

MAGOFFIN COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015
WITH
REPORT OF INDEPENDENT AUDITORS**

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Statement of Fiduciary Net Position – Fiduciary Funds	18
Notes to the Basic Financial Statements	19

Supplementary Information

Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – General Fund.....44

Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Special Revenue Fund.....45

Notes to Required Supplementary Information – Budget
and Actual – General Fund.....46

Schedule of the District's Proportionate Share of the Net Pension Liability -
County Employees Retirement System.....47

Schedule of District Contributions – County Employees Retirement
System.....48

Schedule of the State's Proportionate Share of the Net Pension Liability -
Kentucky Teachers' Retirement System.....49

Schedule of State Contributions – Kentucky Teachers' Retirement System.....50

Combining Balance Sheet – Nonmajor Governmental Funds.....51

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances – Nonmajor Governmental Funds.....52

Combined Statement of Revenues, Expenditures, and Changes in
Fund Balances – Elementary and Middle School Activity Funds.....53

Statement of Revenues, Expenditures, and Changes in Fund Balances – Magoffin County
High School Activity Fund.....54

Schedule of Expenditures of Federal Awards.....56

Notes to the Schedule of Expenditures of Federal Awards.....58

Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards*.....59

Report on Compliance for Each Major Federal Program; Report on
Internal Control Over Compliance; And Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133.....61

Schedule of Findings and Questioned Costs – Major Programs.....64

Schedule of Prior Year Audit Findings.....67

Independent Auditors' Transmittal Letter for
Management Letter Comments.....69

Management Letter Comments.....70



Cloyd & Associates, PSC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Magoffin County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Cloyd & Associates, PSC
Certified Public Accountants

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Magoffin County School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 20 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective, July 1, 2014. 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 and the Schedules of District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions per the table of contents 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 Magoffin County School District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Cloyd & Associates, PSC
Certified Public Accountants

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 20, 2015, on our consideration of Magoffin County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Magoffin County School District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 20, 2015

MAGOFFIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2015

The management of Magoffin County School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2015. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including activity funds, for the District was \$15,753,968. The ending cash balance, including activity funds, for the District was \$19,117,497.
- Excluding interfund transfers, the General Fund had \$16,406,225 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding interfund transfers, there were \$19,721,392 in General Fund expenditures. This includes on-behalf payments.
- The Board approved the compensating tax rate of 47.70 cents per \$100 of value for Real Estate and 47.70 cents per \$100 of value for Tangible Property. The Board also approved a 6.8 cent recallable nickel. The Motor Vehicle tax rate was set at 57.60 cents per \$100 of value.
- The Board approved a \$19,592,614 working budget for the General Fund for the 2014-15 fiscal year. The budget included \$1,073,264 (5.48%) for contingencies.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are primarily 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 asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on the table of contents of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There 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, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents 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 financial statements can be found on pages 9 to 18 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District used 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.

MAGOFFIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
Year Ended June 30, 2015

Net Position for the period ending June 30, 2015

Fiscal year 2015 government-wide net position compared to 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 20,032,368	\$ 16,864,488
Capital assets	54,924,850	52,309,203
Total assets	<u>\$ 74,957,218</u>	<u>\$ 69,173,691</u>
Deferred outflow of resources	<u>\$ 1,071,135</u>	<u>\$ 104,451</u>
Current liabilities	\$ 4,557,909	\$ 3,689,683
Noncurrent liabilities	45,075,668	23,645,915
Total liabilities	<u>\$ 49,633,577</u>	<u>\$ 27,335,598</u>
Deferred inflow of resources	<u>\$ 483,000</u>	<u>\$ -</u>
Net investment in capital assets, net of debt	\$ 13,822,731	\$ 27,271,214
Restricted net position	13,832,397	12,638,598
Unrestricted net position	(1,743,352)	2,032,732
Total net position	<u>\$ 25,911,776</u>	<u>\$ 41,942,544</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$25,892,936; proprietary assets exceeded liabilities by \$18,840 and total assets exceeded liabilities by \$25,911,776 at June 30, 2015.

The District had an overall decrease in unrestricted net position of \$477,728, comprised of a decrease in governmental activities unrestricted net position of \$477,728.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2015 and 2014.

See table on next page

MAGOFFIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>
Revenues and other financing sources		
Local revenue sources	\$ 2,861,280	\$ 2,777,476
State revenue sources	17,673,135	17,173,256
Federal revenue	<u>3,481,043</u>	<u>3,421,426</u>
Total revenue	<u>\$ 24,015,458</u>	<u>\$ 23,372,158</u>
Expenditures and other financing uses		
Instruction	\$ 12,017,848	\$ 12,124,667
Student support services	1,207,623	1,114,057
Instructional support	1,254,610	1,199,065
District administration	874,521	776,420
School administration	1,332,133	1,293,634
Business operations	3,445,279	436,831
Plant operation and maintenance	1,635,037	1,526,844
Student transportation	1,828,367	1,981,380
Community services	425,370	441,040
Debt service	2,477,570	2,510,665
Building acquisition and construction	<u>16,415,969</u>	<u>7,114,507</u>
Total expenditures	<u>\$ 42,914,327</u>	<u>\$ 30,519,110</u>
Excess revenues (expenditures)	<u>\$ (18,898,869)</u>	<u>\$ (7,146,952)</u>
Other financing sources (uses)		
Capital lease proceeds	\$ -	\$ 337,452
Proceeds from sale of assets	3,018,748	16,793,428
Proceeds from bonds	25,835,000	
Deposits with escrow agents	(8,117,089)	
Debt issuance cost	(67,911)	
Transfers in	1,525,747	914,192
Transfers out	<u>(932,721)</u>	<u>(914,192)</u>
Total other financing sources (uses)	<u>\$ 21,261,774</u>	<u>\$ 17,130,880</u>
Net change in fund balance	<u>\$ 2,362,905</u>	<u>\$ 9,983,928</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

BUDGETARY IMPLICATION

In Kentucky the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$1,073,264 in contingency.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2015 were \$16,406,225 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$309,745 more than budget or 1.92% more than budget.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2015 was \$19,721,392.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$509,801 more than budget or 2.65% less than budget.

Contacting the District's Financial Management

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

Questions regarding this report should be directed to the Superintendent at 606-349-6117 or by mail at P.O. Box 109 Salyersville, KY 41465.

MAGOFFIN COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 18,419,348	\$ 597,197	\$ 19,016,545
Accounts receivable:			
Taxes	143,565	-	143,565
Other	7,270	739	8,009
Intergovernmental - State	23,087	-	23,087
Intergovernmental - Federal	818,230	9,203	827,433
Inventory	-	13,729	13,729
Capital Assets, net			
Nondepreciable	21,935,649	-	21,935,649
Depreciable	<u>32,988,888</u>	<u>313</u>	<u>32,989,201</u>
Total assets	<u>74,336,037</u>	<u>621,181</u>	<u>74,957,218</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred amounts from refunding bonds	488,808	-	488,808
Deferred pension contributions	<u>489,915</u>	<u>92,412</u>	<u>582,327</u>
	<u>978,723</u>	<u>92,412</u>	<u>1,071,135</u>
LIABILITIES			
Accounts payable	2,215,891	2,881	2,218,772
Accrued expense	3,257	-	3,257
Unearned revenue	34,164	-	34,164
Current portion of KSBIT assessment payable	30,338	-	30,338
Current portion of capital lease obligations	37,262	-	37,262
Current maturities of bond obligations	1,760,000	-	1,760,000
Interest payable	474,116	-	474,116
Net pension liability noncurrent	3,702,632	622,368	4,325,000
Noncurrent portion of KSBIT assessment payable	726,520	-	726,520
Noncurrent portion of capital lease obligations	263,665	-	263,665
Noncurrent maturities of bond obligations	39,530,000	-	39,530,000
Noncurrent portion of accumulated sick leave	<u>230,483</u>	<u>-</u>	<u>230,483</u>
Total liabilities	<u>49,008,328</u>	<u>625,249</u>	<u>49,633,577</u>
DEFERRED INFLOW OF RESOURCES			
Deferred amounts from pension	<u>413,496</u>	<u>69,504</u>	<u>483,000</u>
NET POSITION			
Net investment in capital assets	13,822,418	313	13,822,731
Restricted for:			
Capital expenditures	13,754,049	-	13,754,049
Other	59,821	18,527	78,348
Unrestricted	<u>(1,743,352)</u>	<u>-</u>	<u>(1,743,352)</u>
Total net position	<u>\$ 25,892,936</u>	<u>\$ 18,840</u>	<u>\$ 25,911,776</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	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
FUNCTIONS/PROGRAMS							
Governmental activities							
Instruction	\$ 14,173,879	\$ 203,055	\$ 6,445,492	\$ -	\$ (7,525,332)	\$ -	\$ (7,525,332)
Student	1,401,153	-	466,503	-	(934,650)	-	(934,650)
Instructional support	1,461,989	-	719,759	-	(742,230)	-	(742,230)
District administration	1,033,215	-	78,030	-	(955,185)	-	(955,185)
School administration	1,532,727	-	490,375	-	(1,042,352)	-	(1,042,352)
Business support	475,292	-	185,025	-	(290,267)	-	(290,267)
Plant operations and maintenance	1,756,600	-	615,527	-	(1,141,073)	-	(1,141,073)
Student transportation	2,184,358	-	424,025	-	(1,760,333)	-	(1,760,333)
Community services	428,894	-	8,564	-	(420,330)	-	(420,330)
Building improvements	477,641	-	-	-	(477,641)	-	(477,641)
Other facilities expense New Market Tax Credit	14,954,812	-	-	-	(14,954,812)	-	(14,954,812)
Interest on long-term debt	1,261,803	-	-	1,546,198	284,395	-	284,395
Total governmental activities	41,142,363	203,055	9,433,300	1,546,198	(29,959,810)	-	(29,959,810)
Business-type activities							
Food service	1,566,613	80,665	1,767,683	-	-	281,735	281,735
Other enterprise funds	2,228	-	-	-	-	(2,228)	(2,228)
Total business-type activities	1,568,841	80,665	1,767,683	-	-	279,507	279,507
Total primary government	\$ 42,711,204	\$ 283,720	\$ 11,200,983	\$ 1,546,198	(29,959,810)	279,507	(29,680,303)
General revenues							
Taxes:							
Property					1,458,288	-	1,458,288
Motor vehicle					420,368	-	420,368
Utility					688,045	-	688,045
Other					41,900	-	41,900
Earnings on investments					5,155	919	6,074
State grants					12,143,696	-	12,143,696
Other local amounts					188,665	-	188,665
Loss compensation and other					3,018,748	-	3,018,748
Transfers in/(out)					593,026	(593,026)	-
Total general revenues					18,557,891	(592,107)	17,965,784
Change in net position					(11,401,919)	(312,600)	(11,714,519)
Net position June 30, 2014, restated					37,294,855	331,440	37,626,295
Net position as of June 30, 2015					\$ 25,892,936	\$ 18,840	\$ 25,911,776

The accompanying notes are an integral part of these financial statements

MAGOFFIN COUNTY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,674,052	\$ -	\$ 15,691,170	\$ 598,821	\$ 18,964,043
Due from special revenue fund	28,495	-	-	-	28,495
Accounts receivable:					
Taxes	143,565	-	-	-	143,565
Other	7,270	-	-	-	7,270
Intergovernmental - State	-	23,087	-	-	23,087
Intergovernmental - Federal	-	620,850	197,380	-	818,230
Total assets	<u>\$ 2,853,382</u>	<u>\$ 643,937</u>	<u>\$ 15,888,550</u>	<u>\$ 598,821</u>	<u>\$ 19,984,690</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Checks written in excess of account balance	\$ -	\$ 544,695	\$ -	\$ -	\$ 544,695
Due to general fund	-	28,495	-	-	28,495
Accounts payable	44,807	36,583	2,134,501	-	2,215,891
Accrued expense	3,257	-	-	-	3,257
Unearned revenue	-	34,164	-	-	34,164
Total liabilities	<u>48,064</u>	<u>643,937</u>	<u>2,134,501</u>	<u>-</u>	<u>2,826,502</u>
Fund balances					
Restricted	38,640	-	13,754,049	598,821	14,391,510
Committed	-	-	-	-	-
Assigned	150	-	-	-	150
Unassigned	2,766,528	-	-	-	2,766,528
Total fund balances	<u>2,805,318</u>	<u>-</u>	<u>13,754,049</u>	<u>598,821</u>	<u>17,158,188</u>
Total liabilities and fund balances	<u>\$ 2,853,382</u>	<u>\$ 643,937</u>	<u>\$ 15,888,550</u>	<u>\$ 598,821</u>	<u>\$ 19,984,690</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

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

June 30, 2015

Total fund balances - governmental funds \$ 17,158,188

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. 54,924,537

Deferred outflows of resources are not recorded in the government fund financials because they do not affect current resources but are recorded in the statement of net position 978,723

Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position. (41,290,000)

Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position. (300,927)

The long term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. (230,483)

KSBIT assessment payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position (756,858)

Net pension obligation is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position (3,702,632)

Deferred outflows of resources are not recorded in the government fund financials because they do not affect current resources but are recorded in the statement of net position (413,496)

Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. (474,116)

Total net position - governmental activities \$ 25,892,936

MAGOFFIN COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2015**

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes					
Property	\$ 1,039,671	\$ -	\$ -	\$ 418,617	\$ 1,458,288
Motor vehicle	420,368	-	-	-	420,368
Utility	688,045	-	-	-	688,045
Other	41,900	-	-	-	41,900
Earnings from investments	5,155	-	-	-	5,155
Other local	91,289	58,859	97,376	-	247,524
Intergovernmental - State	13,916,742	961,200	-	2,356,484	17,234,426
Intergovernmental - Federal	203,055	3,277,988	438,709	-	3,919,752
Total revenues	16,406,225	4,298,047	536,085	2,775,101	24,015,458
Expenditures					
Current:					
Instruction	8,685,955	3,331,893	-	-	12,017,848
Student	1,134,964	72,659	-	-	1,207,623
Instructional support	817,298	437,312	-	-	1,254,610
District administration	874,521	-	-	-	874,521
School administration	1,313,014	19,119	-	-	1,332,133
Business support	3,357,243	88,036	-	-	3,445,279
Plant operations and maintenance	1,635,037	-	-	-	1,635,037
Student transportation	1,828,367	-	-	-	1,828,367
Community services	31,059	394,311	-	-	425,370
Building acquisition and construction	-	-	16,415,969	-	16,415,969
Debt service	43,934	-	-	2,433,636	2,477,570
Total expenditures	19,721,392	4,343,330	16,415,969	2,433,636	42,914,327
Excess (deficit) of revenues over (under) expenditures	(3,315,167)	(45,283)	(15,879,884)	341,465	(18,898,869)
Other financing sources (uses)					
Proceeds from conversion of fixed assets	3,018,748	-	-	-	3,018,748
Proceeds from bonds	-	-	17,650,000	8,185,000	25,835,000
Deposits with escrow agents	-	-	-	(8,117,089)	(8,117,089)
Debt issuance cost	-	-	-	(67,911)	(67,911)
Transfers in	-	45,283	593,026	887,438	1,525,747
Transfers out	(45,283)	-	-	(887,438)	(932,721)
Total other financing sources (uses)	2,973,465	45,283	18,243,026	-	21,261,774
Net change in fund balance	(341,702)	-	2,363,142	341,465	2,362,905
Fund balance as of June 30, 2014	3,147,020	-	11,390,907	257,356	14,795,283
Fund balance as of June 30, 2015	\$ 2,805,318	\$ -	\$ 13,754,049	\$ 598,821	\$ 17,158,188

MAGOFFIN COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2015

Net change in total fund balances - governmental funds	\$ 2,362,905
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year.	2,615,977
Amortization of deferred outflows or resources is not recognized in the governmental fund financial statements but is a component of interest in the statement of activities.	384,357
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position.	1,496,525
Bond and capital lease proceeds are recognized as revenue in the governmental fund financial statements but are increases in liabilities in the statement of net position.	(18,167,676)
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities.	(147,439)
Calculated pension expense is not recognized on the governmental fund financial statements but is recognized as an expense on the statement of activities	(420,988)
Current year pension contributions are recognized as expense in the fund statements but are deferred in the statement of net position.	489,915
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>(15,495)</u>
Change in net position - governmental activities	<u>\$ (11,401,919)</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION -
 PROPRIETARY FUNDS
 June 30, 2015

	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 594,494	\$ 2,703	\$ 597,197
Accounts receivable			
Local	739	-	739
Federal	9,203	-	9,203
Inventory	13,729	-	13,729
Total current assets	<u>618,165</u>	<u>2,703</u>	<u>620,868</u>
Noncurrent assets			
Capital assets	431,017	-	431,017
Less accumulated depreciation	<u>(430,704)</u>	<u>-</u>	<u>(430,704)</u>
Total noncurrent assets	<u>313</u>	<u>-</u>	<u>313</u>
Total assets	<u>618,478</u>	<u>2,703</u>	<u>621,181</u>
Deferred outflows			
Deferred outflows of contributions	<u>92,412</u>	<u>-</u>	<u>92,412</u>
LIABILITIES			
Current liabilities			
Accounts payable	2,881	-	2,881
Noncurrent liabilities			
Net pension liability	<u>622,368</u>	<u>-</u>	<u>622,368</u>
Total liabilities	<u>625,249</u>	<u>-</u>	<u>625,249</u>
Deferred outflows			
Deferred inflows related to pension expense	<u>69,504</u>	<u>-</u>	<u>69,504</u>
NET POSITION			
Net investment in capital assets	313	-	313
Restricted for:			
Other	<u>15,824</u>	<u>2,703</u>	<u>18,527</u>
Total net position	<u>\$ 16,137</u>	<u>\$ 2,703</u>	<u>\$ 18,840</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
 PROPRIETARY FUNDS
 Year ended June 30, 2015

	Food Service Fund	Other Enterprise Funds	Total
Operating revenues			
Lunchroom sales	\$ 80,665	\$ -	\$ 80,665
Total operating revenues	<u>80,665</u>	<u>-</u>	<u>80,665</u>
Operating expenses			
Salaries and wages	492,270	-	492,270
Employee benefits	261,563	-	261,563
Materials and supplies	812,449	2,228	814,677
Other	-	-	-
Depreciation	331	-	331
Total operating expenses	<u>1,566,613</u>	<u>2,228</u>	<u>1,568,841</u>
Operating income/(loss)	<u>(1,485,948)</u>	<u>(2,228)</u>	<u>(1,488,176)</u>
Nonoperating revenues			
Federal grants	1,522,373	-	1,522,373
State grants	163,011	-	163,011
Earnings on investments	919	-	919
Donated commodities	82,299	-	82,299
Total nonoperating revenues/(expenses)	<u>1,768,602</u>	<u>-</u>	<u>1,768,602</u>
Income before contributions transfers and special items	282,654	(2,228)	280,426
Transfers in (out)	<u>(593,026)</u>	<u>-</u>	<u>(593,026)</u>
Change in net position	<u>(310,372)</u>	<u>(2,228)</u>	<u>(312,600)</u>
Net position as of June 30, 2014 (restated)	<u>326,509</u>	<u>4,931</u>	<u>331,440</u>
Net position as of June 30, 2015	<u>\$ 16,137</u>	<u>\$ 2,703</u>	<u>\$ 18,840</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
 PROPRIETARY FUNDS
 Year ended June 30, 2015

	Food Service Fund	After School Child Care Fund	Total
Cash flows from operating activities			
Cash received from:			
Lunchroom sales	\$ 82,034	\$ -	\$ 82,034
Cash paid to/for:			
Employees	(775,481)	(2,228)	(777,709)
Supplies	(734,720)	-	(734,720)
Net cash used in operating activities	<u>(1,428,167)</u>	<u>(2,228)</u>	<u>(1,430,395)</u>
Cash flows from non-capital financing activities			
Grants received	1,682,824	-	1,682,824
Transfer from (to) general fund	(593,026)	-	(593,026)
Net cash used in non-capital financing activities	<u>1,089,798</u>	<u>-</u>	<u>1,089,798</u>
Cash flows from investing activities			
Investment income	919	-	919
Net cash used in capital and related activities	<u>919</u>	<u>-</u>	<u>919</u>
Net increase in cash and cash equivalents	(337,450)	(2,228)	(339,678)
Cash and cash equivalents as of June 30, 2014	931,944	4,931	936,875
Cash and cash equivalents as of June 30, 2015	<u>\$ 594,494</u>	<u>\$ 2,703</u>	<u>\$ 597,197</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income/ (loss)	\$ (1,485,948)	\$ (2,228)	\$ (1,488,176)
Adjustments to reconcile change in net position to net cash used in operating activities:			
(Increase)/decrease in accounts receivable	1,369	-	1,369
Increase/(decrease) in accounts payable	(4,569)	-	(4,569)
Net change in pension expense	(21,649)	-	(21,649)
Donated commodities	82,299	-	82,299
Depreciation	331	-	331
Net cash used in operating activities	<u>\$ (1,428,167)</u>	<u>\$ (2,228)</u>	<u>\$ (1,430,395)</u>
Schedule of non-cash transactions:			
Depreciation	\$ 331	\$ -	\$ 331
Donated commodities	82,299	-	82,299
Total non-cash transactions	<u>\$ 82,630</u>	<u>\$ -</u>	<u>\$ 82,630</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
June 30, 2015

	Agency Funds	Total Fiduciary Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 100,952	\$ 100,952
Accounts receivable	<u> -</u>	<u> -</u>
Total assets	<u>100,952</u>	<u>100,952</u>
LIABILITIES		
Accounts payable	<u> -</u>	<u> -</u>
Due to student groups	<u>100,952</u>	<u>100,952</u>
Total liabilities	<u>100,952</u>	<u>100,952</u>
Total net position	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

1. REPORTING ENTITY

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

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Magoffin County Board of Education. The basic 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. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

Magoffin County School District Finance Corporation - The Magoffin County Board of Education resolved to authorize the establishment of the Magoffin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the "Corporation") to act 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the basis of presentation:

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

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

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

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

Capital Projects 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 Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Funds)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are 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 Wellness Center Fund is used to account for membership fees to the Wellness Center.

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 Funds)

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Basis of Accounting

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

Revenues, Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Unearned Revenue - Unearned 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 unearned revenue. The District reports unearned revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as unearned revenue. In subsequent periods, the liability for unearned revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

Property taxes are levied by September 30 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The property tax rates (including exonerations) assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.461 per \$100 valuation for real property, \$.470 per \$100 valuation for business personal property and \$.576 per \$100 valuation for motor vehicles.

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

Prepaid Assets

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

Interfund Receivables and Payables

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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

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

Budgetary Process

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 on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, 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. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

Cash and Cash Equivalents

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

Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method; the general fund inventory is stated at cost and uses the first-in, first-out method.

Accrued Liabilities and Long-Term Obligations

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

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

Fund balances are separated into five categories, as required by GASB 54, as follows:

Nonspendable fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are appropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2015, in the governmental funds balance sheet.

Net Position

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

Operating and Non-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.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

Contributions of Capital

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

Interfund Activity

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

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, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Deferred Inflows and Deferred Outflows of Resources

Deferred Inflows and Deferred Outflows are recorded on the government-wide and proprietary financial statements. The deferred outflows of resources presented were primarily created by the prior refunding of revenue bonds and deferral of pension contributions. Deferred inflows were primarily created by actuarial determinations of net pension liability changes.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and Teachers Retirement system of the State of Kentucky (KTRS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2015, none of the District's bank balance were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2015 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Salyersville National Bank	\$ 19,841,966	\$ 19,117,497
	<u>\$ 19,841,966</u>	<u>\$ 19,117,497</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 18,419,348
Proprietary funds	597,197
Agency funds	100,952
	<u>\$ 19,117,497</u>

Cash is commingled in various bank accounts and short-term certificates of deposit. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash account within the following funds is considered to be restricted:

- Special Revenue Funds
- SEEK Capital Outlay Fund
- Facility Support Program (FSPK) Fund
- School Construction Fund
- School Food Service Fund
- Agency Funds

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

4. INVESTMENTS

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2015, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	June 30, 2014			June 30, 2015
	Balance	Additions	Retirements	Balance
Governmental Activities				
Land & land improvements	\$ 6,586,265	\$ -	\$ -	\$ 6,586,265
Buildings	38,332,090	-	-	38,332,090
Technology equipment	4,886,886	127,750	-	5,014,636
Vehicles	3,381,053	5,708	-	3,386,761
General equipment	1,555,326	-	-	1,555,326
Construction work in progress	11,493,133	12,998,275	9,014,759	15,476,649
Total historical cost	66,234,753	13,131,733	9,014,759	70,351,727
Less accumulated depreciation	13,926,193	1,500,997	-	15,427,190
Governmental capital assets, net	<u>\$ 52,308,560</u>	<u>\$ 11,630,736</u>	<u>\$ 9,014,759</u>	<u>\$ 54,924,537</u>
Business-type Activities				
Buildings	\$ -	\$ -	\$ -	\$ -
Technology equipment	41,000	-	-	41,000
General equipment	390,018	-	-	390,018
Total historical cost	431,018	-	-	431,018
Less accumulated depreciation	430,374	331	-	430,705
Business-type capital assets, net	<u>\$ 644</u>	<u>\$ (331)</u>	<u>\$ -</u>	<u>\$ 313</u>

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

See table on next page

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

5. CAPITAL ASSETS-CONTINUED

Instruction	\$ 1,002,898
Student	34,932
Instruction staff	94,754
District administrative	129,097
School administrative	10,494
Business	-
Plant operation and maintenance	36,361
Student transportation	192,461
Community services	-
	<u>\$ 1,500,997</u>

6. CAPITAL LEASE PAYABLE

The District has entered into a capital lease agreement for buses under which the buses will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2015:

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2014	Debt Issued	Debt Paid	Balance June 30, 2015	Due Within One Year
2014 KISTA First Series	March, 2024	2.0% - 3.0%	<u>\$ 337,452</u>	<u>\$ 337,452</u>	<u>\$ -</u>	<u>\$ 36,525</u>	<u>\$ 300,927</u>	<u>\$ 37,262</u>
			<u>\$ 337,452</u>	<u>\$ 337,452</u>	<u>\$ -</u>	<u>\$ 36,525</u>	<u>\$ 300,927</u>	<u>\$ 37,262</u>

The following presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2015:

See table on next page

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

6. CAPITAL LEASE PAYABLE-CONTINUED

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 37,262	\$ 6,782	\$ 44,044
2017	31,974	6,037	38,011
2018	32,589	5,398	37,987
2019	33,204	4,752	37,956
2020-2024	165,898	12,817	178,715
Totals	\$ 300,927	\$ 35,786	\$ 336,713
		Less: amounts representing interest	<u>(35,786)</u>
		Net Capital lease liability	<u>\$ 300,927</u>

7. LONG-TERM OBLIGATIONS

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Magoffin County School District Finance Corporation.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2006	\$ 18,800,000	3.75% - 4.25%
2007R	\$ 5,565,000	3.75% - 3.875%
2009	\$ 7,540,000	2.00% - 4.25%
2014	\$ 16,000,000	2.00%-2.50%
2015R	\$ 8,185,000	2.00%-3.625%
2015	\$ 1,650,000	2.00%-3.50%

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

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008, the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

7. LONG-TERM OBLIGATIONS-CONTINUED

The District issued one \$750,000 2.150% term refunding bond issue in the amount during the year to refund the 2005 series bond. The refunding is expected to save the District approximately \$98,000 over the term.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2015 for debt service (principal and interest) are as follows:

Year	Magoffin County School District		Kentucky School Facility Construction Commission		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2015-16	\$ 516,602	\$ 775,060	\$ 1,243,398	\$ 737,632	\$ 1,760,000	\$ 1,512,692
2016-17	886,734	629,002	1,363,266	612,246	2,250,000	1,241,248
2017-18	915,560	601,553	1,399,440	566,193	2,315,000	1,167,746
2018-19	944,065	573,039	1,445,935	518,227	2,390,000	1,091,265
2019-20	972,037	543,743	1,497,963	468,559	2,470,000	1,012,303
2020-21	1,009,668	502,814	1,355,332	415,655	2,365,000	918,468
2021-22	1,046,068	468,967	1,398,932	367,618	2,445,000	836,585
2022-23	1,073,169	438,450	1,441,831	325,101	2,515,000	763,551
2023-24	1,100,255	411,290	1,479,745	287,198	2,580,000	698,488
2024-25	1,129,378	381,757	1,520,622	245,959	2,650,000	627,716
2025-26	1,161,513	350,445	1,568,487	201,496	2,730,000	551,941
2026-27	1,194,714	318,307	1,395,286	158,260	2,590,000	476,566
2027-28	1,222,298	293,862	677,702	126,017	1,900,000	419,879
2028-29	1,266,385	247,002	703,615	101,242	1,970,000	348,244
2029-30	919,609	192,099	360,391	75,094	1,280,000	267,194
2030-31	947,931	162,670	372,069	63,417	1,320,000	226,088
2031-32	980,395	131,260	384,605	50,881	1,365,000	182,141
2032-33	1,011,939	97,750	398,061	37,425	1,410,000	135,175
2033-34	1,052,497	61,243	412,503	22,982	1,465,000	84,225
2034-35	1,092,266	22,666	427,734	7,753	1,520,000	30,419
	-	-	-	-	-	-
	<u>\$ 20,443,083</u>	<u>\$ 7,202,978</u>	<u>\$ 20,846,917</u>	<u>\$ 5,388,954</u>	<u>\$ 41,290,000</u>	<u>\$ 12,591,933</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2015 is as follows:

See table on next page

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

7. LONG-TERM OBLIGATIONS-CONTINUED

School Building Revenue Bonds	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
2006	\$ 14,790,000	\$ -	\$ 8,340,000	\$ 6,450,000
2007R	3,500,000	-	535,000	2,965,000
2009	6,300,000	-	260,000	6,040,000
2014	-	16,000,000	-	16,000,000
2015R	-	8,185,000	-	8,185,000
2015	-	1,650,000	-	1,650,000
KSBIT bonded debt	749,182	7,676	-	756,858
Accrued sick leave	214,988	15,495	-	230,483
	<u>\$ 25,554,170</u>	<u>\$ 25,858,171</u>	<u>\$ 9,135,000</u>	<u>\$ 42,277,341</u>

8. NEW MARKET TAX CREDIT FINANCING

During 2015, the Magoffin County School District passed resolutions to participate in the New Market Tax Credits (NMTC) Program administered by the United States Treasury Department and the New Markets Development Program administered by the Kentucky Department of Revenue (the NMTC Programs). The NMTC Programs permit taxpayers to receive a credit against income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The purpose of the NMTC transaction was to help finance the District's new high school project (The Project). The new high school is being financed by NMTC, bonding proceeds and local funds. The NMTC transaction was initiated in September of 2014. The legal structure and financing mechanisms are described below.

The District formed a Qualified Active Low-Income Community Business (QALICB), MCPS Real Properties, Inc. in order to facilitate the NMTC transaction. The District is to be the leverage lender/subtenant for the transaction. The Magoffin County School District Finance Corporation is the Master Tenant for the financing arrangement. The QALICB will receive the funding from three CDEs and to construct the facility. The QALICB will lease the facility to the District upon completion of construction.

The following outside entities were parties to the NMTC transaction:

- Chase Community Equity, LLC is the tax credit investor (TCI).
- Chase NMTC Magoffin Investment Fund LLC (Investment Fund) is the investment fund.
- JPMorgan Chase Bank, N.A. is the day loan lender
- Community Ventures Corporation and Dakotas Americas, LLC are managing members of the financing arrangement
- Community Ventures Investments XIII, LLC (Sub-CDE 1) and Dakotas SVI, LLC (Sub-CDE 2) are the subsidiary CDEs.
- Chase Community Equity, LLC owns 100% of the membership interests of Chase NMTC Magoffin Investment Fund LLC.
- Chase NMTC Magoffin Investment Fund LLC (Fed. Investment Fund) is the Federal investment fund and owns 99.99% of the interest in Community Ventures Investments XIII, LLC, and Dakotas XVI, LLC (Sub-CDEs).
- Community Ventures Corporation owns 0.01% of the interest in Community Ventures Investments XIII, LLC (Sub-CDE 1)
- Dakotas Americas, LLC owns 0.01% of the interest in Dakotas XVI, LLC (Sub-CDE 2)

8. NEW MARKET TAX CREDIT FINANCING-CONTINUED

The following transactions related to the NMTC transaction occurred during the audit period:

- The District donated \$5,940,053 in cash to the Investment Fund from the General Fund and the Construction fund.
- The District donated \$9,014,759 of land and construction in process to QALICB in order to obtain a leverage loan (Day Loan) from JPMorgan Chase Bank, N.A in the amount of \$7,585,947. This transaction was necessary to leverage enough assets to get to a total value of \$20 million needed to ensure NMTC equity of \$6,474,000. All assets and other expense should be returned to the District over the course of the project.
- The Day Loan (Note) of \$7,585,947 accrues interest at .999900% for a period of thirty years. The entire principal balance is due on June 15, 2045. Interest payments received by the Foundation will be contributed to the QALICB.
- The CDE's loaned \$19,400,000 to the QALICB, consisting of two notes of \$6,763,000 and two notes of \$2,937,000 each from Sub-CDE 1 and Sub-CDE 2. The four notes accrue interest at 1.00000% for a period of thirty years. The entire principal balance of each note is due on December 10, 2044.
- The MCPS Real Properties, Inc. leased The Project to the Magoffin County School District Finance Corporation, which, in turn, entered into a sublease of The Project, for a one-year, annual renewal lease of \$46,959.

The QALICB entered into the above noted transactions in order to receive the benefit of the NMTC financing, which on a \$20 million federal NMTC project would generate over \$6.4 million nonrecourse capital. The District continues with the construction project along with MCPS Real Properties, Inc.

The QALICB has entered into a put/call agreement with the TCI in which the TCI has the option to put its interest in Federal Investment Fund to the District, and the District has the option to call for the assignment of TCI's interest in the Investment Fund, at the end of the seven year NMTC compliance period.

The QALICB has entered into a put/call agreement with Investment Fund in which Investment Fund has the option to put its interest in Sub-CDE 1 and Sub-CDE 2 to the District, and the District has the option to call for the assignment of Investment Fund's interest in Sub-CDE 1 and Sub-CDE 2, at the end of the seven year NMTC compliance period.

If the options described above are exercised, the District would own the \$7,585,947 in notes currently due to the CDEs and the QALICB would own the \$19,400,000 in notes currently due to Sub-CDE 1 and Sub-CDE 2. The District and the QALICB intend to exercise these options at the end of the seven year NMTC compliance period, which would result in no principal payments being made on the \$19,400,000 in notes.

9. RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous (CERS)

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

9. RETIREMENT PLANS-CONTINUED

Funding Policy - Funding for the plan is provided through payroll withholdings and matching District contributions. The District contributes 18.63% of the employee's total compensation subject to contribution.

General information about the Teachers' Retirement System of the State of Kentucky (KTRS)

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

9. RETIREMENT PLANS-CONTINUED

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

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

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

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$	4,325,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>66,760,097</u>
	<u>\$</u>	<u>71,085,097</u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

9. RETIREMENT PLANS-CONTINUED

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.133317%

For the year ended June 30, 2015, the District recognized pension expense of \$491,751 related to CERS and \$3,271,381 related to KTRS. The District also recognized revenue of \$3,271,381 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	483,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>582,327</u>	<u>-</u>
Total	<u>\$ 582,327</u>	<u>\$ 483,000</u>

\$582,327 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2016	\$ 96,600
2017	\$ 96,600
2018	\$ 96,600
2019	\$ 96,600
2020	\$ 96,600

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

9. RETIREMENT PLANS-CONTINUED

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	<u>100.0%</u>	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term

9. RETIREMENT PLANS-CONTINUED

investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (I calculated the amounts in this schedule:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	\$ 5,691,813	\$ 4,325,000	\$ 3,116,332
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

The combined total of both the District's and employees' contributions (both withholding and match) KTRS for the years ended June 30, 2014, 2013, and 2012, was \$1,566,842, \$1,442,202, and \$1,466,182, respectively. The combined total of both the District's and employees' contributions (both withholding and match) CERS for the years ended June 30, 2014, 2013, and 2012 was \$743,851, \$713,246, and \$836,726, respectively. Per KTRS, all contributions made by the District are for health insurance and should not be considered contributions towards retirement. The District met their contribution requirements.

10. LEASES

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2015, aggregate cost for equipment and copier rentals was \$40,124.

11. CONTINGENCIES

Grants - 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 on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2015 may be impaired. 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.

12. LITIGATION

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

13. RISK MANAGEMENT

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. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

14. DEFICIT FUND BALANCES

The District did not have any funds with deficit balances at June 30, 2015. However, there may be funds with deficit operating balances.

15. 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. There were no instances of noncompliance noted.

16. TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 45,283
Operating	Building	Debt Service	Debt Service	\$ 887,438
Operating	Food Service	Construction	Construction	\$ 593,026

17. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2015, there were no interfund balances outstanding that are reflected in the financial statements.

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

18. ON-BEHALF PAYMENTS

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of activities:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$	1,100,496
Health and Life insurance		2,070,774
Technology		57,674
Debt Service		<u>1,546,199</u>
	<u>\$</u>	<u>4,775,143</u>

19. FUND BALANCE DESIGNATIONS

The following funds had restricted fund balances as follows:

Fund	Amount	Purpose
General	\$ 38,640	Sick leave
Food Service	\$ 15,824	Supplies inventory
SEEK Capital Outlay	\$ 397,569	SFCC Escrow
Building	\$ 201,252	SFCC Escrow
Construction	\$ 13,754,049	Future Construction
Wellness Center	\$ 2,703	Operations

20. CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$4,316,249 reduction in beginning net position on the Statement of Activities and an increase of \$577,751 of deferred outflows of resources – District contributions subsequent to the measurement date.

21. SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through the date of the audit report. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MAGOFFIN COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
Revenues				
From local sources				
Taxes:				
Property	\$ 925,500	\$ 969,986	\$ 1,039,671	\$ 69,685
Motor vehicle	350,000	375,000	420,368	45,368
Utility	600,000	600,000	688,045	88,045
Other	5,000	5,000	41,900	36,900
Earnings on investments	2,500	2,500	5,155	2,655
Other local	7,000	7,000	91,289	84,289
Intergovernmental - State	14,516,480	14,086,994	13,916,742	(170,252)
Intergovernmental - Federal	40,000	50,000	203,055	153,055
Total revenues	<u>16,446,480</u>	<u>16,096,480</u>	<u>16,406,225</u>	<u>309,745</u>
Expenditures				
Current:				
Instruction	8,919,160	9,091,565	8,685,955	405,610
Student	1,292,170	1,293,770	1,134,964	158,806
Instructional support	932,967	905,678	817,298	88,380
District administration	1,544,056	1,152,077	874,521	277,556
School administration	1,415,008	1,410,646	1,313,014	97,632
Business support	330,764	330,764	3,357,243	(3,026,479)
Plant operations and maintenance	2,086,264	1,938,536	1,635,037	303,499
Student transportation	1,921,178	1,848,601	1,828,367	20,234
Community service	2,826	2,826	31,059	(28,233)
Debt service	43,934	43,934	43,934	-
Contingency	1,073,264	1,193,194	-	1,193,194
Total expenditures	<u>19,561,591</u>	<u>19,211,591</u>	<u>19,721,392</u>	<u>(509,801)</u>
Excess (deficit) of revenues over (under) expenditures	(3,115,111)	(3,115,111)	(3,315,167)	(200,056)
Other financing sources (uses)				
Proceeds from sale of equipment	37,754	37,754	3,018,748	2,980,994
Transfers out	(31,023)	(31,023)	(45,283)	(14,260)
Total other financing sources (uses)	<u>6,731</u>	<u>6,731</u>	<u>2,973,465</u>	<u>2,966,734</u>
Net change in fund balance	(3,108,380)	(3,108,380)	(341,702)	2,766,678
Fund balance as of June 30, 2014	<u>3,147,020</u>	<u>3,147,020</u>	<u>3,147,020</u>	-
Fund balance as of June 30, 2015	<u>\$ 38,640</u>	<u>\$ 38,640</u>	<u>\$ 2,805,318</u>	<u>\$ 2,766,678</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - SPECIAL REVENUE FUND
 Year ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Other local	\$ 629,010	\$ 668,670	\$ 58,859	\$ (609,811)
Intergovernmental - State	968,803	986,061	961,200	(24,861)
Intergovernmental - Federal	<u>2,423,623</u>	<u>2,574,331</u>	<u>3,277,988</u>	<u>703,657</u>
Total revenues	<u>4,021,436</u>	<u>4,229,062</u>	<u>4,298,047</u>	<u>68,985</u>
Expenditures				
Current:				
Instruction	3,145,842	3,290,847	3,331,893	(41,046)
Student support services	81,441	81,186	72,659	8,527
Instructional support	367,710	425,235	437,312	(12,077)
School administration	36,746	16,024	19,119	(3,095)
Business support	60,966	60,966	88,036	(27,070)
Student transportation	5,753	5,753	-	5,753
Community service	<u>354,001</u>	<u>394,334</u>	<u>394,311</u>	<u>23</u>
Total expenditures	<u>4,052,459</u>	<u>4,274,345</u>	<u>4,343,330</u>	<u>(68,985)</u>
Deficit of revenues under expenditures	<u>(31,023)</u>	<u>(45,283)</u>	<u>(45,283)</u>	<u>-</u>
Other financing sources				
Operating transfers in	<u>31,023</u>	<u>45,283</u>	<u>45,283</u>	<u>-</u>
Total other financing sources	<u>31,023</u>	<u>45,283</u>	<u>45,283</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30, 2015

The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget.

MAGOFFIN COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employees Retirement System
Year ended June 30, 2015

	District's proportion of net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered-employee payroll	District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.13%	\$ 4,325,000	\$ 3,082,716	140.30%	66.80%

* The amounts presented for each fiscal year were determined as of 6/30/14.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

MAGOFFIN COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
 County Employees Retirement System
 Year ended June 30, 2015

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2015	\$ 572,895	\$ 572,895	\$ -	\$ 3,245,193	17.65%
2014	\$ 577,751	\$ 577,751	\$ -	\$ 3,082,716	18.74%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

MAGOFFIN COUNTY SCHOOL DISTRICT

**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employees Retirement System
Year ended June 30, 2015**

	<u>State's proportion of net pension liability (asset)</u>	<u>State's proportionate share of the net pension liability (asset)</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2015	100%	\$ 66,760,097	45.59%

* The amounts presented for each fiscal year were determined as of 6/30/14.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

MAGOFFIN COUNTY SCHOOL DISTRICT

SCHEDULE OF STATE CONTRIBUTIONS

County Employees Retirement System

Year ended June 30, 2015

	<u>Statutorily required contribution</u>	<u>Contributions in relation to statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>
2015	\$ 1,573,224	\$ 1,573,224	\$ -

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

MAGOFFIN COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2015

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Total Non-major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 397,569	\$ 201,252	\$ -	\$ 598,821
Accounts Receivable	-	-	-	-
Total assets	<u>\$ 397,569</u>	<u>\$ 201,252</u>	<u>\$ -</u>	<u>\$ 598,821</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Non-spendable	-	-	-	-
Restricted	397,569	201,252	-	598,821
Total liabilities fund balances	<u>\$ 397,569</u>	<u>\$ 201,252</u>	<u>\$ -</u>	<u>\$ 598,821</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
 Year ended June 30, 2015

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Total Non-major Governmental Funds
Revenues				
Taxes				
Property	\$ -	\$ 418,617	\$ -	\$ 418,617
Intergovernmental - State	188,677	621,609	1,546,198	2,356,484
Total revenues	<u>188,677</u>	<u>1,040,226</u>	<u>1,546,198</u>	<u>2,775,101</u>
Expenditures				
Debt service	-	-	2,433,636	2,433,636
Total expenditures	<u>-</u>	<u>-</u>	<u>2,433,636</u>	<u>2,433,636</u>
Other financing sources (uses)				
Bond proceeds	-	-	8,185,000	8,185,000
Deposit with escrow agents	-	-	(8,117,089)	(8,117,089)
Debt issuance cost	-	-	(67,911)	(67,911)
Transfers in	-	-	887,438	887,438
Transfers out	-	(887,438)	-	(887,438)
Total other financing sources (uses)	<u>-</u>	<u>(887,438)</u>	<u>887,438</u>	<u>-</u>
Net change in fund balance	188,677	152,788	-	341,465
Fund balance as of June 30, 2014	<u>208,892</u>	<u>48,464</u>	<u>-</u>	<u>257,356</u>
Fund balance as of June 30, 2015	<u>\$ 397,569</u>	<u>\$ 201,252</u>	<u>\$ -</u>	<u>\$ 598,821</u>

MAGOFFIN COUNTY SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
Year Ended June 30, 2015

<u>School/ Activity Fund</u>	<u>Cash and Equivalents June 30, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2015</u>	<u>Accounts Receivable June 30, 2015</u>	<u>Accounts Payable June 30, 2015</u>	<u>Balances June 30, 2015</u>
Magoffin County Career & Technical Center	\$ 26,767	\$ 37,475	\$ 43,423	\$ 20,819	\$ -	\$ -	\$ 20,819
Herald Whitaker Middle School	13,765	47,155	49,742	11,178	-	-	11,178
North Magoffin Elementary	21,666	60,096	65,650	16,112	-	-	16,112
South Magoffin Elementary	21,795	51,015	55,007	17,803	-	-	17,803
Salyersville Grade School	<u>22,090</u>	<u>63,222</u>	<u>71,049</u>	<u>14,263</u>	<u>-</u>	<u>-</u>	<u>14,263</u>
Totals	<u>\$ 106,083</u>	<u>\$ 258,963</u>	<u>\$ 284,871</u>	<u>\$ 80,175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,175</u>

MAGOFFIN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
MAGOFFIN COUNTY HIGH SCHOOL ACTIVITY FUND
Year ended June 30, 2015

	Balances			Transfers	Cash and Cash	Accounts	Accounts	Balances
	June 30, 2014	Receipts	Disbursements	in (out)	Equivalents	Receivable	Payable	June 30, 2015
	June 30, 2014				June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015
General Fund	\$ 60	\$ 1,964	\$ 5,946	\$ 3,124	\$ (798)	\$ -	\$ -	\$ (798)
Student Vending	2,553	1,695	4,131	-	117	-	-	117
Faculty Beverage	730	5,234	5,194	-	770	-	-	770
JKG Club	-	-	-	-	-	-	-	-
Key Club	969	6,924	7,693	-	200	-	-	200
Band	121	15,824	15,823	-	122	-	-	122
Beta Club	-	3,630	2,727	-	903	-	-	903
Peer Tutoring	3	-	-	-	3	-	-	3
Athletic Fund	4,977	28,943	31,687	(701)	1,532	-	-	1,532
Baseball	216	-	105	-	111	-	-	111
Boys Basketball	2,159	3,050	6,173	972	8	-	-	8
Girls Basketball	146	1,250	2,430	1,034	-	-	-	-
Cheerleading	1,848	13,157	14,705	-	300	-	-	300
Dance	2,519	7,374	12,478	6,598	4,013	-	-	4,013
Tennis	30	-	-	-	30	-	-	30
Track/Cross Country	13	6,503	5,478	-	1,038	-	-	1,038
Softball	-	6,495	5,009	-	1,486	-	-	1,486
57th District Tournament	-	-	-	-	-	-	-	-
Senior Fund	4,165	91,091	84,091	(3,000)	8,165	-	-	8,165
Project graduation	105	7,656	10,320	3,100	541	-	-	541
Junior Fund	125	15,655	16,056	276	-	-	-	-
Yearbook	7,483	2,784	4,587	(3,500)	2,180	-	-	2,180
Library	3	15	-	-	18	-	-	18
Athletic Scholarship	225	-	-	(225)	-	-	-	-
FUTP Grant	38	-	-	-	38	-	-	38
Dance/Bball Horse	-	-	-	-	-	-	-	-
Maroon/White Night	-	6,411	6,303	(108)	-	-	-	-
HWMS Tournament	-	1,492	520	(972)	-	-	-	-
Regional Dance Comp	-	9,579	2,981	(6,598)	-	-	-	-
Total accounts	\$ 28,488	\$ 236,726	\$ 244,437	\$ -	\$ 20,777	\$ -	\$ -	\$ 20,777

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MAGOFFIN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Passed Through State Department of Education:			
School Breakfast Program	10.553		
Fiscal Year 14		7760005 14	\$ 94,760
Fiscal Year 15		7760005 15	305,774
National School Lunch Program	10.555		
Fiscal Year 14		7750002 14	201,128
Fiscal Year 15		510.4950	82,299
Fiscal Year 15		7750002 15	672,967
Summer Food Services Program for Children	10.559		
Fiscal Year 14		7760005 14	13,290
Fiscal Year 15		7760005 15	2,328
<i>Child Nutrition Cluster Total</i>			<u>1,372,546</u>
Child and Adult Care Food Program	10.558		
Fiscal Year 14		7720013 14	38,728
Fiscal Year 15		7720013 15	193,397
			<u>232,125</u>
Total US Department of Agriculture			<u>1,604,671</u>
US Department of Education			
Passed Through State Department of Education			
Title I Grants to Local Education Agencies	84.010		
Fiscal Year 14		3100002 14	308,917
Fiscal Year 15		3100002 15	1,178,332
<i>Title I Cluster Total</i>			<u>1,487,249</u>
Special Education Grants to States	84.027A		
Fiscal Year 14		3810002 14	105
Fiscal Year 15		3810002 15	472,580
Special Education -Preschool Grants	84.173A		
Fiscal Year 15		3800002 15	21,365
<i>Special Education Cluster Total</i>			<u>494,050</u>
Career and Technical Education - Basic Grants to States	84.048		
Fiscal Year 14		4620932 14	1,401
Fiscal Year 15		4620932 15	33,673
			<u>35,074</u>
Rural Education	84.358B		
Fiscal Year 14		3140002 14	6,167
Fiscal Year 15		3140002 15	9,974
			<u>16,141</u>
Improving Teacher Quality State Grants	84.367A		
Fiscal Year 15		3230002 15	236,867
			<u>236,867</u>
Race to the Top	84.413A		
Fiscal Year 11		4521	23,411
		4521	<u>23,411</u>

MAGOFFIN COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2015

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Passed Through Berea College			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A		
Fiscal Year 13		3793	5,724
Fiscal Year 14		3794	34,756
Fiscal Year 15		379A	24,741
			<u>65,221</u>
Passed Through Council on Postsecondary Education			
Adult Education	84.002		
Fiscal Year 15		365A	5,722
Fiscal Year 15		373A	33,431
Fiscal Year 15		373AS	766
			<u>39,919</u>
Passed Through the KVEC			
Race to the Top - District Grants - ARRA	84.416		
Fiscal Year 15		436A	235,422
			<u>235,422</u>
Total US Department of Education			<u>2,633,354</u>
U.S. Department of Housing and Urban Development			
Passed Through The Magoffin County Fiscal Court			
Community Development Block Grants	14.228		
Fiscal Year 10		360-4500	438,709
Total US Department of Labor			<u>438,709</u>
U.S. Health and Human Services			
Passed Through Big Sandy Area Community Action Program, Inc.			
Head Start	93.600		
Fiscal Year 14		6554	193,248
Fiscal Year 15		655A	535,667
Total US Health and Human Services			<u>728,915</u>
Total Expenditure of Federal Awards			<u>\$ 5,405,649</u>

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Magoffin 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.

2. IN-KIND COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2015 is \$82,299.

3. CLUSTER PROGRAMS

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559
WIA Cluster	
WIA Adult Program	17.258
WIA Youth Program	17.259
WIA Dislocated Worker Formula Grants	17.260



Cloyd & Associates, PSC
Certified Public Accountants

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Magoffin County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Magoffin County School District's basic financial statements, and have issued our report thereon dated November 20, 2015.

Internal Control over Financial Reporting

Management of Magoffin County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Magoffin 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 Magoffin County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Magoffin County School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness as items 15-01, 15-02, and 15-03.



Cloyd & Associates, PSC
Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Magoffin 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 test disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements*.

We noted other matters involving the internal control over financial reporting that we have reported to the management of Magoffin County School District in a separate letter dated November 20, 2015.

Response to Findings

Magoffin County School District's managements response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Magoffin County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Cloyd & Associates, PSC
London, Kentucky
November 20, 2015



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Magoffin County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Magoffin County School District's major federal programs for the year ended June 30, 2015. The Magoffin County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Magoffin 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, 2015.



Cloyd & Associates, PSC
Certified Public Accountants

Report on Internal Control over Compliance

Management of Magoffin County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Magoffin 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 Magoffin County School District's internal control over compliance.

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

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

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

We have audited the financial statements of the Magoffin County School District, as of and for the year ended June 30, 2015, and have issued our report thereon dated November 20, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Purpose of this Report

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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 20, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGOFFIN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued			Unmodified	
Internal control over financial reporting:				
Material weakness identified	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statement noted	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

Federal Awards

Internal control over major programs:				
Material weaknesses identified	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	None reported
Type of auditors' 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?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
---	--------------------

Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559

Race to the Top – District Grants - ARRA	84.416
--	--------

Title I Grants to Local Educational Agencies	84.010
--	--------

Community Development Block Grants	14.228
------------------------------------	--------

Dollar threshold used to distinguish between Type A and Type B program	\$300,000
--	-----------

Auditee qualified as low risk	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No
-------------------------------	--------------------------	-----	-------------------------------------	----

(continued)

Section II – Financial Statement Findings

Finding 15-01

Condition: The District had material misstatements identified in the financial statements for the period under audit that was not initially identified by the District's internal control.

Criteria: The District had material errors in the financial statements.

Effects: The District's net position was overstated.

Cause: The District had not timely recorded fixed asset transactions.

Recommendations: The District needs to track and manage all additions/retirements/transfers to the fixed asset module timely.

Corrective Action Plan: *District Finance Department staff will seek additional training regarding fixed asset. Staff will properly track and manage all fixed assets to ensure accuracy of District's net position.*

Finding 15-02

Condition: The District had not timely reconciled their payroll cash account.

Criteria: The District does not have timely cash positions available for review.

Effects: The District's payroll account is not reconciled properly at end of audit period.

Cause: The District had not timely reconciled their cash positions within their payroll bank account.

Recommendations: The District needs to track and reconcile cash positions as soon as possible after the end of each month.

Corrective Action Plan: *District's payroll clerk/insurance coordinator retired unexpectedly at the end of the audit period. Newly-hired replacement clerk has reconciled the payroll account and in the future will reconcile the account as soon as possible after the end of each month.*

Finding 15-03

Condition: The District has not timely accounted for all construction projects.

Criteria: The District's internal accounting for construction projects are not fully up-to-date.

Effects: The District's Construction Projects may be overspent if timely accounting for revenue is done.

Cause: The District's internal accounting for construction projects are not fully up-to-date.

Recommendations: The District needs to track and make timely adjustments for all construction projects with approvals and revisions to BG-1's, and other sources of documentation. All state required forms need to be timely filed with the State in order to have more accurate project accounting information. Projects with overages at the end of their life and to be used for other projects need to be transferred as soon as possible to the new projects after State approval of these transfers.

Corrective Action Plan: *District Finance Department staff will update in Munis all project budgets in a timely manner following each BG-1 revision. Staff will make appropriate transfers to close-out old projects.*

MAGOFFIN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
Year Ended June 30, 2015

Section III – Federal Award Findings

None

MAGOFFIN COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2015

Status of Prior Year Findings

14-01

- Condition: The District had material misstatements identified in the financial statements for the period under audit that was not initially identified by the District's internal control.
- Criteria: The District had material errors in the financial statements.
- Effects: The District's net position was overstated.
- Cause: The District had overstated fixed assets in the prior year.
- Recommendations: The District needs to track and manage all additions/retirements to the fixed asset module timely.
- Corrective Action Plan: The District finance staff will manage fixed assets within the Munis module to ensure accuracy. Finance department staff will review balance sheet line items for accuracy.
- Follow-up: This finding repeated for 2014-2015. (See 15-01)

MANAGEMENT LETTER COMMENTS



Cloyd & Associates, PSC
Certified Public Accountants

Members of the Board of Education
Magoffin County School District
Salyersville, Kentucky

In planning and performing our audit of the basic financial statements of Magoffin County School District for the year ended June 30, 2015, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 20, 2015, on the basic financial statements of Magoffin County School District.

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

Respectfully,

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 20, 2015

MAGOFFIN COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS JUNE 30, 2015

Prior Year Comments – School Activity Funds

Central Office

1. Purchasing policies and procedures require purchase orders to be completed and approved prior to the order being placed. Testing disclosed some disbursement had Purchase order dates after the invoice date.

This deficiency appears to have been corrected in the current audit year.

2. Classified salary schedule only applies to new hires. Staff that have been with the district for several years and have received raises in the past are not paid according to the salary schedule. Board policy 03.22 states, "the Board shall annually establish schedules for salaries and benefits for classified personnel." The District needs to develop a salary schedule for classified personnel that includes all classified personnel so that salaries are uniformly applied.

This deficiency appears to have been corrected in the current audit year.

3. Fixed Assets continues to be an area that needs improvement. Additional work needs to be done to retire assets and asset tags need to be put on all assets when possible. An actual inventory needs to be taken and reconciled to MUNIS annually.

This deficiency appears to have been corrected in the current audit year.

4. One board member did not return his signed statement that he had no knowledge of any conflict of interest or nepotism, as defined by KRS 160.180.

This deficiency appears to have been corrected in the current audit year.

Magoffin County High School

5. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were instances of the purchase order being dated after the invoice.

This deficiency appears to have been corrected in the current audit year.

Magoffin County Career & Technical Center

6. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." This is a repeat finding for not approving purchase orders prior to invoice dates.

This deficiency appears to have been corrected in the current audit year.

Herald Whitaker Middle School

7. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were instances of the purchase order dated after the invoice.

This deficiency appears to have been corrected in the current audit year.

North Magoffin Elementary School

8. According to the Red Book, "to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated." There were instances of the purchase order being dated after the invoice.

This deficiency appears to have been corrected in the current audit year.

9. Multi receipt forms are not consistently being used as prescribed by Redbook guidelines.

This deficiency appears to have been corrected in the current audit year.

South Magoffin Elementary

10. Multi receipt forms are not consistently being used as prescribed by Redbook guidelines.

This deficiency appears to have been corrected in the current audit year.

Current Year Comments –School Activity Funds

During testing of school activity funds, we noted the following general deficiencies in internal control. The individual schools where these issues were noted are listed:

South Magoffin Elementary School

1. According to the Red Book, all purchases must be for the benefit of the students. Several purchases from activity funds were questionable in nature, for example flowers for funeral of staff members husband that did not come from a staff generated account.

Management response: Management will monitor and follow up on comments and recommendations to make sure that Redbook guidelines are adhered to in the future.

2. According to the Red Book, loans are not allowed. It appears that a purchase was made on behalf of FRC and documentation noted that FRC will pay back. Payment of an invoice on behalf of the district or any other entity out of the activity funds is, in essence, a loan which is prohibited by Redbook guidelines.

Management response: Management will monitor and follow up on comments and recommendations to make sure that Redbook guidelines are adhered to in the future.

Magoffin County Career & Tech Center

3. According to the Red Book, all purchases must be for the benefit of the students. Several purchases from activity funds were questionable in nature, for example flowers for pots in front of building, repair to overhead door, and ant spray for building, all of which did not come from staff generated funds. These purchases appear to be operational and in violation of the Redbook guidelines.

Management response: Management will monitor and follow up on comments and recommendations to make sure that Redbook guidelines are adhered to in the future.

North Magoffin Elementary

4. According to the Red Book, all purchases must be for the benefit of the students. Several purchases from activity funds were questionable in nature, for example postage, thermometer for school nurse, flowers for funeral of a student's family, all of which was not paid from staff generated funds. These purchases appear to be operational and in violation of the Redbook guidelines.

Management response: Management will monitor and follow up on comments and recommendations to make sure that Redbook guidelines are adhered to in the future.

Herald Whitaker Middle School

5. According to the Red Book, checks shall be made out to a person, not to a bank for startup change for a function. It was noted that a check was made payable to the bank for this purpose.

Management response: Management will monitor and follow up on comments and recommendations to make sure that Redbook guidelines are adhered to in the future.

6. It was noted on several purchase orders that the amount was blank. Purchase orders are to make sure that proper authorization has been granted before the purchase and this includes the dollar amount that is allowed to be spent. The purchase order does not have to match the dollar amount exactly; however, it provides a level for which the purchase is allowed and any amounts over that would not be authorized. In

the future, purchase orders should include an amount so that the vendor as well as the staff knows the limit on the purchase and funds are available.

Management response: Management will monitor and follow up on comments and recommendations to make sure that Redbook guidelines are adhered to in the future.