

MARTIN COUNTY SCHOOL DISTRICT
PIKEVILLE, KENTUCKY

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Wallen, Puckett, & Anderson, PSC

CERTIFIED PUBLIC ACCOUNTANTS
POST OFFICE BOX 1349
PIKEVILLE, KENTUCKY 41502

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**MARTIN COUNTY SCHOOLS DISTRICT
BOARD MEMBERS AND OTHER OFFICERS OF THE BOARD
JUNE 30, 2015**

BOARD MEMBERS

| <u>BOARD MEMBERS</u> | <u>ADDRESS</u> | <u>TERM EXPIRES</u> |
|----------------------|--------------------------|---------------------|
| Kathleen Price | Warfield, Kentucky 41267 | December 31, 2016 |
| Lois Walker | Inez, Kentucky 41224 | December 31, 2018 |
| Mickey McCoy | Inez, Kentucky 41224 | December 31, 2018 |
| Gary Ball | Lovely, Kentucky 41231 | December 31, 2016 |
| Roger Harless | Tomahawk, Kentucky 41262 | December 31, 2016 |

OFFICERS

| | | |
|-----------------|------------------------|-----------------------|
| Steven Meadows | Superintendent | Resigned July 1, 2015 |
| John D. Goble | Interim Superintendent | |
| Carolyn Sweeney | Secretary | |
| Tammy Slone | Treasurer | |

Wallen, Puckett, & Anderson, psc
CERTIFIED PUBLIC ACCOUNTANTS

106 Fourth Street • Post Office Box 1349 • Pikeville, Kentucky 41502

J. Don Wallen, CPA
L. Kevin Puckett, CPA
James K. Anderson, CPA
Johnny C. Cornett, CPA
Johnny K. White, CPA

606-432-8833
FAX 606-432-8466

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 11-Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of a Matter- Implementation of New GASB Accounting Standard

As discussed in Note L to the financial statements effective July 1, 2014, the District adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 and budgetary comparison information on pages 53 through 55 and the pension liability and contributions information on pages 56 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of the Martin County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Martin County School District's internal control over financial reporting and compliance.

WALLEN, PUCKETT, AND ANDERSON, P. S. C.

Wallen, Puckett and Anderson, P.S.C.

Certified Public Accountants
Pikeville, Kentucky

October 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARTIN COUNTY SCHOOL DISTRICT
INEZ, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended June 30, 2015

As management of the Martin County School District (District), we offer readers of the Districts' financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$1,203,961 in 2014 and \$2,139,828 in 2015. This is an increase of \$935,867.
- From 2014 to 2015, total General Fund revenue decreased by 1.64%. Revenues from the state increased by 3.73%, and utility taxes increased by 71.68%. Revenues from unmined minerals decreased by 45.08%. Revenues from local sources decreased by 3.185%. Revenues from property taxes decreased 4.25%.
- Among major funds, the General Fund had \$15,848,190 in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There was \$15,423,200 in expenditures.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. During the current fiscal year the District's total debt decreased by \$1,343,638.
- State law requires Districts to update a priority list of construction and renovation needs, called a local facilities plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. The District has updated its local facilities plan.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

MARTIN COUNTY SCHOOL DISTRICT
INEZ, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended June 30, 2015

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

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

The government-wide financial statements can be found on pages 11 and 12 of this report.

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

The basic governmental fund financial statements can be found on pages 11 through 21 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 22 through 51 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

MARTIN COUNTY SCHOOL DISTRICT
INEZ, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended June 30, 2015

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

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Revenues: | | |
| Local revenue sources | \$ 4,540,309 | \$ 4,787,116 |
| State revenue sources | 14,535,154 | 13,422,775 |
| Federal sources | 2,613,709 | 4,080,478 |
| Earnings on investments | 5,771 | 4,826 |
| Other sources | <u>253,159</u> | <u>227,109</u> |
| Total revenues | <u>\$ 21,948,102</u> | <u>\$ 22,522,304</u> |
| Expenses: | | |
| Instruction | \$ 12,350,997 | \$ 11,925,013 |
| Student support services | 1,340,772 | 1,314,153 |
| Instructional support | 1,066,365 | 1,173,725 |
| District administration | 1,200,392 | 1,011,750 |
| School administration | 770,115 | 619,102 |
| Business support | 299,725 | 229,844 |
| Plant operations | 1,863,886 | 2,012,013 |
| Student transportation | 1,174,915 | 1,482,206 |
| Facilities acquisition and construction | (153,426) | 155,510 |
| Community support | 697,388 | 341,516 |
| Other | <u>299,785</u> | <u>1,512,447</u> |
| Total expenses | <u>\$ 20,910,914</u> | <u>\$ 21,777,279</u> |
| Excess (deficit) of revenues over expenses | <u>\$ 1,037,188</u> | <u>\$ 745,025</u> |
| Other Financing Sources (Uses): | | |
| Operating transfers in | \$ 924,734 | \$ 1,108,487 |
| Operating transfers out | <u>(924,734)</u> | <u>(1,108,487)</u> |
| Total other financing source (uses) | <u>\$ 0</u> | <u>\$ 0</u> |
| Excess (deficit) of revenues and other financing sources over expenditures and other financing uses | <u>\$ 1,037,188</u> | <u>\$ 745,025</u> |

MARTIN COUNTY SCHOOL DISTRICT
INEZ, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended June 30, 2015

The 2015 Government Wide Net Position compared to 2014 is as follows:

| | <u>2015</u> | <u>2014</u> |
|----------------------------------|----------------------|----------------------|
| Current Assets | \$ 3,011,906 | \$ 2,440,730 |
| Noncurrent Assets | 19,995,218 | 20,488,650 |
| Total assets | <u>\$ 23,007,124</u> | <u>\$ 22,929,380</u> |
| Deferred Outflows of Resources | <u>\$ 0</u> | <u>\$ 79,261</u> |
| Current Liabilities | \$ 1,076,378 | \$ 2,054,248 |
| Noncurrent Liabilities | 12,823,450 | 8,688,469 |
| Total liabilities | <u>\$ 13,899,828</u> | <u>\$ 10,742,717</u> |
| Deferred Inflows of Resources | <u>\$ 863,207</u> | <u>\$ 0</u> |
| Net Position | | |
| Net investment in capital assets | \$ 11,775,758 | \$ 11,061,331 |
| Restricted | 312,082 | 795,648 |
| Unrestricted Fund Balance | <u>(3,843,751)</u> | <u>408,945</u> |
| Total net position | <u>\$ 8,244,089</u> | <u>\$ 12,265,924</u> |

MARTIN COUNTY SCHOOL DISTRICT
INEZ, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended June 30, 2015

CAPITAL ASSETS

At the end of fiscal 2015, the District had \$19,995,218 invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net decrease (including additions and deductions) of \$493,432 from last year. This decrease is primarily due to the decline in value of technology equipment and vehicles, net of depreciation. Additionally, no buses were purchased in fiscal 2015.

Capital Assets at Year-End
(Net of Depreciation)

| | Governmental Activities | | Business Type Activities | | Totals | |
|--------------------------|-------------------------|----------------------|--------------------------|-------------------|----------------------|----------------------|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2013 |
| Land | \$ 480,112 | \$ 480,112 | \$ 0 | \$ 0 | \$ 480,112 | \$ 480,112 |
| Land Improvements | 96,916 | 90,849 | 0 | 0 | 96,916 | 90,849 |
| Infrastructure | 588,216 | 552,260 | 0 | 0 | 588,216 | 552,260 |
| Buildings & Improvements | 17,698,214 | 17,277,285 | 0 | 0 | 17,698,214 | 17,277,285 |
| Technology Equipment | 104,670 | 27,474 | 0 | 0 | 104,670 | 27,474 |
| Vehicles | 537,667 | 642,149 | 0 | 0 | 537,667 | 642,149 |
| General Equipment | 798,379 | 733,639 | 184,476 | 191,450 | 982,855 | 925,089 |
| Totals | <u>\$ 20,304,174</u> | <u>\$ 19,803,768</u> | <u>\$ 184,476</u> | <u>\$ 191,450</u> | <u>\$ 20,488,650</u> | <u>\$ 19,995,218</u> |

- On-behalf amounts are included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits and administration fees. Further discussion of these can be found in Note B. Expenses that increased from 2014 to 2015 include instruction, facilities acquisition and construction, and other.

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

- The majority of revenue in 2015 was derived from state funding (69%) as compared with fiscal year 2014 (59%) with local revenue making up 19% of total revenue in 2015 compared to 21% in 2014.

Comments on Budget Comparisons

- The district's total revenues for the fiscal year ended June 30, 2015, net of interfund transfers, were \$23.8 million.
- General Fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$1.66 million more than budget.
- The total cost of all programs and services was \$23.1 million net of debt service.
- General Fund budget expenditures to actual varied significantly in instruction (\$3.4 million). This resulted from the board recording the on-behalf payments made for the District.

Questions regarding this report should be directed to the Superintendent John D. Goble or by mail at P. O. Box 366, Inez, Kentucky 41224.

BASIC FINANCIAL STATEMENTS

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2015

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-----------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash & Cash Equivalents | \$ 1,499,472 | \$ 487,416 | \$ 1,986,888 |
| Investments | 0 | 0 | 0 |
| Inventory | 0 | 21,816 | 21,816 |
| Accounts Receivable | 976,751 | 26,451 | 1,003,202 |
| Total Current Assets | <u>\$ 2,476,223</u> | <u>\$ 535,683</u> | <u>\$ 3,011,906</u> |
| Non – Current Assets | | | |
| Capital Assets, Net | \$ 19,803,768 | \$ 191,450 | \$ 19,995,218 |
| Construction in Progress | 0 | 0 | 0 |
| Total Non – Current Assets | <u>\$ 19,803,768</u> | <u>\$ 191,450</u> | <u>\$ 19,995,218</u> |
| | | | |
| TOTAL ASSETS | <u><u>\$ 22,279,991</u></u> | <u><u>\$ 727,133</u></u> | <u><u>\$ 23,007,124</u></u> |
| | | | |
| Deferred Outflows of Resources | | | |
| Debt Discount | \$ 0 | \$ 0 | \$ 0 |
| | 0 | 0 | 0 |
| Total Deferred Outflows | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| | | | |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 119,284 | \$ 14,984 | \$ 134,268 |
| Interest Payable | 0 | 0 | 0 |
| Current Portion of Long Term Debt | 18,750 | 0 | 18,750 |
| Current Portion of KSBIT Payable | 90,781 | 0 | 90,781 |
| Current Portion of Capital Lease Payable | 96,011 | 0 | 96,011 |
| Current Portion of Accrued Sick Leave | 26,568 | 0 | 26,568 |
| Current Portion of Bond Obligations | 710,000 | 0 | 710,000 |
| Total Current Liabilities | <u>\$ 1,061,394</u> | <u>\$ 14,984</u> | <u>\$ 1,076,378</u> |
| | | | |
| Non-Current Liabilities | | | |
| Non-current Portion of Long Term Debt | \$ 18,750 | \$ 0 | \$ 18,750 |
| Non-current Portion of Bond Obligations | 7,000,000 | 0 | 7,000,000 |
| Non-current Portion of Capital Lease Payable | 375,949 | 0 | 375,949 |
| Pension Costs | 4,401,000 | 489,000 | 4,890,000 |
| Non-Current-KSBIT Payable | 304,855 | 0 | 304,855 |
| Non-Current Portion of Accrued Sick Leave | 233,896 | 0 | 233,896 |
| Total Non-Current Liabilities | <u>\$ 12,334,450</u> | <u>\$ 489,000</u> | <u>\$ 12,823,450</u> |
| | | | |
| Total Liabilities | <u><u>\$ 13,395,844</u></u> | <u><u>\$ 503,984</u></u> | <u><u>\$ 13,899,828</u></u> |
| | | | |
| Deferred Inflows of Resources | | | |
| Deferred Revenue | \$ 317,207 | \$ 0 | \$ 317,207 |
| Pension Costs | 546,000 | 0 | 546,000 |
| Total Deferred Inflows of Resources | <u>\$ 863,207</u> | <u>\$ 0</u> | <u>\$ 863,207</u> |
| | | | |
| NET POSITION | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 11,584,308 | \$ 191,450 | \$ 11,775,758 |
| Committed For Sick Leave | 26,568 | 0 | 26,568 |
| Restricted | 263,698 | 31,699 | 295,397 |
| Unrestricted | (3,853,634) | 0 | (3,853,634) |
| NET POSITION | <u><u>\$ 8,020,940</u></u> | <u><u>\$ 223,149</u></u> | <u><u>\$ 8,244,089</u></u> |

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

**MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

| FUNCTIONS/PROGRAMS | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Postion | | |
|---|----------------------|----------------------|----------------------------------|-------------------------------|--|--------------------------|-----------------------|
| | Expenses | Charges for Expenses | Operating Grants & Contributions | Capital Grants & Contribution | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instruction | \$ 12,350,997 | \$ 6,250 | \$ 8,938,662 | \$ 0 | \$ (3,406,085) | \$ 0 | \$ (3,406,085) |
| Support Services | | | | | | | |
| Student | 1,340,772 | 0 | 209,574 | 0 | (1,131,198) | 0 | (1,131,198) |
| Instruction Staff | 1,066,365 | 0 | 1,613,654 | 0 | 547,289 | 0 | 547,289 |
| District Administrative | 1,200,392 | 0 | 0 | 0 | (1,200,392) | 0 | (1,200,392) |
| School Administrative | 770,115 | 0 | 0 | 0 | (770,115) | 0 | (770,115) |
| Business | 299,725 | 0 | 171,096 | 0 | (128,629) | 0 | (128,629) |
| Plant Operation and Maint. | 1,863,886 | 0 | 21,499 | 0 | (1,842,387) | 0 | (1,842,387) |
| Student Transportation | 1,174,915 | 0 | 79,920 | 0 | (1,094,995) | 0 | (1,094,995) |
| Central Office | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Community Service Activities | 697,388 | 0 | 1,578,829 | 0 | 881,441 | 0 | 881,441 |
| Facilities Acquisition and Construction | (153,426) | 0 | 0 | 0 | 153,426 | 0 | 153,426 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest on Long Term Debt | 299,785 | 0 | 0 | 0 | (299,785) | 0 | (299,785) |
| Total Government Activities | \$ 20,910,914 | \$ 6,250 | \$ 12,613,234 | \$ 0 | \$ (8,291,430) | \$ 0 | \$ (8,291,430) |
| Business Type Activities: | | | | | | | |
| Food Service | \$ 1,706,468 | \$ 180,075 | \$ 1,510,818 | \$ 0 | 0 | (15,575) | (15,575) |
| Total Business Type Activities | \$ 1,706,468 | \$ 180,075 | \$ 1,510,818 | \$ 0 | \$ 0 | \$ (15,575) | \$ (15,575) |
| Total Primary Government | \$ 22,617,382 | \$ 186,325 | \$ 14,124,052 | \$ 0 | \$ (8,291,430) | \$ (15,575) | \$ (8,307,005) |
| | | | General Revenues | | | | |
| | | | Taxes | | \$ 4,540,309 | \$ 0 | \$ 4,540,309 |
| | | | Investment Earnings | | 5,771 | 1,552 | 7,323 |
| | | | State and Formula Grants | | 4,535,629 | 0 | 4,535,629 |
| | | | Gains on Sales of Fixed Assets | | 55,026 | 0 | 55,026 |
| | | | Miscellaneous | | 191,883 | 0 | 191,883 |
| | | | Operating Transfer | | 0 | 0 | 0 |
| | | | SFCC Principal Payment | | 0 | 0 | 0 |
| | | | Total | | \$ 9,328,618 | \$ 1,552 | \$ 9,330,170 |
| | | | Change in Net Position | | 1,037,188 | (14,023) | 1,023,165 |
| | | | Net Position – Beginning | | 11,578,852 | 687,072 | 12,265,924 |
| | | | Prior Period Adjustment | | (4,595,100) | (449,900) | (5,045,000) |
| | | | Net Position - Ending | | \$ 8,020,940 | \$ 223,149 | \$ 8,244,089 |

**MARTIN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

| | <u>General Fund</u> | <u>Special Revenue</u> | <u>Construction Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Fund</u> |
|--|---------------------|----------------------------|------------------------------|---|--|
| ASSETS AND RESOURCES | | | | | |
| Cash and Cash Equivalents | \$ 1,431,055 | \$ (195,281) | \$ 0 | \$ 263,698 | \$ 1,499,472 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Bond Issuance Costs | 0 | 0 | 0 | 0 | 0 |
| Accounts Receivables | 464,263 | 512,488 | 0 | 0 | 976,751 |
| Total Assets and Resources | <u>\$ 1,895,318</u> | <u>\$ 317,207</u> | <u>\$ 0</u> | <u>\$ 263,698</u> | <u>\$ 2,476,223</u> |
| LIABILITES AND FUND BALANCE | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 119,284 | \$ 0 | \$ 0 | \$ 0 | \$ 119,284 |
| Payroll liabilities | 0 | 0 | 0 | 0 | 0 |
| Sick Leave Payable-In Process | 26,568 | 0 | 0 | 0 | 26,568 |
| Total Liabilities | <u>\$ 145,852</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 145,852</u> |
| Deferred Inflows of Resources | | | | | |
| Deferred Revenue | \$ 0 | \$ 317,207 | \$ 0 | \$ 0 | \$ 317,207 |
| Total Deferred Inflows of Resources | <u>\$ 0</u> | <u>\$ 317,207</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 317,207</u> |
| Fund Balance | | | | | |
| Restricted for Future Construction | 0 | 0 | 0 | 256,065 | 256,065 |
| Restricted for sick leave | 233,896 | 0 | 0 | 0 | 233,896 |
| Committed for Sick Leave | 26,568 | 0 | 0 | 0 | 26,568 |
| Assigned for Students | 0 | 0 | 0 | 7,633 | 7,633 |
| Unassigned Fund Balance | 1,489,002 | 0 | 0 | 0 | 1,489,002 |
| Total Fund Balance | <u>\$ 1,749,466</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 263,698</u> | <u>\$ 2,013,164</u> |
| Total Liabilities and Fund Balance | <u>\$ 1,895,318</u> | <u>\$ 317,207</u> | <u>\$ 0</u> | <u>\$ 263,698</u> | <u>\$ 2,476,223</u> |

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

**MARTIN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

| | | |
|---|-----------|------------------|
| Fund balance per fund financial statements | \$ | 2,013,164 |
| Amounts reported for governmental activities in the statement of Net Positions are different because: | | |
| Capital assets and construction in progress are not reported in this funds financial statement because they are not current financial resources, but they are reported in the | | 19,803,768 |
| Pension Liabilities for CERS covered employees. | | (4,947,000) |
| Certain liabilities (such as bonds payable, compensated absences, KSBIT liability) are not reported in this funds financial statement because they are not due and payable, but they are presented in the statement of Net Positions. | | |
| Sick Leave | | (233,896) |
| Capital leases | | (471,960) |
| Non-Current-KSBIT Payable | | (395,636) |
| Long term debt | | (37,500) |
| | | (7,710,000) |
| Net Position for Governmental Activities | <u>\$</u> | <u>8,020,940</u> |

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

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

| | General Fund | Special Revenue | Construction Fund | Other Governmental Funds | Total Governmental Fund |
|--|----------------------|---------------------|---------------------|--------------------------------|-------------------------------|
| REVENUES | | | | | |
| From Local Sources | | | | | |
| Taxes | | | | | |
| Property | \$ 2,583,726 | \$ 0 | \$ 0 | \$ 595,060 | \$ 3,178,786 |
| Motor Vehicles | 160,639 | 0 | 0 | 0 | 160,639 |
| Utilities | 704,969 | 0 | 0 | 0 | 704,969 |
| Unmined Minerals | 495,915 | 0 | 0 | 0 | 495,915 |
| Tuition and Fees | 0 | 0 | 0 | 0 | 0 |
| Earnings on Investments | 5,169 | 602 | 0 | 0 | 5,771 |
| Other Local Revenues | 95,962 | 88,226 | 0 | 13,945 | 198,133 |
| Intergovernmental- Intermediate | 0 | 611,083 | 0 | 0 | 611,083 |
| Intergovernmental- State | 11,801,810 | 874,451 | 0 | 1,247,810 | 13,924,071 |
| Intergovernmental-Indirect Federal | 0 | 2,596,792 | 0 | 0 | 2,596,792 |
| Intergovernmental-Direct Federal | 0 | 16,917 | 0 | 0 | 16,917 |
| Total Revenues | \$ 15,848,190 | \$ 4,188,071 | \$ 0 | \$ 1,856,815 | \$ 21,893,076 |
| EXPENDITURES | | | | | |
| Instruction | \$ 8,544,978 | \$ 2,886,190 | \$ 0 | \$ 6,312 | \$ 11,437,480 |
| Support Services | | | | | |
| Student | 814,361 | 526,411 | 0 | 0 | 1,340,772 |
| Instruction Staff | 664,235 | 402,130 | 0 | 0 | 1,066,365 |
| District Administrative | 1,200,392 | 0 | 0 | 0 | 1,200,392 |
| School Administrative | 770,115 | 0 | 0 | 0 | 770,115 |
| Business | 268,689 | 31,036 | 0 | 0 | 299,725 |
| Plant Operation and Maint. | 1,863,886 | 0 | 0 | 0 | 1,863,886 |
| Student Transportation | 1,163,930 | 10,985 | 0 | 0 | 1,174,915 |
| Food Service | 0 | 0 | 0 | 0 | 0 |
| Community Services | 14,169 | 331,319 | 0 | 0 | 345,488 |
| Facilities Acquisitions and Construction | 0 | 0 | 255,882 | 0 | 255,882 |
| Purchase Professional Services | 0 | 0 | 0 | 0 | 0 |
| Site Improvement | 0 | 0 | 0 | 0 | 0 |
| Building Improvements | 0 | 0 | 0 | 0 | 0 |
| Debt Service | | | | | |
| Principal | 118,445 | 0 | 0 | 1,065,000 | 1,183,445 |
| Interest | 0 | 0 | 0 | 303,761 | 303,761 |
| Miscellaneous Costs | 0 | 0 | 0 | 20,438 | 20,438 |
| Total Expenditures | \$ 15,423,200 | \$ 4,188,071 | \$ 255,882 | \$ 1,395,511 | \$ 21,262,664 |
| Excess (Deficit) of Revenues over Expenditures | \$ 424,990 | \$ 0 | \$ (255,882) | \$ 461,304 | \$ 630,412 |
| Other Financing Sources (Uses) | | | | | |
| Proceeds from Sales of Bonds | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Proceeds from Sales of Fixed Assets | 55,026 | 0 | 0 | 0 | 55,026 |
| Operating Transfer, In | 181,840 | 0 | 36,203 | 706,690 | 924,733 |
| Operating Transfer, Out | (20,438) | 0 | 0 | (904,296) | (924,734) |
| Total Other Financing Sources | \$ 216,428 | \$ 0 | \$ 36,203 | \$ (197,606) | \$ 55,025 |
| Net Change in Fund Balance | \$ 641,418 | \$ 0 | \$ (219,679) | \$ 263,698 | \$ 685,437 |
| Fund Balance June 1, 2014 | 1,108,048 | 0 | 219,679 | 0 | 1,327,727 |
| Fund Balance June 30, 2015 | \$ 1,749,466 | \$ 0 | \$ 0 | \$ 263,698 | \$ 2,013,164 |

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

**MARTINE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

| | |
|--|--------------|
| Net change in total fund balances per fund financial statements | \$ 685,437 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Capital outlays are reported as expenditures in this funds financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which net capital outlays exceeds depreciation expense for the year. | 409,308 |
| The cost of capital assets is allocated over their useful lives and reported as depreciation expense. | (909,714) |
| Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of financial position | 1,207,859 |
| Estimated claims that are not mature are not reported in this statement. The KSBIT liability is recorded in the statement of activities. | 156,721 |
| In the statement of activities certain operating expenses such as compensated absences are measured by the amounts earned during the year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used. These accrued expenses paid exceeded the amounts earned. | |
| Accrued Sick Leave | (160,523) |
| Pension Costs | (351,900) |
| Change in net Position of governmental activities | \$ 1,037,188 |

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

**MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2015**

| | <u>Food Service</u> |
|--|---------------------|
| ASSETS | |
| Current Assets | |
| Cash and Cash Equivalents | \$ 487,416 |
| Inventory | 21,816 |
| Accounts Receivable | 26,451 |
| Total Current Assets | \$ 535,683 |
| Capital Assets-net of depreciation | 191,450 |
| Total Assets | \$ 727,133 |
| LIABILITIES | |
| Current Liabilities | |
| Accounts Payable | \$ 14,984 |
| Total Current Liabilities | \$ 14,984 |
| Long-term Liabilities | |
| Pension Liabilities | \$ 489,000 |
| Total Long-Term Liabilities | \$ 489,000 |
| Net Position | |
| Investment in Capital Asset, Net of Debt | \$ 191,450 |
| Restricted | 31,699 |
| Unrestricted | 0 |
| Total Net Position | \$ 223,149 |

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

**MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

| | FOOD SERVICE |
|--|-----------------------|
| | ACTUAL |
| OPERATING REVENUES: | |
| Lunchroom Sales | \$ 180,075 |
| Other Operating Revenues | 0 |
| TOTAL OPERATING REVENUES | \$ 180,075 |
| OPERATING EXPENSES: | |
| Salaries and Wages | \$ 735,215 |
| Contract Services | 15,123 |
| Materials and Supplies | 838,421 |
| Property | 91,944 |
| Depreciation | 25,279 |
| Other Operating Expenses | 486 |
| TOTAL OPERATING EXPENSES | \$ 1,706,468 |
| Operating Income (Loss) | \$ (1,526,393) |
| NON-OPERATING REVENUES (EXPENSES) | |
| Federal Grants | \$ 1,273,064 |
| State Grants | 157,057 |
| Donated Commodities | 80,697 |
| Interest Income | 1,552 |
| NON-OPERATING REVENUES (EXPENSES) | \$ 1,512,370 |
| Operating Transfers | 0 |
| Change in net position | \$ (14,023) |
| Net Position July 1, 2014 | 687,072 |
| Prior period adjustment: Prior Pension Costs | (449,900) |
| Net Position June 30, 2015 | \$ 223,149 |

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

**MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

| CASH FLOWS FROM OPERATING ACTIVITIES | |
|---|-------------|
| Cash Received from: | |
| Lunchroom Sales | \$ 180,075 |
| Government Grants | 1,427,253 |
| Cash Paid to/for: | |
| Employees | (696,115) |
| Contract Service | (15,123) |
| Supplies | (754,476) |
| Property | (91,944) |
| Other | (486) |
| Net Cash Provided (Used) by Operating Activities | \$ 49,184 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Receipt of Interest Income | \$ 1,552 |
| Net Cash Provided by Investing Activities | \$ 1,552 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Equipment | \$ (32,253) |
| Net Cash Used by Capital and Related Financing Activities | \$ (32,253) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Transfer Funds | \$ 0 |
| Net Cash Provided by Financing Activities | \$ 0 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 18,483 |
| Cash and Cash Equivalents July 1, 2014 | 468,933 |
| Cash and Cash Equivalents June 30, 2015 | \$ 487,416 |
| Reconciliation of Operating Income (Loss) | |
| To Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | \$ (14,023) |
| Adjustments to Reconcile Operating Income to Net Cash | |
| Operating Activities: | |
| Depreciation | 25,279 |
| Interest Income | (1,552) |
| Pension Costs | 39,100 |
| Change in Assets and Liabilities: | |
| Accounts Receivable | (2,868) |
| Inventory | 11,518 |
| Accounts Payable | (8,270) |
| Other | |
| Net Cash provided by Operating Activities | \$ 49,184 |
| Schedule of Non Cash Transactions: | |
| Donated Commodities Received From Federal Government | \$ 80,697 |

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

**MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

| | <u>Permanent Trust Fund</u> | <u>AGENCY FUNDS Schools</u> | <u>TOTAL</u> |
|----------------------------|---------------------------------|-------------------------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 13,556 | \$ 139,384 | \$ 152,940 |
| Accounts Receivable | 0 | 2,092 | 2,092 |
| Total Assets | <u>\$ 13,556</u> | <u>\$ 141,476</u> | <u>\$ 155,032</u> |
| Liabilities | | | |
| Accounts Payable | \$ 0 | \$ 8,835 | \$ 8,835 |
| Due to Student Groups | | 132,641 | 132,641 |
| Total Liabilities | <u>\$ 0</u> | <u>\$ 141,476</u> | <u>\$ 141,476</u> |
| Net Position held in Trust | <u>\$ 13,556</u> | <u>\$ 0</u> | <u>\$ 13,556</u> |

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

**MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

| | Permanent Trust |
|--------------------------------|--------------------|
| Additions | |
| Receipts | \$ 4,562 |
| Total Additions | \$ 4,562 |
| Deductions | |
| Supplies and Materials | \$ 4,000 |
| School Activities and Athletic | 0 |
| Total Deductions | \$ 4,000 |
| Change in Net Position | \$ 562 |
| Net Position July 1, 2014 | 12,994 |
| Net Position June 30, 2015 | \$ 13,556 |

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

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

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

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

Fund Financial Statements - 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.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

The District has the following funds:

I. Governmental Fund Types

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

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

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary fund).

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

II. Proprietary Fund Type (Enterprise Fund)

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

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

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

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. The permanent trust fund is accounted for as an expendable trust fund on the modified accrual basis.

Basis of Accounting

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenses, and Changes in Net Position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.694 per \$100 valuation for real property, \$.694 per \$100 valuation for business personal property and \$.223 per \$100 valuation for motor vehicles.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUEDCapital Assets

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

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

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:

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inter-fund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Budgetary Process

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

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

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

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

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

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

Inventories

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

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2015 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

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

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

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 Teachers Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. 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.

Accrued Liabilities and Long-Term Obligations

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Deferred Outflows/Inflows of Resources

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

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

Fund Balance Reserves

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

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

Non-spendable includes amounts that must be maintained intact legally or contractually. Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the district using its highest level of decision making authority.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Assigned-for all governmental funds, other than General Fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the General Fund, amounts constrained by intent to be used for a specified purpose by the District or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the General Fund amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

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

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

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

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

Net Position

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating Revenues and Expenses

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

Contributions of Capital

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

Interfund Activity

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

Recently Issued and Adopted Accounting Pronouncements

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

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

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

In March 2012 the GASB issued Statement 65, Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONCLUDED

Recently Issued Accounting Pronouncements

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards previously in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employer's access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2015, (that is, for years ended June 30, 2015, or later). The District has adhered to this statement and has presented the required information in the pension note.

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE B - ON-BEHALF PAYMENTS

The Commonwealth of Kentucky pays certain expenses on behalf of the District. In the financial statements, these payments are recorded as an expense and other state revenue. These expenses include the following:

| | |
|--|---------------------|
| Health Insurance | \$ 946,433 |
| Life Insurance | 4,401 |
| Administration Fee | 30,167 |
| Health Reimbursement Account - HRA, Dental and Vision | 134,838 |
| Reimbursement from federal programs | (423,122) |
| Kentucky Teachers Retirement System (KTRS) | 2,248,587 |
| Technology Systems | 58,079 |
| Kentucky Interlocal School Transportation Association (KISTA) Capital Lease Pyments | 0 |
| School Facilities Construction Commission (SFCC) Debt Service | 682,509 |
| | <u>\$ 3,681,892</u> |

These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the Statement of Activities. However, the on-behalf payments are not budgeted on the budget to actual statements.

NOTE C - ESTIMATES

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

NOTE D - CASH AND CASH EQUIVALENTS

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

At June 30, 2015 the carrying amount of the District's deposits was \$2,139,828 and the bank balance was \$2,506,475. The bank balance throughout the year was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

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

- a. Name of bank: Inez Deposit
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$4,600,000.

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

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

As of June 30, 2015 based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Breakdown per financial statements:

| | |
|-----------------------|---------------------|
| Governmental funds | \$ 1,499,472 |
| Proprietary funds | 487,416 |
| Permanent trust funds | 13,556 |
| Agency funds | 139,384 |
| | <u>\$ 2,139,828</u> |

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE F - CAPITAL ASSETS

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

| | Balance | | | Balance |
|--------------------------------|----------------------|-------------------|-------------------|----------------------|
| | June 30, 2014 | Additions | Deductions | June 30, 2015 |
| Governmental Activities | | | | |
| Land | \$ 480,112 | \$ 0 | \$ 0 | \$ 480,112 |
| Land improvements | 381,908 | 0 | 0 | 381,908 |
| Infrastructure | 718,961 | 0 | 0 | 718,961 |
| Buildings and improvements | 27,393,075 | 249,306 | 203,408 | 27,438,973 |
| Technology equipment | 3,613,233 | 0 | 0 | 3,613,233 |
| Vehicles | 3,047,368 | 201,918 | 0 | 3,249,286 |
| General equipment | 1,373,993 | 0 | 0 | 1,373,993 |
| Construction in progress | 0 | 0 | 0 | 0 |
| Total at historical cost | <u>\$ 37,008,650</u> | <u>\$ 451,224</u> | <u>\$ 203,408</u> | <u>\$ 37,256,466</u> |
| Less: Accumulated depreciation | | | | |
| Land improvements | \$ 284,992 | \$ 6,067 | \$ 0 | \$ 291,059 |
| Infrastructure | 130,745 | 35,956 | 0 | 166,701 |
| Buildings and improvements | 9,694,861 | 628,319 | 161,492 | 10,161,688 |
| Technology equipment | 3,508,563 | 77,196 | 0 | 3,585,759 |
| Vehicles | 2,509,701 | 97,436 | 0 | 2,607,137 |
| General equipment | 575,614 | 64,740 | 0 | 640,354 |
| Total acci \$ | <u>\$ 16,704,476</u> | <u>\$ 909,714</u> | <u>\$ 161,492</u> | <u>\$ 17,452,698</u> |
| Governmental Activities | | | | |
| Capital Assets-net | <u>\$ 20,304,174</u> | | | <u>\$ 19,803,768</u> |
| Business-Type Activities | | | | |
| General equipment | \$ 463,954 | \$ 32,253 | \$ 0 | \$ 496,207 |
| Technology equipment | 13,591 | 0 | 0 | 13,591 |
| Total at historical cost | <u>\$ 477,545</u> | <u>\$ 32,253</u> | <u>\$ 0</u> | <u>\$ 509,798</u> |
| Less: Accumulated depreciation | | | | |
| Technology equipment | 279,478 | \$ 25,279 | \$ 0 | \$ 304,757 |
| General equipment | 13,591 | 0 | 0 | 13,591 |
| Total accumulated depreciation | <u>\$ 293,069</u> | <u>\$ 25,279</u> | <u>\$ 0</u> | <u>\$ 318,348</u> |
| Business-Type Activities | | | | |
| Capital Assets-net | <u>\$ 184,476</u> | | | <u>\$ 191,450</u> |

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE F - CAPITAL ASSETS (concluded)

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

| | |
|---------------------------------|-------------------|
| Instruction | \$ 743,183 |
| Student support | 38,199 |
| Instruction - staff | 119 |
| District administrative | 14,380 |
| School administrative | 172 |
| Plant operation and maintenance | 5,959 |
| Student transportation | 107,702 |
| Food service | 25,279 |
| Total | <u>\$ 934,993</u> |

NOTE G - BONDED DEBT AND LEASE OBLIGATIONS

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

| <u>Issue Date</u> | <u>Amounts</u> | <u>Interest Rates</u> |
|-------------------|----------------|-----------------------|
| 2004 Refinancing | \$5,010,000 | 1.30% - 3.83% |
| 2009 Refinancing | 4,365,000 | 1.00% - 3.50% |
| 2010 | 2,400,000 | 0.90% - 4.30% |
| 2010 | 3,300,000 | 0.70% - 5.00% |

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

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

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

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE G - BONDED DEBT AND LEASE OBLIGATIONS- CONTINUED

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

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

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

| YEAR | Martin County School District | | Kentucky School Facilities Construction Commission | | Total Requirements for Year |
|-----------|-------------------------------|-------------------|--|---------------------|-----------------------------|
| | Principal | Interest | Principal | Interest | TOTAL |
| 2015-2016 | \$ 300,073 | \$ 59,204 | \$ 409,927 | \$ 208,081 | \$ 977,285 |
| 2016-2017 | 310,259 | 50,424 | 419,741 | 197,077 | 977,501 |
| 2017-2018 | 320,090 | 40,969 | 429,910 | 184,769 | 975,738 |
| 2018-2019 | 334,670 | 30,980 | 440,330 | 171,418 | 977,398 |
| 2019-2020 | 358,802 | 19,872 | 456,198 | 156,572 | 991,444 |
| 2020-2021 | 398,634 | 6,976 | 416,366 | 141,036 | 963,012 |
| 2021-2022 | | | 285,000 | 127,920 | 412,920 |
| 2022-2023 | | | 295,000 | 116,871 | 411,871 |
| 2023-2024 | | | 305,000 | 105,157 | 410,157 |
| 2024-2025 | | | 315,000 | 92,873 | 407,873 |
| 2025-2026 | | | 325,000 | 79,715 | 404,715 |
| 2026-2027 | | | 335,000 | 65,975 | 400,975 |
| 2027-2028 | | | 345,000 | 51,442 | 396,442 |
| 2028-2029 | | | 360,000 | 36,273 | 396,273 |
| 2029-2030 | | | 370,000 | 20,301 | 390,301 |
| 2030-2031 | | | 180,000 | 4,365 | 184,365 |
| | <u>\$ 2,022,528</u> | <u>\$ 208,425</u> | <u>\$ 5,687,472</u> | <u>\$ 1,759,845</u> | <u>\$ 9,678,270</u> |

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE G - BONDED DEBT AND LEASE OBLIGATIONS- CONTINUED

During the year ended June 30, 2015 the District's debt obligation was as follows:

| Amount Outstanding June 30, 2014 | Additions | Deductions | Amount Outstanding June 30, 2015 | Amount Due Within One Year |
|--|-----------|--------------|--|----------------------------------|
| \$ 8,775,000 | \$ 0 | \$ 1,065,000 | \$ 7,710,000 | \$ 710,000 |

NOTE H - LONG-TERM DEBT

During the fiscal year ended June 30, 2015 Martin County School Districts' debt obligation was as follows:

| Amount Outstanding June 30, 2014 | Additions | Deductions | Amount Outstanding June 30, 2015 | Amount Due Within One Year |
|--|-----------|------------|--|----------------------------------|
| \$ 56,250 | \$ 0 | \$ 18,750 | \$ 37,500 | \$ 18,750 |

The Department for Regional Development's, semi-annual payment shall be made over a period of twelve (12) years, 24 payments in total, and the unpaid balance would bear interest at the fixed rate of two (2) percent. The debt is collateralized by the C & S Vault building and final payment due January 1, 2017. The minimum obligations of the funds at June 30, 2015 for long-term debt (principal and interest) are as follows:

| Year Ending June 30, | Principal | Interest | Total Requirements for Year |
|----------------------------|------------------|-----------------|-----------------------------------|
| 2016 | \$ 18,750 | \$ 937 | \$ 19,687 |
| 2017 | 18,750 | 187 | 18,937 |
| | <u>\$ 37,500</u> | <u>\$ 1,124</u> | <u>\$ 38,624</u> |

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE I - CAPITAL LEASE PAYABLE

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

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

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

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

The following is a schedule of Equipment Lease Certificates of Participation, second series of 2006, series of 2009, series of 2012, and series of 2013 by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2015:

| Year Ending June 30, | Principal | Interest | Total Requirement |
|---|-------------------|------------------|----------------------|
| 2016 | \$ 96,011 | \$ 12,345 | \$ 108,356 |
| 2017 | 98,723 | 9,574 | 108,297 |
| 2018 | 65,033 | 6,628 | 71,661 |
| 2019 | 66,875 | 4,942 | 71,817 |
| 2020-2023 | 145,318 | 7,100 | 152,418 |
| | <u>\$ 471,960</u> | <u>\$ 40,589</u> | <u>\$ 512,549</u> |
| Present Value of net minimum lease payments | | | <u>\$ 471,960</u> |

NOTE J - COMMITMENTS UNDER NON-CAPITALIZED LEASES

The District had no commitments under non-capitalized leases at June 30, 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE K - KSBIT PAYABLE

The Kentucky School Board Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under novation method, the District's liability would be \$552,357. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. The District has voted to finance this obligation over a six year period. The minimum obligations of the funds at June 30, 2015 for principal only are as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2,016 | \$ 90,781 |
| 2,017 | 90,781 |
| 2,018 | 53,519 |
| 2,019 | 53,519 |
| 2,020 | 53,518 |
| 2,021 | 53,518 |
| | <u>\$ 395,636</u> |

During the year ended June 30, 2015 the District's debt obligation was as follows:

| <u>Amount Outstanding at June 30, 2014</u> | <u>Additions</u> | <u>Deductions</u> | <u>Amount Outstanding at June 30, 2015</u> | <u>Amount Due Within One Year</u> |
|--|------------------|-------------------|--|---|
| <u>\$ 552,357</u> | <u>\$ 0</u> | <u>\$ 156,721</u> | <u>\$ 395,636</u> | <u>\$ 90,781</u> |

NOTE L - GENERAL INFORMATION ABOUT THE PENSION PLANS

Teachers' Retirement System of the State of Kentucky (KTRS)

Plan Description - Teaching-certified employees of the District 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 education agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS 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 members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members 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 members (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 members 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 services, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 and 2.5% to 3% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members 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 members 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 members and \$5,000 for retired or disabled members.

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 members are required to contribute 12.105% of their salaries to the System. University members are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 7.68% of their salary to KTRS.

NOTE L - GENERAL INFORMATION ABOUT THE PENSION PLANS (Continued)

Teachers' Retirement System of the State of Kentucky (KTRS)(Continued)

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 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. University employers contribute 15.36% of salaries of members. For local school district and regional cooperative members 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, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Funding policy- In order to fund the post-retirement healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

At June 30, 2015, the Martin County School District did not report a liability for its proportionate share of the net pension liability because the State 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 State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|---|----------------------|
| State's proportionate share of the net pension liability associated with the District | <u>\$ 58,163,305</u> |
|---|----------------------|

The net pension liability 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 was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.28 percent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE L - GENERAL INFORMATION ABOUT THE PENSION PLANS (Continued)

Teachers' Retirement System of the State of Kentucky (KTRS)(Continued)

District contributions subsequent to the measurement date of \$523,154 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

For the year ended June 30, 2015, the District recognized pension expense of \$2,850,120 and revenue of \$2,850,120 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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:

| | |
|---------------------------------|---|
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation. |
| Projected salary increases | 4.00 – 8.20%, including inflation |
| Inflation rate | 3.50% |
| Municipal Bond Index Rate | 4.35% |
| Single Equivalent Interest Rate | 5.23% |

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.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS'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 | <u>100.0%</u> | |

NOTE L - GENERAL INFORMATION ABOUT THE PENSION PLANS (Continued)

Teachers' Retirement System of the State of Kentucky (KTRS)(Concluded)

Discount rate - The discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was 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 members until the 2036 plan year and as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). On the Prior Measurement Date, the long-term expected rate of return of 7.50% on Plan investments was applied to periods before 2036 and a municipal bond index rate of 4.27% was applied to periods on or after 2036, resulting in an SEIR of 5.16%. There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 5.23% was calculated using the Municipal Bond Index Rate as of the Measurement Date (4.35%). This change in the discount rate is considered a change in actuarial assumptions under GASB 68.

The following table presents the District's proportionate share of the net pension liability of the System, calculated using the discount rate of 5.23%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23%) or 1-percentage-point higher (6.23%) than the current rate

| (\$ thousands): | 1% Decrease (4.23%) | Current Discount Rate (5.23%) | 1% Increase (6.23%) |
|--------------------------------|------------------------|-------------------------------------|------------------------|
| System's net pension liability | \$76,757 | \$61,105 | \$48,189 |

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report.

June 30, 2013 is the actuarial valuation date upon which the TPL is based. An expected TPL is determined as of June 30, 2014 using standard roll forward techniques. The procedure used to determine the TPL as of June 30, 2014 is shown on page 6 of the GASB 67 report for KTRS submitted on December 11, 2014.

Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive Plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

NOTE L - GENERAL INFORMATION ABOUT THE PENSION PLANS (Continued)

KENTUCKY RETIREMENT SYSTEM
County Employees Retirement System (CERS)

Plan description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 17.67% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2014. At June 30, 2014, the District's proportion was .15703%.

For the year ended June 30, 2015, the District recognized pension expense of \$391,000. At June 30, 2015, the District reported deferred outflows of resources for District contributions subsequent to the measurement date and deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$546,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE L - GENERAL INFORMATION ABOUT THE PENSION PLANS (Continued)

KENTUCKY RETIREMENT SYSTEM

County Employees Retirement System (CERS)(Continued)

District contributions subsequent to the measurement date of \$590,498 are reported as deferred outflows of resources and 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 of resources related to CERS will be recognized in pension expense as follows:

| Year | Amount |
|------|-------------------|
| 2016 | \$ 109,200 |
| 2017 | 109,200 |
| 2018 | 109,200 |
| 2019 | 109,200 |
| 2020 | 109,200 |
| | <u>\$ 546,000</u> |

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|-------------------------------|---|
| Valuation Date | June 30, 2014 |
| Experience Study | July 1, 2005- June 30, 2008 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 3.5% |
| Salary Increase | 4.5%, average, including inflation |
| Investment Rate of Return | 7.75%, net of pension plan investment expense, including inflation |

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE L - GENERAL INFORMATION ABOUT THE PENSION PLANS (Continued)**KENTUCKY RETIREMENT SYSTEM County Employees Retirement System (CERS)(Continued)**

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.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset 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 |
|-------------------------|----------------------|---|
| Domestic Equity | 30.0% | 8.45% |
| International Equity | 22.0% | 8.85% |
| Emerging Market Equity | 5.0% | 10.50% |
| Private Equity | 7.0% | 11.25% |
| Real Estate | 5.0% | 7.00% |
| Core U.S. Fixed Income | 10.0% | 5.25% |
| High Yield Fixed Income | 5.0% | 7.25% |
| Non US Fixed Income | 5.0% | 5.50% |
| Commodities | 5.0% | 7.75% |
| TIPS | 5.0% | 5.00% |
| Cash | 1.0% | 3.25% |
| Total | 100.0% | |

Discount Rate: 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 members 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 assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

NOTE L - GENERAL INFORMATION ABOUT THE PENSION PLANS (Concluded)

KENTUCKY RETIREMENT SYSTEM

County Employees Retirement System (CERS)(Concluded)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate:

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 %, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 %) or 1-percentage-point higher (8.75%) than the current rate:

| (\$ thousands): | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---------------------------|-------------------------------------|---------------------------|
| District's proportionate share of the net pension liability | \$5,692,449 | \$4,890,000 | \$4,206,867 |

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2015 the District had payables to CERS in the amount of \$0 for June's covered payroll with contributions required to be paid in July.

NOTE M - CONTINGENCIES

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

NOTE N - LITIGATION

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

NOTE O - INSURANCE AND RELATED ACTIVITIES

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

policies which are retrospectively rated, which includes workers' compensation insurance.

NOTE P - RISK MANAGEMENT

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

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

NOTE Q - DEFICIT OPERATING BALANCES

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

CONSTRUCTION \$ 219,679

NOTE R - COBRA

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

MARTIN COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

NOTE S - TRANSFER OF FUNDS

The following transfers were made during the year:

| <u>Type</u> | <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|-------------|------------------|----------------|----------------|---------------|
| Operating | Capital Outlay | General Fund | General Fund | \$ 181,840 |
| Operating | General | Debt Service | Debt Service | 20,438 |
| Operating | FSPK | Construction | Construction | 36,203 |
| Operating | FSPK | Debt Service | Debt Service | 686,252 |

NOTE T - INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2015.

NOTE U - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 30, 2015 the date on which the financial statements were available to be issued.

NOTE V - PRIOR PERIOD ADJUSTMENT

Prior period adjustment consists of the District's proportionate share of the net pension liabilities which are required to be included by GASB 67 and 68.

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------------|
| District's proportionate share of the net pension liability | \$ 4,401,000 | \$ 489,000 | \$ 4,890,000 |
| Deferred inflows of resources | 546,000 | 0 | 546,000 |
| Current Year | (351,900) | (39,100) | (391,000) |
| Total Prior Period Adjustment | <u>\$ 4,595,100</u> | <u>\$ 449,900</u> | <u>\$ 5,045,000</u> |

REQUIRED SUPPLEMENTAL INFORMATION

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

| | GENERAL FUND | | | VARIANCE |
|---|-----------------------|-----------------------|----------------------|----------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) |
| REVENUES: | | | | |
| From Local Sources | | | | |
| Taxation | \$ 2,331,334 | \$ 2,331,459 | \$ 2,583,726 | \$ 252,267 |
| Motor Vehicle | 138,000 | 138,000 | 160,639 | 22,639 |
| Utilities Tax | 900,000 | 900,000 | 704,969 | (195,031) |
| Unmined Minerals | 300,000 | 300,000 | 495,915 | 195,915 |
| Tuition and Fees | 0 | 0 | 0 | 195,915 |
| Earnings On Investments | 3,500 | 3,500 | 5,169 | 1,669 |
| Other Local Revenue | 40,625 | 28,500 | 95,962 | 67,462 |
| Intergovernmental-State | 8,951,079 | 8,951,079 | 11,801,810 | 2,850,731 |
| Intergovernmental – Direct Federal | 0 | 0 | 0 | 0 |
| TOTAL REVENUES | \$ 12,664,538 | \$ 12,652,538 | \$ 15,848,190 | \$ 3,391,567 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction | \$ 6,873,731 | \$ 6,873,731 | \$ 8,544,978 | \$ 1,671,247 |
| Support Services: | | | | |
| Student | 775,839 | 775,839 | 814,361 | 38,522 |
| Instructional Staff | 348,766 | 348,766 | 664,235 | 315,469 |
| District Administration | 1,631,189 | 1,631,189 | 1,200,392 | (430,797) |
| School Administration | 685,625 | 685,625 | 770,115 | 84,490 |
| Business | 285,569 | 285,569 | 268,689 | (16,880) |
| Plant Operations & Maintenance | 1,776,197 | 1,776,197 | 1,863,886 | 87,689 |
| Student Transportation | 1,324,983 | 1,324,983 | 1,163,930 | (161,053) |
| Central Office | 0 | 0 | 0 | 0 |
| Food Service Operations | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Community Service | 11,800 | 11,800 | 14,169 | 2,369 |
| Site Acquisition & Constr. | 0 | 0 | 0 | 0 |
| Debt Service – Principal | 138,902 | 138,903 | 118,445 | (20,458) |
| Debt Service – Interest | 0 | 0 | 0 | 0 |
| Contingency | 0 | 0 | 0 | 0 |
| TOTAL EXPENDITURES | \$ 13,852,601 | \$ 13,852,602 | \$ 15,423,200 | \$ 1,570,598 |
| Excess (Deficit) of Revenues over Expenditures | \$ (1,188,063) | \$ (1,200,064) | \$ 424,990 | \$ 1,820,969 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Bonds Proceeds | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Proceeds from Sale of Fixed Assets | 0 | 12,000 | 55,026 | 43,026 |
| Operating Transfers In | 180,904 | 180,904 | 181,840 | 936 |
| Operating Transfers Out | 0 | 0 | (20,438) | (20,438) |
| TOTAL OTHER FINANCING SOURCES (USES): | \$ 180,904 | \$ 192,904 | \$ 216,428 | \$ 23,524 |
| Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses | <u>\$ (1,007,159)</u> | <u>\$ (1,007,160)</u> | \$ 641,418 | <u>\$ 1,844,493</u> |
| Fund Balance June 30, 2014 | | | 1,108,048 | |
| Fund Balance June 30, 2015 | | | <u>1,749,466</u> | |

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

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

| | SPECIAL REVENUE | | | VARIANCE FAVORABLE (UNFAVORABLE) |
|---|---------------------|---------------------|---------------------|--|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | |
| REVENUES: | | | | |
| From Local Sources | | | | |
| Taxation | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Motor Vehicle | 0 | 0 | 0 | 0 |
| Utilities | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Tuition & Fees | 0 | 0 | 0 | 0 |
| Earnings on Investments | 11,205 | 11,205 | 602 | (10,603) |
| Other Local Revenues | 158,481 | 160,981 | 88,226 | (72,755) |
| Intergovernmental-Intermediate | | | 611,083 | 611,083 |
| Intergovernmental-State | 839,486 | 999,279 | 874,451 | (124,828) |
| Intergovernmental – InDirect Federal | 2,900,778 | 4,484,496 | 2,596,792 | (1,887,704) |
| Intergovernmental – Direct Federal | 0 | 18,242 | 16,917 | (1,325) |
| TOTAL REVENUES | \$ 3,909,950 | \$ 5,674,203 | \$ 4,188,071 | \$ (1,486,132) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction | \$ 2,675,419 | \$ 2,781,511 | \$ 2,886,190 | \$ (104,679) |
| Support Services: | | | | |
| Student | 482,214 | 2,083,822 | 526,411 | 1,557,411 |
| Instructional Staff | 229,583 | 239,767 | 402,130 | (162,363) |
| District Administration | 0 | 0 | 0 | 0 |
| School Administration | 0 | 0 | 0 | 0 |
| Business | 40,358 | 40,358 | 31,036 | 9,322 |
| Plant Operations & Maintenance | 52,811 | 98,621 | 0 | 98,621 |
| Student Transportation | 0 | 0 | 10,985 | (10,985) |
| Central Office | 0 | 0 | 0 | 0 |
| Food Service Operations | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Community Service | 429,565 | 430,124 | 331,319 | 98,805 |
| Facilities Acquisition & Construction | 0 | 0 | 0 | 0 |
| Contingency | 0 | 0 | 0 | 0 |
| TOTAL EXPENDITURES | \$ 3,909,950 | \$ 5,674,203 | \$ 4,188,071 | \$ 1,486,132 |
| Excess (Deficit) of Revenues over Expenditures | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Bonds Proceeds | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Proceeds from Sale of Fixed Assets | 0 | 0 | 0 | 0 |
| Operating Transfers In | 0 | 0 | 0 | 0 |
| Operating Transfers Out | 0 | 0 | 0 | 0 |
| TOTAL OTHER FINANCING SOURCES (USES): | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses | <u>\$ 0</u> | <u>\$ 0</u> | \$ 0 | <u>\$ 0</u> |
| Fund Balance June 30, 2014 | | | 0 | |
| Fund Balance June 30, 2015 | | | <u>\$ 0</u> | |

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

MARTIN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

| | CONSTRUCTION FUND | | | |
|---|-------------------|-------------|-------------------|----------------------------|
| | ORIGINAL | FINAL | ACTUAL | VARIANCE |
| | BUDGET | BUDGET | | FAVORABLE (UNFAVORABLE) |
| REVENUES: | | | | |
| From Local Sources | | | | |
| Taxation | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Motor Vehicle | 0 | 0 | 0 | 0 |
| Utilities | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Tuition & Fees | 0 | 0 | 0 | 0 |
| Earnings on Investments | 0 | 0 | 0 | 0 |
| Other Local Revenues | 0 | 0 | 0 | 0 |
| Intergovernmental-State | 0 | 0 | 0 | 0 |
| Intergovernmental – InDirect Federal | 0 | 0 | 0 | 0 |
| Intergovernmental – Direct Federal | 0 | 0 | 0 | 0 |
| TOTAL REVENUES | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Support Services: | | | | |
| Student | 0 | 0 | 0 | 0 |
| Instructional Staff | 0 | 0 | 0 | 0 |
| District Administration | 0 | 0 | 0 | 0 |
| School Administration | 0 | 0 | 0 | 0 |
| Business | 0 | 0 | 0 | 0 |
| Plant Operations & Maintenance | 0 | 0 | 0 | 0 |
| Student Transportation | 0 | 0 | 0 | 0 |
| Central Office | 0 | 0 | 0 | 0 |
| Food Service Operations | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Community Service | 0 | 0 | 0 | 0 |
| Facilities Acquisition & Construction | 0 | 0 | 255,882 | (255,882) |
| Building Improvements | 0 | 0 | 0 | 0 |
| Site Improvements | 0 | 0 | 0 | 0 |
| TOTAL EXPENDITURES | \$ 0 | \$ 0 | \$ 255,882 | \$ (255,882) |
| Excess (Deficit) of Revenues over Expenditures | \$ 0 | \$ 0 | \$ (255,882) | \$ (255,882) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Bonds Proceeds | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Proceeds from Sale of Fixed Assets | 0 | 0 | 0 | 0 |
| Operating Transfers In | 0 | 0 | 36,203 | 36,203 |
| Operating Transfers Out | 0 | 0 | 0 | 0 |
| TOTAL OTHER FINANCING SOURCES (USE) | \$ 0 | \$ 0 | \$ 36,203 | \$ 36,203 |
| Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses | <u>\$ 0</u> | <u>\$ 0</u> | \$ (219,679) | <u>\$ (219,679)</u> |
| Fund Balance June 30,2014 | | | 219,679 | |
| Fund Balance June 30,2015 | | | <u>\$ 0</u> | |

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

**MARTIN COUNTY SCHOOL DISTRICT
KENTUCKY TEACHERS RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2015**

Last Ten Fiscal Years ** 2014-15

| Schedule of the District's Proportionate Share of the Net Pension Liability | |
|--|---------------|
| District's proportion of the net pension liability | 0.0000% |
| District's proportionate share of the net pension liability | \$ 0 |
| Commonwealth's proportion of the net pension liability associated with the District | 0.2830% |
| Commonwealth's proportionate share of the net pension liability associated with the District | \$ 58,163,305 |
| Total | \$ 58,163,305 |
| District's covered-employee payroll | \$ 8,640,781 |
| District's proportionate share of the net pension liability | 0 |
| Commonwealth's proportionate share of the net pension liability as a percentage of District's covered-employee payroll | 14.8561% |
| Plan fiduciary net position as a percentage of the total pension liability | 45.5907% |

| Schedule of District Contributions | |
|--|-----------------|
| | <u>2014-15</u> |
| Contractually required contribution | \$ 1,429,501 |
| Contributions in relation to the contractually required contribution | 1,429,501 |
| Contribution deficiency (excess) | \$ 0 |
| District's covered payroll | \$ 8,640,781 |
| Contributions as a percentage of covered-employee payroll | <u>16.5437%</u> |

** Schedule is intended to show information for ten years. Additional years will be displayed as they become available.
See independent auditor's report and accompanying notes to the financial statement.

MARTIN COUNTY SCHOOL DISTRICT
County Employees Retirement System Non-Hazardous
FOR THE YEAR ENDED JUNE 30, 2015

Last Ten Fiscal Years **

2014-15

Schedule of the District's Proportionate Share of the Net Pension Liability

| | |
|--|------------|
| District's proportion of the net pension liability | 15.07300% |
| District's proportionate share of the net pension liability | 4,890,000 |
| District's covered-employee payroll | 4,217,912 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 115.93414% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.80103% |

Schedule of District Contributions

| | |
|---|--------------------|
| Contractually required contribution | \$ 765,901 |
| Contributions in relation to the contractually required contribution | 765,901 |
| Contribution deficiency (excess) | <u><u>\$ 0</u></u> |
| District's covered payroll | 4,217,912 |
| Contributions as a percentage of covered-employee payroll | 18.1583% |

** Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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

COMBINING FINANCIAL STATEMENTS

**MARTIN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015**

| | FSPK Fund | Debt Service Fund | SEEK Capital Outlay Fund | District Activity | Total Other Government Funds |
|--|-------------------|----------------------|-----------------------------|----------------------|------------------------------------|
| ASSETS AND RESOURCES | | | | | |
| Cash and Cash Equivalents | \$ 256,065 | \$ 0 | \$ 0 | \$ 7,633 | \$ 263,698 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Bond Issuance Costs(net) | 0 | 0 | 0 | 0 | 0 |
| Accounts Receivable | 0 | 0 | 0 | 0 | 0 |
| Total Assets | \$ 256,065 | \$ 0 | \$ 0 | \$ 7,633 | \$ 263,698 |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Payroll liabilities | 0 | 0 | 0 | 0 | 0 |
| Sick leave payable-in process | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Deferred Revenue | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Fund Balances | | | | | |
| Restricted for Future Construction | 256,065 | 0 | 0 | 0 | 256,065 |
| Restricted for Sick Leave | 0 | 0 | 0 | 0 | 0 |
| Committed for Sick Leave | 0 | 0 | 0 | 0 | 0 |
| Assigned for Students | 0 | 0 | 0 | 7,633 | 7,633 |
| Unassigned Fund Balance | 0 | 0 | 0 | 0 | 0 |
| Total Fund Balances | \$ 256,065 | \$ 0 | \$ 0 | \$ 7,633 | \$ 263,698 |
| Total Liabilities and Fund Balances | \$ 256,065 | \$ 0 | \$ 0 | \$ 7,633 | \$ 263,698 |

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

MARTIN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

| | FSPK Fund | Debt Service Fund | SEEK Capital Outlay Fund | District Activity | Total Other Governmental Funds |
|--|-------------------|-------------------|--------------------------|-------------------|--------------------------------|
| REVENUES | | | | | |
| From Local Sources | | | | | |
| Taxes | | | | | |
| Property | \$ 595,060 | \$ 0 | \$ 0 | \$ 0 | \$ 595,060 |
| Motor Vehicles | 0 | 0 | 0 | 0 | 0 |
| Utilities | 0 | 0 | 0 | 0 | 0 |
| Unmined Minerals | 0 | 0 | 0 | 0 | 0 |
| Tuition and Fees | 0 | 0 | 0 | 0 | 0 |
| Earnings on Investments | 0 | 0 | 0 | 0 | 0 |
| Other Local Revenues | 0 | 0 | 0 | 13,945 | 13,945 |
| Intergovernmental- Intermediate | 0 | 0 | 0 | 0 | 0 |
| Intergovernmental- State | 383,461 | 682,509 | 181,840 | 0 | 1,247,810 |
| Intergovernmental-Indirect Federal | 0 | 0 | 0 | 0 | 0 |
| Intergovernmental-Direct Federal | 0 | 0 | 0 | 0 | 0 |
| Total Revenues | \$ 978,521 | \$ 682,509 | \$ 181,840 | \$ 13,945 | \$ 1,856,815 |
| EXPENDITURES | | | | | |
| Instruction | \$ 0 | \$ 0 | \$ 0 | \$ 6,312 | \$ 6,312 |
| Support Services | | | | | |
| Student | 0 | 0 | 0 | 0 | 0 |
| Instruction Staff | 0 | 0 | 0 | 0 | 0 |
| District Administrative | 0 | 0 | 0 | 0 | 0 |
| School Administrative | 0 | 0 | 0 | 0 | 0 |
| Business | 0 | 0 | 0 | 0 | 0 |
| Plant Operation and Maint. | 0 | 0 | 0 | 0 | 0 |
| Student Transportation | 0 | 0 | 0 | 0 | 0 |
| Food Service | 0 | 0 | 0 | 0 | 0 |
| Community Services | 0 | 0 | 0 | 0 | 0 |
| Facilities Acquisitions and Construction | 0 | 0 | 0 | 0 | 0 |
| Purchase Professional Services | 0 | 0 | 0 | 0 | 0 |
| Site Improvement | 0 | 0 | 0 | 0 | 0 |
| Building Improvements | 0 | 0 | 0 | 0 | 0 |
| Debt Service | | | | | |
| Principal | 0 | 1,065,000 | 0 | 0 | 1,065,000 |
| Interest | 0 | 303,761 | 0 | 0 | 303,761 |
| Miscellaneous Costs | 0 | 20,438 | 0 | 0 | 20,438 |
| Total Expenditures | \$ 0 | \$ 1,389,199 | \$ 0 | \$ 6,312 | \$ 1,395,511 |
| Excess (Deficit) of Revenues over Expenditures | \$ 978,521 | \$ (706,690) | \$ 181,840 | \$ 7,633 | \$ 461,304 |
| Other Financing Sources (Uses) | | | | | |
| Proceeds from Sales of Bonds | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Proceeds from Sales of Fixed Assets | 0 | 0 | 0 | 0 | 0 |
| Operating Transfer, In | 0 | 706,690 | 0 | 0 | 706,690 |
| Operating Transfer, Out | (722,456) | 0 | (181,840) | 0 | (904,296) |
| Total Other Financing Sources | \$ (722,456) | \$ 706,690 | \$ (181,840) | \$ 0 | \$ (197,606) |
| Net Change in Fund Balance | \$ 256,065 | \$ 0 | \$ 0 | \$ 7,633 | \$ 263,698 |
| Fund Balance June 1, 2014 | 0 | 0 | 0 | 0 | 0 |
| Fund Balance June 30, 2015 | <u>\$ 256,065</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 7,633</u> | <u>\$ 263,698</u> |

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

**MARTIN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 SCHOOL ACTIVITY FUNDS (AGENCY FUND)
 FOR THE YEAR ENDED JUNE 30, 2015**

| | Sheldon Clark High School | Martin County Middle School | Warfield Elementary | Inez Elementary | Eden Elementary | TOTALS |
|--------------------------------------|---------------------------------|--------------------------------------|------------------------|--------------------|--------------------|-------------------|
| Assets | | | | | | |
| Cash | \$ 60,378 | \$ 16,916 | \$ 21,306 | \$ 16,395 | \$ 24,389 | \$ 139,384 |
| Accounts Recievable | 396 | 0 | 1,696 | 0 | 0 | 2,092 |
| | <u>\$ 60,774</u> | <u>\$ 16,916</u> | <u>\$ 23,002</u> | <u>\$ 16,395</u> | <u>\$ 24,389</u> | <u>\$ 141,476</u> |
| Liabilities and Fund Balances | | | | | | |
| Accounts payable | \$ 3,927 | \$ 391 | \$ 1,622 | \$ 0 | \$ 2,895 | \$ 8,835 |
| Due to student groups | 56,847 | 16,525 | 21,380 | 16,395 | 21,494 | 132,641 |
| Total Liabilities | <u>\$ 60,774</u> | <u>\$ 16,916</u> | <u>\$ 23,002</u> | <u>\$ 16,395</u> | <u>\$ 24,389</u> | <u>\$ 141,476</u> |

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

**MARTIN COUNTY SCHOOL DISTRICT
SHELDON CLARK HIGH SCHOOL
ACTIVITY FUNDS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

| Fund | Cash Balance | Receipts | Disburse- ments | Transfers | Cash Balance | Accounts Receivable | Accounts Payable | Due to |
|----------------------------|------------------|-------------------|--------------------|-------------|------------------|------------------------|---------------------|---------------------------|
| | July 1, 2014 | | | | June 30, 2015 | | | Students June 30, 2015 |
| GENERAL OPERATING | \$ 4,513 | \$ 8,888 | \$ 7,074 | \$ 1,110 | \$ 7,437 | \$ 396 | \$ 0 | \$ 7,833 |
| INTEREST | 12 | 136 | 0 | (148) | 0 | 0 | 0 | 0 |
| STAFF POP SALES | 231 | 2,823 | 2,258 | (356) | 440 | 0 | 0 | 440 |
| SCHOOL STORE | 1,318 | 27,755 | 22,359 | (1,050) | 5,664 | 0 | 0 | 5,664 |
| GATORADE MACHINE | 0 | 255 | 327 | 356 | 284 | 0 | 0 | 284 |
| LIBRARY | 1,475 | 936 | 863 | 0 | 1,548 | 0 | 0 | 1,548 |
| JKG | 931 | 1,150 | 696 | 500 | 1,885 | 0 | 0 | 1,885 |
| FOOTBALL | 2,461 | 30,587 | 25,119 | (4,000) | 3,929 | 0 | 3,642 | 287 |
| BOY'S BASKETBALL | 438 | 25,208 | 23,150 | 1,000 | 3,496 | 0 | 0 | 3,496 |
| BAEBALL | 0 | 10,399 | 10,701 | 3,703 | 3,401 | 0 | 0 | 3,401 |
| WRESTLING | 0 | 5,398 | 6,843 | 1,445 | 0 | 0 | 0 | 0 |
| BOYS' TENNIS | 0 | 1,403 | 1,489 | 86 | 0 | 0 | 0 | 0 |
| BOY'S TRACK | 0 | 0 | 83 | 83 | 0 | 0 | 0 | 0 |
| GOLF | 6,187 | 16,000 | 17,246 | 1,000 | 5,941 | 0 | 0 | 5,941 |
| VOLLEYBALL | 0 | 8,918 | 8,552 | 0 | 366 | 0 | 0 | 366 |
| GIRL'S BASKETBALL | 5,153 | 14,211 | 18,055 | 1,000 | 2,309 | 0 | 0 | 2,309 |
| SOFTBALL | 5,988 | 2,939 | 8,175 | 702 | 1,454 | 0 | 0 | 1,454 |
| SOCCER | 869 | 1,666 | 1,703 | 0 | 832 | 0 | 0 | 832 |
| GIRL'S TENNIS | 0 | 1,403 | 1,477 | 74 | 0 | 0 | 0 | 0 |
| GIRL'S TRACK | 0 | 0 | 13 | 13 | 0 | 0 | 0 | 0 |
| DISTRICT TOURNAMENT | 0 | 3,365 | 1,960 | (1,405) | 0 | 0 | 0 | 0 |
| ZIP-ZONE | 291 | 33,217 | 25,381 | (6,102) | 2,025 | 0 | 0 | 2,025 |
| CHEERLEADERS | 0 | 12,897 | 13,198 | 301 | 0 | 0 | 0 | 0 |
| DANCETEAM | 0 | 825 | 1,306 | 481 | 0 | 0 | 0 | 0 |
| ACADEMIC TEAM | 2,180 | 0 | 801 | 1,000 | 2,379 | 0 | 0 | 2,379 |
| BAND | 2,099 | 6,166 | 5,748 | 0 | 2,517 | 0 | 0 | 2,517 |
| ENVIRONMENTAL CLUB | 219 | 0 | 0 | 0 | 219 | 0 | 0 | 219 |
| FCCLA | 453 | 15,947 | 16,544 | 800 | 656 | 0 | 0 | 656 |
| E DISCOVERY | 645 | 0 | 70 | 0 | 575 | 0 | 0 | 575 |
| YEARBOOK | 1,200 | 0 | 90 | 0 | 1,110 | 0 | 0 | 1,110 |
| STUDENT COUNCIL | 116 | 0 | 0 | 0 | 116 | 0 | 0 | 116 |
| FCA | 2,676 | 0 | 0 | 0 | 2,676 | 0 | 0 | 2,676 |
| PROM | 2,859 | 10,932 | 11,708 | 100 | 2,183 | 0 | 0 | 2,183 |
| CHARLES KIRK SCHOLARSHIP | 3,500 | 0 | 2,000 | 0 | 1,500 | 0 | 0 | 1,500 |
| MARTIN COUNTY APPRECIATION | 1,400 | 0 | 0 | 0 | 1,400 | 0 | 0 | 1,400 |
| AUDREY COLLIER SCHOLARSHIP | 1,000 | 0 | 1,000 | 0 | 0 | 0 | 0 | 0 |
| 11TH GRADE REWARD TRIP | 0 | 21 | 0 | 0 | 21 | 0 | 0 | 21 |
| ART CLUB | 1,136 | 1,253 | 1,517 | (800) | 72 | 0 | 0 | 72 |
| ARCHERY | 665 | 0 | 0 | 0 | 665 | 0 | 0 | 665 |
| SENIOR REWARD TRIP | 0 | 2,593 | 3,213 | 620 | 0 | 0 | 0 | 0 |
| JROTC | 2,160 | 1,678 | 2,754 | 0 | 1,084 | 0 | 0 | 1,084 |
| BOOK CLUB | 891 | 0 | 632 | 0 | 259 | 0 | 0 | 259 |
| CELEBRATION | 163 | 0 | 0 | (163) | 0 | 0 | 0 | 0 |
| DRAMA PLAY | 672 | 19,608 | 17,994 | (350) | 1,936 | 0 | 285 | 1,651 |
| | | | | | | | | 0 |
| TOTAL | <u>\$ 53,901</u> | <u>\$ 268,577</u> | <u>\$ 262,099</u> | <u>\$ 0</u> | <u>\$ 60,379</u> | <u>\$ 396</u> | <u>\$ 3,927</u> | <u>\$ 56,848</u> |

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

**MARTIN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES DUE TO STUDENT GROUPS
 SCHOOL ACTIVITY FUNDS (AGENCY FUND)
 FOR THE YEAR ENDED JUNE 30, 2015**

| | Sheldon Clark High School | Martin County Middle School | Warfield Elementary | Inez Elementary | Eden Elementary | Totals |
|--|---------------------------------|--------------------------------------|------------------------|--------------------|--------------------|-------------------|
| Revenues | | | | | | |
| School activities and projects funds | \$ 123,038 | \$ 57,612 | \$ 51,687 | \$ 68,161 | \$ 38,581 | \$ 339,079 |
| Athletic Fund | 145,106 | 30,932 | 7,977 | 6,436 | 11,352 | 201,803 |
| Total Revenues | <u>\$ 268,144</u> | <u>\$ 88,544</u> | <u>\$ 59,664</u> | <u>\$ 74,597</u> | <u>\$ 49,933</u> | <u>\$ 540,882</u> |
| Expenditures | | | | | | |
| School activities and projects funds | \$ 95,355 | \$ 57,629 | \$ 49,368 | \$ 63,511 | \$ 54,184 | \$ 320,047 |
| Athletic Fund | 163,121 | 30,738 | 5,233 | 6,436 | 11,047 | 216,575 |
| Total Expenditures | <u>\$ 258,476</u> | <u>\$ 88,367</u> | <u>\$ 54,601</u> | <u>\$ 69,947</u> | <u>\$ 65,231</u> | <u>\$ 536,622</u> |
| Excess (deficit) or revenues over expenditures before other financing sources (uses) | \$ 9,668 | \$ 177 | \$ 5,063 | \$ 4,650 | \$ (15,298) | \$ 4,260 |
| Net Position held in trust | | | | | | |
| July 1, 2014 | 47,179 | 16,348 | 16,317 | 11,745 | 36,792 | 128,381 |
| June 30, 2015 | <u>\$ 56,847</u> | <u>\$ 16,525</u> | <u>\$ 21,380</u> | <u>\$ 16,395</u> | <u>\$ 21,494</u> | <u>\$ 132,641</u> |

REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Wallen, Puckett, & Anderson, psc
CERTIFIED PUBLIC ACCOUNTANTS

106 Fourth Street • Post Office Box 1349 • Pikeville, Kentucky 41502

J. Don Wallen, CPA
L. Kevin Puckett, CPA
James K. Anderson, CPA
Johnny C. Cornett, CPA
Johnny K. White, CPA

606-432-8833
FAX 606-432-8466

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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States 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 11-Instructions for Submission of the Audit Report, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Martin County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Martin County School District's basic financial statements, and have issued our report thereon dated October 30, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Martin County School District, in a separate letter dated October 30, 2015.

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.

WALLEN, PUCKETT, AND ANDERSON, P. S. C.

Wallen, Puckett and Anderson, PSC

Certified Public Accountants
Pikeville, Kentucky

October 30, 2015

Wallen, Puckett, & Anderson, psc
CERTIFIED PUBLIC ACCOUNTANTS

106 Fourth Street • Post Office Box 1349 • Pikeville, Kentucky 41502

J. Don Wallen, CPA
L. Kevin Puckett, CPA
James K. Anderson, CPA
Johnny C. Cornett, CPA
Johnny K. White, CPA

606-432-8833
FAX 606-432-8466

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

WALLEN, PUCKETT, AND ANDERSON, P. S. C.

Wallen, Puckett and Anderson, PSC

Certified Public Accountants
Pikeville, Kentucky

October 30, 2015

**MARTIN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

| Federal Grantor | | | | |
|---|---------|------------|---------------------|---------------------|
| <u>Pass-Through Agency</u> | Federal | Pass- | Amount of | Total |
| Program Title | CFDA | Through | Award | Expenditures |
| | Number | Grantor | | |
| | | Number | | |
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | |
| Child Nutrition Clusters | | | | |
| <u>Passed Through State Department of Agriculture</u> | | | | |
| Food Donation | 10.553 | 7750002 | \$ 80,697 | \$ 80,697 |
| <u>Passed Through State Department of Education</u> | | | | |
| National School Lunch | 10.555 | 7750002 | 1,206,503 | 1,206,503 |
| National Summer | 10.559 | 7690024 | 42,251 | 33,184 |
| Total Child Nutrition Cluster | | | <u>\$ 1,329,451</u> | <u>\$ 1,320,384</u> |
| Fresh Fruit and Vegetable Program | 10.582 | 7720012 | 33,377 | 33,377 |
| Total U.S. Department of Agriculture | | | <u>\$ 1,362,828</u> | <u>\$ 1,353,761</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| Passed Through State Department of Education: | | | | |
| Title I Part A Cluster | | | | |
| Title I | 84.010 | 3100002 | \$ 1,551,013 | \$ 1,755 |
| Title I | 84.010 | 3100002 | 1,472,980 | 310,112 |
| Title I | 84.010 | 3100002 | 1,399,770 | 1,062,875 |
| Title I – Parent Involvement | 84.010 | 3100002 | 48,626 | 7,801 |
| Title I – Parent Involvement | 84.010 | 3100002 | 34,121 | 3,110 |
| Title I – Parent Involvement | 84.010 | 3100202 | 13,997 | 406 |
| Title I – School Improvement | 84.388A | 4100302 | 140,723 | 21,498 |
| Total Title I Part A Cluster | | | <u>\$ 4,661,230</u> | <u>\$ 1,407,557</u> |
| Migrant Education | 84.011 | 3110002 | \$ | \$ |
| Total Migrant Education | | | <u>\$ 0</u> | <u>\$ 0</u> |
| Special Education Cluster | | | | |
| IDEA-B | 84.027 | 3810002 | \$ 535,975 | \$ 96 |
| IDEA-B | 84.027 | 3810002 | 523,657 | 717 |
| IDEA-B | 84.027 | 3810002 | 514,623 | 514,623 |
| IDEA-Preschool | 84.173 | 3800002 | 33,503 | 33,503 |
| Total Special Education Cluster | | | <u>\$ 1,607,758</u> | <u>\$ 548,939</u> |
| Vocational Education-Perkins | 84.048 | 3710002 | 10,145 | 554 |
| Vocational Education-Perkins | 84.048 | 3710002 | 405 | 405 |
| Vocational Education-Perkins | 84.048 | 3710002 | 12,447 | 11,796 |
| Vocational Education-Perkins | 84.048 | 3710002 | 5,272 | 5,272 |
| Rehabilitation Services | 84.126 | 3763 | 14,410 | 8,972 |
| Rehabilitation Services | 84.126 | 3764 | 11,310 | 9,959 |
| Rehabilitation Services | 84.126 | 376a | 13,582 | 13,582 |
| School Climate Transformation Grant | 84.184G | S18G140131 | 310,782 | 60,413 |

**MARTIN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

| <u>Federal Grantor</u> | | | | |
|--|------------------------------------|---|----------------------------|-------------------------------|
| <u>Pass-Through Agency</u> | | | | |
| <u>Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass- Through Grantor Number</u> | <u>Amount of Award</u> | <u>Total Expenditures</u> |
| Title IV-Rural/Low Income | 84.358B | 3140002 | 40,952 | 26,571 |
| Title IV-Rural/Low Income | 84.358B | 3140002 | 36,885 | 5,244 |
| Improving Teacher Quality | 84.367 | 3230002 | 204,839 | 159,218 |
| Improving Teacher Quality | 84.367 | 3230002 | 203,923 | 64,282 |
| Title I School Improvememnt Part G | 84.377A | 3100302 | 639,172 | 223,475 |
| Total from State Department of Education | | | <u>\$ 7,773,112</u> | <u>\$ 2,546,239</u> |
| <u>Passed Through E-Town Community Technical College</u> | | | | |
| Gear Up | 84.334A | 3794G | 68,450 | 60,965 |
| Total pass-through from Morehead State University | | | <u>\$ 68,450</u> | <u>\$ 60,965</u> |
| Total US Department of Education | | | <u>\$ 7,841,562</u> | <u>\$ 2,607,204</u> |
| <u>US DEPARTMENT OF DEFENSE</u> | | | | |
| MJROTC | 12.000 | 5044D | \$ 26,793 | \$ 1,636 |
| MJROTC | 12.000 | 5040aC | 27,436 | 27,436 |
| Total U. S. Department of Defense | | | <u>\$ 54,229</u> | <u>\$ 29,072</u> |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | |
| <u>Passed Through Big Sandy Community Action Program</u> | | | | |
| Head Start | 93.600 | 6554 | \$ 690,088 | \$ 178,848 |
| Head Start | 93.600 | 6554 | 756,386 | 432,235 |
| Total Head Start | | | <u>\$ 1,446,474</u> | <u>\$ 611,083</u> |
| Total U. S. Department of Health and Human Services | | | <u>\$ 1,446,474</u> | <u>\$ 611,083</u> |
| <u>APPALACHIAN REGIONAL COMMISSION (ARC)</u> | | | | |
| <u>Passed Through Morehead State University</u> | | | | |
| KY Appalachian Higher Education | 23.011 | 6884 | \$ 3,991 | \$ 2,302 |
| KY Appalachian Higher Education | 23.011 | 6884 | 960 | 706 |
| Total Appalachian Regional Commission | | | <u>\$ 4,951</u> | <u>\$ 3,008</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | <u>\$ 10,710,044</u> | <u>\$ 4,604,128</u> |

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

NOTE B - FOOD DISTRIBUTION.

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

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

SECTION I – SUMMARY OF AUDITORS’ RESULTS

1. The auditor’s report expresses an unmodified opinion on the financial statements of Martin County School District.
2. No significant deficiencies were disclosed during the audit of the financial statements. No material weaknesses reported.
3. No instances of noncompliance material to the financial statements of Martin County School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiency in internal control over major federal award programs disclosed during the audit. No material weaknesses Reported.
5. The auditor’s report on compliance for the major federal award programs for Martin County School District expresses an unmodified opinion on all major federal award programs.
6. No Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included:

| Name | CFDA # |
|---|-------------------|
| Department of Education Title I Part A Cluster | 84.010 84.388A |
| Department of Education - Gear Up | 84.334A |
| Department of Education – School Climate Transformation Grant | 84.184G |
| Department of Education – Title I School Improvement | 84.377A |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Martin County School District was determined to be a low risk auditee.

SECTION II – FINANCIAL STATEMENT AND FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARTIN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

2014-001 Activity Funds Spent On Teachers

Condition: Teacher discretionary machines at Martin County Middle School and Warfield Elementary are in an area that students and parents have access to and use. In addition, Sheldon Clark High School transferred money from the activity account to cover expenses in the teachers account. Warfield Elementary bought teacher retirement gifts out of the activity account.

Criteria: If teachers want to use profits generated from these machines then the machines have to be in a location where only the teachers have access to and be used strictly by the staff. No activity money should be transferred to the teachers account or be spent on the teachers.

Cause of Condition: Principals failed to move teacher discretionary machines to a secure location and bookkeepers are not properly trained on the red book.

Effect: Money generated from these machines was from the staff, students, and public and should be considered student activity funds to be used on the students only. Student activity money was spent on the staff.

Recommendation: If the staff wants to use the profits generated from these machines as their own then they need to be moved to a location where only the staff has access. In addition, all profits generated from these machines last year need to be returned to the student activity account. Student activity money should never be spent on staff. Bookkeepers need to be properly trained on the Redbook.

Management Response: We will move the machines to a secure location and return all profits spent last year on the staff from profits generated from these machines during the 14/15 school year. In addition, all bookkeepers will receive training on the Redbook.

Current Status: Adequate Controls have been established and being followed.

Wallen, Puckett, & Anderson, PSC
CERTIFIED PUBLIC ACCOUNTANTS

106 Fourth Street • Post Office Box 1349 • Pikeville, Kentucky 41502

J. Don Wallen, CPA
L. Kevin Puckett, CPA
James K. Anderson, CPA
Johnny C. Cornett, CPA
Johnny K. White, CPA

606-432-8833
FAX 606-432-8466

MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Martin County School District as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Martin County School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurances that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain immaterial items and these matters are identified on the accompanying schedule.

This communication is intended solely for the information and use of management, Martin County School District, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

WALLEN, PUCKETT, AND ANDERSON, P. S. C.

Wallen, Puckett and Anderson, PSC

Certified Public Accountants
Pikeville, Kentucky

October 30, 2015

MANAGEMENT LETTER

**MARTIN COUNTY SCHOOL DISTRICT
RESOLUTION OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

Board Fund 14-1 Accounting Errors

Condition: Several audit adjustments had to be made to correct the annual financial report.

Criteria: The District should have some checks and balances in place to catch these errors.

Cause of Condition: Lack of checks and balances.

Effect: The annual financial report was inaccurate.

Recommendation: The Finance Officer needs to review all accounts and reconcile back to known check balances.

Management Response: We will review all accounts and make sure they reconcile back to known balances.

Current Status: Adequate Controls have been established and being followed.

Activity Fund 14-2 Inez Elementary Is in Violation of the Entire Red book

Condition: The bookkeeper at Inez Elementary only showed up for a payroll check. From August 2013 through January 2014 she never performed any of her bookkeeping duties before quitting in January 2014.

Criteria: The bookkeeper is to keep adequate books for school activity accounts and follow the Redbook.

Cause of Condition: Principal failed to monitor the bookkeeper's work.

Effect: No books were prepared, receipts issued for monies collected, any worksheets completed from Redbook, bank reconciliations prepared, PO's prepared, bills were paid late, hardly any dual signatures on checks, accounts ended in the red, numerous receipts missing from invoices, deposits not made timely, etc.

Recommendation: Principals need to oversee the bookkeeping process and check bookkeepers work on a weekly basis.

Managements Response: This bookkeeper is no longer with us and we have discussed with the principal about what role they should be playing in the bookkeeping process.

Current Status: Adequate Controls have been established and being followed.

**MARTIN COUNTY SCHOOL DISTRICT
RESOLUTION OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

Activity Fund 14-3 Multiple Receipt Forms Not Completed

Condition: Teachers and coaches are not having the students sign the multiple receipt forms nor are they turning supporting documents in to the bookkeeper for verification of monies collected at Inez Elementary and Warfield Elementary. This is a repeat finding from the prior year.

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

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

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

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

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

Current Status: Receipts forms with multiple copies are being completed and required signatures are present.

Activity Fund 14-4 Ticket And Concession Forms Missing Required Documentation

Condition: During our testing, we found some ticket forms from Sheldon Clark High School missing required documentation.

Criteria: Ticket and concession forms are to be properly prepared and signed off on after each game. All monies collected should be turned in to the principal immediately after the event.

Cause of Condition: Lack of supervision over the ticket process.

Effect: Checks and balances are being ignored.

Recommendation: All ticket forms are to be completed and signed off on by the person in charge of sales. Concessions need to be documented and signed off on by the person in charge of concessions. All monies need to be turned in immediately after the event for deposit. Principals need to supervise and make sure everything is completed and all money is turned in timely.

Management's Response: We will make sure that the principals are monitoring all ticket and concession sales.

Current Status: Adequate Controls have been established and being followed.

**MARTIN COUNTY SCHOOL DISTRICT
RESOLUTION OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

Activity Fund 14-5 Fund raiser Worksheets Not Completed

Condition: We discovered that fundraiser worksheets are not being completed with each fundraiser at Sheldon Clark High School, Warfield Elementary, Inez Elementary, and Eden Elementary.

Criteria: Fund raiser worksheets help determine profit/loss and ending inventory.

Cause of Condition: Principal failed to enforce teachers to use the fundraiser worksheets with each fund raiser.

Effect: Profits and ending inventory are not being monitored.

Recommendation: We recommend that all schools use this worksheet with each fundraiser.

Management's Response: Principals will be made aware of this form and will be required to use them on all fundraisers.

Current Status: Adequate Controls have been established and being followed.

Activity Fund 14-6 Annual Report Not Properly Prepared

Condition: Warfield Elementary's annual report beginning balances did not match the prior year annual report ending balances. Sheldon Clark High School's ending balances didn't match the reconciled cash balance or June's monthly reports ending balances. Eden Elementary's principal failed to sign the annual report.

Criteria: The annual report should be complete and accurate.

Cause of Condition: Principals failed to monitor the bookkeeper's work.

Effect: Annual report was not accurate.

Recommendation: The Annual report should be completed with accuracy and the bookkeeper properly trained and supervised.

Management's Response: Principals will be asked to monitor the bookkeeper's work.

Current Status: Adequate Controls have been established and being followed.