

**REPORT OF THE AUDIT OF THE
MARION COUNTY
SCHOOL DISTRICT**

**For The Fiscal Year Ended
June 30, 2015**

ROSS & COMPANY, PLLC
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Members of the Board
Marion County School District
Lebanon, Kentucky

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and net pension schedules on pages 4-7, 42-43 and 44-47 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 Marion County School District's basic primary government financial statements. The combining and individual non-major fund financial statements, and the statement of receipts, disbursements and fund balance- High School Activity Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, and the statement of receipts, disbursements and fund balance- High School Activity Fund and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates 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 non-major fund financial statements, and the statement of receipts, disbursements and fund balance- High School Activity Fund and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015 on our consideration of Marion County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marion County School District's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross and Company".

Ross and Company, PLLC
November 12, 2015

**MARION COUNTY PUBLIC SCHOOL DISTRICT – LEBANON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Management’s discussion and analysis of the Marion County School District (District) offers readers of the District’s financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2015. We encourage readers to review the information presented here in conjunction with additional information found within the body of these financial statements.

FINANCIAL HIGHLIGHTS

- The General Fund had \$32.2 million in revenues, which primarily consisted of funding through the State’s Support Education Excellence in Kentucky (SEEK) program and revenues from taxes, which include property taxes, motor vehicle, and utilities taxes. This compares to \$30.1 million in General Fund revenues for the prior year.
- Total local taxes collected were \$7,949,013 including property, vehicles, and utility taxes. Penalties and interest, omitted property taxes, and revenue in lieu taxes are also included in this amount. \$591,357 of the total local taxes collected was the building fund (5 Cent Levy) required for participation in the School Facilities Construction Commission (SFCC). SFCC funds must be used for projects identified in the District’s Facility Plan.
- The District levied tax rates of 55.0 cents (real estate), 55.0 cents (tangible property), and 52.6 cents (motor vehicles) per \$100 of assessed value, and continued the 3% utility tax.
- General Fund expenditures totaled \$24.7 million, compared to \$29.7 million in the prior year.
- The District, through the Marion County School District Finance Corporation, initiated three bond sales. Bond Series 2015 was issued with a par value of \$3,635,000 to finance Energy Conservation efforts throughout the District, but primarily at Lebanon Middle School, with the replacement of the HVAC system. Bond Series 2015A was issued with a par value of \$815,000 to finance the replacement of the roof at Lebanon Middle school. Both of these Bond Series closed on June 18, 2015.
- Bond Series 2015B was issued with a par value of \$1,745,000 to refund Bond Series 2005B, which was issued for the purpose of renovating St. Charles Middle School. This defeasance created a savings to the District of over \$100,000 over the next 5 years, and was possible due to the decline in interest rates. This Bond Series closed on July 6, 2015.

FACILITIES AND CONSTRUCTION HIGHLIGHTS

- State law requires districts to update a priority list of construction and renovation needs, called a Local Facilities Plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. The district updated its facilities plan during fiscal year 2015. The plan indicated over \$38 million dollars in needs.
- The board entered into a Guaranteed Energy Savings Contract during 2015, for the replacement of the HVAC system at Lebanon Middle School, and numerous energy upgrades throughout the District. The project was funded with Bond Series 2015, and will be repaid with General Fund and District restricted funds.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 -41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14.2 million as of June 30, 2015.

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

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2015
(Continued)

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.

The District-wide Governmental Net Position comparison is as follows:

Statement of Net Position

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>FY14</u>	<u>FY15</u>	<u>FY14</u>	<u>FY15</u>	<u>FY14</u>	<u>FY15</u>
Current Assets	\$ 9,593,352	\$ 14,063,773	\$ 585,472	\$ 528,257	\$ 10,178,824	\$ 14,592,030
Non-Current Assets	30,208,131	29,433,929	198,640	169,910	30,406,771	29,603,839
Total Assets	39,801,483	43,497,702	784,112	698,167	40,585,595	44,195,869
Deferred Outflows	669,440	1,212,157			669,440	1,212,157
Total Assets and Deferred Outflows	40,470,923	44,709,859	784,112	698,167	41,255,035	45,408,026
Current Liabilities	3,477,727	4,366,052	63,495	44,659	3,541,222	4,410,711
Non-Current Liabilities	18,254,679	26,300,042			18,254,679	26,300,042
Total Liabilities	21,732,406	30,666,094	63,495	44,659	21,795,901	30,710,753
Deferred Inflows		540,181				540,181
Total Liabilities and Deferred Inflows	21,732,406	31,206,275	63,495	44,659	21,795,901	31,250,934
Net Position:						
Invested in capital (net of debt)	11,108,131	6,771,195	198,640	169,910	11,306,771	6,941,105
Restricted	108,585	4,742,403	521,977		630,562	4,742,403
Unrestricted	7,521,801	1,989,986		483,598	7,521,801	2,473,584
Total Net Position	\$ 18,738,517	\$ 13,503,584	\$ 720,617	\$ 653,508	\$ 19,459,134	\$ 14,157,092

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2015
(Continued)

Statement of Activities	Governmental Activities		Business Activities		Total	
	FY14	FY15	FY14	FY15	FY14	FY15
Revenues						
<u>Program Revenues:</u>						
Charges for Services	\$ 66,073	\$	\$ 644,534	\$ 650,082	\$ 710,607	\$ 650,082
Operating Grants and Contributions	2,626,593	3,140,846	1,666,253	1,776,556	4,292,846	4,917,402
Capital Grants and Contributions	756,387	870			756,387	870
<u>General Revenue:</u>						
Property Taxes	5,569,856	5,787,257			5,569,856	5,787,257
Motor Vehicle Taxes	580,188	595,586			580,188	595,586
Utility Taxes	1,524,779	1,529,217			1,524,779	1,529,217
Other Taxes	98,062	36,953			98,062	36,953
State Aid - Formula Grants	18,725,579	20,905,549			18,725,579	20,905,549
Investment Earnings	54,051	63,960	2,410	2,440	56,461	66,400
Miscellaneous Revenues		251,244	39		39	251,244
Gain (Loss) on Sale of Capital Assets	8,053	(81,255)	(1,232)		6,821	(81,255)
Loss Compensation	77,723				77,723	-
Total Revenues	30,087,344	32,230,227	2,312,004	2,429,078	32,399,348	34,659,305
Expenses						
Instructional	19,912,154	21,847,699			19,912,154	21,847,699
Student Support Services	979,878	978,855			979,878	978,855
Staff Support Services	853,489	1,374,582			853,489	1,374,582
District Administration	1,041,801	1,478,485			1,041,801	1,478,485
School Administration	1,347,473	1,385,372			1,347,473	1,385,372
Business Support Services	509,298	542,492			509,298	542,492
Plant Operation & Maintenance	2,344,318	2,181,833			2,344,318	2,181,833
Student Transportation	1,626,882	1,525,601			1,626,882	1,525,601
Food Service			2,321,722	2,496,187	2,321,722	2,496,187
Community Service Operations	276,687	277,582			276,687	277,582
Facilities Acquisition & Construction	13,447	29,793			13,447	29,793
Other		70,365			-	70,365
Interest on Long-Term Debt	778,012	943,159			778,012	943,159
Total Expenses	29,683,439	32,635,818	2,321,722	2,496,187	32,005,161	35,132,005
Change in Net Position	403,905	(405,591)	(9,718)	(67,109)	394,187	(472,700)
Net Position July 1,	18,334,612	18,738,517	730,335	720,617	19,064,947	19,459,134
Prior Period Adjustment		(4,829,342)				(4,829,342)
Net Position June 30	\$ 18,738,517	\$13,503,584	\$ 720,617	\$ 653,508	\$ 19,459,134	\$ 14,157,092

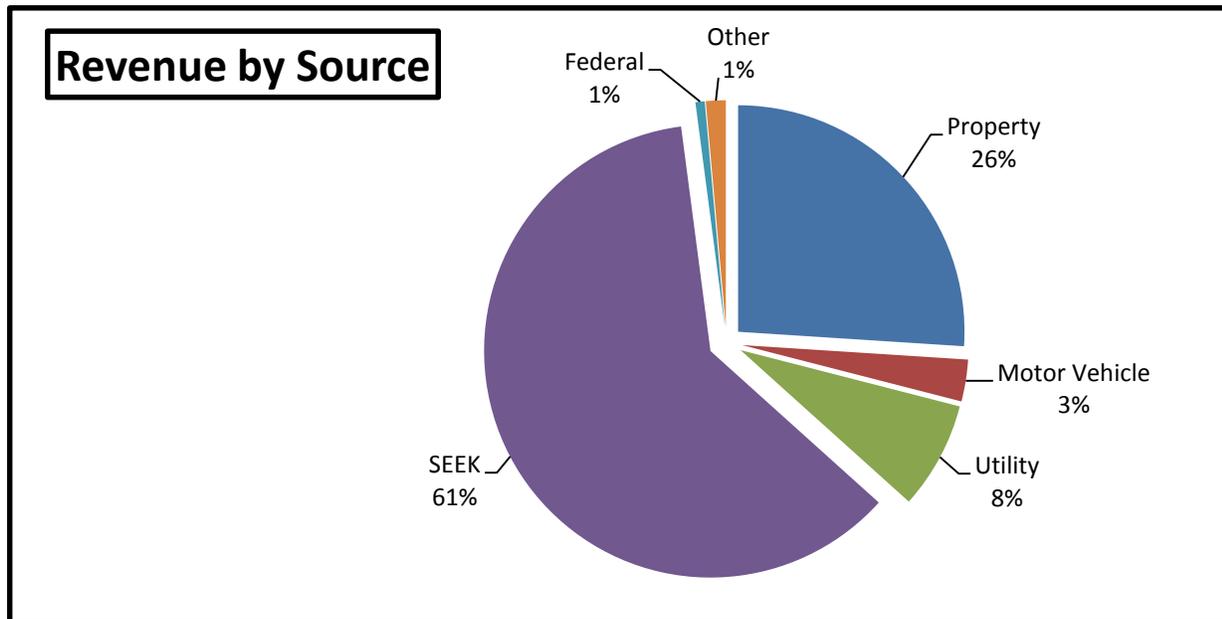
On-Behalf Payments

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

On-Behalf Distribution 2014-2015	
Health Insurance and/or Flexible Benefits	\$ 2,938,724
Life Insurance	\$ 45,548
Kentucky Teachers Retirement	\$ 2,135,267
Technology	\$ 61,900
Debt Service	\$ 483,944
Total On-Behalf Payments	<u>\$ 5,665,383</u>

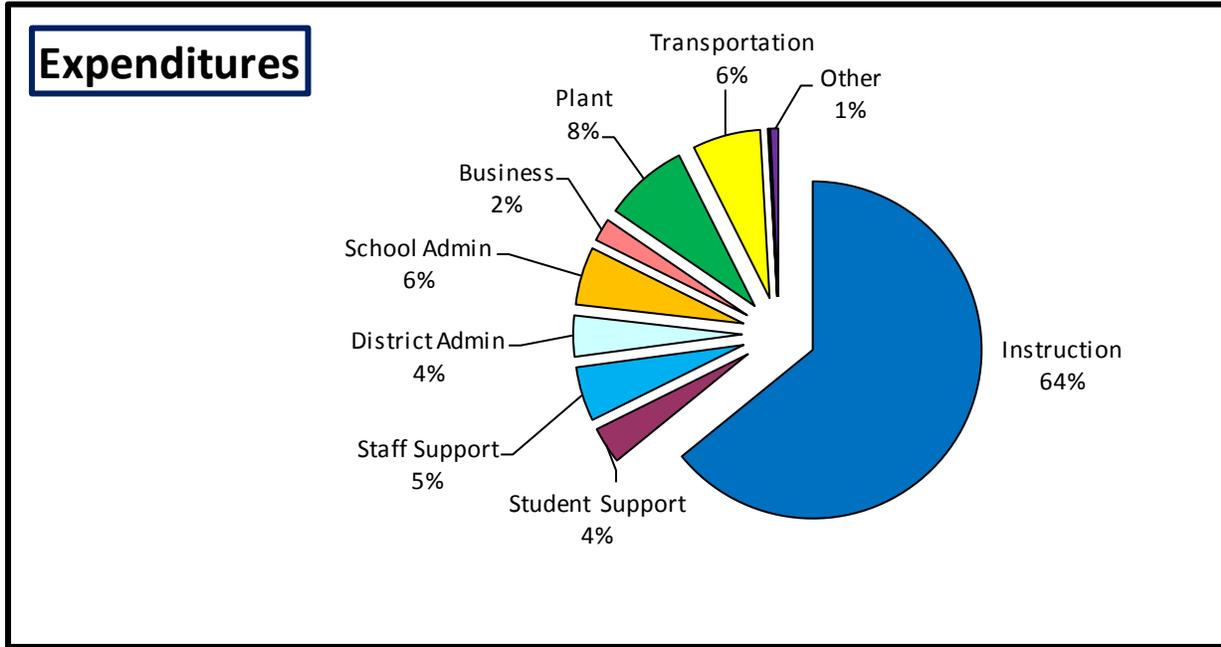
General Fund Revenue Chart 1.

The majority of general revenue was derived from SEEK (state funding) 61%, with local taxes (property, motor vehicle, and utility) making up 37% of total general revenue.



General Fund Expenditures Chart 2.

Approximately 64% of the general fund expenses were spent for instruction. A breakdown of all general fund expenditures is found in the chart below.



GENERAL FUND BUDGETARY HIGHLIGHTS

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

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$30,534,427 with actual results being \$32,204,200. Budgeted expenditures were \$30,534,427 compared to actual expenditures of \$24,659,573. The most significant variance between budget and actual was the District's contingency account of \$1,913,895 which is required by law to be budgeted, but no actual expenses were incurred. For many years, the District has prepared its budget in a conservative manner. A sizable fund balance at the beginning of the year is important since the majority of the District's tax revenue is not received until approximately five month into the fiscal year. The District's fund balance is used to offset the delay in tax receipts for the year.

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2015
(Continued)

FUTURE BUDGETARY IMPLICATIONS

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

Significant Board action that impacts the finances includes the Board's salary schedules which were increased 2% for the 2015-2016 school year, as mandated by The State, for certified and classified employees.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2015 fiscal year, the District had invested \$28,837,392 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$1,569,379. Depreciation expense for the year was \$1,919,536 and capital additions were \$435,148.

The table below shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2014 and 2015.

	Governmental Activities (Net of Depreciation)		Business – Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 819,382	\$ 814,396	\$ -	\$ -	\$819,382	\$ 814,396
Construction in Progress	776,447	-	-	-	766,447	-
Buildings and Improvements	25,313,696	26,667,539	-	-	25,313,696	26,667,539
Technology	1,001,273	1,220,479	6,420	6,098	1,007,693	1,226,577
Vehicles	1,263,732	1,189,621	-	-	1,263,732	1,189,621
General Equipment	<u>269,399</u>	<u>316,096</u>	<u>163,490</u>	<u>192,542</u>	<u>432,889</u>	<u>508,638</u>
Total	<u>\$ 29,433,929</u>	<u>\$ 30,208,131</u>	<u>\$ 169,910</u>	<u>\$ 198,640</u>	<u>\$29,603,839</u>	<u>\$ 30,406,771</u>

The table below shows the changes in capital assets for fiscal years ended June 30, 2014 and 2015.

	Governmental Activities		Business – Type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Beginning Balance	\$ 30,208,131	\$ 31,623,397	\$ 198,640	\$ 235,650	\$ 30,406,771	\$ 31,859,047
Additions	1,190,690	503,002	10,905	5,867	1,201,595	508,869
Retirements	(84,991)	(4,079)		(1,232)	(84,991)	(5,311)
Depreciation	<u>(1,879,900)</u>	<u>(1,914,189)</u>	<u>(39,635)</u>	<u>(41,645)</u>	<u>(1,919,535)</u>	<u>(1,955,834)</u>
Ending Balance	<u>\$ 29,433,929</u>	<u>\$ 30,208,131</u>	<u>\$ 169,910</u>	<u>\$ 198,640</u>	<u>\$ 29,603,839</u>	<u>\$ 30,406,771</u>

MARION COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2015
(Continued)

Long-Term Debt

At year-end the District had \$22,350,000 in bonds outstanding. Bond issues during the fiscal year ended June 30, 2015 totaled \$4,450,000. A total of \$2,000,000 is due within one year.

Contacting the District's Financial Management

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
DISTRICT WIDE

As of June 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 13,519,572	\$ 470,366	\$ 13,989,938
Other receivables	544,201	23,352	567,553
Inventory	-	34,539	34,539
Total current assets	14,063,773	528,257	14,592,030
Non-current Assets			
Land	814,396	-	814,396
Land Improvements	17,500	-	17,500
Buildings and improvements	45,194,254	-	45,194,254
Furniture and equipment	8,401,931	804,246	9,206,177
Construction in progress	766,447	-	766,447
Less: Accumulated depreciation	(25,760,599)	(634,336)	(26,394,935)
Total non-current assets	29,433,929	169,910	29,603,839
Total assets	43,497,702	698,167	44,195,869
Deferred Outflows			
Bond refunding	599,075	-	599,075
Pension outflows	613,082	-	613,082
Total outflows	1,212,157	-	1,212,157
Total assets & outflows	\$ 44,709,859	\$ 698,167	\$ 45,408,026
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 259,622	\$ -	\$ 259,622
Deferred revenue	388,999	-	388,999
Other current liabilities	1,499,715	44,659	1,544,374
Interest payable	604,988	-	604,988
Current portion of long-term obligations	1,370,000	-	1,370,000
Current portion of KSBIT assessment	82,082	-	82,082
Current portion of sick-leave	160,646	-	160,646
Total current liabilities	4,366,052	44,659	4,410,711
Non-current Liabilities			
Non-current portion of long-term obligation	20,980,000	-	20,980,000
Non-current portion of KSBIT assessment	230,652	-	230,652
Non-current portion of accrued sick leave	250,111	-	250,111
Net pension liability (CERS)	4,839,279	-	4,839,279
Total non-current liabilities	26,300,042	-	26,300,042
Total liabilities	30,666,094	44,659	30,710,753
Deferred inflows			
Pension inflows	540,181	-	540,181
Total inflows	540,181	-	540,181
Total liabilities & inflows	\$ 31,206,275	\$ 44,659	\$ 31,250,934
NET POSITION			
Invested in capital assets, net of related debt	\$ 6,771,195	\$ 169,910	\$ 6,941,105
Restricted for:			
Capital projects	4,011,846	-	4,011,846
Other	730,557	-	730,557
Unrestricted	1,989,986	483,598	2,473,584
Total net position	13,503,584	653,508	14,157,092
Total liabilities and net position	\$ 44,709,859	\$ 698,167	\$ 45,408,026

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
DISTRICT WIDE

For the year ended June 30, 2015

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction	\$ 21,847,699	\$ -	\$ 2,677,634	\$ -	\$ (19,170,065)	\$ -	\$ (19,170,065)
Support services:							
Student	978,855	-	121,477	-	(857,378)	-	(857,378)
Instruction staff	1,374,582	-	82,430	-	(1,292,152)	-	(1,292,152)
District administrative	1,478,485	-	-	-	(1,478,485)	-	(1,478,485)
School administrative	1,385,372	-	-	-	(1,385,372)	-	(1,385,372)
Business	542,492	-	-	-	(542,492)	-	(542,492)
Plant operation and maintenance	2,181,833	-	-	-	(2,181,833)	-	(2,181,833)
Student transportation	1,525,601	-	91	-	(1,525,510)	-	(1,525,510)
Facilities acquisition and construction	29,793	-	-	870	(28,923)	-	(28,923)
Community service activities	277,582	-	259,214	-	(18,368)	-	(18,368)
Other	70,365	-	-	-	(70,365)	-	(70,365)
Interest on long-term debt	943,159	-	-	-	(943,159)	-	(943,159)
Total governmental activities	32,635,818	-	3,140,846	870	(29,494,102)	-	(29,494,102)
Business-type Activities							
Food service	2,496,187	650,082	1,776,556	-	-	(69,549)	(69,549)
Total business-type activities	2,496,187	650,082	1,776,556	-	-	(69,549)	(69,549)
Total school district	\$ 35,132,005	\$ 650,082	\$ 4,917,402	\$ 870	\$ (29,494,102)	\$ (69,549)	\$ (29,563,651)

General Revenues

Property taxes	\$ 5,715,836	\$ -	\$ 5,715,836
Delinquent property tax	71,421	-	71,421
Motor vehicle taxes	595,586	-	595,586
Utility taxes	1,529,217	-	1,529,217
Other taxes	36,953	-	36,953
Investment earnings	63,960	2,440	66,400
State aid formula grants	20,905,549	-	20,905,549
Gain on sale of fixed assets	(81,255)	-	(81,255)
Miscellaneous	251,244	-	251,244
Total general revenues	29,088,511	2,440	29,090,951
Change in net position	(405,591)	(67,109)	(472,700)
Net position - beginning	18,738,517	720,617	19,459,134
Prior Period Adjustment	(4,829,342)	-	(4,829,342)
Net position - ending	\$ 13,503,584	\$ 653,508	\$ 14,157,092

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2015

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 9,006,965	\$ 145,286	\$ 3,704,936	\$ 662,385	\$ 13,519,572
Other receivables	174,187	366,525	-	3,489	544,201
Total assets	\$ 9,181,152	\$ 511,811	\$ 3,704,936	\$ 665,874	\$ 14,063,773
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 259,622	\$ -	\$ -	\$ -	\$ 259,622
Deferred revenue	-	388,999	-	-	388,999
Other current liabilities	1,376,903	122,812	-	-	1,499,715
Total liabilities	1,636,525	511,811	-	-	2,148,336
Fund Balances					
Restricted:					
Future Construction	\$ -	\$ -	\$ 3,479,195	\$ -	\$ 3,479,195
SFCC Escrow	-	-	-	532,651	532,651
Sick Leave Payable	80,323	-	-	-	80,323
Grants	-	-	225,741	-	225,741
Debt Service	-	-	-	67,143	67,143
Committed:					
Other	565,782	-	-	-	565,782
Assigned:					
Site Base CFWD	18,372	-	-	-	18,372
Other	-	-	-	66,080	66,080
Unassigned:	6,880,150	-	-	-	6,880,150
Total fund balances	7,544,627	-	3,704,936	665,874	11,915,437
Total liabilities and fund balances	\$ 9,181,152	\$ 511,811	\$ 3,704,936	\$ 665,874	\$ 14,063,773

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS -
BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2015

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

Total Fund Balance-Governmental Funds		\$11,915,437
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental:		
Cost of capital	\$ 54,428,081	
Accumulated depreciation	(25,760,599)	
Deferred outflow	<u>1,212,157</u>	30,646,086
Long-term liabilities including bonds payable are not due and payable in the current period and therefore are not reported as liabilities in the funds:		
Long-term Obligations	(22,350,000)	
KSBIT Assessment	(312,734)	
Interest payable	(604,988)	
Long-term sick leave	(410,757)	
Net pension liability (CERS)	(4,839,279)	
Deferred inflows	<u>(540,181)</u>	<u>(29,057,939)</u>
Total Net position-Governmental Funds		<u><u>\$13,503,584</u></u>

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2015

Revenues	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
From local sources					
Property taxes	\$ 5,195,900	\$ -	\$ -	\$ 591,357	5,787,257
Motor vehicle taxes	595,586	-	-	-	595,586
Utilities taxes	1,529,217	-	-	-	1,529,217
Other taxes	36,953	-	-	-	36,953
Earnings on investments	62,310	733	1,650	-	64,693
Other local revenues	125,274	50,552	-	125,970	301,796
State sources					
SEEK	12,233,648	-	-	767,124	13,000,772
On Behalf Payments	4,929,693	-	-	483,944	5,413,637
Other	53,968	1,030,461	-	870	1,085,299
Federal - indirect	132,334	2,059,100	-	-	2,191,434
Total revenues	24,894,883	3,140,846	1,650	1,969,265	30,006,644
Expenditures					
Instruction	15,811,669	2,674,866	-	60,359	18,546,894
Support services					
Student	871,222	121,477	-	-	992,699
Instruction staff	1,286,830	82,430	-	3,487	1,372,747
District administration	968,910	-	-	-	968,910
School administration	1,371,188	-	-	-	1,371,188
Business	542,091	-	-	-	542,091
Plant operation and maintenance	1,983,209	-	-	-	1,983,209
Student transportation	1,605,171	91	-	-	1,605,262
Facilities acquisition and construction	14,233	-	782,007	-	796,240
Community service activities	18,148	259,214	-	-	277,362
Debt service	-	-	-	1,639,408	1,639,408
Total expenditures	24,472,671	3,138,078	782,007	1,703,254	30,096,010
Excess (deficit) of revenues over expenditures	422,212	2,768	(780,357)	266,011	(89,366)
Other Financing Sources (Uses)					
Other financing sources- Not transfers	3,737	-	-	-	3,737
Proceeds from sale of bonds	-	-	4,450,000	-	4,450,000
Operating transfers in	135,819	78,742	15,000	1,158,550	1,388,111
Operating transfers out	(186,902)	(81,510)	-	(1,119,699)	(1,388,111)
Total other financing sources (uses)	(47,346)	(2,768)	4,465,000	38,851	4,453,737
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	374,866	-	3,684,643	304,862	4,364,371
Net change in fund balances	374,866	-	3,684,643	304,862	4,364,371
Fund balance, July 1, 2014	7,169,761	-	20,293	361,012	7,551,066
Fund balance, June 30, 2015	\$ 7,544,627	\$ -	\$ 3,704,936	\$ 665,874	\$ 11,915,437

See accompanying notes to financial statements.

MARION COUNTY PUBLIC SCHOOLS DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

Total net change in fund balances- governmental funds \$ 4,364,371

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

Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period. (689,210)

In the statement of activities, only the gain on the sale of asset is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differ from the change in fund balances by the basis of the asset sold. (84,992)

Bond proceeds and assessments are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. This is the amount by which bond proceeds exceed principal payments. (3,115,795)

In the statement of activities, certain operating expenses such as compensated absences (sick leave), are measured by the amount earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year special termination benefits paid exceed the amounts earned. (368,812)

Interest on long-term debt in the statement of activities differs from the amount reported in governmental funds because interest is recorded as an expenditure in the fund when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds. (574,117)

Governmental funds report pension expense in the year paid. However due to measurement date, payments made are reported as deferred outflows in the Statement of Activities. This is the amount by which deferred outflows exceeds pension expense in the period. 62,964

Change in Net position - Governmental Funds \$ (405,591)

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

As of June 30, 2015

ASSETS	<u>Food Service Fund</u>
Current Assets	
Cash and cash equivalents	\$ 470,366
Other receivables	23,352
Inventory	<u>34,539</u>
Total current assets	<u>528,257</u>
Noncurrent Assets	
Furniture and equipment	804,246
Less: Accumulated depreciation	<u>(634,336)</u>
Total noncurrent assets	<u>169,910</u>
Total assets	<u><u>\$ 698,167</u></u>
 LIABILITIES	
Current Liabilities	
Other current liabilities	<u>44,659</u>
Total liabilities	<u>44,659</u>
 NET POSITION	
Invested in capital assets, net of related debt	169,910
Restricted for:	
New Assets	<u>483,598</u>
Total net position	<u>653,508</u>
Total liabilities and net position	<u><u>\$ 698,167</u></u>

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the year ended June 30, 2015

	Food Service Fund
Operating Revenues	
Service sales	\$ 650,082
Total operating revenues	650,082
Operating Expenses	
Salaries and wages	1,197,946
Professional and contract services	48,625
Supplies and materials	1,206,303
Depreciation	39,635
Other operating expenses	3,678
Total operating expenses	2,496,187
Operating income (loss)	(1,846,105)
Non-operating revenues (expenses)	
Federal grants	1,504,268
State grants	272,288
Interest income	2,440
Total non-operating revenues (expenses)	1,778,996
Change in Net Position	(67,109)
Total net position, July 1, 2014	720,617
Total net position, June 30, 2015	\$ 653,508

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the year ended June 30, 2015

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from sales	\$ 668,570
Cash payments to employees for services	(1,212,263)
Cash payments to suppliers for goods and services	(1,260,172)
Cash payments for other operating activities	(3,678)
Net cash from operating activities	<u>(1,807,543)</u>
 Cash Flows from Capital Financing Activities	
Acquisition of capital assets	(10,905)
Net cash from capital financing activities	<u>(10,905)</u>
 Cash Flows from Noncapital Financing Activities	
Non-operating grants received	1,776,556
Net cash from noncapital financing activities	<u>1,776,556</u>
 Cash Flows from Investing Activities	
Interest on investments	2,440
Net cash flows from investing activities	<u>2,440</u>
 Net increase in cash and cash equivalents	(39,452)
Cash and cash equivalents - beginning (restated)	509,818
Cash and cash equivalents - ending	<u>\$ 470,366</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	(1,846,105)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	39,635
Changes in assets and liabilities:	
Receivables	18,488
Inventory	(725)
Accounts payable	(4,519)
Other current liabilities	(14,317)
 Net Cash Provided by Operating Activities	<u>\$ (1,807,543)</u>
 Schedule of Non-Cash Transactions	
Donated commodities	\$ 145,618
On behalf payments	251,746

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

June 30, 2015

ASSETS	<u>Student Activity Funds</u>
Current Assets	
Due from other funds	\$ 206,670
	<hr/>
Total assets	\$ 206,670
	<hr/> <hr/>
LIABILITIES	
Current Liabilities	
Due to school groups	\$ 206,670
	<hr/>
Total net position and liabilities	\$ 206,670
	<hr/> <hr/>

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE- FIDUCIARY FUNDS

For the year ended June 30, 2015

	<u>Student Activity Funds</u>
Additions	
Revenues from student activities	\$ 838,181
Deduction	
Non-instructional expenses	<u>(848,428)</u>
Change in revenues over expenses	(10,247)
Due to school groups - beginning (restated)	<u>216,917</u>
Due to school groups - ending	<u><u>\$ 206,670</u></u>

See accompanying notes to financial statements.

MARION COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Marion County School District (District) is the basic level of government, which has financial accountability and control over all activities related to the public school education within the jurisdiction of the Marion County School District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In accordance with GASB Standard 14, financial transactions of the following component unit are incorporated in the accompanying financial statements.

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

Basis of Presentation

District-wide Financial Statements:

The statement of Net Position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-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 program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The District uses the following funds:

Governmental Fund Types:

General Fund - The General Fund is the primary operating fund of the District and 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.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of grants from local, state and federal revenue sources that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. Federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

Construction Fund – The Construction Fund is used to account for all resources including proceeds from bond sales for the authorized acquisition and construction of capital facilities.

Capital Outlay Fund - The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives \$100 per the District's adjusted average daily attendance restricted for use in financing projects as identified in the District's facility plan.

Building Fund - The Facility Support Program of Kentucky Fund (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, as applicable. Funds may be used for projects identified in the District's facility plan.

Debt Service Fund - 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.

Proprietary Fund Type

The District utilizes the proprietary fund type to account for the major funds: Food Service. 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). No amounts have been recorded for in-kind contribution of USDA commodities on the financial statements, except as required by the Single Audit Act as presented on the Schedule of Expenditures of Federal Awards.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Type

The School Activity Funds are fiduciary funds used to account for student activity organizations in accordance with the Accounting Procedures for Kentucky School Activity Funds. Financial statements of groups and organizations associated with the school system but not originated within the District (e.g., Band Boosters, Parent-Teacher Associations, etc.) are not included within school activity funds.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds include a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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 that are presented in the fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Exchange and Non-exchange transactions – There are two types of transactions: exchange and non-exchange. The method of determining revenue recognition (i.e., accrual v. modified accrual) depends upon the type of exchange as well as source of revenue. Exchange transactions occur when each party receives essentially equal value. Non-exchange transactions occur when one party receives value without directly giving equal value in return.

Modified Accrual - Revenue from non-exchange transactions (e.g., grants, entitlements and donations) must be available to be recognized. These sources of revenue are recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenues from exchange transactions are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the District, “available” means within sixty days of June 30. Property tax revenue is recognized in the fiscal year for which the taxes are levied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Under the modified basis of accounting, 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.

Accrual - Under the accrual basis of accounting, revenues are recorded when an exchange takes place. Expenses are recognized at the time they are incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Kentucky Law, appropriations lapse at fiscal year-end. Encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the proprietary fund type considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Inventories

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

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

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Budget

The District is required by state law to adopt a budget annually. The budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Once the District approves the budget, it can be amended. Budget appropriations lapse at year-end.

Fund Balances

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Non-spendable Fund Balance includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. The District did not have non-spendable fund balance as of June 30, 2015.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2015, the District had \$3,479,195 restricted in the Construction Fund for future construction and \$225,741 for Grants. In the Capital Outlay Fund \$439,054 and \$93,597 in the Building Fund was restricted for SFCC Escrow. Along with \$67,143 in Debt Service and \$80,323 in the General Fund for sick leave.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances (Continued)

Committed fund balances are those amounts that can only be used for a specific purpose 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. The District had \$565,782 as a committed fund balance as of June 30, 2015.

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 encumbrances of funds. Assigned fund balance also include (a) all remaining amounts (except for negative amounts balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. As of June 30, 2015, \$66,080 was assigned in the District Activity Fund and \$18,372 in the General Fund for Site Base.

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.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed, and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles, (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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.

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consist of amounts deposited in interest bearing accounts. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At June 30, 2015, the carrying amount of the District's combined deposits (cash and cash equivalents) excluding school activity funds was \$15,365,536 and the combined bank balances totaled \$15,588,788. The bank balances were covered by the combination of FDIC insurance and collateral held by the District's agent in the District's name at June 30, 2015.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). All deposits meet current guidelines.

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

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

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements. The investment pool and repurchase agreements are considered nonparticipating contracts. The District has a repurchase agreement whereby daily bank deposits sweep to an interest bearing overnight account. Such agreements can be categorized according to three levels of risk. These three levels or risk are:

- Category 1 Investments that are insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Investments that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered investments held by the counter party, its trust or its agent, but not in the District's name.

The District's investment in repurchase agreements is classified by risk level as Category 2.

NOTE 3. PROPERTY TAXES

Revenues and other governmental fund financial resource increments (i.e. bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become measurable and available to finance expenditures of the fiscal periods. Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are timely mailed, collection date is the period from November 1 through December 31. Collections from the period November 1 through November 30 receive a two percent discount. The due date is the period from December 1 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien filed by the County Attorney.

NOTE 4. 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

NOTE 4. RETIREMENT PLANS (CONTINUED)

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.

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

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.

NOTE 4. RETIREMENT PLANS (CONTINUED)

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.

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.

NOTE 4. RETIREMENT PLANS (CONTINUED)

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	\$	4,839,279
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>90,610,622</u>
	<u>\$</u>	<u>95,449,901</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.

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 .149159% percent.

For the year ended June 30, 2015, the District recognized pension expense of \$550,117 related to CERS and \$4,440,105 related to KTRS. The District also recognized revenue of \$4,440,105 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	540,181
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contribution subsequent to the measurement date	<u>613,082</u>	<u>-</u>
Total	<u>\$ 613,082</u>	<u>\$ 540,181</u>

\$613,082 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:

MARION COUNTY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015
 (Continued)

NOTE 4. RETIREMENT PLANS (CONTINUED)

Year Ended June 30:	
2016	\$ (108,036)
2017	(108,036)
2018	(108,036)
2019	(108,036)
2020	(108,037)
	\$ (540,181)

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:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

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.

NOTE 4. RETIREMENT PLANS (CONTINUED)

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100.00%	

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 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 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Marion County CERS	\$ 6,368,167	\$ 4,839,279	\$ 3,488,470

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.

NOTE 5. LIABILITY FOR COMPENSATED ABSENCES

Certified employees are awarded a maximum of 10 days of sick leave annually, based upon employment contract terms and District policy. Sick leave is accrued without limitation. Upon retirement from the school system, a certified and classified employee receives from the District an amount equal to 30% of the value of accumulated sick leave at the current daily rate of pay. At June 30, 2015, the estimate for those employees over the age of 55 with 5 or more years of service is \$410,757, in which \$160,646 is short term and \$250,111 is long term, both recorded on the District-wide financial statements.

NOTE 6. CAPITAL ASSETS

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, excluding technology which has no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

<u>Description</u>	<u>Estimated Life in Years</u>
Buildings and Improvements	25-50
Land Improvements	20
Technology Equipment	5
Vehicles	5-10
Audio- visual equipment	15
Food Service Equipment	10-12
Furniture and Fixtures	7
Rolling Stock	15
Other	10

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MARION COUNTY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015
 (Continued)

NOTE 6. CAPITAL ASSETS (CONTINUED)

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2015</u>
Governmental Assets				
Cost				
Land	\$ 814,396	\$ -	\$ -	\$ 814,396
Land Improvements	17,500	-	-	17,500
Buildings & Improvements	45,282,924	-	(88,670)	45,194,254
Technology Equipment	3,837,283	144,232	(75,566)	3,905,949
Other	875,734	7,800	(40,019)	843,515
Vehicles	3,380,256	272,211	-	3,652,467
Construction in Progress	-	766,447	-	766,447
Totals at historical cost	<u>54,208,093</u>	<u>1,190,690</u>	<u>(204,255)</u>	<u>55,194,528</u>
Less: Accumulated Depreciation				
Land & Improvements	11,239	1,275	-	12,514
Buildings & Improvements	18,621,647	1,271,324	(12,413)	19,880,558
Technology Equipment	2,616,804	363,236	(75,364)	2,904,676
Other	559,638	45,965	(31,487)	574,116
Vehicles	2,190,635	198,100	-	2,388,735
Total accumulated depreciation	<u>23,999,963</u>	<u>1,879,900</u>	<u>(119,264)</u>	<u>25,760,599</u>
NET	<u>\$ 30,208,130</u>	<u>\$ (689,210)</u>	<u>\$ (84,991)</u>	<u>\$ 29,433,929</u>
Business Assets				
Cost				
Technology Equipment	\$ 10,771	\$ 2,653	\$ -	\$ 13,424
General Equipment	783,020	8,252	(450)	790,822
Totals at historical cost	<u>793,791</u>	<u>10,905</u>	<u>(450)</u>	<u>804,246</u>
Less: Accumulated Depreciation				
Technology Equipment	4,673	2,331	-	7,004
General Equipment	590,478	37,304	(450)	627,332
Total accumulated depreciation	<u>595,151</u>	<u>39,635</u>	<u>(450)</u>	<u>634,336</u>
NET	<u>\$ 198,640</u>	<u>\$ (28,730)</u>	<u>\$ -</u>	<u>\$ 169,910</u>

MARION COUNTY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015
 (Continued)

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS

The District is required to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Marion County School District Finance Corporation to construct school facilities. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund in accordance with state law.

The maturity date, original amounts of the issue and interest rates are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2014			2015
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2005 Bond	785,000	8/1/2017	3.60-3.80%	\$ 640,000	\$ -	\$ 150,000	\$ 490,000
2005B Bond	2,455,000	10/1/2019	3.96-3.97%	1,915,000	-	115,000	1,800,000
2006 Energy Bond	675,000	4/1/2016	3.85-3.86%	175,000	-	85,000	90,000
2009 Bond	3,045,000	5/1/2018	3.00-3.375%	2,070,000	-	495,000	1,575,000
2012 Bond	3,210,000	6/1/2023	1.25-2.125%	3,030,000	-	120,000	2,910,000
2012B Bond	1,030,000	6/1/2032	1.70-3.25%	940,000	-	45,000	895,000
2012C Bond	4,750,000	8/1/2025	1.00-2.375%	4,685,000	-	50,000	4,635,000
2014 Bond	5,645,000	3/1/2030	1.00-3.50%	5,645,000	-	140,000	5,505,000
2015 Energy Bond	3,635,000	6/1/2035	1.0-3.375%	-	3,635,000	-	3,635,000
20015A Bond	815,000	6/1/2035	1.30-3.50%	-	815,000	-	815,000
TOTAL				\$ 19,100,000	\$ 4,450,000	\$ 1,200,000	\$ 22,350,000

The District has entered into “participation agreements” with the School Facilities Commission. The Kentucky General Assembly created the Commission for the purposes of assisting local school districts in meeting school construction needs. The table on page 38 sets forth the amount to be paid by the District and the Commission for each year until maturity of all bonds issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding. The District is liable for all issues; however, School Facilities Construction Commission participates by contributing those portions of debt that are appropriated in the State’s biennial budget.

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 amount to be paid by the Commission, at June 30, 2015, for debt service (principal and interest) are shown on the following page.

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

**MARION COUNTY SCHOOLS
 SCHEDULE OF DEBT PAYMENTS
 AS OF JUNE 30, 2015**

YEAR	MARION COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2016	\$ 959,806	\$ 475,563	\$ 410,194	\$ 129,425	\$ 1,974,988
2017	865,560	452,940	419,440	120,020	1,857,960
2018	895,506	428,059	429,494	108,746	1,861,805
2019	938,003	391,986	401,997	97,721	1,829,707
2020	973,811	360,873	381,189	88,392	1,804,265
2021	991,039	341,848	318,961	80,867	1,732,715
2022	1,031,266	321,709	323,734	74,543	1,751,252
2023	1,055,958	300,378	329,042	67,510	1,752,888
2024	1,094,042	268,764	285,958	59,262	1,708,026
2025	1,129,173	243,520	295,827	51,894	1,720,414
2026	1,159,130	216,882	275,870	44,407	1,696,289
2027	1,101,523	186,887	203,477	37,478	1,529,365
2028	1,133,148	152,933	206,852	31,174	1,524,107
2029	1,179,524	116,679	220,476	24,482	1,541,161
2030	1,233,558	76,725	191,442	17,703	1,519,428
2031	270,000	51,975	110,000	12,800	444,775
2032	285,000	42,863	115,000	9,113	451,976
2033	305,000	33,244	50,000	5,250	393,494
2034	330,000	22,950	50,000	3,500	406,450
3035	350,000	11,813	50,000	1,750	413,563
TOTAL	\$ 17,281,047	\$ 4,498,591	\$ 5,068,953	\$ 1,066,037	\$ 27,914,628

NOTE 8. OPERATING FUND TRANSFERS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Program match	\$ 8,000
Matching	General	Special Revenue	KETS offer of Assistance	68,712
Operating	General	Special Revenue	Expense for drug testing	2,030
Operating	General	Debt Service	Bond Payments	90,074
Operating	General	Construction	Bond Payments	15,000
Operating	General	Act Fund	Capital Funds Request	3,086
Operating	Special Revenue	General	Expense transfer	1,615
Operating	Special Revenue	Debt Service	Bond Payments	79,895
Operating	Capital Outlay	General	KSBIT Transfer	134,204
Operating	Building Fund	Debt Service	Bond Payments	985,495
Total Transfers				\$ 1,388,111

NOTE 9. DEFICIT OPERATING BALANCES

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

Food Service	(\$67,109)
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NOTE 10. RISK MANAGEMENT

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

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

The Board of Education is the defendant in a number of lawsuits arising principally in the normal course of operations and from alleged acts committed by individual(s) employed by the district and management. The Board is covered by insurance against this type of liability. At this time, the administration is unable to make an evaluation regarding the likelihood of an unfavorable outcome or any possible financial implication to the Board of Education.

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2015 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements.

NOTE 12. BUDGETARY DISCLOSURE REQUIREMENTS

Budgetary comparisons for the General Fund and Special Revenue Fund are disclosed as required supplementary information. "On behalf" contributions made by the Commonwealth of Kentucky were recorded in the District's records as revenues and expenditures. The purpose of the policy change was to conform to requirements of the GASB 34 reporting model. The District's budget appropriations now reflects this change in policy.

NOTE 13. ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2015 was \$5,665,383. These payments were recorded as follows:

General Fund	\$	4,929,693
Debt Service		483,944
Food Service		251,746
	\$	<u>5,665,383</u>

NOTE 14. KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2015, Marion County School District's assessment is valued at \$312,734. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2016	82,083
2017	82,083
2018	37,142
2019	37,142
2020	37,142
2021	<u>37,142</u>
Total	<u>312,734</u>

NOTE 15. 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 \$4,829,342 reduction in beginning net position on the Statement of Activities and an increase of \$646,406 of deferred outflows of resources – District contributions subsequent to the measurement date.

MARION COUNTY SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Variance % Favorable (Unfavorable)
REVENUES					
From local sources					
Taxes					
Property taxes	\$ 4,880,000	\$ 4,880,000	\$ 5,195,900	\$ 315,900	6.47%
Motor vehicle taxes	500,000	500,000	595,586	95,586	19.12%
Utility taxes	1,300,000	1,300,000	1,529,217	229,217	17.63%
Other taxes	20,000	20,000	36,953	16,953	84.77%
Earnings on investments	45,000	45,000	62,310	17,310	38.47%
Other local revenues	83,500	83,500	125,274	41,774	50.03%
State Sources					
SEEK	11,892,000	11,892,000	12,233,648	341,648	2.87%
On Behalf	4,444,600	4,444,600	4,929,693	485,093	10.91%
Other	32,000	32,000	53,968	21,968	68.65%
Federal-Indirect	110,000	110,000	132,334	22,334	20.30%
Other		-	3,737	3,737	100.00%
Inter-fund transfers	665,293	665,293	135,819	(529,474)	-79.59%
Beginning Balance	6,449,604	6,562,034	7,169,761	607,727	9.26%
TOTAL REVENUES	<u>30,421,997</u>	<u>30,534,427</u>	<u>32,204,200</u>	<u>1,669,773</u>	<u>5.47%</u>
EXPENDITURES					
Instructional	17,675,816	17,678,788	15,811,669	1,867,119	10.56%
Student services					
Student	872,896	872,896	871,222	1,674	0.19%
Instructional staff	1,222,274	1,236,444	1,286,830	(50,386)	-4.08%
District administrative	1,266,416	1,274,916	968,910	306,006	24.00%
School administrative	1,355,128	1,355,128	1,371,188	(16,060)	-1.19%
Business	591,565	610,365	542,091	68,274	11.19%
Plant operation and maintenance	3,248,053	3,258,052	1,983,209	1,274,843	39.13%
Student transportation	2,020,040	2,082,040	1,605,171	476,869	22.90%
Facilities acquisition and construction	25,000	25,000	14,233	10,767	43.07%
Community Services	38,500	38,500	18,148	20,352	52.86%
Inter-fund transfers	176,161	188,403	186,902	1,501	0.80%
Contingency	1,930,148	1,913,895	-	1,913,895	100.00%
TOTAL EXPENDITURES	<u>30,421,997</u>	<u>30,534,427</u>	<u>24,659,573</u>	<u>5,874,854</u>	<u>19.24%</u>
Excess (Deficit) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,544,627</u>	<u>\$ 7,544,627</u>	<u>24.71%</u>

NOTE: BUDGET INFORMATION IS DERIVED FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT, WHICH MAY VARY FROM THE BASIC FINANCIAL STATEMENTS. THE VARIATIONS ARE PRIMARILY DUE TO PRESENTATION OF OTHER FINANCING SOURCES (USES) OF FUNDS AND TRANSFERS.

MARION COUNTY SCHOOL DISTRICT
SPECIAL FUND
BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Variance % Favorable (Unfavorable)
REVENUES					
From local sources					
Earnings on investments	\$ 100	\$ 100	\$ 733	\$ 633	633.00%
Other local revenues	28,298	28,298	50,552	22,254	78.64%
Intergovernmental - state	1,152,559	1,155,749	1,030,461	(125,288)	-10.84%
Intergovernmental - Federal	1,979,657	2,070,615	2,059,100	(11,515)	-0.56%
Inter-fund transfers	68,000	68,668	78,742	10,074	14.67%
TOTAL REVENUES	3,228,614	3,323,430	3,219,588	(103,842)	-3.12%
EXPENDITURES					
Instructional	2,622,756	2,700,562	2,674,866	25,696	0.95%
Student services:					
Student	116,421	124,421	121,477	2,944	2.37%
Instructional staff	149,315	157,828	82,430	75,398	47.77%
Student transportation		-	91	(91)	100.00%
Community services	258,660	259,109	259,214	(105)	-0.04%
Inter-fund transfers	81,462	81,510	81,510	-	0.00%
TOTAL EXPENDITURES	3,228,614	3,323,430	3,219,588	103,842	3.12%
Excess (Deficit) of Revenues Over Expenditures	\$ -	\$ -	\$ -	\$ -	0.00%

NOTE: BUDGET INFORMATION IS DERIVED FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT, WHICH MAY VARY FROM THE BASIC FINANCIAL STATEMENTS. THE VARIATIONS ARE PRIMARILY DUE TO PRESENTATION OF OTHER FINANCING SOURCES (USES) OF FUNDS AND TRANSFERS.

**SCHEDULE OF MARION COUNTY DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
Kentucky Teachers Retirement Systems
Last 10 Fiscal Years*
(Dollar amounts in thousands)**

	2014
District's proportion of the net pension liability (asset)	0.000%
District's proportionate share of the net pension liability (asset)	\$ -
State's proportionate share of the net pension liability (asset) associated with the District	90,611
Total	\$ 90,611
District's covered-employee payroll	\$ 14,023
District's proportionate share of the net pension liability (asset as a percentage of its covered-employee payroll)	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

* The amounts presented for each fiscal year were determined as of June 30.
Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

**SCHEDULE OF MARION COUNTY DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

Kentucky Teachers Retirement Systems

Last 10 Fiscal Years*

(Dollar amounts in thousands)

	<u>2014</u>
Contractually required contributions	394
Contributions in relation to the	
Contractually required contribution	<u>(394)</u>
Contribution deficiency (excess)	<u>\$ -</u>
 District's covered-employee payroll	 \$ 14,023
 Contributions as a percentage of covered- employee payroll	 2.81%

* The amounts presented for each fiscal year were determined as of June 30.
Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

**SCHEDULE OF MARION COUNTY DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Retirement Systems
Last 10 Fiscal Years*
(Dollar amounts in thousands)**

	2014
District's proportion of the net pension liability (asset)	0.149%
District's proportionate share of the net pension liability (asset)	4,839
State's proportionate share of the net pension liability (asset) associated with the District	-
Total	\$ 4,839
District's covered-employee payroll	\$ 3,470
District's proportionate share of the net pension liability (asset as a percentage of its covered-employee payroll)	139.45%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

* The amounts presented for each fiscal year were determined as of June 30.
Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

**SCHEDULE OF MARION COUNTY DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Retirement Systems
Last 10 Fiscal Years*
(Dollar amounts in thousands)**

	2014
Contractually required contributions	613
Contributions in relation to the Contractually required contribution	(613)
Contribution deficiency (excess)	\$ -
 District's covered-employee payroll	 \$ 3,470
 Contributions as a percentage of covered- employee payroll	 17.67%

* The amounts presented for each fiscal year were determined as of June 30.
Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

MARION COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

As of June 30, 2015

	District Activity Fund	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Non-Major Funds
ASSETS					
Cash and cash equivalents	\$ 62,591	\$ 439,054	\$ 93,597	\$ 67,143	\$ 662,385
Other receivables	3,489	-	-	-	3,489
Total assets	\$ 66,080	\$ 439,054	\$ 93,597	\$ 67,143	\$ 665,874
LIABILITIES AND FUND BALANCES					
Fund Balances					
Restricted:					
SFCC Escrow	\$ -	\$ 439,054	\$ 93,597	\$ -	\$ 532,651
Debt Service	-	-	-	67,143	67,143
Assigned:					
Other	66,080	-	-	-	66,080
Total fund balances	\$ 66,080	\$ 439,054	\$ 93,597	\$ 67,143	\$ 665,874

MARION COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2015

Revenues	District Activity Funds	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Non-major Govt. Funds
From local sources					
Property taxes	\$ -	\$ -	\$ 591,357	\$ -	\$ 591,357
Other local revenues	125,970	-	-	-	125,970
State sources					
SEEK	-	286,297	480,827	-	767,124
On Behalf Payments	-	-	-	483,944	483,944
Other state revenues	870	-	-	-	870
Total revenues	<u>126,840</u>	<u>286,297</u>	<u>1,072,184</u>	<u>483,944</u>	<u>1,969,265</u>
Expenditures					
Instruction	60,359	-	-	-	60,359
Support services					
Instruction staff	3,487	-	-	-	3,487
Debt service	-	-	-	1,639,408	1,639,408
Total expenditures	<u>63,846</u>	<u>-</u>	<u>-</u>	<u>1,639,408</u>	<u>1,703,254</u>
Excess (deficit) of revenues over expenditures	<u>62,994</u>	<u>286,297</u>	<u>1,072,184</u>	<u>(1,155,464)</u>	<u>266,011</u>
Other Financing Sources (Uses)					
Operating transfers in	3,086	-	-	1,155,464	1,158,550
Operating transfers out	-	(134,204)	(985,495)	-	(1,119,699)
Total other financing sources (uses)	<u>3,086</u>	<u>(134,204)</u>	<u>(985,495)</u>	<u>1,155,464</u>	<u>38,851</u>
Net change in fund balances	66,080	152,093	86,689	-	304,862
Fund balance, July 1, 2014	<u>-</u>	<u>286,961</u>	<u>6,908</u>	<u>67,143</u>	<u>361,012</u>
Fund balance, June 30, 2015	<u>\$ 66,080</u>	<u>\$ 439,054</u>	<u>\$ 93,597</u>	<u>\$ 67,143</u>	<u>\$ 665,874</u>

MARION COUNTY SCHOOL DISTRICT
MARION COUNTY HIGH SCHOOL ACTIVITY FUND
ALL FUNDS COMBINED
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
For the year ended June 30, 2015

Individual Funds	Fund Balance June 30, 2014	Receipts	Disburse- ments	Transfers In/ (Out)	Fund Balance June 30, 2015
Academic Team	\$ 584	\$ -	\$ (245)	\$ 100	\$ 439
AP Account	249	11,753	17	(11,979)	40
AP Govt	-	506	-	(506)	-
AP Psych	-	580	(10)	(560)	10
AP Social Studies	-	461	(461)	-	-
Art Department	1,514	2,980	-	(4,494)	-
Band	465	18,514	(18,035)	497	1,441
Beta Club	1,370	21,320	(19,298)	(1,646)	1,746
Beta-NHS Charitable	-	3,922	(4,204)	1,000	718
Central KY Beta Inv	-	188	(256)	68	-
Business Ed Depart	1,010	12,424	(20,236)	9,300	2,498
Class Of 2016	514	866	-	64	1,444
Class Of 2017	648	925	-	80	1,653
Class Of 2018	-	718	(70)	52	700
Class Of 2014	95	-	(95)	-	-
Class Of 2015	2,464	11,921	(14,057)	(148)	180
FBLA	1,610	2,501	(2,682)	60	1,489
FCA	1	-	-	(1)	-
FCCLA	2,977	11,473	(7,825)	(4,301)	2,324
Culinary Lab	-	20	-	(20)	-
FFA	4,426	41,267	(32,291)	(8,350)	5,052
FMD	2,883	174	(479)	(1,700)	878
General	6,761	41,257	(12,454)	(10,978)	24,586
Graphic Designs	3,645	2,527	(186)	(3,914)	2,072
HCS Academy	263	-	-	-	263
Key Club	-	640	(118)	(377)	145
Library	4,247	355	(190)	(4,317)	95
Make A Wish Foundation	1,000	-	-	(1,000)	-
National Honor Society	1,424	160	(83)	-	1,501
Pep Club	235	1,575	(35)	(1,476)	299
Project Lead The Way	392	1,532	(1,312)	(460)	152
ROTC	2,996	18,382	(15,730)	226	5,874
Sandra Owen Scholar	-	584	(26)	202	760
Student Ambassador	-	300	(333)	63	30
Student Council	32	2,901	(2,731)	(95)	107
Student of the Week	1,182	490	(769)	150	1,053
Teachers' Activity	532	1,453	(1,148)	(630)	207
TSA	20	615	(635)	-	-
Yearbook Journalism	11,736	7,693	(9,538)	(210)	9,681
Youth Service Center	3,091	325	(325)	(3,091)	-
Dual Credit	1,008	-	-	(1,008)	-
Peers Over Pressure	319	700	(350)	-	669
FES	135	90	(204)	-	21
Athletic Department	3,676	71,635	(49,435)	(22,219)	3,657
MCHS Jackets	50	498	(548)	-	-
Baseball	1,161	11,491	(15,401)	2,749	-
Bass Fishing Team	-	2,659	(1,103)	237	1,793
Boys' Basketball	782	6,201	(8,681)	1,892	194
Boys' Soccer	447	1,815	(1,702)	1,061	1,621
Tennis	-	3,701	(4,005)	304	-
Cheerleaders	55	19,722	(15,882)	(510)	3,385
Cross Country	971	-	(186)	551	1,336
Football	-	10,759	(30,666)	20,503	596
Pigskin Classic	90	-	-	(90)	-
Girls' Basketball	4,310	11,933	(12,894)	2,287	5,636
Girls' Soccer	1,126	10	(768)	1,042	1,410
Track	1,088	220	(1,714)	586	180
Golf	6,105	4,545	(5,550)	500	5,600
Softball	6,306	2,500	(6,887)	1,056	2,975
Swim Team	1,110	2,801	(4,367)	788	332
Volleyball	1,017	23,391	(27,494)	4,563	1,477
Concessions	1,964	41,527	(26,870)	(16,129)	492
Heather Garrett Sch	2,055	80	(750)	-	1,385
Nancy Colvin Sch	1,702	-	(500)	-	1,202
DAF Instruction	-	-	(44,058)	44,058	-
DAF Athletics	-	-	(1,758)	1,758	-
DAF Library	-	-	(4,412)	4,412	-
Total	<u>\$ 93,843</u>	<u>\$ 439,580</u>	<u>\$ (432,025)</u>	<u>\$ -</u>	<u>\$ 101,398</u>

MARION COUNTY SCHOOL DISTRICT
ELEMENTARY AND MIDDLE SCHOOLS ACTIVITY FUNDS
ALL FUNDS COMBINED
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
For the year ended June 30, 2015

Schools	Fund Balance June 30, 2014	Receipts	Disburse- ments	Fund Balance June 30, 2015
Calvary Elementary School	\$ 9,598	\$ 36,405	\$ (40,923)	5,080
Glasscock Elementary School	27,139	58,627	(73,817)	11,949
Lebanon Elementary School	12,379	41,389	(40,632)	13,136
West Marion Elementary	23,502	43,009	(48,717)	17,794
Lebanon Middle School	23,754	137,943	(137,535)	24,162
St Charles Middle School	26,202	81,228	(74,779)	32,651
Marion County High School- Charitable Gaming	500	-	-	500
Total	<u>\$ 123,074</u>	<u>\$ 398,601</u>	<u>\$ (416,403)</u>	<u>\$ 105,272</u>

Marion County Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

<u>Program Title</u>	<u>Munis Number</u>	<u>Federal CFDA #</u>	<u>Federal Expenditures</u>	<u>Total By CFDA #</u>
U. S. DEPARTMENT OF AGRICULTURE		Cluster		
<i>Passed Through Kentucky Department of Education:</i>				
<u>Child Nutrition Cluster</u>				
School Breakfast Program	203X	10.553	\$ 348,125	
National School Lunch Program	205X	10.555	975,330	
Summer Food Service program for Children	209X	10.559	35,196	\$ 1,358,651 **
<i>Passed Through Kentucky Department of Agriculture:</i>				
Commodity Supplemental Food Program	201X	10.565	145,618	145,618 **
TOTAL U.S. DEPARTMENT OF AGRICULTURE				1,504,269
U. S. DEPARTMENT OF EDUCATION				
<i>Passed Through Kentucky Department of Education:</i>				
Adult Ed - Recruitment, Retention and Results	365X	84.002	11,853	
Adult Ed - Community Based Work Transition	371X	84.002	35,295	
Adult Ed	373X	84.002	11,073	
Adult Ed - Professional Development	373XS	84.002	314	58,535
<u>Title I Cluster</u>				
Title I	310X	84.010	976,182	
Title I - Parent Involvement	310XM	84.010	13,060	
Title I - School Improvement Part A-Educational Recov	320XE	84.010	117,781	1,107,023
Title I - Migrant Summer Program	311XS	84.011	84	
Title I - Migrant Education	311X	84.011	118,915	118,999
<u>Special Education Cluster</u>				
IDEA-B Flow Thru to LEA's	3373	84.027	645,721	
IDEA-B Private Schools	337XP	84.027	8,169	
IDEA B - Preschool	343A	84.173	48,302	702,192
Perkins Carry Forward	348XA	84.048	943	
Perkins	348X	84.048	20,498	21,441
21st Century Community Learning Center	550X	84.287	11,877	
21st Century Community Learning Center - Summer Pro	550XU	84.287	5,000	
21st Century Community Learning Center - Supplement	550XZ	84.287	14,287	31,164
Title VI: Rural Education	350X	84.358	23,674	23,674
Race to the Top	452X	84.413A	2,224	2,224
TOTAL U.S. DEPARTMENT OF EDUCATION				2,065,252
U.S. DEPARTMENT OF ED. OFFICE OF INNOVATION & IMPROVEMENT				
Investing in Innovation (I3) Fund	491X	84.411A	1,850	1,850
TOTAL U.S. DEPARTMENT OF ED. OFFICE OF INNOVATION & IMPROVEMENT				1,850
TOTAL EXPENDITURES OF FEDERAL AWARDS				3,571,371

*Tested as major program or cluster ***

MARION COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2015

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance is reported in the Schedule at the fair value of the commodities received. Commodities passed through the U.S. Dept. of Agriculture during the year totaled \$113,618 and Department of Defense totaled \$32,000.

MARION COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2015

Section 1. Summary of Auditor's Findings

Financial statements:

Type of auditor's report issued: unmodified

Internal control over financial reporting	<u>Yes</u>	<u>No</u>
• Material weaknesses identified?		X
• Significant deficiencies identified that are not considered to be material weaknesses?		X None Reported
• Noncompliance material to financial statements noted?		X

Federal Awards:

Internal control over major programs	<u>Yes</u>	<u>No</u>
• Material weakness identified?		X
• Significant deficiencies identified that are not considered to be material weaknesses?		X None Reported

Type of auditor's report issued on compliance for major programs: unmodified

	<u>Yes</u>	<u>No</u>
• Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?		X

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
10.565	Commodity Supplemental Food Program

• Dollar threshold used to distinguish between type A and type B programs	\$300,000
• Auditee qualified as low-risk auditee?	Yes <u> X </u> No <u> </u>

Section 2. Financial Statement Findings

Current Year Findings: No matters were reported

Prior Year Findings: No matters were reported

Section 3. Federal Awards Findings and Questionable Costs

Current Year Findings: No matters were reported

Prior Year Findings: No matters were reported

MARION COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2015

Prior Audit Findings:

None reported

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Members of the Board
Marion County School District
Lebanon, Kentucky

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the *Independent Auditor's Contract* the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Marion County School District's basic financial statements, and have issued our report thereon dated November 12, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

Compliance and Other Matters

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

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.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Ross and Company".

Ross and Company, PLLC
November 12, 2015

ROSS & COMPANY, PLLC
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Members of the Board
Marion County School District
Lebanon, Kentucky

**INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited the compliance of Marion County School District 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 Marion County School District's major federal programs for the year ended June 30, 2015.

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 Marion County School District's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion

In our opinion, Marion County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2015.

INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Report on Internal Control over Compliance

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

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

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

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

Respectfully Submitted,



Ross & Company, PLLC
November 12, 2015

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Lebanon, Kentucky

RECOMMENDATIONS AND COMMENTS TO MANAGEMENT

In planning and performing our audit, we considered Marion County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marion County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness.

Current Year Findings –

None to be reported.

Prior year comments:

All prior year comments corrected.

If any action occurs after this exit conference date, which affects the significant or material findings, it is the responsibility of management to provide that information to the auditors.

We sincerely appreciate the courtesy extended to our audit staff. Of course, should you have any questions or concerns regarding your audit, please feel free to contact us.

Respectfully Submitted,



Ross & Company, PLLC
November 12, 2015