

**MARION COUNTY SCHOOL DISTRICT  
AUDIT REPORT  
YEAR ENDED JUNE 30, 2014**

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October 6, 2014

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Marion County School District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion County School District as of June 30, 2014, 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.

## **Change in Accounting Principle**

As described in Note A to the financial statements, in 2014, the Marion County School District adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 4 through 11 and 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2014, on our consideration of Marion County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marion County School District's internal control over financial reporting and compliance.

Sincerely,

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

Certified Public Accountants

**MARION COUNTY PUBLIC SCHOOL DISTRICT – LEBANON, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

Management’s discussion and analysis of the Marion County School District (District) offers readers of the District’s financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2014. We encourage readers to review the information presented here in conjunction with additional information found within the body of these financial statements.

**FINANCIAL HIGHLIGHTS**

- The beginning general fund balance for the District was \$7,123,464. The ending general fund balance was \$7,169,761.
- Total local taxes collected were \$7,772,885 including property, vehicles, and utility taxes. Penalties and interest, omitted property taxes, and revenue in lieu taxes are also included in this amount. \$570,805 of the total local taxes collected was the building fund (5 Cent Levy) required for participation in the School Facilities Construction Commission (SFCC). SFCC funds must be used for projects identified in the District’s Facility Plan.
- The District’s total revenues for the fiscal year ended June 30, 2014 were \$32,399,348. The total cost of all programs and services was \$31,991,714, excluding facilities acquisition and construction costs which were funded with bond proceeds.
- During the fiscal year ended June 30, 2014, Bond Series 2014 was issued with a par value of \$5,645,000 to refund Bond Series 2009, which was issued for the purpose of renovating the Area Technology Center. This defeasance creates a savings to the District of over \$487,000 over the next 16 years, and was possible due to the decline in interest rates.
- In January 2013, the District received notification from the Kentucky School Boards Insurance Trust (KSBIT) Board of Trustees of the disbandment of the Trust for the self insured Workers’ Compensation Pool and the Property and Liability Pool. In addition, the notification also explained that every past or present participating member of KSBIT would be required to pay an assessment to eliminate the \$50 to \$60 million deficit in the Trust. The District’s potential assessment at that time, ranged from \$448,456 to \$569,323, depending on the option chosen by KSBIT to fund the deficit. The Marion County Board of Education committed \$565,782 as of June 30, 2013 and set funds aside for this future liability. In July 2014, an invoice for \$446,938 was received for the assessment, along with payment options. The District chose the 6 year payment option. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation.

**FACILITIES AND CONSTRUCTION HIGHLIGHTS**

- State law requires districts to update a priority list of construction and renovation needs, called a Local Facilities Plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. The district updated its facilities plan during fiscal year 2011. The plan indicated over \$28 million dollars in needs.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 14 - 22 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 39 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$19.5 million as of June 30, 2014.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in

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

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

### Statement of Net Position

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>FY13</u>	<u>FY14</u>	<u>FY13</u>	<u>FY14</u>	<u>FY13</u>	<u>FY14</u>
Current Assets	\$ 9,515,577	\$ 9,593,352	\$ 545,348	\$ 585,472	\$ 10,060,925	\$ 10,178,824
Non-Current Assets	31,623,397	30,208,131	235,650	198,640	31,859,047	30,406,771
Total Assets	41,138,974	39,801,483	780,998	784,112	41,919,972	40,585,595
Deferred Outflows		669,440				669,440
Total Assets and Deferred Outflows	41,138,974	40,470,923	780,998	784,112	41,919,972	41,255,035
Current Liabilities	3,592,347	3,477,727	50,663	63,495	3,643,010	3,541,222
Non-Current Liabilities	19,770,269	18,254,679	-	-	19,770,269	18,254,679
Total Liabilities	23,362,616	21,732,406	50,663	63,495	23,413,279	21,795,901
Net Position:						
Invested in capital (net of debt)	11,138,397	11,108,131	235,650	198,640	11,374,047	11,306,771
Restricted	123,543	405,964	494,685	521,977	618,228	927,941
Unrestricted	6,514,418	7,224,422			6,514,418	7,224,422
Total Net Position	\$ 17,776,358	\$ 18,738,517	\$ 730,335	\$ 720,617	\$ 18,506,693	\$ 19,459,134

### Statement of Net Position

Total net position increased from \$18,506,693 at June 30, 2013 to \$19,459,134 at June 30, 2014. This is an increase of \$952,441. Of that increase, \$962,159 is from government type activities, and business type activities decreased \$9,718. Total assets and deferred outflows decreased from \$41,919,972 at June 30, 2013 to \$41,255,035 at June 30, 2014. The main reasons for the decrease in total assets are due to the fixed assets. The District did not perform any new construction projects during the year, therefore, depreciation expenses exceeded additions. Total liabilities also decreased from \$23,413,279 at June 30, 2013 to \$21,795,901 at June 30, 2014. The decrease in total liabilities is due to a year of bond payments, a decrease in the KSBIT assessment owed by the District and a decrease in accrued sick leave .

## Statement of Activities

Revenues	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>FY13</u>	<u>FY14</u>	<u>FY13</u>	<u>FY14</u>	<u>FY13</u>	<u>FY14</u>
<u>Program Revenues:</u>						
Charges for Services	\$ 77,630	\$ 66,073	\$ 666,783	\$ 644,534	\$ 744,413	\$ 710,607
Operating Grants and Contributions	3,272,413	2,515,043	1,622,272	1,666,253	4,894,685	4,181,296
Capital Grants and Contributions	769,144	981,249			769,144	981,249
<u>General Revenue:</u>						
Property Taxes	5,306,259	5,569,856			5,306,259	5,569,856
Motor Vehicle Taxes	550,667	580,188			550,667	580,188
Utility Taxes	1,391,268	1,524,779			1,391,268	1,524,779
Other Taxes	118,700	98,062			118,700	98,062
State Aid - Formula Grants	18,024,055	18,612,267			18,024,055	18,612,267
Investment Earnings	113,793	54,051	5,975	2,410	119,768	56,461
Miscellaneous Revenues	150,789			39	150,789	39
Indirect Cost Transfer (Expense)	94,359	-	(94,359)	-	-	-
Gain (Loss) on Sale of Capital Assets	5,195	8,053	(1,338)	(1,232)	3,857	6,821
Loss Compensation	4,552	77,723			4,552	77,723
<b>Total Revenues</b>	<b>29,878,824</b>	<b>30,087,344</b>	<b>2,199,333</b>	<b>2,312,004</b>	<b>32,078,157</b>	<b>32,399,348</b>
<u>Expenses</u>						
Instructional	19,557,487	19,912,154			19,557,487	19,912,154
Student Support Services	944,054	979,878			944,054	979,878
Staff Support Services	963,380	853,489			963,380	853,489
District Administration	1,335,811	1,041,801			1,335,811	1,041,801
School Administration	1,320,674	1,347,473			1,320,674	1,347,473
Business Support Services	496,094	509,298			496,094	509,298
Plant Operation & Maintenance	2,215,196	2,344,318			2,215,196	2,344,318
Student Transportation	1,642,435	1,626,882			1,642,435	1,626,882
Food Service	-	-	2,264,897	2,321,722	2,264,897	2,321,722
Community Service Operations	285,695	276,687			285,695	276,687
Facilities Acquisition & Construction	-	13,447			-	13,447
Interest on Long-Term Debt	1,396,758	778,012			1,396,758	778,012
<b>Total Expenses</b>	<b>30,157,584</b>	<b>29,683,439</b>	<b>2,264,897</b>	<b>2,321,722</b>	<b>32,422,481</b>	<b>32,005,161</b>
Change in Net Position	(278,760)	403,905	(65,564)	(9,718)	(344,324)	394,187
Net Position July 1,	18,055,118	18,334,612	795,899	730,335	18,851,017	19,064,947
Net Position June 30,	\$ 17,776,358	\$ 18,738,517	\$ 730,335	\$ 720,617	\$ 18,506,693	\$ 19,459,134

**Governmental Activities**

Total expenses decreased from \$30,157,584 for the year ended June 30, 2013 to \$29,683,439 for fiscal year ended June 30, 2014. This is a decrease of \$474,145 primarily due to a decrease in interest paid on long-term debt. The District has purposefully taken advantage of the favorable market conditions, within the past several years, by refunding higher interest rate debt with lower interest rate debt. Total revenue increased from \$29,878,824 at June 30, 2013 to \$30,087,344 at June 30, 2014. This is a total increase of \$208,520 primarily due to increased revenue from local property taxes. The change in net position for June 30, 2014 was an increase of \$403,905 compared to a decrease of \$278,760 at June 30, 2013. This is an increase of \$682,665. Beginning net position as of July 1, 2014 was restated as explained in Note S.

For the governmental program expenses, instructional expenses comprise 67% of total expenses, support services equate to 30%, and interest and other expenses make up the remaining 3% of the total.

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

	Governmental Activities Total Cost of Services		Governmental Activities Net Cost of Services	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Instructional	\$ 19,557,487	\$ 19,912,154	\$ 16,851,899	\$ 17,703,098
Support Services	8,917,644	8,703,139	8,596,818	8,507,132
Other	285,695	290,134	72,945	(642,306)
Interest Costs	1,396,758	778,012	1,285,879	553,150
Total Expenses	<u>\$ 30,157,584</u>	<u>\$ 29,683,439</u>	<u>\$ 26,807,541</u>	<u>\$ 26,121,074</u>

**BUSINESS-TYPE ACTIVITIES**

The only business type activity at the District is food service. This program had total revenues of \$2,312,004 and expenses of \$2,321,722 for fiscal year 2014. These revenues were made up of \$644,534 charges for services, \$1,666,253 federal and state operating grants, \$2,410 earnings on investments, \$39 miscellaneous revenue, and a \$1,232 loss on disposition of assets. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

**THE SCHOOL DISTRICT’S FUNDS**

The information relative to the School District’s Funds starts on page 16. These funds use the modified accrual basis of accounting to account for each fund’s revenues and expenses. The combined revenues for all governmental funds for 2014 were \$ 30,001,568 and expenditures were \$35,412,357. The most significant change in fund balance was the Other Governmental Fund with an increase in fund balance of \$282,006. This increase was a result of a deliberate effort by the District to build bonding potential by escrowing restricted funds for future construction projects.

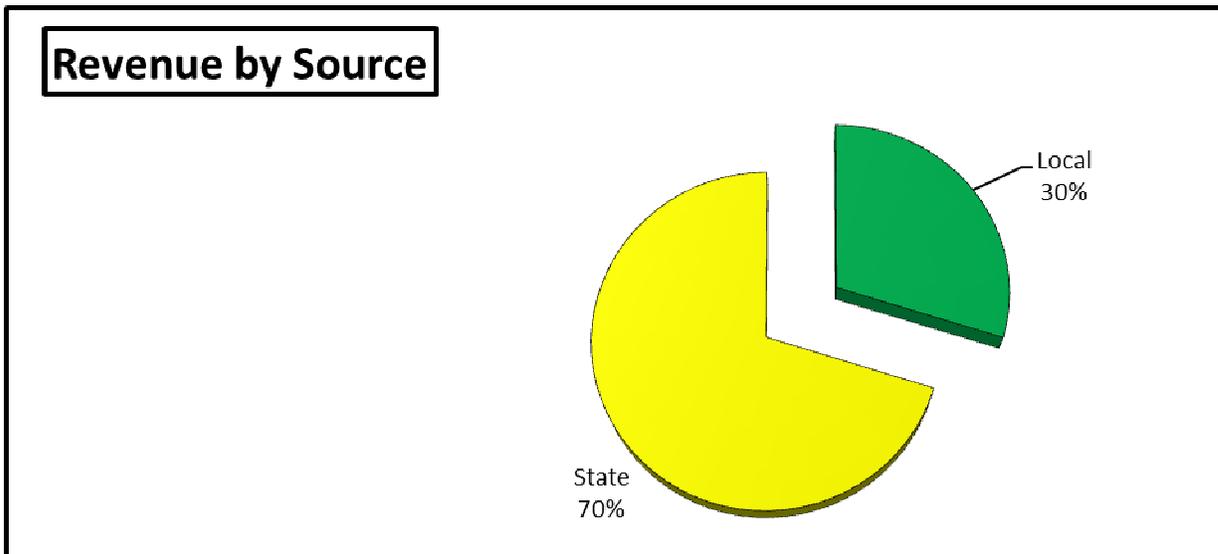
## On-Behalf Payments

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

<b>On-Behalf Distribution 2013-2014</b>	
<b>Health Insurance and/or Flexible Benefits</b>	\$ 2,828,154
<b>Life Insurance</b>	\$ 41,874
<b>Kentucky Teachers Retirement</b>	\$ 1,848,715
<b>Technology</b>	\$ 37,901
<b>Debt Service</b>	\$ 810,284
<b>Total On-Behalf Payments</b>	\$ 5,566,928

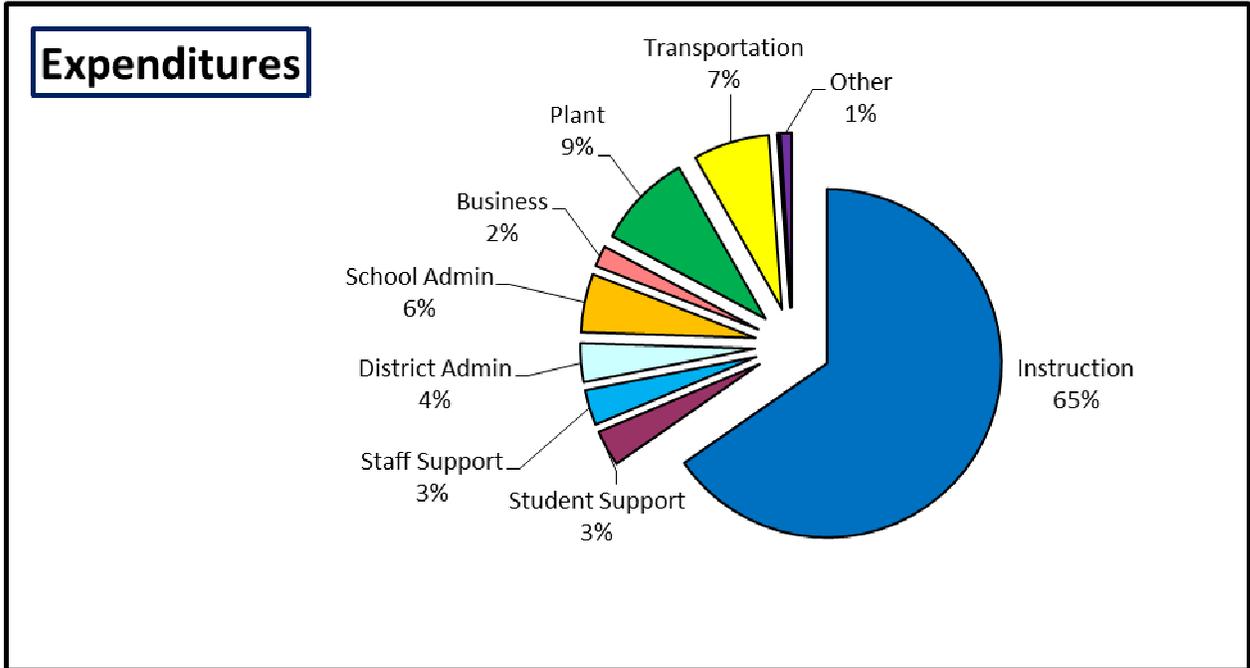
### General Fund Revenue Chart 1.

The majority of general revenue was derived from state funding (70%), with local taxes making up 30% of total general revenue.



## General Fund Expenditures Chart 2.

Approximately 65% of the general fund expenses were spent for instruction. A breakdown of all general fund expenditures is found in the chart below.



### GENERAL FUND BUDGETARY HIGHLIGHTS

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

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$23,312,119 with actual results being \$24,391,009. Budgeted expenditures were \$29,695,314 compared to actual expenditures of \$24,422,435. The most significant variance between budget and actual was the District's contingency account of \$1,886,715 which is required by law to be budgeted, but no actual expenses were incurred.

### FUTURE BUDGETARY IMPLICATIONS

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

Significant Board action that impacts the finances includes the Board's salary schedules which were increased 1% for the 2014-2015 school year, as mandated by The State, for certified and classified employees. In addition, The State has mandated a 2% raise for certified and classified employees for the FY 2016. The State increased the SEEK base from \$3,827 to \$3,911 for the FY 2015. However, due to a decrease in the Exceptional Child pupil count, the District's SEEK funding is expected to decrease by \$111,803 for FY 2015, based on preliminary data.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of the 2014 fiscal year, the District had invested \$30,406,771 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$1,452,276. Depreciation expense for the year was \$1,955,833 and capital additions were \$508,869.

The table below shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2013 and 2014.

	Governmental Activities (Net of Depreciation)		Business – Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	2013	2014	2013	2014	2013	2014
Land	\$ 814,396	\$ 814,396	\$ -	\$ -	\$ 814,396	\$ 814,396
Construction in Progress	-	-	-	-	-	-
Buildings and Improvements	27,933,884	26,667,539	-	-	27,933,884	26,667,539
Technology	1,405,621	1,220,479	1,961	6,098	1,407,582	1,226,577
Vehicles	1,121,448	1,189,621	-	-	1,121,448	1,189,621
General Equipment	348,048	316,096	233,689	192,542	581,737	508,638
<b>Total</b>	<b>\$ 31,623,397</b>	<b>\$ 30,208,131</b>	<b>\$ 235,650</b>	<b>\$ 198,640</b>	<b>\$ 31,859,047</b>	<b>\$ 30,406,771</b>

The table below shows the changes in capital assets for fiscal years ended June 30, 2013 and 2014.

	Governmental Activities		Business – Type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Beginning Balance	\$ 31,978,917	\$ 31,623,397	\$ 226,582	\$ 235,650	\$ 32,205,499	\$ 31,859,047
Additions	1,596,796	503,002	50,960	5,867	1,647,756	508,869
Retirements	(6,788)	(4,079)	(1,338)	(1,232)	(8,126)	(5,311)
Depreciation	(1,945,528)	(1,914,189)	(40,554)	(41,645)	(1,986,082)	(1,955,834)
<b>Ending Balance</b>	<b>\$ 31,623,397</b>	<b>\$ 30,208,131</b>	<b>\$ 235,650</b>	<b>\$ 198,640</b>	<b>\$ 31,859,047</b>	<b>\$ 30,406,771</b>

### Long-Term Debt

At year-end the District had \$19,100,000 in bonds outstanding. Bond issues during the fiscal year ended June 30, 2014 totaled \$5,645,000. Bonded debt principal paid for the year ended June 30, 2014 was \$7,030,000. A total of \$1,200,000 is due within one year.

### Contacting the District's Financial Management

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
Cash & Cash Equivalents - Note C	9,067,801	509,818	9,577,619
Accounts Receivable:			
Taxes - Current	194,583		194,583
Taxes - Delinquent	12,529		12,529
Accounts	24,789		24,789
Intergovernmental - State	26,859		26,859
Intergovernmental - Federal	266,791	41,840	308,631
Inventories for Consumption		33,814	33,814
Total Current Assets	9,593,352	585,472	10,178,824
Noncurrent Assets - Note F			
Land	814,396		814,396
Buildings & Improvements	45,300,424		45,300,424
Furniture & Equipment	8,093,273	793,791	8,887,064
Less: Accumulated Depreciation	(23,999,962)	(595,151)	(24,595,113)
Total Noncurrent Assets	30,208,131	198,640	30,406,771
<b>TOTAL ASSETS</b>	39,801,483	784,112	40,585,595
Deferred Outflows from Advanced Bond Refundings	669,440		669,440
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	40,470,923	784,112	41,255,035
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	321,073	4,519	325,592
Accrued Sick Leave - Note A	133,331		133,331
Accrued Salaries & Benefits	1,321,132	58,976	1,380,108
Advances from Grantors	266,751		266,751
Bond Obligations - Note E	1,200,000		1,200,000
KSBIT Assessment - Note R	134,204		134,204
Accrued Interest Payable	101,236		101,236
Total Current Liabilities	3,477,727	63,495	3,541,222
Noncurrent Liabilities:			
Bond Obligations - Note E	17,900,000		17,900,000
KSBIT Assessment - Note R	312,734		312,734
Accrued Sick Leave - Note A	41,945		41,945
Total Noncurrent Liabilities	18,254,679		18,254,679
<b>TOTAL LIABILITIES</b>	21,732,406	63,495	21,795,901
<b>NET POSITION:</b>			
Net Investment in Capital Assets	11,108,131	198,640	11,306,771
Restricted for:			
Capital Projects	314,162		314,162
School Based Decision Making	24,659		24,659
School Food Service		521,977	521,977
Debt Service	67,143		67,143
Unrestricted	7,224,422		7,224,422
<b>TOTAL NET POSITION</b>	18,738,517	720,617	19,459,134
<b>TOTAL LIABILITIES AND NET POSITION</b>	40,470,923	784,112	41,255,035

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instructional	19,912,154	46,119	2,162,937		(17,703,098)		(17,703,098)
Support Services:							
Student Support Services	979,878		125,752		(854,126)		(854,126)
Staff Support Services	853,489		50,301		(803,188)		(803,188)
District Administration	1,041,801				(1,041,801)		(1,041,801)
School Administration	1,347,473				(1,347,473)		(1,347,473)
Business Support Services	509,298				(509,298)		(509,298)
Plant Operation & Maintenance	2,344,318				(2,344,318)		(2,344,318)
Student Transportation	1,626,882	19,954			(1,606,928)		(1,606,928)
Community Service Operations	276,687		176,053		(100,634)		(100,634)
Facilities Acquisition & Construction	13,447			756,387	742,940		742,940
Interest on Long-Term Debt	778,012			224,862	(553,150)		(553,150)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>29,683,439</b>	<b>66,073</b>	<b>2,515,043</b>	<b>981,249</b>	<b>(26,121,074)</b>		<b>(26,121,074)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Food Service	2,321,722	644,534	1,666,253			(10,935)	(10,935)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>2,321,722</b>	<b>644,534</b>	<b>1,666,253</b>	<b>0</b>	<b>0</b>	<b>(10,935)</b>	<b>(10,935)</b>
<b>TOTAL SCHOOL DISTRICT</b>	<b>32,005,161</b>	<b>710,607</b>	<b>4,181,296</b>	<b>981,249</b>	<b>(26,121,074)</b>	<b>(10,935)</b>	<b>(26,132,009)</b>
<b>GENERAL REVENUES:</b>							
Taxes:							
Property					5,569,856		5,569,856
Motor Vehicle					580,188		580,188
Utility					1,524,779		1,524,779
Other					98,062		98,062
State Aid - Formula Grants					18,612,267		18,612,267
Investment Earnings					54,051	2,410	56,461
Miscellaneous						39	39
<b>SPECIAL ITEMS:</b>							
Gain(Loss) Sale of Assets					8,053	(1,232)	6,821
Loss Compensation					77,723		77,723
<b>TOTAL GENERAL &amp; SPECIAL</b>					<b>26,524,979</b>	<b>1,217</b>	<b>26,526,196</b>
<b>CHANGE IN NET POSITION</b>					<b>403,905</b>	<b>(9,718)</b>	<b>394,187</b>
<b>NET POSITION - BEGINNING OF YEAR, AS RESTATED - NOTE S</b>					<b>18,334,612</b>	<b>730,335</b>	<b>19,064,947</b>
<b>NET POSITION - ENDING</b>					<b>18,738,517</b>	<b>720,617</b>	<b>19,459,134</b>

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

MARION COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>					
Cash & Cash Equivalents	8,424,030	262,466	67,143	314,162	9,067,801
Accounts Receivable:					
Taxes - Current	194,583				194,583
Taxes - Delinquent	12,529				12,529
Accounts	24,789				24,789
Intergovernmental - State		26,859			26,859
Intergovernmental - Federal		266,791			266,791
<b>TOTAL ASSETS</b>	<u>8,655,931</u>	<u>556,116</u>	<u>67,143</u>	<u>314,162</u>	<u>9,593,352</u>
<b>LIABILITIES AND FUND BALANCE:</b>					
Liabilities:					
Accounts Payable	167,980	147,452			315,432
Accrued Salaries & Sick Leave	1,312,550	141,913			1,454,463
Due to Student Groups	5,641				5,641
Deferred Revenues		266,751			266,751
<b>Total Liabilities</b>	<u>1,486,171</u>	<u>556,116</u>	<u>0</u>	<u>0</u>	<u>2,042,287</u>
Fund Balance:					
Restricted for:					
Capital Projects				20,293	20,293
Debt Service			67,143		67,143
Sick Leave	41,945				41,945
SFCC Escrow				293,869	293,869
Committed for:					
KSBIT Assessment - Note R	565,782				565,782
Assigned for:					
Site Based Carryforward	24,659				24,659
Unassigned Fund Balance	6,537,374				6,537,374
<b>Total Fund Balance</b>	<u>7,169,760</u>	<u>0</u>	<u>67,143</u>	<u>314,162</u>	<u>7,551,065</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>8,655,931</u>	<u>556,116</u>	<u>67,143</u>	<u>314,162</u>	<u>9,593,352</u>

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

MARION COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

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

TOTAL GOVERNMENTAL FUND BALANCE		7,551,065
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	54,208,093	
Accumulated Depreciation	<u>(23,999,962)</u>	30,208,131
Deferred Outflows on Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		
		669,440
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
KSBIT Assessment	(446,938)	
Bonds Payable	(19,100,000)	
Accrued Interest on Bonds	(101,236)	
Accrued Sick Leave	<u>(41,945)</u>	<u>(19,690,119)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>18,738,517</u></u>

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL	SPECIAL REVENUE	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>					
Taxes:					
Property	4,999,051			570,805	5,569,856
Motor Vehicle	580,188				580,188
Utility	1,524,779				1,524,779
Other	98,062				98,062
Earnings on Investments	53,491	468		92	54,051
Intergovernmental - State	16,940,808	974,487	810,284	756,387	19,481,966
Intergovernmental - Federal	103,435	2,345,599	111,550		2,560,584
Other Sources	77,452	54,630			132,082
<b>TOTAL REVENUES</b>	<b>24,377,266</b>	<b>3,375,184</b>	<b>921,834</b>	<b>1,327,284</b>	<b>30,001,568</b>
<b>EXPENDITURES:</b>					
Instructional	15,947,481	2,939,072			18,886,553
Support Services:					
Student Support Services	814,770	165,533			980,303
Staff Support Services	801,862	53,970			855,832
District Administration	878,361				878,361
School Administration	1,326,006				1,326,006
Business Support Services	473,486		48,080		521,566
Plant Operation & Maintenance	2,163,289				2,163,289
Student Transportation	1,723,988				1,723,988
Community Service Operations	28,498	252,313			280,811
Adult Education Operations					
Facilities Acquisition & Construction	9,817			11,955	21,772
Debt Service:					
Principal			7,030,000		7,030,000
Interest			743,876		743,876
<b>TOTAL EXPENDITURES</b>	<b>24,167,558</b>	<b>3,410,888</b>	<b>7,821,956</b>	<b>11,955</b>	<b>35,412,357</b>
<b>EXCESS(DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>209,708</b>	<b>(35,704)</b>	<b>(6,900,122)</b>	<b>1,315,329</b>	<b>(5,410,789)</b>
<b>OTHER FINANCING SOURCES(USES):</b>					
Proceeds from Sale of Bonds			5,645,000		5,645,000
Proceeds from Bond Premium			11,700		11,700
Loss Compensation	77,723				77,723
Proceeds from Sale of Assets	12,132				12,132
Operating Transfers In - Note N	1,611	165,227	1,250,885		1,417,723
Operating Transfers Out - Note N	(254,877)	(129,523)		(1,033,323)	(1,417,723)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>(163,411)</b>	<b>35,704</b>	<b>6,907,585</b>	<b>(1,033,323)</b>	<b>5,746,555</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>46,297</b>	<b>0</b>	<b>7,463</b>	<b>282,006</b>	<b>335,766</b>
<b>FUND BALANCES - BEGINNING</b>	<b>7,123,464</b>	<b>0</b>	<b>59,680</b>	<b>32,156</b>	<b>7,215,300</b>
<b>FUND BALANCES - ENDING</b>	<b>7,169,761</b>	<b>0</b>	<b>67,143</b>	<b>314,162</b>	<b>7,551,066</b>

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

MARION COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

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

NET CHANGES - GOVERNMENTAL FUNDS		335,766
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,914,189)	
Capital Outlays	503,002	(1,411,187)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid	7,030,000	
Bond Proceeds	(5,645,000)	
Deferred Outflows on Advanced Bond Refunding	32,100	1,417,100
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Deferred Outflows on Advanced Bond Refundings	(93,652)	
Accrued Interest Payable	27,415	
Accrued Sick Leave	132,542	66,305
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.</p>		
Loss- Sale of Assets		(4,079)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		403,905

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

ENTERPRISE FUND

FOOD  
SERVICE

ASSETS:

Current Assets:	
Cash & Cash Equivalents	509,818
Investments	
Accounts Receivable	41,840
Inventories for Consumption	<u>33,814</u>
Total Current Assets	<u>585,472</u>
Noncurrent Assets:	
Furniture & Equipment	793,791
Less: Accumulated Depreciation	<u>(595,151)</u>
Total Noncurrent Assets	<u>198,640</u>
TOTAL ASSETS	<u><u>784,112</u></u>

LIABILITIES:

Current Liabilities:	
Account Payable	4,519
Accrued Salaries & Benefits	58,976
Accrued Sick Leave	
Total Current Liabilities	<u>63,495</u>
Net Position:	
Net Investment in Capital Assets	198,640
Restricted	<u>521,977</u>
Total Net Position	<u><u>720,617</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>784,112</u></u>

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>ENTERPRISE FUND</u>
	<u>FOOD SERVICE</u>
OPERATING REVENUES:	
Lunchroom Sales	644,534
Other Operating Revenues	39
TOTAL OPERATING REVENUES	<u>644,573</u>
OPERATING EXPENSES:	
Salaries & Benefits	1,165,710
Contract Services	52,140
Materials & Supplies	1,053,889
Depreciation - Note F	41,644
Other Operating Expenses	8,339
TOTAL OPERATING EXPENSES	<u>2,321,722</u>
OPERATING INCOME(LOSS)	(1,677,149)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	1,293,580
State Grants	251,578
Donated Commodities	121,095
Interest Income	2,410
Gain (Loss) on Sale of Assets	(1,232)
TOTAL NONOPERATING REVENUE	<u>1,667,431</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(9,718)
CAPITAL CONTRIBUTIONS	<u>0</u>
CHANGE IN NET POSITION	(9,718)
TOTAL NET POSITION - BEGINNING	<u>730,335</u>
TOTAL NET POSITION - ENDING	<u><u>720,617</u></u>

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from:	
Lunchroom Sales	644,534
Other Activities	39
Cash Paid to/for:	
Employees	(925,737)
Supplies	(948,913)
Other Activities	(60,479)
	<hr/>
Net Cash Used by Operating Activities	(1,290,556)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Federal Grants	1,386,960
State Grants	20,904
	<hr/>
Net Cash Provided by Non-Capital and Related Financing Activities	1,407,864
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of Capital Assets	(5,867)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest Income	2,410
	<hr/>
Net Increase in Cash and Cash Equivalents	113,851
Balances, Beginning of Year	395,967
	<hr/>
Balances, End of Year	509,818
	<hr/> <hr/>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Loss	(1,677,149)
Adjustments to Reconcile Operating Loss to Net Cash (Used) by Operating Activities	
Depreciation	41,644
State On-Behalf Payments	230,675
Donated Commodities	121,095
Change in Assets and Liabilities:	
Inventory	(19,653)
Accrued Salaries & Benefits	9,298
Accounts Payable	3,534
	<hr/>
Net Cash Used by Operating Activities	(1,290,556)
	<hr/> <hr/>
Schedule of Non-Cash Transactions:	
Donated Commodities	121,095
State On-Behalf Payments	230,675

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUND</u>
ASSETS:		
Cash and Cash Equivalents	7,702	211,276
Accounts Receivable		5,641
Investments - Note D	<u>146,628</u>	
TOTAL ASSETS	<u>154,330</u>	<u>216,917</u>
LIABILITIES:		
Due to Student Groups		<u>216,917</u>
TOTAL LIABILITIES	<u>0</u>	<u>216,917</u>
NET POSITION HELD IN TRUST	<u><u>154,330</u></u>	<u><u>0</u></u>

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Net Interest and Investment Gains(Losses)	14,114
Scholarship Funds Contributed	
DEDUCTIONS:	
Broker Fees	1,875
Benefits Paid	<u>4,000</u>
Changes in Net Position	8,239
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>146,091</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>154,330</u></u>

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

MARION COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

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

Reporting Entity

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

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

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

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

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

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

### I. Governmental Fund Types

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

### Basis of Accounting

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

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

### Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.537 per \$100 valuation for real property, \$0.537 per \$100 valuation for business personal property, and \$0.526 per \$100 valuation for motor vehicles.

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

### Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Budgetary Process

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

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

### Cash and Cash Equivalents

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

### Inventories

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

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

The food service fund uses the specific identification method.

### Investments

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balance

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	\$565,782	Kentucky School Boards Insurance Trust (KSBIT) Assessment

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

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

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

Net Position

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

Operating Revenues and Expenses

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

Contributions of Capital

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Interfund Activity

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

### Changes in Accounting Principle

Effective for the fiscal year ending June 30, 2014, the Board adopted GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989, FASB and AICPA Pronouncements*, which codifies all applicable GASB, Financial Accounting Standards Board (“FASB”), and Accounting Principles Board opinions dated according to the title of the statement. Additionally, for fiscal year ending June 30, 2014, the Board has implemented GASB Statement 65 *Items Previously Reported as Assets and Liabilities* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note S for the impact of the adoption of this standard on beginning net position.

### **NOTE B – ESTIMATES**

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

### **NOTE C – CASH AND CASH EQUIVALENTS**

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

At year-end, the carrying amount of the District’s total cash and cash equivalents were \$9,796,597. Of the total cash balance, \$342,127 was covered by Federal Depository Insurance and \$9,454,470 was covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name.

Cash and cash equivalents at June 30, 2014, consisted of the following:

	<b>Bank Balance</b>	<b>Book Balance</b>
Citizens National Bank	10,616,670	9,577,619
Farmers Bank (Agency Funds)	59,789	59,553
Citizens National Bank (Agency)	131,315	128,221
U.S. Bank (Agency)	24,636	23,502
Paine Webber	<u>7,702</u>	<u>7,702</u>
	<u>10,840,112</u>	<u>9,796,597</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Breakdown per financial statements:

Governmental Funds	9,067,801
Proprietary Funds	509,818
Private Purpose Trust Funds	7,702
Agency Funds	<u>211,276</u>
	<u>9,796,597</u>

**NOTE D – INVESTMENTS**

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

The following is a comparison of the cost and fair value of investments held in trust at June 30, 2014:

	<b>Cost</b>	<b>Fair Value</b>
Private Purpose Trust Funds		
Money Market	7,702	7,702
Mutual Funds	<u>108,650</u>	<u>146,628</u>
	<u>116,352</u>	<u>154,330</u>

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE E – BONDED DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make bond payments relating to the bonds issued by the Marion County School District Finance Corporation aggregating \$21,595,000.

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

2005 Unrefunded	785,000	3.60% - 3.80%
2005 Series B	2,455,000	3.96% - 3.970%
2006	675,000	3.85% - 3.860%
2009	3,045,000	3.00% - 3.375%
2012	3,210,000	1.25% - 2.125%
2012 Series B	1,030,000	1.70% - 3.25%
2012 Series C	4,750,000	1.00% - 2.375%
2014	5,645,000	1.00% - 3.50%

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

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

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2014, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2014-15	1,200,000	502,130	483,942	1,218,188
2015-16	1,225,000	485,901	483,172	1,227,729
2016-17	1,165,000	449,526	482,405	1,132,122
2017-18	1,200,000	414,676	481,640	1,133,036
2018-19	1,200,000	369,204	443,573	1,125,630
2019-20	1,215,000	331,036	414,136	1,131,900
2020-21	1,165,000	306,971	345,083	1,126,888
2021-22	1,190,000	283,409	344,232	1,129,177
2022-23	1,215,000	258,649	343,382	1,130,267
2023-24	1,220,000	222,700	287,925	1,154,775
2024-25	1,255,000	194,087	291,426	1,157,662
2025-26	1,255,000	164,213	264,982	1,154,231
2026-27	1,075,000	132,769	186,940	1,020,828
2027-28	1,100,000	99,491	185,291	1,014,200
2028-29	1,140,000	63,825	188,503	1,015,322
2029-30	1,150,000	25,250	154,130	1,021,120
2030-31	65,000	4,225	69,225	0
2031-32	65,000	2,113	67,113	0
	<u>19,100,000</u>	<u>4,310,175</u>	<u>5,517,100</u>	<u>17,893,075</u>

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bond Payable	20,485,000	5,645,000	7,030,000	19,100,000	1,200,000
KSBIT Assessment	565,782	0	118,844	446,938	134,204
Accrued Sick Leave	<u>270,540</u>	<u>29,729</u>	<u>124,993</u>	<u>175,276</u>	<u>133,331</u>
Governmental Activities					
Long-Term Liabilities	<u>21,321,322</u>	<u>5,674,729</u>	<u>7,273,837</u>	<u>19,722,214</u>	<u>1,467,535</u>

On March 12, 2014, the District issued \$5,645,000 in Refunding Revenue Bonds with an average interest rate of 2.343 percent to call \$5,575,000 of outstanding 2009 Build America Bonds. The net proceeds of \$5,607,099 (after \$48,080 in bond issuance costs, \$11,700 in bond premium and \$1,521 in excess cash which was deposited in the bond payment fund) were deposited into an escrow account and then used to fully call the 2009 Build America Bonds. The net present value of the savings from the new bond issuance is \$390,569 as described in the bond issuance documents.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE F - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES:</b>				
Non-Depreciable Assets:				
Land	814,396			814,396
Depreciable Assets:				
Buildings & Building Improvements	45,292,099	8,325		45,300,424
Technology Equipment	3,887,023	202,184	251,924	3,837,283
Vehicles	3,594,176	268,710	482,630	3,380,256
General Equipment	906,464	23,783	54,513	875,734
<b>TOTAL AT HISTORICAL COST</b>	<b>54,494,158</b>	<b>503,002</b>	<b>789,067</b>	<b>54,208,093</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Buildings & Building Improvements	17,358,215	1,274,670		18,632,885
Technology Equipment	2,481,402	385,823	250,421	2,616,804
Vehicles	2,472,728	200,537	482,630	2,190,635
General Equipment	558,416	53,159	51,937	559,638
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>22,870,761</b>	<b>1,914,189</b>	<b>784,988</b>	<b>23,999,962</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<b>31,623,397</b>	<b>(1,411,187)</b>	<b>(4,079)</b>	<b>30,208,131</b>
<b>PROPRIETARY ACTIVITIES:</b>				
Depreciable Assets:				
Technology Equipment	4,904	5,867		10,771
General Equipment	791,030		8,010	783,020
<b>TOTALS AT HISTORICAL COST</b>	<b>795,934</b>	<b>5,867</b>	<b>8,010</b>	<b>793,791</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Technology Equipment	2,943	1,730		4,673
General Equipment	557,341	39,914	6,778	590,478
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>560,284</b>	<b>41,644</b>	<b>6,778</b>	<b>595,151</b>
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<b>235,650</b>	<b>(35,777)</b>	<b>(1,232)</b>	<b>198,640</b>
<b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b>				
Instructional				1,335,878
Student Support Services				299
Staff Support Services				2,003
District Administration				168,965
School Administration				23,714
Business Support Services				313
Plant Operation & Maintenance				211,236
Student Transportation				171,604
Community Service Operations				177
<b>TOTAL</b>				<b>1,914,189</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE G – RETIREMENT PLANS

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

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

Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 18.89% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$17,306,208. The payroll for employees covered under KTRS was \$13,818,658 and for CERS was \$3,487,550.

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$1,848,715, \$1,847,264, and \$1,646,786 respectively to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2014, 2013 and 2012 were \$300,570, \$215,913, and \$234,200 respectively which represent those employees covered by federal programs.

The contribution requirements for CERS for the years ended June 30, 2014, 2013 and 2012, were \$839,265, \$865,242, and \$867,164 respectively, which consisted of \$658,021, \$684,998, and \$682,179 from the Board and \$181,244, \$180,244, and \$184,985 respectively from the employees.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	<b>KTRS</b> <b>June 30, 2013</b>	<b>CERS</b> <b>June 30, 2013</b>
Assets available for benefits, at fair value	14,962,758,000	5,637,094,483
Pension benefit obligation	<u>(28,817,232,000)</u>	<u>(9,378,876,114)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(13,854,474,000)</u>	<u>(3,741,781,631)</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013, comprehensive annual financial reports.

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

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

**NOTE H – CONTINGENCIES**

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

**NOTE I – INSURANCE AND RELATED ACTIVITIES**

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE J – RISK MANAGEMENT**

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

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.

During 2013, the Kentucky School Boards Insurance Trust ceased to operate. The District's insurance coverage continued through June 30, 2013. (See also Note R.) However, as of July 1, 2013, the District was required to obtain insurance coverage from a commercial insurance company. Coverage was obtained from Curneal and Hignite Insurance Company.

**NOTE K – DEFICIT OPERATING BALANCES**

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

Special Revenue	35,704
Debt Service	6,900,122
Construction Fund	11,863
School Food Service	9,718

**NOTE L – COBRA**

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

**NOTE M – COMMITMENTS UNDER NONCAPITALIZED LEASES**

During the year ended June 30, 2014, the District paid \$44,508 for rent of office equipment. Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2014, as follows:

Year Ending June 30,	
2015	<u>44,508</u>
Total Minimum Payments	<u>44,508</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**NOTE N – TRANSFER OF FUNDS**

The following transfers were made during the year:

<b>Type</b>	<b>From Fund</b>	<b>To Fund</b>	<b>Purpose</b>	<b>Amount</b>
Matching	General	Special Revenue	Technology Match	45,827
Matching	General	Special Revenue	Grant Match	7,400
Operating	General	Special Revenue	Operations	112,000
Operating	Special Revenue	General Fund	Operations	1,611
Operating	Building Fund	Debt Service	Debt Service	1,033,323
Operating	Special Revenue	Debt Service	Debt Service	127,912
Operating	General	Debt Service	Debt Service	<u>89,650</u>
Total Transferred Funds				<u>1,417,723</u>

**NOTE O – ON-BEHALF PAYMENT**

For the year ended June 30, 2014, \$5,566,928 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology, and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 4,525,969
Food Service Fund	230,675
Debt Service	<u>810,284</u>
Total	<u>\$ 5,566,928</u>

**NOTE P – INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund balances at June 30, 2014.

**NOTE Q – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through October 6, 2014. There are no other material subsequent events to disclose.

## NOTE R – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2014, Marion County School District's assessment is valued at \$446,938. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2015	134,204
2016	82,083
2017	82,083
2018	37,142
2019	37,142
2020	37,142
2021	<u>37,142</u>
Total	<u>446,938</u>

## NOTE S – NET POSITION, AS RESTATED

Governmental Accounting Standards Board Statement 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was decreased \$291,581 to eliminate bond issuance costs, which had been capitalized and amortized on previous statements. Further, beginning net position of the governmental activities increased \$730,991 to capitalize the deferred costs from refunding bonds prior to the fiscal year beginning July 1, 2013.

In addition, beginning net position was restated to correct the Kentucky School Boards Insurance Trust (KSBIT) liability beginning balance. The previous year's balance was recorded based on the best estimate available per KSBIT. The liability decreased by \$118,844; thus, beginning net position increased by \$118,844.

Net Position as of June 30, 2013	\$ 17,776,358
Less: Elimination of bond issuance costs	(291,581)
Add: Deferred outflows from advanced bond refundings	730,991
Add: Decrease in KSBIT assessment	<u>118,844</u>
Beginning Net Position, As Restated	<u>\$ 18,334,612</u>

REQUIRED SUPPLEMENTARY  
INFORMATION

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Taxes	6,422,000	6,422,000	7,202,080	780,080
Other Local Sources	47,000	47,000	89,584	42,584
State Sources	16,391,124	16,391,124	16,940,808	549,684
Federal Sources	110,000	110,000	103,435	(6,565)
Other Sources	341,995	341,995	132,825	(209,170)
<b>TOTAL REVENUES</b>	<b>23,312,119</b>	<b>23,312,119</b>	<b>24,468,732</b>	<b>1,156,613</b>
<b>EXPENDITURES:</b>				
Instructional	17,704,523	17,706,731	15,947,481	1,759,250
Student Support Services	874,245	874,245	814,770	59,475
Staff Support Services	1,033,460	1,033,460	801,862	231,598
District Administration	983,168	983,168	878,361	104,807
School Administration	1,350,742	1,350,742	1,326,006	24,736
Business Support Services	553,058	553,058	473,486	79,572
Plant Operation & Maintenance	2,999,334	2,999,334	2,163,289	836,045
Student Transportation	1,973,734	1,973,734	1,723,988	249,746
Community Service Operations	29,250	29,250	28,498	752
Facility Acquisition & Construction	50,000	50,000	9,817	40,183
Other	2,143,800	2,141,592	254,877	1,886,715
<b>TOTAL EXPENDITURES</b>	<b>29,695,314</b>	<b>29,695,314</b>	<b>24,422,435</b>	<b>5,272,879</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(6,383,195)</b>	<b>(6,383,195)</b>	<b>46,297</b>	<b>6,429,492</b>
<b>FUND BALANCES - BEGINNING</b>	<b>6,383,195</b>	<b>6,383,195</b>	<b>7,123,464</b>	<b>0</b>
<b>FUND BALANCES - ENDING</b>	<b>0</b>	<b>0</b>	<b>7,169,761</b>	<b>6,429,492</b>

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

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes				
Other Local Sources	15,000	14,999	54,630	39,631
State Sources	998,029	1,003,942	974,487	(29,455)
Federal Sources	2,135,175	2,163,377	2,345,599	182,222
Other Sources	54,250	54,250	165,695	111,445
TOTAL REVENUES	<u>3,202,454</u>	<u>3,236,568</u>	<u>3,540,411</u>	<u>303,843</u>
EXPENDITURES:				
Instructional	2,596,426	2,616,741	2,939,072	(322,331)
Student Support Services	130,190	135,407	165,533	(30,126)
Staff Support Services	102,662	102,662	53,970	48,692
District Administration	0	0	0	0
School Administration	0	0	0	0
Business Support Services	0	0	0	0
Plant Operation & Maintenance	0	0	0	0
Student Transportation	0	0	0	0
Central Office	0	0	0	0
Community Service Operations	251,382	252,313	252,313	0
Facility Acquisition & Construction	0	0	0	0
Other	121,794	129,445	129,523	(78)
TOTAL EXPENDITURES	<u>3,202,454</u>	<u>3,236,568</u>	<u>3,540,411</u>	<u>(303,843)</u>
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

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

OTHER SUPPLEMENTARY  
INFORMATION

MARION COUNTY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	CONSTRUCTION FUND	CAPITAL OUTLAY FUND	BUILDING FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	20,293	286,961	6,908	314,162
TOTAL ASSETS	20,293	286,961	6,908	314,162
LIABILITIES AND FUND BALANCES:				
Total Liabilities	0	0	0	0
Fund Balance:				
Restricted for:				
Capital Projects	20,293			20,293
Restricted - SFCC Escrow		286,961	6,908	293,869
Total Fund Balance	20,293	286,961	6,908	314,162
TOTAL LIABILITIES AND FUND BALANCES	20,293	286,961	6,908	314,162

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

MARION COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	CONSTRUCTION FUND	CAPITAL OUTLAY FUND	BUILDING FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes			570,805	570,805
Earnings from Investments	92			92
Intergovernmental - State		286,961	469,426	756,387
TOTAL REVENUES	92	286,961	1,040,231	1,327,284
EXPENDITURES:				
Facilities Acquisition & Construction	11,955			11,955
TOTAL EXPENDITURES	11,955	0	0	11,955
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(11,863)	286,961	1,040,231	1,315,329
OTHER FINANCING SOURCES(USES):				
Operating Transfers Out			(1,033,323)	(1,033,323)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(1,033,323)	(1,033,323)
NET CHANGE IN FUND BALANCES	(11,863)	286,961	6,908	282,006
FUND BALANCES - BEGINNING	32,156	0	0	32,156
FUND BALANCES - ENDING	20,293	286,961	6,908	314,162

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

MARION COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014

	FUND BALANCE JULY 1, 2013	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2014
Marion County High School	95,656	497,673	499,486	93,843
Marion County High School Charitable Gaming	3,394	1,814	4,708	500
St. Charles Middle School	21,240	60,993	56,031	26,202
Lebanon Middle School	26,323	103,896	106,465	23,754
Lebanon Elementary School	11,058	44,850	43,529	12,379
Calvary Elementary School	15,092	35,784	41,278	9,598
Glasscock Elementary School	30,529	55,634	59,024	27,139
West Marion Elementary School	<u>34,388</u>	<u>33,938</u>	<u>44,824</u>	<u>23,502</u>
Total Activity Funds (Due to Student Groups)	<u><u>237,680</u></u>	<u><u>834,582</u></u>	<u><u>855,345</u></u>	<u><u>216,917</u></u>

MARION COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	CASH BALANCE <u>JULY 1, 2013</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	CASH BALANCE <u>JUNE 30, 2014</u>	ACCOUNTS RECEIVABLE <u>JUNE 30, 2014</u>	ACCOUNTS PAYABLE <u>JUNE 30, 2014</u>	FUND BALANCE <u>JUNE 30, 2014</u>
Academic Team	422	98	190	330			330
Advanced Placement (AP)	707	18,606	19,243	70			70
AP Govt	0	396	427	(31)			(31)
AP Psych	0	240	240	0			0
Art Department	1,352	2,130	1,983	1,499			1,499
Athletics	5,816	121,483	110,643	16,656			16,656
Autism Classic	108	0	0	108			108
Band	0	6,246	6,373	(127)			(127)
Baseball	4,187	10,295	15,619	(1,137)			(1,137)
Beta Club	4,683	13,159	11,865	5,977			5,977
Boys Basketball	1,266	11,372	14,966	(2,328)			(2,328)
Boys Soccer	107	541	701	(53)			(53)
Boys Tennis	566	140	215	491			491
Business Ed Dept.	10,930	16,651	35,274	(7,693)			(7,693)
Cheerleaders	3,627	16,302	21,262	(1,333)			(1,333)
Class Dues	3,634	0	0	3,634			3,634
Class of 2014	0	13,166	17,365	(4,199)			(4,199)
Class of 2015	0	23	0	23			23
Class of 2016	0	15	50	(35)			(35)
Class of 2017	0	27	0	27			27
Coaches' Fund	1,861	0	1,602	259			259
Concessions	0	39,348	25,372	13,976			13,976
Cross Country	238	630	828	40			40
Dual Credit	0	0	0	0			0
FBLA	0	56,311	62,926	(6,615)			(6,615)
FCA	31	0	0	31			31
FCCLA	1,841	27,100	23,572	5,369			5,369
FCCLA Culinary Lab	385	3,516	4,378	(477)			(477)
FEA	0	135	322	(187)			(187)
FFA	1,920	20,349	18,577	3,692			3,692
FFA Ag Tour	2,823	0	0	2,823			2,823
FMD	0	1,502	1,725	(223)			(223)
Football	5,004	3,898	17,839	(8,937)			(8,937)
Football Camp	0	3,428	0	3,428			3,428
General	6,070	42,116	29,296	18,890			18,890
Girls Basketball	6	15,534	14,086	1,454			1,454

Girls Soccer	421	3,291	3,278	434		434
Girls Tennis	0	1,701	0	1,701		1,701
G/B Tennis	0	340	3,342	(3,002)		(3,002)
G/B Track	0	588	2,053	(1,465)		(1,465)
Golf	3,505	9,350	7,250	5,605		5,605
Graphic Designs	2,987	2,000	2,184	2,803		2,803
Heather Garrett Scholarship	2,046	0	0	2,046		2,046
HCS Academy	279	105	122	262		262
Library	3,222	1,029	5	4,246		4,246
Life Skills	0	40	0	40		40
Make A Wish Foundation	0	8,632	11,172	(2,540)		
MCHS Jackets	0	3,986	4,125	(139)		(139)
Nancy Colvin Scholarship	2,258	661	1,027	1,892		1,892
National Honor Society	929	660	223	1,366		1,366
Peers Over Pressure	0	800	481	319		319
Pep Club	92	3,870	32	3,930		3,930
Project Lead the Way	274	1,738	1,620	392		392
Pigskin Classic	0	13,868	14,239	(371)		(371)
Pole Vault	100	0	0	100		100
Prom	174	0	0	174		174
ROTC	543	7,839	7,279	1,103		1,103
Special Ed Room	2,866	0	617	2,249		2,249
Softball	670	8,112	3,961	4,821		4,821
Start Up Money	0	9,650	9,650	0		0
Student Council	173	220	95	298		298
Student of the Week	296	641	1,113	(176)		(176)
St Judes Math-a-thon	0	677	677	0		0
Swim Team	1,297	4,477	5,164	610		610
Teachers' Activity Fund	777	1,430	1,604	603		603
Teach Ed. Department	0	570	0	570		570
Threads of Victory	0	5,409	0	5,409		5,409
TSA	0	615	595	20		20
Volleyball	371	20,508	21,235	(356)		(356)
Yearbook Journalism	10,744	9,135	7,855	12,024		12,024
Youth Service Center	4,048	993	1,568	3,473		3,473
Total All Funds	95,656	567,692	569,505	93,843	0	96,383
Interfund Transfers	0	(70,019)	(70,019)	0	0	0
Total	95,656	497,673	499,486	93,843	0	93,843

MARION COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA NUMBER	MUNIS PROJECT NUMBER	EXPENDITURES
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3103	401,491
Title I - Parent Involvement	84.010	3103M	7,804
Title I - Grants to Local Educational Agencies	84.010	3104	618,797
Title I - Parent Involvement	84.010	3104M	1,545
Title I - Educational Recovery Special (MOA)	84.010	3204E	115,080
Title I Cluster			<u>1,144,717</u>
Migrant Summer Program	84.011	3112S	12,779
Migrant Education - State Grant Program	84.011	3113	17,098
Migrant Summer Program	84.011	3113S	5,133
Migrant Education - State Grant Program	84.011	3114	127,940
Migrant Education Cluster			<u>162,950</u>
IDEA - Special Education - Grants to State	84.027	3373	68,337
IDEA - Special Education - Grants to State - Private	84.027	3373P	4,675
IDEA - Special Education - Grants to State	84.027	3374	578,070
IDEA - Special Education - Grants to State - Private	84.027	3374P	18,247
IDEA - Special Education - Private	84.027	3374P	114
IDEA - Special Education - Preschool Grants	84.173	3433	13,309
IDEA - Special Education - Preschool Grants	84.173	3434	49,266
Special Education Cluster			<u>732,018</u> *
Vocational Education - Perkins	84.048	3483A	1,233
Vocational Education - Basic Grants to State	84.048	3484	23,629
Vocational Education - Basic Grants to State	84.048	348A	774
Vocational Education Cluster			<u>25,636</u>
Community Based Work Transition	84.341	3713	5,643
Community Based Work Transition	84.341	3714	27,349
Community Based Work Transition Total			<u>32,992</u>
Adult Ed. - Retention/Recruiting	84.002	3654	5,606
Adult Ed. Basic	84.002A	3733	77
Adult Ed. Basic	84.002A	3374	25,849
Adult Ed. Basic - Professional/ Staff Dev	84.002A	3734S	490
Adult Education Cluster			<u>32,022</u>
Title II - Part A - Teacher Quality Enhancement Grants	84.367	4013	89,155
21st Century Learning Center	84.287	5502	11,150
21st Century Learning Center - Supplemental	84.287	5502J	1,000
21st Century Learning Center	84.287	5503	47,046
21st Century Learning Center - Summer Program	84.287	5503S	5,000
21st Century Learning Center - Supplemental	84.287	5503Z	1,483
21st Century Learning Center Total			<u>65,679</u>
Rural and Low Income Schools	84.358	3502	3,771
Rural and Low Income Schools	84.358	3503	60,874
Rural and Low Income Schools	84.358	3504	1,260
Rural and Low Income Schools Total			<u>65,905</u>
Race to the Top	84.413A	4521	2,524
Total U.S. Department of Education			<u>2,353,598</u>
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-13	210,110
National School Lunchroom	10.555	7750002-14	718,792
School Breakfast Program	10.553	7760005-13	68,306
School Breakfast Program	10.553	7760005-13	237,820
Summer Meal Program	10.559	7740023-13	31,519
Summer Meal Program	10.559	7690024-13	3,344
Child Nutrition Cluster			<u>1,269,891</u> *
Passed-Through State Department of Agriculture			
Commodity Supplemental Food Program	10.565	057502-10	121,104
Total U.S. Department of Agriculture			<u>1,390,995</u>
Total Federal Financial Assistance			<u><u>3,744,593</u></u>

\* Tested as major program

MARION COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

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

MARION COUNTY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2014

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

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs?

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

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	Special Education Cluster
10.555/10.553/10.559	Child Nutrition Cluster

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

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

**Section II – Financial Statement of Findings**

No matters were reported.

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

No matters were reported.

MARION COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2014

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
**219 South Proctor Knott Avenue**  
**Lebanon, Kentucky 40033**  
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October 6, 2014

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Marion County School District's basic financial statements, and have issued our report thereon dated October 6, 2014.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of Marion County School District in a separate letter dated October 6, 2014.

### **Purpose of this Report**

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

Sincerely,

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

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**  
**Certified Public Accountants**  
**219 South Proctor Knott Avenue**  
**Lebanon, Kentucky 40033**  
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Charles M. White, CPA  
Joseph A. Montgomery, CPA  
Stephanie A. Abell, CPA

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October 6, 2014

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

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

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

We have audited the Marion County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Marion County School District's major federal programs for the year ended June 30, 2014. Marion County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

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

In our opinion, Marion County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

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

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

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

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

Sincerely,

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

Certified Public Accountants

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October 6, 2014

**MANAGEMENT LETTER**

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

In planning and performing our audit of the financial statements of Marion County School District for the year ended June 30, 2014, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year Finding:

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

Current Year Finding:

Receipts were deposited in compliance with the Kentucky Department of Education's *Redbook* policies and procedures.

Prior Year Recommendation:

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

Current Year Finding:

While reviewing the activity fund disbursements for Lebanon Elementary School, it was noted that \$5,600 was improperly spent on desks and chairs. Once again we strongly recommend that the expenditure policies and procedures outlined in the *Redbook* be followed.

Management Response:

We will instruct all schools to follow the policies and procedures relative to allowed disbursements as outlined on the *Redbook*.

Current Year Finding:

While reviewing the activity fund cash receipts for Lebanon Elementary School, it was noted that two receipts did not have the required signatures as outlined in *Redbook* policies and procedures.

Management Response

We will instruct all schools to follow the policies and procedures relative to cash receipts as outlined in the *Redbook*.

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

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

Sincerely,

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

Certified Public Accountants

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October 6, 2014

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 19, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Marion County School District are described in Note A to the financial statements. As described in Notes A and S to the financial statements, the Marion County School District changed accounting policies related to deferred outflows and deferred inflows of resources by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

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

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 6, 2014.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

### Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 40 and 41, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide assurance on it.

Restriction on Use

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

Sincerely,

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

Certified Public Accountants