETIREMENT PLANS

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

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3868.

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

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 1, 2008, and 6% for employees hired after September 1, 2008, and a Board contribution of 19.55% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$25,723,926. The payroll for employees covered under KTRS was \$19,153,738 and for CERS was \$6,455,693.

For the year ended June 30, 2013, the Commonwealth contributed \$2,399,386 to KTRS for the benefit of the participating employees. The School District's contribution to KTRS for the year ending June 30, 2013, was \$133,505, which represents those employees covered by federal programs.

The contribution requirements for CERS for the year ended June 30, 2013, was \$1,597,297, which consisted of \$1,262,088 from the Board and \$335,209 from the employees.

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

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

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers.

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

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

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE I – 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 J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently, the District maintains insurance coverage through Kentucky School Boards Insurance Trust Fund.

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 L – 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 expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	\$1,587,865
Capital Outlay Fund	\$ 262,269
Building Fund	\$2,801,350
Construction Fund	\$7,512,073

NOTE M - 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).

**MEADE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2013**

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	\$ 87,419
Operating	Building	Debt Service	Debt Service	4,565,547
Operating	Building	Construction	Construction	3,654,927
				\$ 8,307,893

NOTE O – INTERFUND RECEIVABLES AND PAYABLE

There were no interfund balances at June 30, 2013.

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent event through September 24, 2013. There are no material subsequent events to disclose.

NOTE Q – ON BEHALF PAYMENTS

State agencies make payments on behalf of local school districts for the employer's portion of health benefits, vocational education, Kentucky Teachers' Retirement System, technology and debt services, along with receiving federal reimbursement payments from districts for the employer's portion of health benefits paid for federally funded district employees. The total amount of on behalf payments paid on behalf of the district for the year ended June 30, 2013 is \$7,160,863.09.

NOTE R – KENTUCKY SCHOOL BOARDS INSURANCE TRUST ASSESSMENT

KSBIT filed an assessment and wind up plan, 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. The estimated liability to be assessed to the District is \$428,536. The assessment is not recorded as a liability on the fund financial statements because it has not met the GASB criteria under interpretation 6 for accrual. However, an estimate is recorded on the government-wide financial statements because under GASB 10 the criteria that it is probable that a liability has been incurred and the amount can be reasonably estimated have been met.

**MEADE 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>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Taxes:			
Property	\$ 3,239,999.86	\$ 3,635,668.51	\$ 395,668.65
Motor Vehicle	1,075,000.00	1,224,642.76	149,642.76
Utilities	1,050,000.00	1,147,876.45	97,876.45
Tuition	30,000.00	39,479.00	9,479.00
Earnings On Investments	140,000.00	154,099.45	14,099.45
Other Local Revenues	5,000.00	80,175.04	75,175.04
Intergovernmental - State	20,932,000.00	27,873,114.99	6,941,114.99
Intergovernmental - Direct Federal	84,508.10	226,807.09	142,298.99
Total Revenues	<u>\$ 26,556,507.96</u>	<u>\$ 34,381,863.29</u>	<u>\$ 7,825,355.33</u>
Expenditures:			
Instruction	\$ 17,571,305.71	\$ 23,254,536.99	\$ (5,683,231.28)
Support Services:			
Student	2,213,305.28	2,310,609.20	(97,303.92)
Instruction Staff	1,208,062.36	1,081,952.81	126,109.55
District Administrative	913,274.41	1,099,308.91	(186,034.50)
School Administrative	1,615,161.91	1,572,875.12	42,286.79
Business	456,097.54	566,240.25	(110,142.71)
Plant Operation & Maintenance	3,454,569.13	3,663,397.64	(208,828.51)
Student Transportation	2,781,215.25	2,793,228.60	(12,013.35)
Food Service	12,532.51	(1,092.67)	13,625.18
Facilities Acquisition & Maintenance	813,880.00	-	813,880.00
Community Service Activities	9,930.00	7,869.09	2,060.91
Other Uses Of Funds	-	-	-
Total Expenditures	<u>\$ 31,049,334.10</u>	<u>\$ 36,348,925.94</u>	<u>\$ (5,299,591.84)</u>
Excess (Deficit) Of Revenues Over Expenditures	\$ (4,492,826.14)	\$ (1,967,062.65)	\$ 2,525,763.49
Other Financing Sources (Uses)			
Loss Compensation	\$ -	\$ 217,847.75	\$ 217,847.75
Proceeds From Sale Of Fixed Assets	-	248,768.75	248,768.75
Contingency	(2,879,551.50)	-	2,879,551.50
Operating Transfers In	-	-	-
Operating Transfers Out	-	(87,419.00)	(87,419.00)
Total Other Financing Sources (Uses)	<u>\$ (2,879,551.50)</u>	<u>\$ 379,197.50</u>	<u>\$ 3,258,749.00</u>
Excess (Deficit) Of Revenue & Other Financing Sources Over Expenditures & Other Financing Uses	\$ (7,372,377.64)	\$ (1,587,865.15)	\$ 5,784,512.49
Fund Balance, July 1, 2012	<u>7,354,730.52</u>	<u>8,378,916.86</u>	<u>1,024,186.34</u>
Fund Balance, June 30, 2013	<u>\$ (17,647.12)</u>	<u>\$ 6,791,051.71</u>	<u>\$ 6,808,698.83</u>

**MEADE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

	<u>CFDA Number</u>	<u>Disbursements</u>
<u>U.S. Department Of Education</u>		
Passed through the Kentucky Department of Education		
Title I - FY2012	84.010	\$ 143,802.07
Title I - Professional Development	84.010	34,630.21
Title I - Parent Involvement	84.010	5,700.70
Title I - Tier 3 Deferred Amount	84.010	2,607.53
Title I - FY2013	84.010	583,928.64
Title I - Parent Involvement	84.010	55.81
Total Title I Cluster		<u>\$ 770,724.96</u>
IDEA Basic FY2012	84.027	\$ 33,975.05
IDEA B Private School	84.027	675.85
IDEA Basic FY2013	84.027	897,685.57
IDEA Preschool FY2012	84.173	14,748.81
IDEA Preschool FY2013	84.173	41,934.88
Total IDEA Cluster		<u>\$ 989,020.16</u>
Title II - D Education Technology	84.318	\$ 78.99
Education Jobs Fund	84.410	29,541.04
Race To The Top	84.413A	7,613.47
School Energy Mngr Project	81.041	84.50
Teacher Quality	84.367	1,662.94
Teacher Quality	84.367	192,315.30
Title III ESL (Larue County)	84.365	1,911.94
Title III ESL (Larue County)	84.365	1,534.48
Perkins Voc Ed FY 2013	84.048	15,089.62
Total Other		<u>\$ 249,832.28</u>
Total U.S. Department Of Education		<u>\$ 2,009,577.40</u>
<u>U.S. Department of Agriculture</u>		
National School Lunch Program	10.555	<u>\$ 1,656,833.57</u>
Total Federal Expenditures		<u><u>\$ 3,666,410.97</u></u>

**MEADE 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 Meade 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.

**MEADE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2013**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Assets & Resources:				
Cash & Cash Equivalents	\$ 302,018.00	\$ 2,405,126.44	\$ 476,599.03	\$ 3,183,743.47
Accounts Receivable	-	-	-	-
Investments	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets & Resources	<u>\$ 302,018.00</u>	<u>\$ 2,405,126.44</u>	<u>\$ 476,599.03</u>	<u>\$ 3,183,743.47</u>
Liabilities & Fund Balances:				
Liabilities:				
Accounts Payable	\$ 798.48	\$ -	\$ -	\$ 798.48
Deferred Revenue	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 798.48	\$ -	\$ -	\$ 798.48
Fund Balances:				
Reserved:				
Restricted For Sick Leave	\$ -	\$ -	\$ -	\$ -
Restricted For KSFCC Escrow	-	878,565.00	-	878,565.00
Restricted - SFCC Escrow - Current	301,219.52	1,526,561.44	-	1,827,780.96
Restricted For Future Projects	-	-	476,599.03	476,599.03
Committed - Other	-	-	-	-
Assigned - Purchase Obligations	-	-	-	-
Unassigned	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>\$ 301,219.52</u>	<u>\$ 2,405,126.44</u>	<u>\$ 476,599.03</u>	<u>\$ 3,182,944.99</u>
Total Liabilities & Fund Balances	<u>\$ 302,018.00</u>	<u>\$ 2,405,126.44</u>	<u>\$ 476,599.03</u>	<u>\$ 3,183,743.47</u>

**MEADE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2013**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Revenues:				
From Local Sources:				
Taxes:				
Property	\$ -	\$ 2,130,000.00	\$ -	\$ 2,130,000.00
Motor Vehicle	-	-	-	-
Utilities	-	-	-	-
Tuition And Fees	-	-	-	-
Earnings On Investments	-	29,858.99	-	29,858.99
Other Local Revenues	-	-	-	-
Intergovernmental - Intermediate	-	-	-	-
Intergovernmental - State	460,134.00	2,874,708.00	240,617.66	3,575,459.66
Intergovernmental - Federal	-	-	180,424.12	180,424.12
Total Revenues	<u>\$ 460,134.00</u>	<u>\$ 5,034,566.99</u>	<u>\$ 421,041.78</u>	<u>\$ 5,915,742.77</u>
Expenditures:				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services:				
Student	-	-	-	-
Instruction Staff	-	-	-	-
District Administrative	-	-	-	-
School Administrative	-	-	-	-
Business	-	-	-	-
Plant Operation & Maintenance	337,846.46	-	-	337,846.46
Student Transportation	-	-	-	-
Facilities Acquisition & Maintenance	-	-	-	-
Community Service Activities	-	-	-	-
Other Uses Of Funds	-	-	-	-
Debt Service	-	-	4,893,736.38	4,893,736.38
Total Expenditures	<u>\$ 337,846.46</u>	<u>\$ -</u>	<u>\$ 4,893,736.38</u>	<u>\$ 5,231,582.84</u>
Excess (Deficit) Of Revenues Over Expenditures	\$ 122,287.54	\$ 5,034,566.99	\$ (4,472,694.60)	\$ 684,159.93
Other Financing Sources (Uses)				
Operating Transfers In	\$ -	\$ -	\$ 4,565,547.10	\$ 4,565,547.10
Operating Transfers Out	(384,556.93)	(7,835,917.17)	-	(8,220,474.10)
Total Other Financing Sources (Uses)	<u>\$(384,556.93)</u>	<u>\$(7,835,917.17)</u>	<u>\$ 4,565,547.10</u>	<u>\$(3,654,927.00)</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	\$(262,269.39)	\$(2,801,350.18)	\$ 92,852.50	\$(2,970,767.07)
Fund Balance, July 1, 2012	<u>\$ 563,488.91</u>	<u>\$ 5,206,476.62</u>	<u>\$ 383,746.53</u>	<u>\$ 6,153,712.06</u>
Fund Balance, June 30, 2013	<u><u>\$ 301,219.52</u></u>	<u><u>\$ 2,405,126.44</u></u>	<u><u>\$ 476,599.03</u></u>	<u><u>\$ 3,182,944.99</u></u>

**MEADE COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance July 1, 2012	Receipts	Disbursements	Cash Balance June 30, 2013
Brandenburg Primary	\$ 23,306.20	\$ 29,882.33	\$ 35,183.73	\$ 18,004.80
David T. Wilson Elementary	17,404.77	48,178.28	55,947.88	9,635.17
Ekron Elementary	23,417.53	22,103.70	24,322.43	21,198.80
Flaherty Elementary	11,991.39	25,676.30	23,070.42	14,597.27
Flaherty Primary	9,435.75	24,710.08	19,171.41	14,974.42
Meade County High	146,806.39	617,375.25	586,169.93	178,011.71
Muldraugh Elementary	2,633.01	-	2,633.01	-
Payneville Elementary	2,052.06	4,059.94	4,158.94	1,953.06
Stuart Pepper Middle	6,639.57	80,796.25	82,689.51	4,746.31
Totals	\$243,686.67	\$852,782.13	\$ 833,347.26	\$263,121.54

**MEADE COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance July 1, 2012	Receipts	Disbursements	Transfers	Cash Balance June 30, 2013
000100 Athletic	\$ 4,071.08	\$113,639.39	\$ 111,602.37	\$ (597.89)	\$ 5,510.21
000105 Boys Basketball	862.11	1,580.00	3,210.00	807.89	40.00
000110 Cheerleaders	408.46	5,975.08	5,372.50	(100.00)	911.04
000115 Football	6,710.18	27,031.40	20,075.44	(500.00)	13,166.14
000117 Flag Football	-	-	-	-	-
000118 Tackle Football	-	-	-	-	-
000119 Wrestling	28.39	6,105.00	6,000.26	-	133.13
000120 Girls Basketball	2,688.76	2,570.00	3,119.80	-	2,138.96
000125 Boys Golf	1,589.60	631.00	1,056.00	-	1,164.60
000130 Boys Soccer	1,002.56	-	755.00	(144.00)	103.56
000135 Softball	233.99	15,374.65	15,394.08	-	214.56
000140 Boys Tennis	-	210.00	-	(210.00)	-
000145 Volleyball	481.51	-	95.00	-	386.51
000150 Track/Cross Country	1,101.86	8,848.50	8,449.65	(300.00)	1,200.71
000155 Swim	8.27	-	-	-	8.27
000160 Baseball	304.27	23,368.11	15,800.88	-	7,871.50
000165 Girls Golf	57.39	-	-	-	57.39
000170 Girls Tennis	10.51	1,341.00	1,185.00	-	166.51
000175 Girls Soccer	3,411.41	5,862.05	7,618.50	144.00	1,798.96
000180 Track	3,391.60	6,588.00	7,359.22	(300.00)	2,320.38
000200 General	489.10	3,839.03	3,757.61	26.14	596.66
000205 Machine Fund	4,432.09	1,382.05	1,916.82	-	3,897.32
000210 Parking	1,657.29	10,284.25	15,369.74	5,500.00	2,071.80
000215 Textbook Rental	8,924.45	50,831.63	45,933.38	-	13,822.70
000220 Attendance	10.00	-	-	(10.00)	-
000225 Machine Fund - Staff	948.30	3,425.60	2,795.43	-	1,578.47
000300 Drama	14,083.07	6,887.45	6,106.65	(408.00)	14,455.87
000305 FCA	55.32	280.00	278.20	-	57.12
000310 FBLA	3,245.00	30,725.23	30,156.29	37.00	3,850.94
000315 FFA	3,975.50	26,166.90	28,803.01	(220.00)	1,119.39
000320 FCCLA	207.14	13,736.01	13,162.42	301.00	1,081.73
000325 National Honor Society	3,646.05	8,455.45	7,630.41	(1,050.00)	3,421.09
000330 Pep Club	4,491.69	2,407.75	6,399.91	(206.50)	293.03
000335 GSA	85.63	496.35	525.20	-	56.78
000340 Rodeo	15.08	490.00	382.00	-	123.08
000345 SADD	462.02	1,022.00	-	174.35	1,658.37
000350 SADD2	3,307.53	1,107.43	500.00	-	3,914.96
000355 Science Club	525.98	235.00	256.95	-	504.03
000360 Foreign Language	78.84	100.00	67.34	-	111.50
000365 TRI-M	969.17	730.00	847.70	-	851.47
000370 Youth In Charge	10.00	-	-	(10.00)	-
000380 Technology Club	612.61	3,309.02	3,340.06	-	581.57
000390 Archery	-	92.52	92.52	-	-
000395 FEA	68.62	420.00	478.50	-	10.12
000400 Counselors	4,429.51	1,950.00	2,573.02	(100.00)	3,706.49
000405 Family & Consumer SC	344.72	949.80	952.38	-	342.14

**MEADE COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance July 1, 2012	Receipts	Disbursements	Transfers	Cash Balance June 30, 2013
000410 Library	\$ 1,024.94	\$ 657.60	\$ 1,045.76	\$ -	\$ 636.78
000415 Mathematics	347.60	-	-	-	347.60
000420 Technology Education	66.78	25.00	-	-	91.78
000425 Bookstore	197.85	370.84	264.60	-	304.09
000430 English	0.03	-	-	-	0.03
000435 Art	130.00	82.25	88.50	(123.75)	-
000500 Band	5,984.97	62,436.30	59,447.74	152.50	9,126.03
000505 Chorus	32.44	59,562.12	56,224.45	50.00	3,420.11
000510 Dance	253.18	-	-	-	253.18
000515 Intramural	922.44	545.65	430.00	(225.00)	813.09
000600 Student Government	7,419.20	8,508.00	13,944.48	220.00	2,202.72
000605 Prom	3,889.58	16,080.00	18,865.74	60.00	1,163.84
000705 Majestic Memories	6.14	-	-	(6.14)	-
000800 Newspaper	2,896.19	3,090.00	1,858.91	(338.00)	3,789.28
000805 Yearbook	30,855.61	14,334.25	1,149.14	(1,500.00)	42,540.72
000815 Challenge Day	174.35	-	-	(174.35)	-
000820 Tidal Wave Bank	643.80	913.00	1,556.80	-	-
000825 Greenhouse	1,899.87	552.00	1,799.66	-	652.21
000830 Splash	536.16	983.00	425.75	7.00	1,100.41
000835 Splash Publishing	406.38	218.00	21.38	-	603.00
000840 Credit Retrieval Pro	518.04	-	139.29	-	378.75
000845 Y-Club	566.59	12,143.00	11,849.91	-	859.68
000850 JCC	116.84	130.00	-	-	246.84
000860 FMD	292.74	340.25	275.00	-	357.99
000865 SSS	62.87	-	-	-	62.87
000875 Fine Arts	1,757.00	78.00	359.28	(870.00)	605.72
000880 Wellness Program	1,163.64	25,485.80	25,382.42	-	1,267.02
000885 Family Resources	986.42	6,105.60	305.58	(186.25)	6,600.19
000890 School Nurse	89.52	4,000.00	758.78	-	3,330.74
000895 Special Olympics	128.56	6,206.94	4,377.52	-	1,957.98
000900 Dual Credit	-	6,080.00	6,180.00	100.00	-
Totals	\$ 146,806.39	\$ 617,375.25	\$ 586,169.93	\$ -	\$ 178,011.71

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

There were no prior year audit findings.

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

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
Meade County School District
Brandenburg, Kentucky

Kentucky State Committee for School District Audits
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendices I through IV of the Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Meade County School District (District) as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 24, 2013.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

the results of our tests disclosed no instances of material noncompliance with specific state statutes or regulations identified in *Appendix II of the Independent Auditors' Contract – State Audit Requirements*.

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.

Brown & Company CPA's

Bardstown, Kentucky
September 24, 2013

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education
Meade County School District
Brandenburg, Kentucky

Kentucky State Committee for School District Audits
Frankfort, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might 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.

Brown & Company CPA's

Bardstown, Kentucky
September 24, 2013

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

MANAGEMENT LETTER

Members of the Board of Education
Meade County School District
Brandenburg, Kentucky

Kentucky State Committee for School District Audits
Frankfort, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Meade County School District (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 opinion 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.

Management Letter Comment #1

During the course of our audit, we found that a large number of multiple receipt forms and ticket reconciliation forms from the Meade County High School were not completed correctly. Many of these forms did not contain the mandated signatures required by the Kentucky Department of Education, which resulted in several documentation violations. It is our recommendation that the District re-educate the bookkeeper of the proper procedures required to complete the before mentioned receipt forms. We also recommend that the District perform internal reviews of the receipts and ticket reconciliations to ascertain that the bookkeeper is following the proper procedures throughout the year.

Management Response:

Redbook training was conducted by the District on May 31, 2013 to review compliance requirements with all school bookkeepers and principals. The District finance officer will perform reviews of the high school records throughout the year to insure compliance.

Management Letter Comment #2

During the course of our audit, we found that there were inconsistent procedures applied with regards to the approval, authorization and documentation of the disbursement process performed at the District Central Office. After further investigation, no approval, authorization or documentation violations were cited. However, we feel that as a "Best Practice Method", the District should apply a more consistent procedure to the approval, authorization and documentation of the disbursements.

Management Response:

The District Finance Officer and Treasurer will review procedures followed for approval, authorization and documentation of disbursements by transaction type. Emphasis will be placed on properly documenting the approval process.

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

We will review that status of the comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of the matter or to assist you in implementing the recommendation.

This communication is intended solely for the information and use of management, the Board of Education, the Kentucky Department of Education, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company, CPA's

Bardstown, Kentucky
September 24, 2013

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

LETTER TO THOSE CHARGED WITH GOVERNANCE

Members of the Board of Education
Meade County School District
Brandenburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County School District for the year ended June 30, 2013, and have issued our report thereon dated September 24, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133:

As stated in our engagement letter dated August 19, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Meade County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expression our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Meade County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Meade County School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Meade County School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Meade County School District's compliance with those requirements.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Meade County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012-2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Brown & Company, CPA's

Bardstown, Kentucky
September 24, 2013